Linda G. Malone
Assistant Secretary and
Assistant Treasurer

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Pensacola, Florida 32520-0786

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ORIGINAL

GULF POWER
A SOUTHERN COMPANY

March 30, 2005

Ms. Blanca Bayo, Director
Division of the Commission Clerk and
Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

Dear Ms. Bayo:

Re: Docket No. 031003-EI, Order Number PSC-03-1412-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 30, 2005, and four copies of the exhibits are enclosed with this letter for filing in the above referenced docket.

Sincerely,

Linda G. Malone

ck

Enclosures

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

CMP ____
COM ____
CTR ____
ECR 1
GCL ____
OPC ____
MMS ____
RCA ____
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SEC 1
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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.: 031003-EI Filed: March 30, 2005

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-03-1412-FOF-EI entered in Docket No. 031003-EI on December 15, 2003, hereby reports for the fiscal year ending December 31, 2004:

A. 1. After negotiated arrangements, on April 6, 2004, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Banc of America Securities LLC, as representative of the Underwriters, (the "Underwriters"), for the purchase of an aggregate of $35,000,000 (denominations and multiples of $25 each) principal amount of Series J 5.875% Senior Notes (the "Notes") due April 1, 2044. 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 April 13, 2004, the Company delivered such notes to the Underwriters. On April 13, 2004, the Company received $33,897,500 representing payment in full of the purchase price less $1,102,500 underwriting discount.

2. The proceeds from the sale of the Series J Senior Notes were used by the Company for general corporate purposes, including the Company's continuous construction program.

3. Interest on the new notes will be payable at the rate of 5.875% per annum from the date of original issuance and payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, with the initial payment commencing July 1, 2004.

4. The notes are direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company.

B. 1. After negotiated arrangements, on September 13, 2004, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as representatives of the Underwriters, (the "Underwriters"), for the purchase of an aggregate of $75,000,000 (denominations and multiples of $1,000 each) principal amount of Series K 4.90% Senior Notes (the "Notes") due October 1, 2014. 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 partnership nominee. On September 22, 2004, the Company delivered such notes to the Underwriters. On September 22, 2004, the Company received $74,470,500 representing payment in full of the purchase price less $42,000 representing initial public offering price discount and less $487,500 underwriting discount and commissions of the underwriters for their services.

2. The proceeds from the sale of the Series K Senior Notes were used by the Company to redeem in October 2004, the $75,000,000 outstanding principal amount of its Series D 6.10% Senior Notes due September 30, 2016.

3. Interest on the new notes will be payable at the rate of 4.90% per annum from the date of original issuance and payable semi-annually in arrears on April 1 and October 1 of each year, with the initial payment commencing April 1, 2005.

4. The notes are direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company.

C. 1. After negotiated arrangements, on October 27, 2004, Gulf Power Company (the "Company") entered into a $100,000,000 Loan Agreement with Lehman Brothers Bank, FSB, (the "Bank"), as the holder of a single promissory note, dated October 27, 2004, payable in the principal amount of $100,000,000, due October 28, 2005. The promissory note is subject to the terms and conditions set forth in the Loan Agreement and may be accelerated as therein provided.

2. The proceeds from the promissory note were applied by the Company to the recovery costs of Hurricane Ivan.

3. The Company will pay interest on the unpaid principal amount of the promissory note at the initial rate of 2.36% per annum from October 27, 2004 to (but excluding) January 27, 2005, such interest being payable in arrears on January 27, 2005, on the last day of each subsequent interest period and at maturity. The interest rate for each subsequent interest period shall be equal to the sum of the Adjusted LIBOR, as defined in the promissory note, for such subsequent interest period plus .25%. Subsequent interest periods begin on the last day of the immediately preceding interest period and end three months after such date. The principal of the promissory note may be prepaid. Any partial prepayment shall be in the principal amount of $500,000 or any integral multiple thereof.

4. The promissory note is unsecured.

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 $35,000,000 5.875% Series J Senior Notes:

1. Underwriting Agreement dated April 6, 2004, between Gulf Power Company and Banc of America Securities LLC, as representative.
2. Tenth Supplemental Indenture, dated April 13, 2004, to the Senior Note Indenture, between Gulf Power Company and JPMorgan Chase Bank, Trustee.
3. Prospectus supplement dated April 6, 2004 and prospectus dated April 25, 2003.
4. Opinion dated April 13, 2004 of Beggs & Lane, general counsel for the Company.
5. Opinion dated April 13, 2004 of Troutman Sanders LLP, counsel for the Company.
6. Statement on Form U-1 dated February 21, 2003, and amended on June 27, 2003, and Certificates of Notification dated July 30, and September 22, 2003 and April 13, 2004, 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.

B. Exhibits for $75,000,000 4.90% Series K Senior Notes:

1. Underwriting Agreement dated September 13, 2004 between Gulf Power Company and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as representatives.
2. Eleventh Supplemental Indenture, dated September 22, 2004, to the Senior Note Indenture, between Gulf Power Company and JPMorgan Chase Bank, Trustee.
3. Prospectus supplement dated September 13, 2004 and prospectus dated September 2, 2004.

4. Opinion dated September 22, 2004 of Beggs & Lane, general counsel for the Company.
5. Opinion dated September 22, 2004 of Troutman Sanders LLP, counsel for the Company.
6. Statement on Form U-1 dated February 21, 2003, and amended on June 27, 2003, and Certificates of Notification dated July 30 and September 22, 2003 and April 13, 2004, 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 A.6
7. Form S-3 Registration Statement Nos. 333-118060, 333-118060-01, and 333-118060-02 as filed with the Securities Exchange Commission on August 10, 2004 and Amendment No. 1 as filed on August 30, 2004 under the Securities Act of 1933.
8. Description of Underwriters.
9. Report of Expenses.

C. Exhibits for $100,000,000 Promissory Note:

1. Promissory Note dated October 27, 2004 executed by Gulf Power Company to Lehman Brothers Bank, FSB.
2. Loan Agreement dated as of October 27, 2004 between Lehman Brothers Bank, FSB and Gulf Power Company.
3. Opinion dated October 27, 2004 of Beggs & Lane, general counsel for the Company.
4. Opinion dated October 27, 2004 of Troutman Sanders LLP, counsel for the Company.
5. Description of Holder.
6. Report of Expenses.

D. Exhibits Common For all Issues:

1. 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission, File No. 0-2429. On page II-196 of the 10-K is shown the Pro Forma Capitalization and Pretax Interest Coverage Statements. On page II-200 of the 10-K is shown the debt interest and preferred stock dividend requirements.

Respectfully submitted,

Linda G. Malone

Linda G. Malone
Assistant Secretary and Assistant Treasurer

Dated March 30, 2005

$35,000,000 Series J 5.875% Senior Notes

due April 1, 2044

GULF POWER COMPANY

UNDERWRITING AGREEMENT

April 6, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255

As Representative of the Several 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 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) 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 $35,000,000 aggregate principal amount of the Series J 5.875% Senior Notes due April 1, 2044 (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 Representative deems 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, 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 tenth supplemental indenture, dated as of April 13, 2004, 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. <u>REPRESENTATIONS AND WARRANTIES.</u> 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 caption "Description of the Series J Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

(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 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 caption "Description of the Series J 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. <u>SALE AND DELIVERY TO THE UNDERWRITERS; CLOSING</u>.

(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 April 13, 2004 (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 fees and expenses incurred in connection with the listing of the Senior Notes on the New York Stock Exchange 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 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.

(d) 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 such Officer, threatened by the Commission.

(e) 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 by reference in the Final Supplemented 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 by reference in the Final Supplemented 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 Final Supplemented 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 Final Supplemented Prospectus do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period included or incorporated by reference in the Registration Statement; (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 Final Supplemented Prospectus, except in each case for changes or decreases which (i) the Final Supplemented 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 Final Supplemented Prospectus.

(f) 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.

(g) On the Closing Date, the Senior Notes shall have been approved for listing on the New York Stock Exchange upon notice of issuance.

(h) 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.

(i) 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 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 by reference therein, 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 any Underwriter through the Representative 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 any Underwriter through the Representative 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 c/o Banc of America Securities LLC, 9 West 57th Street, NY1-307-2M-01, New York, New York 10019, Attention: Transaction Management, 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: Ronnie R Labat
Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written

BANC OF AMERICA SECURITIES LLC

By: ______________________
Name:
Title:

As Representative of the other Underwriters
named in Schedule I hereto

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

BANC OF AMERICA SECURITIES LLC

By: ______________________
Name: Peter Carbone
Title: Vice President

As Representative of the other Underwriters
named in Schedule I hereto

SCHEDULE I

NAME OF UNDERWRITER	Principal Amount of Series J Senior Notes
Banc of America Securities LLC	$17,500,000
Incapital LLC	$12,250,000
SunTrust Capital Markets, Inc.	$5,250,000
TOTAL	$35,000,000

Schedule II-A

[Letterhead of BEGGS & LANE]

April __, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255

As Representative of the Underwriters named in Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series J ___% Senior Notes due April __, 2044

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 $35,000,000 aggregate principal amount of its Series J ___% Senior Notes due April __, 2044 (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 Tenth Supplemental Indenture dated as of April __, 2004 (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 April __, 2004, 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 April __, 2004 (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, 2003 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated April __, 2004 (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 April __, 2004, 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 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 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 J 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]

April __, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255

As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series J ___% Senior Notes due April __, 2044

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 $35,000,000 aggregate principal amount of its Series J ___% Senior Notes due April __, 2044 (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 Tenth Supplemental Indenture dated as of April __, 2004 (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 April __, 2004, 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 April __, 2004 (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, 2003 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated April __, 2004 (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 April __, 2004, 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, 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 J 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]

April __, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255

As Representative of the Underwriters named on Schedule I to the Underwriting Agreement.

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

Gulf Power Company
Series J ___% Senior Notes
due April __, 2044

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 Tenth Supplemental Indenture dated as of April __, 2004 (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]

April __, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255

As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement.

GULF POWER COMPANY
Series J ___% Senior Notes
due April __, 2044

Ladies and Gentlemen:

We have represented the Underwriters (as hereinafter defined) in connection with (i) the issuance by Gulf Power Company (the "Company") of $35,000,000 of its Series J ___% Senior Notes due April __, 2044 (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 Tenth Supplemental Indenture dated as of April __, 2004 (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 April __, 2004, 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 April __, 2004 (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, 2003 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated April __, 2004 (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 April __, 2004, 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 J 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

TENTH SUPPLEMENTAL INDENTURE

DATED AS OF APRIL 13, 2004

$35,000,000

SERIES J 5.875% SENIOR NOTES

DUE APRIL 1, 2044

TABLE OF CONTENTS[1]

[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 TENTH SUPPLEMENTAL INDENTURE is made as of the 13th day of April, 2004 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 Tenth 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 Tenth 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 J 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 J 5.875% Senior Notes due April 1, 2044 (the "Series J Notes").

There are to be authenticated and delivered $35,000,000 principal amount of Series J Notes, and such principal amount of the Series J 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 J Notes. Any such additional Series J Notes will have the same interest rate, maturity and other terms as those initially issued. No Series J Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304, 907 or 1107 of the Original Indenture. The Series J Notes shall be issued in definitive fully registered form.

The Series J 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 J Notes shall be The Depository Trust Company.

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

Each Series J 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.

"Interest Payment Dates" means January 1, April 1, July 1 and October 1 of each year, commencing July 1, 2004.

"Original Issue Date" means April 13, 2004.

"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, 2044.

SECTION 103. Payment of Principal and Interest. The principal of the Series J Notes shall be due at Stated Maturity (unless earlier redeemed). The unpaid principal amount of the Series J Notes shall bear interest at the rate of 5.875% 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 J 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 J 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 J 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 J 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 J Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series J 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 J 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 J Notes shall be made upon surrender of the Series J Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series J 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 J Notes may be issued in the denominations of $25, or any integral multiple thereof.

SECTION 105. Global Securities. The Series J 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 J Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series J 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 J 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 J 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 or (ii) there shall have occurred an Event of Default with respect to the Series J Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series J 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 J 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 J Notes 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 J 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 J Notes theretofore selected for redemption in whole or in part, except the unredeemed portion of any Series J Note redeemed in part.

SECTION 107. Redemption. The Series J Notes shall be subject to redemption at the option of the Company, at any time in whole or from time to time in part, without premium or penalty, on or after April 13, 2009, 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 J Notes in part only, a new Series J 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 J 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 J Notes shall, with respect to the principal thereof, be divisible by $25.

ARTICLE 2

Miscellaneous Provisions

SECTION 201. Recitals by Company. The recitals in this Tenth 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 J Notes and of this Tenth 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 Tenth Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 203. Executed in Counterparts. This Tenth 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:______________________

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
Secretary and Treasurer

GULF POWER COMPANY

By:____________________

Ronnie R. Labrato
Vice President, Comptroller and Chief Financial Officer

ATTEST:

By: Diane Darconte

Diane Darconte
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By: Carol Ng

Carol Ng
Vice President

EXHIBIT A

FORM OF SERIES J NOTE

NO. ____

CUSIP NO. 402479778

GULF POWER COMPANY
SERIES J 5.875% SENIOR NOTE
DUE APRIL 1, 2044

Principal Amount:	$___________
Regular Record Date:	15th calendar day prior to the applicable Interest Payment Date (whether or not a Business Day)
Original Issue Date:	April 13, 2004
Stated Maturity:	April 1, 2044
Interest Payment Dates:	January 1, April 1, July 1 and October 1
Interest Rate:	5.875% per annum
Authorized Denominations:	$25 or any integral multiple thereof
Initial Redemption Date:	April 13, 2009

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, 2004, 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 J Notes shall be made upon surrender of the Series J Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series J 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 J 5.875% Senior Notes due April 1, 2044 (the "Series J 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 in whole or from time to time in part, on or after April 13, 2009, at the option of the Company, without premium or penalty, 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- _______ (Cust) Custodian ________ (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

EXHIBIT A.3

Prospectus Supplement
April 6, 2004
(To Prospectus dated April 25, 2003)

$35,000,000

GULF POWER
A SOUTHERN COMPANY

Series J 5.875% Senior Notes due April 1, 2044

The Series J Senior Notes bear interest at the rate of 5.875% per year. Interest on the Series J Senior Notes is payable quarterly on January 1, April 1, July 1 and October 1 of each year, beginning July 1, 2004. The Series J Senior Notes will mature on April 1, 2044. The Series J Senior Notes are redeemable by Gulf Power Company on or after April 13, 2009. The Series J Senior Notes do not have the benefit of any sinking fund.

The Series J Senior Notes are unsecured and rank equally with all of Gulf Power Company's other unsecured indebtedness from time to time outstanding and will be effectively subordinated to all secured debt of Gulf Power Company to the extent of the assets securing such debt. The Series J Senior Notes will be issued only in registered form in denominations of $25 and any integral multiple thereof.

See "Risk Factors" on page S-3 of this Prospectus Supplement for information on certain risks related to the purchase of the Series J Senior Notes.

Gulf Power Company plans to list the Series J Senior Notes on the New York Stock Exchange. Trading of the Series J Senior Notes is expected to begin on the New York Stock Exchange within 30 days after the Series J Senior Notes are first issued.

	Per Note	Total
Public offering price(1)	$25.00	$35,000,000
Underwriting discount	$.7875	$1,102,500
Proceeds, before expenses, to Gulf Power Company(1)	$24.2125	$33,897,500

(1) Plus accrued interest, if any, from the date of original issuance of the Series J Senior Notes, which is expected to be April 13, 2004.

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.

The Series J Senior Notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company on or about April 13, 2004.

Sole Book-Running Manager

Banc of America Securities LLC

Joint Lead Manager

Incapital LLC

Co-Manager

SunTrust Robinson Humphrey

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 J 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.

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Prospectus

RISK FACTORS

Investing in the Series J 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, 2003, which is incorporated by reference in this Prospectus Supplement and the accompanying 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 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 J 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 selected financial data for the years ended December 31, 1999 through December 31, 2003 has been derived from the Company's audited financial statements and related notes, incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. 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 and the accompanying Prospectus.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(Thousands, except ratios)				
Operating Revenues	$674,099	$714,319	$725,203	$820,467	$877,697
Earnings Before Income Taxes	86,515	82,607	89,716	104,397	110,104
Net Income After Dividends on Preferred Stock	53,667	51,843	58,307	67,036	69,010
Ratio of Earnings to Fixed Charges(1)	3.62	3.38	3.64	3.52	3.86

	Capitalization As of December 31, 2003		
	Actual	As Adjusted(2)	
	(Thousands, except percentages)		
Common Stock Equity	$ 561,358	$ 587,290	48.4%
Cumulative Preferred Stock	4,236	4,236	0.3
Senior Notes	300,000	335,000	27.6
Mandatorily Redeemable Preferred Securities	70,000	70,000	5.8
Other Long-Term Debt	215,827	215,827	17.9
Total, excluding amounts due within one year	$1,151,421	$1,212,353	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 mandatorily redeemable preferred securities" 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 mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction.

(2) Reflects (i) contributions to capital from Southern in January 2004 in the amount of $25,000,000 and in March 2004 in the amount of $932,000 and (ii) the issuance of the Series J Senior Notes offered hereby.

USE OF PROCEEDS

The proceeds from the sale of the Series J Senior Notes will be used by the Company for general corporate purposes, including the Company's continuous construction program. The Company's current estimate of construction costs for 2004 is approximately $166,000,000 and for 2005 is approximately $149,000,000.

DESCRIPTION OF THE SERIES J SENIOR NOTES

Set forth below is a description of the specific terms of the Series J 5.875% Senior Notes due April 1, 2044 (the "Series J 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 J Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series J Senior Notes will initially be issued in the aggregate principal amount of $35,000,000. The Company may, without the consent of the holders of the Series J Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Series J Senior Notes. Any additional notes having such similar terms, together with the Series J Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series J Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on April 1, 2044. The Series J Senior Notes are not subject to any sinking fund provision. The Series J Senior Notes are available for purchase in denominations of $25 and any integral multiple thereof.

Interest

Each Series J Senior Note shall bear interest at the rate of 5.875% per year (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 J 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, 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 J 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 J Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other unsecured and unsubordinated obligations of the Company from time to time outstanding. The Series J 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 December 31, 2003, to the extent of the assets securing such debt. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

Trading Characteristics

The Series J 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 J Senior Notes that is not included in the trading price thereof. Any portion of the trading price of a Series J 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 J Senior Note.

The trading price of the Series J 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 J 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 J Senior Notes, although any increase will be moderated by the Company’s ability to call the Series J Senior Notes at any time on or after April 13, 2009.

Optional Redemption

The Company shall have the right to redeem the Series J Senior Notes, any time in whole or from time to time in part, without premium, on or after April 13, 2009, 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 J 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 J Senior Notes shall cease to bear interest. If any Series J 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 J 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 J Senior Notes. The Series J 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 J Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series J 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 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 J Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series J Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series J 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 J Senior Notes. Transfers of ownership interests in the Series J 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 J Senior Notes, except in the event that use of the book-entry system for the Series J Senior Notes is discontinued.

To facilitate subsequent transfers, all Series J 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 J 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 J Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series J 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 J 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 J 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 J 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 J 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 J Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series J 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 J Senior Note will not be entitled to receive physical delivery of Series J Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series J 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 J Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series J 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 J Senior Notes certificates 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 Banc of America Securities LLC is acting as Representative, and each of the Underwriters severally has agreed to purchase the principal amount of the Series J Senior Notes set forth opposite its name below:

Underwriter	Principal Amount of Series J Senior Notes
Banc of America Securities LLC	$17,500,000
Incapital LLC	12,250,000
SunTrust Capital Markets, Inc.	5,250,000
Total	$35,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series J 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 J Senior Notes if any are taken.

Series J Senior Notes sold by the Underwriters to the public will initially be offered at the public offering price set forth on the cover of this Prospectus Supplement. The Underwriters may offer the Series J Senior Notes to certain securities dealers at such price less a concession not in excess of $0.50 per Series J Senior Note. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $0.50 per Series J Senior Note to certain brokers and dealers. If all the Series J 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 J Senior Notes. The Series J Senior Notes are expected to be approved for listing on the New York Stock Exchange (the "NYSE"), subject to official notice of issuance. Trading of the Series J Senior Notes on the NYSE is expected to commence within a 30-day period after the initial delivery of the Series J Senior Notes. The Representative has advised the Company that it intends to make a market in the Series J Senior Notes prior to the commencement of trading on the NYSE. The Representative will have no obligation to make a market in the Series J 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 J Senior Notes, any security convertible into or exchangeable into or exercisable for Series J Senior Notes or any debt securities substantially similar to the Series J Senior Notes (except for the Series J Senior Notes issued pursuant to the Underwriting Agreement), without the prior written consent of the Representative.

The Company estimates that it will incur offering expenses of approximately $250,000.

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

In connection with the offering, the Underwriters may purchase and sell the Series J Senior Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Series J Senior Notes and syndicate short positions involve the sale by the Underwriters of a greater number of Series J Senior Notes than they are required to purchase from the Company in the offering. The Underwriters also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if such Series J Senior Notes are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Series J Senior Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

It is expected that the delivery of the Series J Senior Notes will be made on the date specified on the cover page of this Prospectus Supplement which will be the fifth 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 J Senior Notes on the date of this Prospectus Supplement or the next two 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.

Certain of the Underwriters engage in transactions with, and, from time to time, have performed services for, the Company and its affiliates in the ordinary course of business for which they have received and will receive customary compensation.

EXPERTS

The Company's financial statements and the related financial statement schedule as of and for the years ended December 31, 2003 and 2002 incorporated by reference in this Prospectus Supplement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports (which report on the financial statements expresses an unqualified opinion and includes an explanatory paragraph referring to the Company's change in its method of accounting for asset retirement obligations), which are incorporated in this Prospectus Supplement by reference, and have been so incorporated in reliance upon the reports 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 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.

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.

$35,000,000

GULF POWER
A SOUTHERN COMPANY

Series J 5.875% Senior Notes due April 1, 2044

PROSPECTUS SUPPLEMENT
April 6, 2004

Sole Book-Running Manager

Banc of America Securities LLC

Joint Lead Manager

Incapital LLC

Co-Manager

SunTrust Robinson Humphrey

BEGGS & LANE

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April 13, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement

GULF POWER COMPANY
SERIES J 5.875% SENIOR NOTES
DUE APRIL 1, 2044

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 $35,000,000 aggregate principal amount of its Series J 5.875% Senior Notes due April 1, 2044 (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 Tenth Supplemental Indenture dated as of April 13, 2004 (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 April 6, 2004 (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 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 a final prospectus supplement relating to the Notes dated April 6, 2004 (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, 2003 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated April 6, 2004 (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 April 6, 2004, 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 caption "Description of the Series J 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 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

April 13, 2004

Banc of America Securities LLC
100 N. Tryon Street
Charlotte, North Carolina 28255
As Representative of the Underwriters named on Schedule I
to the Underwriting Agreement

GULF POWER COMPANY
SERIES J 5.875% SENIOR NOTES
DUE APRIL 1, 2044

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 $35,000,000 aggregate principal amount of its Series J 5.875% Senior Notes due April 1, 2044 (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 Tenth Supplemental Indenture dated as of April 13, 2004 (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 April 6, 2004 (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 (File 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 a final prospectus supplement dated April 6, 2004 (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, 2003 (the "Form 10-K") and the Current Report on Form 8-K of the Company dated April 6, 2004 (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 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 April 6, 2004, 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 caption "Description of the Series J 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. <u>Fees, Commissions and Expenses</u>.

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

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[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

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]

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[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

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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

Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated June 27, 2003 in the matter of File No. 70-10117.

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

1. On July 22, 2003, the issuance by the Company of $60,000,000 aggregate principal amount of its Series G 4.35% Senior Notes due July 15, 2013 (the "Series G Notes"), pursuant to the Seventh Supplemental Indenture dated as of July 22, 2003, supplementing the Senior Note Indenture dated as of January 1, 1998 between the Company and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (the "Indenture"), and the issuance by the Company of $60,000,000 aggregate principal amount of its Series H 5.25% Senior Notes due July 15, 2033 (the "Series H Notes"), pursuant to the Eighth Supplemental Indenture dated as of July 22, 2003, supplementing the Indenture, 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. Filed herewith are the following exhibits:

Exhibit A — Prospectus supplement with respect to the Series G Notes, dated July 14, 2003. (Filed electronically July 16, 2003, in File Nos. 333-104449, 333-104449-01 and 333-104449-02.)

Exhibit B — Prospectus supplement with respect to the Series H Notes, dated July 10, 2003. (Filed electronically July 14, 2003, in File Nos. 333-104449, 333-104449-01 and 333-104449-02.)

Exhibit C — Underwriting Agreement with respect to the Series G Notes dated July 14, 2003. (Designated in Form 8-K dated July 10, 2003 as Exhibit 1.1.)

Exhibit D — Underwriting Agreement with respect to the Series H Notes dated July 10, 2003. (Designated in Form 8-K dated July 10, 2003 as Exhibit 1.2.)

Exhibit E — Seventh Supplemental Indenture to the Indenture dated as of July 22, 2003 providing for the issuance of the Series G Notes. (Designated in Form 8-K dated July 10, 2003, as Exhibit 4.1.)

Exhibit F — Eighth Supplemental Indenture to the Indenture dated as of July 22, 2003 providing for the issuance of the Series H Notes. (Designated in Form 8-K dated July 10, 2003, as Exhibit 4.2.)

Exhibit G — Opinion of Beggs & Lane, a Registered Limited Liability Partnership, dated July 30, 2003.

Dated: July 30, 2003

GULF POWER COMPANY

By Wayne Boston

Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated June 27, 2003 in the matter of File No. 70-10117.

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

1. On September 16, 2003, the issuance by the Company of $40,000,000 aggregate principal amount of its Series I 5.75% Senior Notes due September 15, 2033 (the "Series I Notes"), pursuant to the Ninth Supplemental Indenture dated as of September 16, 2003, supplementing the Senior Note Indenture dated as of January 1, 1998 between the Company and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (the "Indenture"), 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 I Notes, dated September 5, 2003. (Filed electronically September 9, 2003, in File Nos. 333-104449, 333-104449-01 and 333-104449-02.)

Exhibit B — Underwriting Agreement with respect to the Series I Notes dated September 5, 2003. (Designated in Form 8-K dated September 5, 2003 as Exhibit 1.)

Exhibit C — Ninth Supplemental Indenture to the Indenture dated as of September 16, 2003 providing for the issuance of the Series I Notes. (Designated in Form 8-K dated September 5, 2003, as Exhibit 4.1.)

Exhibit D — Opinion of Beggs & Lane, a Registered Limited Liability Partnership, dated September 22, 2003.

Dated: September 22, 2003

GULF POWER COMPANY

By Wayne Boston

Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated June 27, 2003 in the matter of File No. 70-10117.

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

1. On April 13, 2004, the issuance by the Company of $35,000,000 aggregate principal amount of its Series J 5.875% Senior Notes due April 1, 2044 (the "Series J Notes"), pursuant to the Tenth Supplemental Indenture dated as of April 13, 2004, supplementing the Senior Note Indenture dated as of January 1, 1998 between the Company and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (the "Indenture"), 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 J Notes, dated April 6, 2004. (Filed electronically April 8, 2004, in File Nos. 333-104449, 333-104449-01 and 333-104449-02.)

Exhibit B — Underwriting Agreement with respect to the Series J Notes dated April 6, 2004. (Designated in Form 8-K dated April 6, 2004 as Exhibit 1.)

Exhibit C — Tenth Supplemental Indenture to the Indenture dated as of April 13, 2004 providing for the issuance of the Series J Notes. (Designated in Form 8-K dated April 6, 2004, as Exhibit 4.1.)

Exhibit D — Opinion of Beggs & Lane, a Registered Limited Liability Partnership, dated April 13, 2004.

Dated: April 13, 2004

GULF POWER COMPANY

By Wayne Boston

Wayne Boston
Assistant Secretary

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

EXHIBIT A.7

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	**JOHN D. McLANAHAN, ESQ.**
Executive Vice President	**TROUTMAN SANDERS LLP**
THE SOUTHERN COMPANY	**600 Peachtree Street, N.E.**
270 Peachtree Street, N.W.	**Suite 5200**
Atlanta, Georgia 30303	**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.

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 untii 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.

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* 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 WILLIAM C. CRAMER, JR. FRED C. DONOVAN H. ALLEN FRANKLIN WILLIAM A. PULLUM JOSEPH K. TANNEHILL	Directors	

By WAYNE BOSTON
(Wayne Boston, Attorney-in-fact)

April 10, 2003

EXHIBIT A.8.

Description of Holder

$35,000,000 Series J 5.875% Senior Notes

Name of Underwriters	Principal Amount of Notes
Banc of America LLC 100 N. Tryon Street Charlotte, North Carolina 28255	$17,500,000
As representative	
Incapital LLC	$12,250,000
SunTrust Capital Markets, Inc.	$ 5,250,000
	$35,000,000

Underwriters Fees: $1,102,500

GULF POWER COMPANY

EXHIBIT A.9.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $35,000,000 Principal Amount
Series J 5.875% Senior Notes

Item Number	Issuance Expenses For:	Amount $
1	Shelf Registration-Securities & Exchange Commission	16,134.91
2	Charges of Trustee	3,000.00
3	Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc.	10,042.21
4	Fees and Expenses of Counsel	18,829.71
5	Fees of Accountants	32,400.00
6	Rating Fees	29,461.00
7	Expenses of Southern Company Services, Inc.	2,645.12
8	New York Stock Exchange Listing	20,650.00
9	Miscellaneous Expenses	1,615.72
	Total Expenses of Issue	134,778.67
	Unamortized Discount Expense	1,102,500.00
	Total Cost of Issue	$1,237,278.67

$75,000,000 Series K 4.90% Senior Notes

due October 1, 2014

GULF POWER COMPANY

UNDERWRITING AGREEMENT

September 13, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10017

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 $75,000,000 aggregate principal amount of the Series K 4.90% Senior Notes due October 1, 2014 (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 an eleventh supplemental indenture, dated as of September 22, 2004, 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. 333-118060, 333-118060-01 and 333-118060-02), 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, 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, as amended, 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 included in such registration statement, as amended, 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 amended, 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, as amended, 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 K Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

(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 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 K 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, whether or not arising in the ordinary course of business.

(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 99.294% 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, 600 Peachtree Street, NE, Suite 5200, Atlanta, Georgia 30308 at 10:00 A.M., Atlanta time, on September 22, 2004 (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 the 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). 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.

(d) 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 such Officer, threatened by the Commission.

(e) 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 an independent registered public accounting firm 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 standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") for a review of interim financial statement information as described in PCAOB Interim Standard AU 722, "Interim Financial Information", on the unaudited financial statements, if any, of the Company incorporated by reference in the Final Supplemented 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 Final Supplemented 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 Final Supplemented 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 Final Supplemented Prospectus do not agree with the amounts set forth in or derived from the unaudited financial statements for the same period included or incorporated by reference in the Registration Statement; (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 balance sheet incorporated by reference in the Final Supplemented Prospectus, except in each case for changes or decreases which (i) the Final Supplemented 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 Final Supplemented Prospectus.

(f) 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.

(g) 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.

(h) 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 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 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 Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, Attention: Howard L. Hiller and J.P. Morgan Securities Inc., 270 Park Avenue, New York, New York 10017, Attention: High Grade Syndicate Desk - 8th Floor; notices to the Company shall be mailed to One Energy Place, Pensacola, Florida, 32520-0786, 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 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, Chief Financial Officer and Treasurer

CONFIRMED AND ACCEPTED,
as of the date first above written

As Representatives of the Several Underwriters
named in Schedule I hereto

CITIGROUP GLOBAL MARKETS INC.

By: ______________________
Name:
Title:

J.P. MORGAN SECURITIES 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

CITIGROUP GLOBAL MARKETS INC.

By: ______________________________
Name: Dean Keller
Title: Director

J.P. MORGAN SECURITIES 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

CITIGROUP GLOBAL MARKETS INC.

By: ____________________________
Name:
Title:

J.P. MORGAN SECURITIES INC.

By: Robert Bottamedi
Name: ROBERT BOTTAMEDI
Title: VICE PRESIDENT

SCHEDULE I

NAME OF UNDERWRITER	Principal Amount of Series K Senior Notes
Citigroup Global Markets Inc.	$33,750,000
J.P. Morgan Securities Inc.	$33,750,000
ABN AMRO Incorporated	$ 7,500,000
TOTAL	$75,000,000

[Letterhead of BEGGS & LANE]

September __, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10019

As Representatives of the Underwriters named in
Schedule I to the Underwriting Agreement

GULF POWER COMPANY
Series K 4.90% Senior Notes due October 1, 2014

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 $75,000,000 aggregate principal amount of its Series K 4.90% Senior Notes due October 1, 2014 (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 Eleventh Supplemental Indenture dated as of September 22, 2004 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 13, 2004 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, as amended (File Nos. 333-118060, 333-118060-01 and 333-118060-02), 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 dated September 2, 2004, as supplemented by a final prospectus supplement relating to the Notes dated September 13, 2004 (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, 2003, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2004 and June 30, 2004 and the Current Reports on Form 8-K of the Company dated April 6, 2004, August 12, 2004 and September 13, 2004 (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 13, 2004, 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 K 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

[Letterhead of TROUTMAN SANDERS LLP]

September __, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10019

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement

GULF POWER COMPANY
Series K 4.90% Senior Notes due October 1, 2014

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $75,000,000 aggregate principal amount of its Series K 4.90% Senior Notes due October 1, 2014 (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 Eleventh Supplemental Indenture dated as of September 22, 2004 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 13, 2004, 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, as amended (File Nos. 333-118060, 333-118060-01 and 333-118060-02), 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 dated September 2, 2004, as supplemented by a final prospectus supplement dated September 13, 2004 (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, 2003, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2004 and June 30, 2004 and the Current Reports on Form 8-K of the Company dated April 6, 2004, August 12, 2004 and

September 13, 2004 (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 13, 2004, 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 K 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]

September __, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10019

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 K 4.90% Senior Notes
due October 1, 2014

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 Eleventh Supplemental Indenture dated as of September 22, 2004 (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 __, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10019

As Representatives of the Underwriters
named in Schedule I to the Underwriting Agreement

GULF POWER COMPANY
Series K 4.90% Senior Notes
due October 1, 2014

Ladies and Gentlemen:

We have represented the Underwriters (as hereinafter defined) in connection with (i) the issuance by Gulf Power Company (the "Company") of $75,000,000 of its Series K 4.90% Senior Notes due October 1, 2014 (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 Eleventh Supplemental Indenture dated as of September 22, 2004 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 13, 2004, 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, as amended (File Nos. 333-118060, 333-118060-01 and 333-118060-02), 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 dated September 2, 2004, as supplemented by a final prospectus supplement dated September 13, 2004 (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, 2003, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2004 and June 30, 2004 and the Current Reports on Form 8-K of the Company dated April 6, 2004, August 12, 2004 and September 13, 2004 (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 13, 2004, 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 K 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

ELEVENTH SUPPLEMENTAL INDENTURE

DATED AS OF SEPTEMBER 22, 2004

$75,000,000

SERIES K 4.90% SENIOR NOTES

DUE OCTOBER 1, 2014

TABLE OF CONTENTS[1]

[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 ELEVENTH SUPPLEMENTAL INDENTURE is made as of the 22nd day of September, 2004 by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0786 (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 Eleventh 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 Eleventh 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 K 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 K 4.90% Senior Notes due October 1, 2014 (the "Series K Notes").

There are to be authenticated and delivered $75,000,000 principal amount of Series K Notes, and such principal amount of the Series K 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 K Notes. Any such additional Series K Notes will have the same interest rate, maturity and other terms as those initially issued. No Series K Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304 and 907 of the Original Indenture. The Series K Notes shall be issued in definitive fully registered form.

The Series K 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 K Notes shall be The Depository Trust Company.

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

Each Series K 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 K 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 April 1 and October 1 of each year, commencing April 1, 2005.

"Original Issue Date" means September 22, 2004.

"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 October 1, 2014.

SECTION 103. Payment of Principal and Interest. The principal of the Series K Notes shall be due at Stated Maturity. The unpaid principal amount of the Series K Notes shall bear interest at the rate of 4.90% 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 K 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 K 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 K 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 K 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 K Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series K 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 K 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 K Notes shall be made upon surrender of the Series K Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series K 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 K Notes may be issued in the denominations of $1,000, or any integral multiple thereof.

SECTION 105. Global Securities. The Series K 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 K Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series K 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 K 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.

Subject to the procedures of the Depositary, a Global Security shall be exchangeable for Series K 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 K Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series K 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 K 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 Eleventh 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 K Notes and of this Eleventh 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 Eleventh Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 203. Executed in Counterparts. This Eleventh 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, Chief Financial Officer and Comptroller

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
Secretary and Treasurer

GULF POWER COMPANY

By:____________________
Ronnie R. Labrato
Vice President, Chief Financial Officer and Comptroller

ATTEST:

By: Diane Darconte
Diane Darconte
Trust Officer

JPMORGAN CHASE BANK, as Trustee

By: Carol Ng
Carol Ng
Vice President

EXHIBIT A

FORM OF SERIES K NOTE

NO. ____ CUSIP NO. 402479BVO

GULF POWER COMPANY
SERIES K 4.90% SENIOR NOTE
DUE OCTOBER 1, 2014

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 22, 2004
Stated Maturity:	October 1, 2014
Interest Payment Dates:	April 1 and October 1
Interest Rate:	4.90% 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 April 1, 2005, 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 K Notes shall be made upon surrender of the Series K Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series K 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), as 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 K 4.90% Senior Notes due October 1, 2014 (the "Series K 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 K Notes will not have a sinking fund.

The Series K 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 September 2, 2004

$75,000,000

GULF POWER
A SOUTHERN COMPANY

Series K 4.90% Senior Notes due October 1, 2014

Gulf Power Company will pay interest on the Series K Senior Notes on April 1 and October 1 of each year. The first payment will be made on April 1, 2005. The Series K Senior Notes will be issued only in denominations of $1,000 and integral multiples of $1,000.

The Series K Senior Notes are not redeemable at the option of the Company 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 K Senior Note	Total
Public Offering Price*	99.944%	$74,958,000
Underwriting Discounts and Commissions	0.650%	$ 487,500
Net Proceeds, before expenses, to Gulf Power Company	99.294%	$74,470,500

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

See "Risk Factors" on page S-3 of this Prospectus Supplement and page 2 of the accompanying Prospectus for information on certain risks related to the purchase of these securities.

The underwriters expect to deliver the Series K Senior Notes in book-entry form only through the facilities of The Depository Trust Company on September 22, 2004.

Joint Book-Running Managers

Citigroup **JPMorgan**

ABN AMRO Incorporated

The date of this Prospectus Supplement is September 13, 2004.

In making your investment decision, you should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. We have not, and the underwriters have not, authorized anyone to provide you with any other information. If you receive any unauthorized information, you must not rely on it.

We are offering to sell the Series K Senior Notes only in places where sales are permitted.

You should not assume that the information contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus is accurate as of any date other than its respective date.

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Prospectus Supplement

Prospectus

RISK FACTORS

Investing in the Series K 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, 2003, along with disclosure related to the risk factors contained in Gulf Power Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004, which are incorporated by reference in this Prospectus Supplement and the accompanying 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 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 K 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 32520-0786, 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 information for the years ended December 31, 1999 through December 31, 2003 has been derived from the Company's audited financial statements and related notes and the unaudited selected financial data, incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The following selected financial information for the six months ended June 30, 2004 has been derived from the Company's unaudited financial statements and related notes, incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. 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 and the accompanying Prospectus.

	Year Ended December 31,					Six Months Ended June 30, 2004(1)
	1999	2000	2001	2002	2003	
	(Thousands, except ratios)					
Operating Revenues	$674,099	$714,319	$725,203	$820,467	$877,697	$456,089
Earnings Before Income Taxes	86,515	82,607	89,716	104,397	110,104	57,262
Net Income after Dividends on Preferred Stock	53,667	51,843	58,307	67,036	69,010	35,841
Ratio of Earnings to Fixed Charges(2)	3.62	3.38	3.64	3.52	3.86	4.07

	Capitalization As of June 30, 2004		
	Actual	As Adjusted(3)	
	(Thousands, except percentages)		(unaudited)
Common Stock Equity	$ 588,351	$ 588,351	48.4%
Cumulative Preferred Stock	4,236	4,236	0.3
Senior Notes	335,000	335,000	27.6
Long-Term Debt Payable to Affiliated Trusts	72,166	72,166	5.9
Other Long-Term Debt	214,969	214,969	17.8
Total, excluding amounts due within one year	$1,214,722	$1,214,722	100.0%

(1) Due to the seasonal variations in the demand for energy, operating results for the six months ended June 30, 2004 do not necessarily indicate operating results for the entire year.

(2) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest expense, net of amounts capitalized," "Interest expense to affiliate trusts," "Distributions on mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest expense, net of amounts capitalized," "Interest expense to affiliate trusts," "Distributions on mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction.

(3) Reflects (i) the proposed redemption in October 2004 of $75,000,000 aggregate principal amount of Series D 6.10% Senior Notes due September 30, 2016; and (ii) the issuance of the Series K Senior Notes offered hereby.

USE OF PROCEEDS

The proceeds from the sale of the Series K Senior Notes will be applied by the Company to redeem in October 2004 the $75,000,000 outstanding principal amount of its Series D 6.10% Senior Notes due September 30, 2016. The redemption is subject to the issuance of the Series K Senior Notes.

DESCRIPTION OF THE SERIES K SENIOR NOTES

Set forth below is a description of the specific terms of the Series K 4.90% Senior Notes due October 1, 2014 (the "Series K 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 K Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series K Senior Notes will initially be issued in the aggregate principal amount of $75,000,000. The Company may, without the consent of the holders of the Series K Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Series K Senior Notes, except for the public offering price and issue date. Any additional notes having such similar terms, together with the Series K Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series K Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on October 1, 2014. The Series K Senior Notes are not subject to any sinking fund provision. The Series K Senior Notes are available for purchase in denominations of $1,000 and any integral multiple thereof.

Interest

Each Series K Senior Note shall bear interest at the rate of 4.90% per annum from the date of original issuance, payable semiannually in arrears on April 1 and October 1 of each year to the person in whose name such Series K 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 April 1, 2005. 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 K 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 K 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 K 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, 2004. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

Redemption

The Series K Senior Notes will not be redeemable at the option of the Company prior to maturity.

Subject to the forgoing 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 K 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 K Senior Notes. The Series K Senior Notes will be issued only as fully-registered securities 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 or more fully registered global Series K Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series K Senior Notes, and will be deposited with the Senior Note Indenture Trustee on behalf of 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 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www. dtcc.com.

Purchases of Series K Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series K Senior Notes on DTC's records. The ownership interest of each actual purchaser of each Series K Senior Note ("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 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 Direct or Indirect Participants through which the Beneficial Owners purchased Series K Senior Notes. Transfers of ownership interests in the Series K Senior Notes 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 Series K Senior Notes, except in the event that use of the book-entry system for the Series K Senior Notes is discontinued.

To facilitate subsequent transfers, all Series K 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 K 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 K Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series K Senior Notes 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.

Although voting with respect to the Series K Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series K Senior Notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Company 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 Series K Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series K 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. Payments by Direct or Indirect 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 Direct or Indirect 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 Direct and Indirect Participants.

Except as provided herein, a Beneficial Owner of a global Series K Senior Note will not be entitled to receive physical delivery of Series K Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series K 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 K Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series K 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 K 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 securities depositary) with respect to the Series K Senior Notes. The Company understands, however, that under current industry practices, DTC would notify its Direct and Indirect Participants of the Company's decision, but will only withdraw beneficial interests from a global Series K Senior Note at the request of each Direct or Indirect Participant. In that event, certificates for the Series K Senior Notes will be printed and delivered to the applicable Direct or Indirect Participant.

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 Direct or Indirect 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 Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. are acting as Representatives) and each of the Underwriters severally has agreed to purchase the principal amount of Series K Senior Notes set forth opposite its name below:

Name	Principal Amount of Series K Senior Notes
Citigroup Global Markets Inc.	$33,750,000
J.P. Morgan Securities Inc.	$33,750,000
ABN AMRO Incorporated	$ 7,500,000
Total	$75,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series K 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 K Senior Notes if any are taken.

The Underwriters propose initially to offer all or part of the Series K 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 K Senior Notes to certain securities dealers at such price less a concession not in excess of 0.40% of the principal amount of the Series K Senior Notes. The Underwriters may allow, and such dealers may reallow, a discount not in excess of 0.25% of the principal amount of the Series K 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 K Senior Notes, any security convertible into or exchangeable into or exercisable for Series K Senior Notes or any debt securities substantially similar to the Series K Senior Notes (except for the Series K Senior Notes issued pursuant to the Underwriting Agreement), without the prior written consent of the Representatives. This agreement does not apply to issuances of commercial paper or other debt securities with scheduled maturities of less than one year.

The underwriting discounts and commissions to be paid to the Underwriters by the Company with this offering will be 0.65% per Series K Senior Note, for a total of $487,500. In addition, the Company estimates that it will incur other offering expenses of approximately $240,000.

In order to facilitate the offering of the Series K Senior Notes, the Underwriters or their affiliates may engage in transactions that stabilize, maintain or otherwise affect the price of the Series K Senior Notes. Specifically, the Underwriters or their affiliates may over-allot in connection with this offering, creating short positions in the Series K Senior Notes for their own accounts. In addition, to cover over-allotments or to stabilize the price of the Series K Senior Notes, the Underwriters or their affiliates may bid for and purchase Series K 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 K Senior Notes in this offering, if the Underwriters or their affiliates repurchase previously distributed Series K 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 K 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 K 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 delivery of the Series K Senior Notes will be made, against payment for the Series K Senior Notes, on or about September 22, 2004, which will be the seventh business day following the date of pricing of the Series K Senior Notes. Under Rule 15c6-1 under the 1934 Act, purchases or sales of securities in the secondary market generally are required to settle within three business days (T+3), unless the parties to any such transactions expressly agree to otherwise. Accordingly, purchasers of the Series K Senior Notes who wish to trade the Series K Senior Notes on the date of this Prospectus Supplement or the next three succeeding business days will be required, because the Series K Senior Notes initially will settle within seven business days (T+7), to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Series K Senior Notes who wish to trade on the date of this Prospectus Supplement or the next three succeeding business days should consult their own legal advisors.

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. JPMorgan Chase Bank, the Senior Note Indenture Trustee, is an affiliate of J.P. Morgan Securities Inc.

The Series K Senior Notes will not have an established trading market when issued. There can be no assurance of a secondary market for the Series K Senior Notes or the continued liquidity of such market if one develops. It is not anticipated that the Series K Senior Notes will be listed on any securities exchange.

PROSPECTUS

$200,000,000

Gulf Power Company

Class A Preferred Stock

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.

September 2, 2004

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,

- Class A preferred stock (the "new Stock")
- 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 $200,000,000. 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, 2003, along with disclosure related to the risk factors contained in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004, which are all 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, 2003;

(b) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004; and

(c) the Company's Current Reports on Form 8-K dated April 6, 2004 and August 12, 2004.

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 but not delivered with 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 Susan D. Ritenour, 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 32520, 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 (including Pensacola, Panama City and Fort Walton Beach), as well as in rural areas, and at wholesale to a nonaffiliated utility and 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, 2003	393,862
Generating Capacity at December 31, 2003 (kilowatts)	2,786,050
Sources of Generation during 2003 (kilowatt-hours)	Coal (87%), Gas (13%)

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,					Six Months Ended June 30,
	1999	**2000**	**2001**	**2002**	**2003**	**2004 (1)**
Ratio of Earnings to Fixed Charges(2)	3.62	3.38	3.64	3.52	3.86	4.07
Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(3)	3.58	3.34	3.60	3.50	3.83	4.03

(1) Due to seasonal variations in the demand for energy, operating results for the six months ended June 30, 2004 do not necessarily indicate operating results for the entire year.

(2) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest expense, net of amounts capitalized," "Interest expense to affiliate trusts," "Distributions on mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest expense, net of amounts capitalized," "Interest expense to affiliate trusts," "Distributions on mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction.

(3) 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 32520, 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, each Trust is a variable interest entity. The Company does not meet the definition of primary beneficiary and therefore accounts for its investment in each Trust under the equity method in accordance with Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities." The Junior Subordinated Notes payable to each Trust will be presented as a separate line item in the Company's balance sheet. Interest payable on the Junior Subordinated Notes will be reflected as a separate line item on the Company's income statement and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the Company's financial statements.

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 new Stock or 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 NEW STOCK

Set forth below is a description of the general terms of the new Stock. The statements in this Prospectus concerning the new Stock are an outline and do not purport to be complete. Such statements make use of defined terms and are qualified in their entirety by reference to the Restated Articles of Incorporation of the Company (the "Charter") and the amendments thereto, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part for complete statements and for the definitions of various terms. The general provisions which apply to the preferred stock of the Company of all classes, which are now or may at a later time be authorized or created, are set forth in the Charter.

General

The new Stock is to be a series of the Company's Class A Preferred Stock to be established and designated by resolutions of the Board of Directors of the Company which, when filed with the Secretary of State of the State of Maine, will constitute an amendment to the Charter.

As of June 30, 2004, there were no outstanding shares of the Class A Preferred Stock. In addition to the Class A Preferred Stock, the Company has authorized 801,626 shares of Preferred Stock, cumulative, par value of $100 per share. As of June 30, 2004, there were outstanding 42,361 shares of the Preferred Stock.

The new Stock will not be subject to further calls or assessment by the Company.

Any proposed listing of the new Stock on a securities exchange will be described in the applicable Prospectus Supplement.

Transfer Agent and Registrar

Unless otherwise indicated in the applicable Prospectus Supplement, the transfer agent for the new Stock will be Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the new Stock are payable, when and if declared by the Board of Directors, at the rate per annum determined for each respective series. Unless otherwise indicated in the applicable Prospectus Supplement, dividends will be payable to holders of record of the new Stock as they appear on the books of the Company on the record dates fixed by the Board of Directors.

The applicable Prospectus Supplement will set forth the par value of the new Stock, the dividend rate provisions of the new Stock, including the payment dates and the rate or rates, or the method of determining the rate or rates (which may involve periodic dividend rate settings through remarketing or auction procedures or pursuant to one or more formulae, as described in the applicable Prospectus Supplement), and whether dividends shall be cumulative and, if so, from which date or dates.

Redemption Provisions

The redemption provisions applicable to the new Stock, including any restrictions on the repurchase or redemption of shares of the new Stock by the Company while there is any arrearage in the payment of dividends on other outstanding securities of the Company, will be described in the applicable Prospectus Supplement.

Voting Rights

The applicable Prospectus Supplement will describe the voting rights for each series of the new Stock.

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preferred Stock and Class A Preferred Stock of each series, without preference among series, are entitled to receive the amount specified to be payable on the shares of such series before any distribution of assets may be made to the holders of the Common Stock. Available assets, if insufficient to pay such amounts to the holders of the Preferred Stock and Class A Preferred Stock, are to be distributed pro rata to the payment, first of the amount per share payable in the event of involuntary liquidation, second of accrued dividends and third of any premium.

Sinking Fund

The terms and conditions of a sinking or purchase fund, if any, for the benefit of the holders of the new Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

The holders of the new Stock do not have any pre-emptive or conversion rights, except as otherwise described in the applicable Prospectus Supplement.

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 $108,000,000 outstanding at June 30, 2004. 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 that ranks equally 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 June 30, 2004, Senior Indebtedness of the Company aggregated approximately $615,000,000.

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 new Stock, 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 new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such new Stock, 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 new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such new Stock, 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 new Stock, 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 new Stock, 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 new Stock, 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 new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such new Stock, 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 new Stock, 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 new Stock, 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 years ended December 31, 2003 and 2002 incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2003 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference (which report on the financial statements expresses an unqualified opinion and includes an explanatory paragraph referring to the Company's change in its method of accounting for asset retirement obligations), and have 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

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A REGISTERED LIMITED LIABILITY PARTNERSHIP
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W. SPENCER MITCHEM
Of Counsel

E. DIXIE BEGGS
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BERT H. LANE
1917-1981

September 22, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10017

As Representatives of the Underwriters named in
Schedule I to the Underwriting Agreement

GULF POWER COMPANY
Series K 4.90% Senior Notes due October 1, 2014

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 $75,000,000 aggregate principal amount of its Series K 4.90% Senior Notes due October 1, 2014 (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 Eleventh Supplemental Indenture dated as of September 22, 2004 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 13, 2004 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) 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, as amended (File Nos. 333-118060, 333-118060-01 and 333-118060-02), 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 dated September 2, 2004, as supplemented by a final prospectus supplement relating to the Notes dated September 13, 2004 (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, 2003, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2004 and June 30, 2004 and the Current Reports on Form 8-K of the Company dated April 6, 2004, August 12, 2004, September 13, 2004 and September 15, 2004 (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 13, 2004, 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 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 K 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 Florida, Maine 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 Florida, Maine and Mississippi law.

Yours very truly,

BEGGS & LANE

Beggs & Lane

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

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September 22, 2004

Citigroup Global Markets Inc.
390 Greenwich Street
New York, New York 10013

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10017

As Representatives of the Underwriters named in Schedule I
to the Underwriting Agreement

GULF POWER COMPANY
Series K 4.90% Senior Notes due October 1, 2014

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $75,000,000 aggregate principal amount of its Series K 4.90% Senior Notes due October 1, 2014 (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 Eleventh Supplemental Indenture dated as of September 22, 2004 (collectively, the "Indenture"); and (ii) the purchase by the Underwriters (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated September 13, 2004, 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) 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, as amended (File Nos. 333-118060, 333-118060-01 and 333-118060-02), 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 dated September 2, 2004, as supplemented by a final prospectus supplement dated September 13, 2004 (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, 2003, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 2004 and June 30, 2004 and the Current Reports on Form 8-K of the Company dated April 6, 2004, August 12, 2004, September 13, 2004 and September 15, 2004 (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 13, 2004, 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 K 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

As filed with the Securities and Exchange Commission on August 30, 2004.

Subject to Amendment. Registration Nos. 333-118060
333-118060-01
333-118060-02

EXHIBIT B.7

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

(Exact name of registrant as specified in its charter)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Gulf Power Company	Maine	59-0276810
Gulf Power Capital Trust V	Delaware	58-6380849
Gulf Power Capital Trust VI	Delaware	11-6583955

500 Bayfront Parkway
Pensacola, Florida 32520
(850) 444-6111
(Address, including zip code, and telephone number, including area code, of each registrant's principal executive offices)

SUSAN D. RITENOUR
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520
(850) 444-6111
(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:

THOMAS A. FANNING
Executive Vice President, Treasurer and
Chief Financial Officer
THE SOUTHERN COMPANY
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

MELISSA K. CAEN
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, [illegible] ☒

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 Company Class A Preferred Stock				
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	$35,000,000	100%	$35,000,000	$4,435(6)

[illegible] 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) Previously paid.

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 $165,000,000 of securities remaining unsold under Registration Statement No. 333-104449.

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 AUGUST 30, 2004

PROSPECTUS

$200,000,000

Gulf Power Company

Class A Preferred Stock

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.

, 2004

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,

- Class A preferred stock (the "new Stock")
- 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 $200,000,000. 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, 2003, along with disclosure related to the risk factors contained in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004, which are all 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, 2003;

(b) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004; and

(c) the Company's Current Reports on Form 8-K dated April 6, 2004 and August 12, 2004.

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 the initial filing of the Registration Statement and prior to effectiveness of the Registration Statement and 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 but not delivered with 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 Susan D. Ritenour, 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 32520, 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 (including Pensacola, Panama City and Fort Walton Beach), as well as in rural areas, and at wholesale to a nonaffiliated utility and 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, 2003	393,862
Generating Capacity at December 31, 2003 (kilowatts)	2,786,050
Sources of Generation during 2003 (kilowatt-hours)	Coal (87%), Gas (13%)

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,					Six Months Ended June 30,
	1999	2000	2001	2002	2003	2004 (1)
Ratio of Earnings to Fixed Charges(2)	3.62	3.38	3.64	3.52	3.86	4.07
Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(3)	3.58	3.34	3.60	3.50	3.83	4.03

(1) Due to seasonal variations in the demand for energy, operating results for the six months ended June 30, 2004 do not necessarily indicate operating results for the entire year.

(2) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Earnings Before Income Taxes" "Interest expense, net of amounts capitalized," "Interest expense to affiliate trusts," "Distributions on mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Interest expense, net of amounts capitalized," "Interest expense to affiliate trusts," "Distributions on mandatorily redeemable preferred securities" and the debt portion of allowance for funds used during construction.

(3) 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 32520, 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, each Trust is a variable interest entity. The Company does not meet the definition of primary beneficiary and therefore accounts for its investment in each Trust under the equity method in accordance with Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities." The Junior Subordinated Notes payable to each Trust will be presented as a separate line item in the Company's balance sheet. Interest payable on the Junior Subordinated Notes will be reflected as a separate line item on the Company's income statement and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the Company's financial statements.

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 new Stock or 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 NEW STOCK

Set forth below is a description of the general terms of the new Stock. The statements in this Prospectus concerning the new Stock are an outline and do not purport to be complete. Such statements make use of defined terms and are qualified in their entirety by reference to the Restated Articles of Incorporation of the Company (the "Charter") and the amendments thereto, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part for complete statements and for the definitions of various terms. The general provisions which apply to the preferred stock of the Company of all classes, which are now or may at a later time be authorized or created, are set forth in the Charter.

General

The new Stock is to be a series of the Company's Class A Preferred Stock to be established and designated by resolutions of the Board of Directors of the Company which, when filed with the Secretary of State of the State of Maine, will constitute an amendment to the Charter.

As of June 30, 2004, there were no outstanding shares of the Class A Preferred Stock. In addition to the Class A Preferred Stock, the Company has authorized 801,626 shares of Preferred Stock, cumulative, par value of $100 per share. As of June 30, 2004, there were outstanding 42,361 shares of the Preferred Stock.

The new Stock will not be subject to further calls or assessment by the Company.

Any proposed listing of the new Stock on a securities exchange will be described in the applicable Prospectus Supplement.

Transfer Agent and Registrar

Unless otherwise indicated in the applicable Prospectus Supplement, the transfer agent for the new Stock will be Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the new Stock are payable, when and if declared by the Board of Directors, at the rate per annum determined for each respective series. Unless otherwise indicated in the applicable Prospectus Supplement, dividends will be payable to holders of record of the new Stock as they appear on the books of the Company on the record dates fixed by the Board of Directors.

The applicable Prospectus Supplement will set forth the par value of the new Stock, the dividend rate provisions of the new Stock, including the payment dates and the rate or rates, or the method of determining the rate or rates (which may involve periodic dividend rate settings through remarketing or auction procedures or pursuant to one or more formulae, as described in the applicable Prospectus Supplement), and whether dividends shall be cumulative and, if so, from which date or dates.

Redemption Provisions

The redemption provisions applicable to the new Stock, including any restrictions on the repurchase or redemption of shares of the new Stock by the Company while there is any arrearage in the payment of dividends on other outstanding securities of the Company, will be described in the applicable Prospectus Supplement.

Voting Rights

The applicable Prospectus Supplement will describe the voting rights for each series of the new Stock.

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preferred Stock and Class A Preferred Stock of each series, without preference among series, are entitled to receive the amount specified to be payable on the shares of such series before any distribution of assets may be made to the holders of the Common Stock. Available assets, if insufficient to pay such amounts to the holders of the Preferred Stock and Class A Preferred Stock, are to be distributed pro rata to the payment, first of the amount per share payable in the event of involuntary liquidation, second of accrued dividends and third of any premium.

Sinking Fund

The terms and conditions of a sinking or purchase fund, if any, for the benefit of the holders of the new Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

The holders of the new Stock do not have any pre-emptive or conversion rights, except as otherwise described in the applicable Prospectus Supplement.

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 $108,000,000 outstanding at June 30, 2004. 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 that ranks equally 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 June 30, 2004, Senior Indebtedness of the Company aggregated approximately $615,000,000.

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 new Stock, 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 new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such new Stock, 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 new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such new Stock, 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 new Stock, 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 new Stock, 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 new Stock, 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 new Stock, Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such new Stock, 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 new Stock, 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 new Stock, 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 years ended December 31, 2003 and 2002 incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2003 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference (which report on the financial statements expresses an unqualified opinion and includes an explanatory paragraph referring to the Company's change in its method of accounting for asset retirement obligations), and have 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	$ 25,340
Fees and expenses of trustees and/or Transfer Agent and Registrar	25,000
Listing fees of New York Stock Exchange	73,750
Printing expenses	100,000
Rating Agency fees	390,000
Services of Southern Company Services, Inc.	100,000
Fees and expenses of counsel	200,000
Blue sky fees and expenses	25,000
Fees of accountants	150,000
Miscellaneous expenses	60,910
Total	$1,150,000

* 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.***

Subchapter 5 of Chapter 8 of the Maine Business Corporation Act provides that a corporation may indemnify, or if so provided in the articles of incorporation, bylaws or in a resolution adopted or a contract approved by its board of directors or shareholders may obligate itself in advance of the act or omission giving rise to a proceeding to provide indemnification to, any person who was, is or is threatened to be made a defendant or respondent to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, and whether formal or informal, because that person is or was a director or officer, or while a director or officer of the corporation is or was serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other entity, against any obligation to pay a judgment, settlement, penalty, fine, including any excise tax assessed with respect to an employee benefit plan, or reasonable expenses incurred by that person with respect to any threatened, pending or completed action, suit or proceeding; provided that no indemnification shall be provided for any director with respect to any matter unless it shall have been determined by a majority of the disinterested members of the board of directors, special legal counsel or the corporation's shareholders that the director has acted in good faith and in the reasonable belief that such director's action was in the best interests of the corporation and in all other cases that the individual's conduct was not opposed to the best interests of the corporation; or with respect to any criminal action or proceeding, had no reasonable cause to believe that such director's conduct was unlawful. In addition, unless ordered by a court, a corporation may not indemnify one of the corporation's officers or directors in connection with an action, suit or proceeding (i) by or in the right of the corporation, except for reasonable expenses incurred in connection with the action, suit or proceeding if it is determined that the officer or director acted in accordance with the standard above, or (ii) with respect to conduct for which the director or officer was adjudged liable on the basis that the director or officer received a financial benefit to which the director was not entitled, whether or not involving action in the director's official capacity. The termination of any action, suit or proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent, shall not of itself be determinative that the person did not meet the standards above. A corporation may indemnify an officer of the corporation to the same extent as a director and, if the officer is an officer but not a director, to such further extent as may be provided in the corporation's articles of incorporation, bylaws, a resolution of the corporation's board of directors or a contract except for (i) liability in connection with an action, suit or proceeding by or in the right of the corporation other than reasonable expenses incurred in connection with the action, suit or proceeding, or (ii) liability arising out of conduct that constitutes receipt by the officer of a financial benefit to which the officer is not entitled, an intentional infliction of harm on the corporation or its shareholders or an intentional violation of criminal law.

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 new Stock.*
1.2	—Form of Underwriting Agreement relating to Senior Notes.*
1.3	—Form of Underwriting Agreement relating to Junior Subordinated Notes.*
1.4	—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, in Form 8-K dated July 10, 2003, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated September 5, 2003, File No. 0-2429, as Exhibit 4.1 and in Form 8-K, dated April 6, 2004, File No. 0-2429, as Exhibit 4.1).
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	—Restated Articles of Incorporation of Gulf Power Company 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 the Company's Form 10-K for the year ended December 31, 1997, File No. 0-2429, as Exhibit 3(d)2 and in the Company's Form 10-K for the year ended December 31, 2000, File No. 0-2429, as Exhibit 3(d)2.)
4.6	—Form of Proposed Certificate of Resolution of the Board of Directors of Gulf Power Company establishing and designating the new Stock.*
4.7	—By-laws of Gulf Power Company as amended effective July 26, 2002, and as presently in effect. (Designated in Gulf Power Company's Form 10-K for the year ended December 31, 2002, File No. 0-2429, as Exhibit 3(d)2.)
4.8-A	—Certificate of Trust of Gulf Power Capital Trust V (Designated in Registration No. 333-104449 as Exhibit 4.5-A).
4.8-B	—Certificate of Trust of Gulf Power Capital Trust VI (Designated in Registration No. 333-104449 as Exhibit 4.5-B).
4.9-A	—Trust Agreement of Gulf Power Capital Trust V (Designated in Registration No. 333-104449 as Exhibit 4.6-A).
4.9-B	—Trust Agreement of Gulf Power Capital Trust VI (Designated in Registration No. 333-104449 as Exhibit 4.6-B).
4.10-A	—Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust V (Designated in Registration No. 333-104449 as Exhibit 4.7-A).
4.10-B	—Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust VI (Designated in Registration No. 333-104449 as Exhibit 4.7-B).

Exhibit Number	
4.11-A	—Form of Preferred Security of Gulf Power Capital Trust V (included in Exhibit 4.10-A above).
4.11-B	—Form of Preferred Security of Gulf Power Capital Trust VI (included in Exhibit 4.10-B above).
4.12	—Form of Senior Note (included in Exhibit 4.2 above).
4.13	—Form of Junior Subordinated Note (included in Exhibit 4.4 above).
4.14-A	—Form of Guarantee relating to Gulf Power Capital Trust V (Designated in Registration No. 333-104449 as Exhibit 4.11-A).
4.14-B	—Form of Guarantee relating to Gulf Power Capital Trust VI (Designated in Registration No. 333-104449 as Exhibit 4.11-B).
4.15-A	—Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust V (included in Exhibit 4.10-A above).
4.15-B	—Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust VI (included in Exhibit 4.10-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.**
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.

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* To be subsequently filed or incorporated by reference.

** Previously filed.

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 with or furnished to the Commission 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 amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 30th day of August, 2004.

GULF POWER COMPANY

By: SUSAN N. STORY,
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 amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 30th day of August, 2004.

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 amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 30th day of August, 2004.

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 amendment to the 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
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)	
C. LEDON ANCHORS WILLIAM C. CRAMER, JR. FRED C. DONOVAN, SR. WILLIAM A. PULLUM WINSTON E. SCOTT	Directors	

By WAYNE BOSTON
(Wayne Boston, Attorney-in-fact)

August 30, 2004

EXHIBIT B.8.

Description of Holder

$75,000,000 Series K 4.90% Senior Notes

Name of Underwriters	**Principal Amount of Notes**
Citigroup Global Markets Inc. 390 Greenwich Street New York, New York 10013	$33,750,000
J.P. Morgan Securities Inc. 270 Park Avenue New York, New York 10017	$33,750,000
As representatives	
ABN AMRO Incorporated	$ 7,500,000
	$75,000,000

Underwriters Fees: $487,500

GULF POWER COMPANY

EXHIBIT B.9.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $75,000,000 Principal Amount
Series K 4.90% Senior Notes

Item Number	Issuance Expenses For:	Amount $
1	Shelf Registration-Securities & Exchange Commission	31,716.03
2	Charges of Trustee	3,390.00
3	Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc.	21,378.92
4	Fees and Expenses of Counsel	18,650.64
5	Fees of Accountants	32,400.00
6	Rating Fees	37,461.00
7	Expenses of Southern Company Services, Inc.	2,896.15
8	Miscellaneous Expenses	237.08
	Total Expenses of Issue	148,129.82
	Unamortized Discount Expense	487,500.00
	Total Cost of Issue	$635,629.82

GULF POWER COMPANY

October 27, 2004

FOR VALUE RECEIVED, the undersigned promises to pay to the order of LEHMAN BROTHERS BANK, FSB (the "Bank") by wire transfer directed to the Payment Account (as defined below), the principal amount of One Hundred Million Dollars ($100,000,000) on October 28,2005, and to pay interest (calculated on the basis of a year of 360 days, and the actual number of days elapsed) on the unpaid principal amount hereof at the rate of 2.36% per annum from the date hereof to (but excluding) January 27, 2005, and at the rate determined as hereinafter provided for each Subsequent Interest Period, such interest being payable in arrears on January 27, 2005, on the last day of each Subsequent Interest Period and at the maturity hereof. Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the Loan and any other amounts owing hereunder or under that certain Loan Agreement dated as of October 27, 2004 (as amended, restated, supplemented or modified from time to time, the "Loan Agreement"), between the Borrower and the Bank, shall bear interest at a per annum rate equal to 2% plus the rate which would otherwise be applicable hereunder to the Loan (whether based on Adjusted LIBOR or the Base Rate), such interest to be payable on demand and upon payment in full of such principal.

Except as otherwise expressly provided in this Note or in Section 2.04 of the Loan Agreement, the interest rate for each Subsequent Interest Period shall be equal to the sum of the Adjusted LIBOR for such Subsequent Interest Period plus .25%.

"Adjusted LIBOR" applicable to any Subsequent Interest Period means a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100th of 1%) by dividing (i) the applicable LIBOR for such Subsequent Interest Period by (ii) 1.00 minus the Reserve Percentage.

"LIBOR" with respect to each Subsequent Interest Period, means the rate per annum determined on the basis of the rate for deposits in U.S. dollars for a period equal to such Subsequent Interest Period commencing on the first day of such Subsequent Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Subsequent Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), "LIBOR" for purposes of this definition shall be determined by reference to such other comparable publicly available service for displaying libor rates as may be selected by the Bank.

"Payment Account" means the account designated below or such other account as may be designated in writing from time to time by the Bank:

Bank Name:	**Citibank**
ABA Routing No.:	**021-000-089**
For Credit to:	**30434141 LCPI Bank Loans Agency**

"Reserve Percentage" means for any day, the percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) which is the then stated maximum rate for all reserves (including any emergency, supplemental or other marginal reserve requirements) applicable to any member bank of the Federal Reserve System in respect of "Eurocurrency Liabilities" (or any successor category of liabilities under Regulation D of the Board of Governors of the Federal Reserve System). Such reserve percentage shall include, without limitation, those imposed pursuant to such Regulation D. The Adjusted LIBOR shall be adjusted automatically on and as of the effective date of any change in such reserve percentage.

"Subsequent Interest Period" means each period beginning on the last day of the immediately preceding interest period and ending three months after such date; provided, however, that if at the end of any Subsequent Interest Period, less than three months remain prior to maturity of the Loan, the applicable period or periods will be agreed to between the Borrower and the Bank with reference to LIBOR convention. Only one Subsequent Interest Period with a single duration may be in effect at any given time. No Subsequent Interest Period may extend beyond October 28, 2005.

In order for the Loan to bear interest at Adjusted LIBOR plus .25% for any Subsequent Interest Period, the undersigned shall give the Bank irrevocable notice not later than 10:00 a.m. (Atlanta time) at least three Business Days prior to (a) with respect to the first Subsequent Interest Period, January 27, 2005, (b) with respect to each subsequent Subsequent Interest Period, the last day of the Subsequent Interest Period then in effect and (c) if the Base Rate is then applicable to the Loan, any Business Day selected by the Borrower, specifying the Loan shall bear interest at Adjusted LIBOR for such Subsequent Interest Period. The undersigned's selection of Adjusted LIBOR for any Subsequent Interest Period pursuant to the preceding sentence shall be given effect unless, on the last day of the Subsequent Interest Period then in effect, either (i) Section 2.04 of the Loan Agreement requires that the Loan bear interest at the Base Rate or (ii) an Event of Default under the Loan Agreement has occurred and is continuing, in which case the Loan shall bear interest at the rate specified in the last sentence of the first paragraph of this Note. In the event that the undersigned fails to give any such notice in compliance with the first sentence of this paragraph, the Loan shall bear interest at the Base Rate until such time as a Subsequent Interest Period is selected and becomes effective in compliance with this paragraph.

On any day on which the Bank determines Adjusted LIBOR for any Subsequent Interest Period, the Bank shall provide facsimile notice of the new Adjusted LIBOR to the undersigned and to Southern Company Services, Inc., as provided in Section 8.04 of the Loan Agreement.

All payments hereunder shall be made in lawful money of the United States of America in immediately available funds and without setoff, counterclaim or other deduction. If any payment hereunder shall be specified to be made on a day which is not a Business Day, it shall be made on the next succeeding day which is a Business Day and such extension of time shall in such case be included in computing interest, if any, in connection with such payment.

The principal of this Note may be prepaid by the undersigned in whole or in part without premium or penalty on the last day of any Subsequent Interest Period (but not any other date) upon at least three Business Days' notice to the Bank. Any partial prepayment shall be in the principal amount of $500,000 or any integral multiple thereof.

Demand for payment, protest and notice of dishonor are hereby waived by the undersigned.

This Note evidences a loan made to the undersigned under and is entitled to the benefits of the Loan Agreement, to which Loan Agreement reference is hereby made for, among other things, the terms under which the maturity of this Note may be accelerated. Unless the context otherwise requires, capitalized terms used in this Note which are defined in the Loan Agreement shall have their defined meanings when used herein.

The undersigned promises to pay all out-of-pocket costs and expenses (including reasonable fees and out-of-pocket costs and expenses of legal counsel) which the Bank may incur in the enforcement against the undersigned of said Loan Agreement or this Note.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF FLORIDA.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed and delivered to the Bank as of the date first above written.

GULF POWER COMPANY

By: Susan D Ritenour
Name: Susan D. Ritenour
Title: Secretary & Treasurer

ATTEST:

By: Linda G. Malone
Name: LINDA G. MALONE
Title: ASST. SECRETARY

LOAN AGREEMENT

Dated as of October 27, 2004

By and Between

GULF POWER COMPANY

AND

LEHMAN BROTHERS BANK, FSB

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of October 27, 2004 (this "Agreement"), by and between GULF POWER COMPANY, a corporation organized and existing under the laws of the State of Maine (the "Borrower"), and LEHMAN BROTHERS BANK, FSB, a bank organized under the laws of New York (the "Bank").

WITNESSETH:

WHEREAS, the Borrower has requested the Bank to extend the Loan (as hereinafter defined), and the Bank is willing to do so subject to and upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, for and in consideration of the premise and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. In addition to the other terms defined herein, the following terms used herein shall have the meanings herein specified (such meanings to be equally applicable to both the singular and plural forms of the terms defined except where specifically defined):

"Adjusted LIBOR" shall have the meaning set forth in the Note.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with such Person.

"Base Rate" means, for any day, a rate of interest per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Rate in effect on such day plus ½ of 1%. For purposes hereof: "Prime Rate" shall mean the prime lending rate as set forth on the British Banking Association Telerate page 5 (or such other comparable page as may, in the opinion of the Bank, replace such page for the purpose of displaying such rate), as in effect from time to time. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually available. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate or the Federal Funds Rate, respectively.

"Base Rate Loan" means the Loan at such times as it bears interest at the Base Rate.

"Business Day" means (i) with respect to any borrowing, payment or Subsequent Interest Period selection for the Loan, or any portion thereof, bearing interest based on Adjusted LIBOR, a day (other than a Saturday or Sunday) on which banks generally are open in Atlanta and New York for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday, a Sunday, a legal holiday or a day on which banking institutions are authorized or required by law or other governmental action to close) on which banks generally are open in Atlanta and New York for the conduct of substantially all of their commercial lending activities and interbank wire transfers can be made on the Fedwire system.

"Capitalization" means, with respect to the Borrower, without duplication, the sum of (a) the aggregate of (i) the capital stock (but excluding treasury stock and capital stock subscribed and unissued) and other equity accounts (including retained earnings, paid-in capital and accumulated other comprehensive income and loss) of the Borrower as the same appears on its balance sheet prepared in accordance with GAAP as of the date of determination and (ii) the principal amount of Trust Preferred Obligations, provided that, the maturity of such Trust Preferred Obligations is subsequent to the maturity of the Note and (b) the amount of all Indebtedness of the Borrower as of the same date.

"Change of Control" means the failure of The Southern Company, a Delaware corporation, to own at least 51% of the outstanding shares of the capital stock of the Borrower entitled to vote generally for the election of directors of the Borrower.

"Closing Date" means the date on which all conditions precedent hereto are fulfilled to the Bank's satisfaction and the Loan is made.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Controlled Group" means (a) the controlled group of corporations as defined in Section 414(b) of the Code and the applicable regulations thereunder or (b) the group of trades or businesses under common control as defined in Section 414(c) of the Code and the applicable regulations thereunder, of which the Borrower is a part or may become a part.

"corporation" includes corporations, partnerships, limited liability companies, associations, companies, statutory trusts and business trusts.

"Default" means any event, act or condition which, with notice or lapse of time, or both, would constitute an Event of Default.

"Dollars" and "$" means dollars in lawful currency of the United States of America.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as such Act may be amended.

"ERISA Affiliate" means each person (as defined in Section 3(9) of ERISA) which together with the Borrower or any Subsidiary of the Borrower would be deemed to be a member of the same "controlled group" within the meaning of Section 414(b), (c), (m) and (o) of the Code.

"Event of Default" has the meaning set forth in Section 7.01.

"Exchange Act Documents" has the meaning set forth in Section 3.01(g).

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of the quotations at approximately 10:00 a.m. (New York time) on such day on such transactions received by the Bank from three Federal funds brokers of recognized standing selected by the Bank in its sole discretion.

"First Mortgage Indenture" shall mean the Indenture, dated as of September 1, 1941, between the Borrower and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee, as supplemented and amended to date, and as may hereafter be supplemented and amended by supplemental indentures.

"GAAP" means generally accepted accounting principles in the United States applied on a consistent basis.

"Guaranty Obligations" means, in respect of any Person, any legally enforceable obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness of another Person.

"Indebtedness" means, as to the Borrower, without duplication: (i) all obligations of the Borrower for borrowed money or evidenced by bonds, debentures, notes or similar instruments (including, without limitation, in the case of the Borrower, the obligations of the Borrower under the SCFC Notes); (ii) all obligations of the Borrower for the deferred purchase price of property or services (except trade accounts payable arising in the ordinary course of business); (iii) all capital lease obligations of the Borrower; (iv) all Indebtedness of others secured by a Lien on any properties, assets or revenues of the Borrower (other than stock, partnership interests or other equity interests of the Borrower or any of its Subsidiaries in other entities) to the extent of the lesser of the value of the property subject to such Lien or the amount of such Indebtedness; (v) all Guaranty Obligations; and (vi) all non-contingent obligations of the Borrower under any letters of credit or bankers' acceptances. It is understood and agreed that, in the case of the Borrower, Indebtedness (including Guaranty Obligations) shall not include any obligations of the Borrower with respect to subordinated, deferrable interest debt securities, and any related securities issued by a trust or other special purpose entity in connection therewith, as long as the maturity date of such debt is subsequent to the maturity date of the Note; provided that the amount of any mandatory principal amortization or defeasance of such debt prior to the maturity date of the Note shall be included in this definition of Indebtedness (such obligations, "Trust Preferred Obligations").

"LIBOR" shall have the meaning set forth in the Note.

"LIBOR Loan" means the Loan at such times as it bears interest at a rate based upon Adjusted LIBOR.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

"Loan" has the meaning set forth in Section 2.01.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations or financial condition of the Borrower, (b) the ability of the Borrower to perform its obligations under this Agreement or the Note or (c) the validity or enforceability of this Agreement or the Note or the rights and remedies of the Bank hereunder or thereunder.

"Multiemployer Plan" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the Controlled Group during such five year period but only with respect to the period during which such Person was a member of the Controlled Group.

"Net Tangible Assets" means, as of any date, the total assets shown on the balance sheet of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP less (a) all current liabilities and minority interests and (b) goodwill and other intangibles.

"Note" has the meaning set forth in Section 2.01.

"Payment Account" shall have the meaning set forth in the Note.

"Person" means, an individual, a corporation, a partnership, an unincorporated association, a limited liability company, a trust or any other entity or organization, including, but not limited to, a government or political subdivision or an agency or instrumentality thereof.

"Plan" means any single employer plan as defined in Section 4001 of ERISA and to which ERISA applies, which is maintained, or at any time during the five calendar years preceding the date of this Agreement was maintained for employees of the Borrower, any Subsidiary of the Borrower or an ERISA Affiliate.

"PUHCA" has the meaning set forth in Section 4.01(d).

"SCFC" means Southern Company Funding Corporation, a Delaware corporation, an Affiliate of the Borrower and a wholly owned Subsidiary of The Southern Company, a Delaware corporation.

"SCFC Notes" means one or more intercompany notes issued by the Borrower to SCFC in support of commercial paper issued by SCFC on behalf of the Borrower pursuant to that certain Financial Services Agreement, dated as of March 15, 2001, between the Borrower and SCFC.

"SEC" has the meaning set forth in Section 3.01(g).

"Significant Subsidiary," means a Subsidiary of the Borrower which represents more than 10% of the Borrower's assets on a consolidated basis.

"Subsequent Interest Period" shall have the meaning set forth in the Note.

"Subsidiary" means, as to any Person, (a) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50% equity interest at any time.

"Trust Preferred Obligations" has the meaning set forth in the definition of Indebtedness.

SECTION 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all terms of an accounting character used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants or otherwise required by a change in GAAP) with the most recent audited consolidated financial statements of the Borrower delivered to the Bank (being those financial statements described in Section 4.01(j) or Section 5.02, as the case may be) unless with respect to any such change concurred in by the Borrower's independent public accountants or required by GAAP, in determining compliance with any of the provisions of this Agreement or the Note: (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements, or (ii) the Bank shall so object in writing within 30 days after the delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which no such objection shall have been made.

ARTICLE II

AMOUNT AND TERMS OF LOAN

SECTION 2.01. Loan and Note. Subject to and upon the terms and conditions set forth in this Agreement, the Bank agrees to lend to the Borrower One Hundred Million Dollars ($100,000,000) in immediately available funds on October 27, 2004 (the "Loan"). The Loan shall be evidenced by, and shall accrue interest and be payable as provided in, a single Promissory Note payable to the Bank in the form of Exhibit A attached hereto (the "Note").

SECTION 2.02. Increased Costs. If (i) Regulation D of the Board of Governors of the Federal Reserve System, or (ii) after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency,

(1) shall subject the Bank to any tax, duty or other charge with respect to the Loan or the Note, or shall change the basis of taxation of payments to the Bank of the principal of or interest on the Note or any other amounts due under this Agreement in respect of the Loan (except for changes in the rate of tax on the overall net income of the Bank imposed by the jurisdiction in which the Bank's principal executive office is located); or

(2) shall impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Bank; or

(3) shall impose on the Bank any other condition affecting the Loan or the Note;

and the result of any of the foregoing is to increase the cost to (or in the case of Regulation D referred to above, to impose a cost on) the Bank of extending or maintaining the Loan (excluding any such cost already reflected in the determination of Adjusted LIBOR), or to reduce the amount of any sum received or receivable by the Bank under this Agreement or under the Note with respect thereto, then within 15 days after demand by the Bank (which demand shall be accompanied by a statement setting forth the basis of such demand and shall be presumed accurate absent manifest error), the Borrower shall pay directly to the Bank such additional amount or amounts as will compensate the Bank for such increased cost or such reduction. The Bank shall promptly notify the Borrower of any event of which it has knowledge, occurring after the date hereof, which will entitle the Bank to compensation pursuant to this Section 2.02 and will take such reasonable action, if such action will avoid the need for, or reduce the amount of, such compensation and will not, in the sole judgment of the Bank, be otherwise disadvantageous to the Bank.

SECTION 2.03. Capital Adequacy. If, after the date hereof, the Bank has determined that the adoption or effectiveness of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank or its parent with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect or reducing the rate of return on the Bank's or its parent's capital or assets as a consequence of its commitments or obligations hereunder to a level below that which the Bank or its parent could have achieved but for such adoption, effectiveness, change or compliance (taking into consideration the Bank's and its parent's policies with respect to capital adequacy), then the Borrower shall pay to the Bank within 15 days after demand, which demand shall contain the basis and calculations supporting such demand, such additional amount or amounts as will compensate the Bank and its parent for such reduction. Each determination by the Bank of amounts owing under this Section 2.03 shall, absent manifest error, be conclusive and binding on the Borrower.

SECTION 2.04. Illegality; Unavailability. If the Bank determines in good faith that any laws have made it unlawful, or that any governmental authority has asserted that it is unlawful, for Bank to make or maintain the Loan as a LIBOR Loan (or any conversion or continuation associated therewith), or materially restricts the authority of the Bank to purchase or sell, or to take deposits of, dollars in the London interbank market, or to determine or charge interest rates based upon LIBOR, then, on notice thereof by the Bank to the Borrower, any obligation of the Bank to make, continue or convert the Loan as a LIBOR Loan shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from the Bank, prepay the Loan or have the Loan bear interest at the Base Rate either on the last day of the Subsequent Interest Period thereof, if the Bank may lawfully continue to maintain the Loan as a LIBOR Loan to such day, or immediately, if the Bank may not lawfully continue to maintain the Loan as a LIBOR Loan. Further, if in connection with the Loan, the Bank determines that (a) dollar deposits are not being offered to the Bank in the applicable offshore dollar market for the applicable amount and time period of the requested Subsequent Interest Period, or (b) adequate and reasonable means do not exist for determining LIBOR, the Bank shall promptly notify the Borrower. Thereafter, the obligation of the Bank to make or maintain the Loan as a LIBOR Loan shall be suspended until the Bank revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for continuation or conversion of the Loan as a LIBOR Loan or, failing that, be deemed to have converted such request into a request that the Loan bear interest at the Base Rate.

SECTION 2.05. Compensation. The Borrower shall pay to the Bank such amount or amounts as shall compensate the Bank for any loss, cost or expense incurred by the Bank as a result of: (a) any payment or prepayment of the Loan when outstanding as a LIBOR Loan on a date other than the last day of a Subsequent Interest Period for such Loan; or (b) any failure by the Borrower to continue the Loan as a LIBOR Loan or convert the Loan into a LIBOR Loan on the date specified in its notice for such continuation or conversion delivered to the Bank pursuant to the terms of the Note; such compensation to include, without limitation, an amount equal to the excess, if any, of (x) the amount of interest which would have accrued on the amount so paid or prepaid or not prepaid or borrowed for the period from the date of such payment, prepayment or failure to prepay or borrow to the last day of the then current Subsequent Interest Period for the Loan (or, in the case of a failure to prepay or borrow, the Subsequent Interest Period for the Loan which would have commenced on the date of such failure to prepay or borrow) at the applicable rate of interest for the Loan provided for herein over (y) the amount of interest (as reasonably determined by the Bank) the Bank would have paid on deposits in U.S. dollars of comparable amounts having terms comparable to such period placed with it by leading banks in the London interbank market.

SECTION 2.06. Taxes. Any and all payments by the Borrower to or for the account of the Bank under this Agreement or the Note shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes measured by net income and franchise taxes imposed on it by the jurisdiction under the laws of which the Bank is organized or transacting business or any political subdivision thereof. In addition, the Borrower agrees to pay, upon written notice from the Bank, any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under this Agreement or the Note.

SECTION 2.07. Making of Payments. All payments of principal of, or interest on, the Note shall be made in immediately available funds without setoff, counterclaim or other deduction by wire transfer directed to the Payment Account of the Bank. All such payments shall be received by the Bank not later than 12:00 noon (Atlanta time) on the date specified for payment.

SECTION 2.08. Telephonic Notices. The Borrower hereby authorizes the Bank to make the Loan, to select Subsequent Interest Periods under the Note and to transfer funds based on telephonic notices made by any Person or Persons the Bank in good faith believes to be acting on behalf of the Borrower. The Borrower agrees to deliver promptly to the Bank a written confirmation, of each telephonic notice signed by an authorized officer of the Borrower. If the written confirmation differs in any material respect from the action taken by the Bank, the records of the Bank shall govern absent manifest error.

ARTICLE III

CONDITIONS PRECEDENT

SECTION 3.01 The obligation of the Bank to make the Loan is subject to the satisfaction of the following conditions:

(a) Executed Documents. Receipt by the Bank of duly executed copies of (i) this Agreement and (ii) the Note.

(b) No Default; Representations and Warranties. Receipt by the Bank of an officer's certificate of the Borrower stating that, as of the Closing Date, (i) there exists no

Default or Event of Default, and (ii) all representations and warranties contained herein and in the Note are true and correct in all material respects.

(c) Opinion of Counsel. Receipt by the Bank of an opinion, satisfactory to the Bank, addressed to the Bank from legal counsel to the Borrower.

(d) Corporate Documents. Receipt by the Bank of the following:

(i) Bylaws. A copy of the bylaws of the Borrower certified by a secretary or assistant secretary of the Borrower to be true and correct as of the Closing Date.

(ii) Resolutions. A copy of the resolutions of the Board of Directors of the Borrower approving the borrowing evidenced by this Agreement and the Note and authorizing the execution and delivery thereof, certified by a secretary or assistant secretary of the Borrower to be true and correct and in force and effect as of the Closing Date.

(iii) Good Standing. A copy of a certificate of valid existence with respect to the Borrower certified as of a recent date by the Secretary of State of Maine.

(iv) Incumbency. An incumbency certificate as to those officers of the Borrower executing this Agreement and the Note, certified by a secretary or assistant secretary of the Borrower to be true and correct as of the Closing Date.

(e) Fees and Expenses. Payment by the Borrower of all fees and expenses owed by it to the Bank, including, without limitation, payment of the fees and expenses of counsel for the Bank to the extent invoiced prior to or on the Closing Date (which may include amounts constituting reasonable estimates of such fees and expenses incurred or to be incurred in connection with the transaction contemplated hereby; provided that no such estimate shall thereafter preclude the final settling of accounts as to such fees and expenses).

(f) Material Adverse Change. Except as disclosed in the Exchange Act Documents, no event or condition shall have occurred since December 31, 2003 that has had or would be likely to have a Material Adverse Effect.

(g) Litigation. Except as disclosed in the Borrower's Annual Report on Form 10-K for the year ended December 31, 2003, the Borrower's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004 or any Current Report on Form 8-K filed by the Borrower with the Securities and Exchange Commission (the "SEC") as of the Closing Date (the "Exchange Act Documents"), there shall not exist any action, suit, investigation or proceeding, nor shall any action, suit or investigation be pending or threatened in any court or before any arbitrator or governmental authority that materially adversely affects the Borrower or any transaction contemplated hereby or the ability of the Borrower to perform its obligations under this Agreement.

(h) Other. Receipt by the Bank of such other documents, instruments, agreements or information as reasonably requested by the Bank.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties. The Borrower represents and warrants to the Bank as follows:

(a) the Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Maine and is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi, and each Significant Subsidiary, if any, is a corporation duly organized, validly existing and in good standing under the laws of its respective state of incorporation;

(b) the Borrower (i) has the requisite corporate power and authority to own its properties and to carry on its business as now conducted and as proposed to be conducted, (ii) has the requisite corporate power to execute, deliver and perform this Agreement and the Note and to incur the obligations herein and therein provided for, and (iii) has duly authorized by all necessary corporate action the execution, delivery and performance of this Agreement and the Note and its obtaining the Loan;

(c) each of this Agreement and the Note is the valid and binding obligation of the Borrower enforceable in accordance with its terms, except as such enforcement may be limited by any bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally or general principles of equity;

(d) neither the execution and delivery of this Agreement and the Note, nor the consummation of the transactions contemplated herein, nor the performance of and compliance with the terms and provisions hereof by the Borrower will (i) violate or conflict with any provision of its articles of incorporation or bylaws, (ii) violate, contravene or materially conflict with any law (including, without limitation, the Public Utility Holding Company Act of 1935, as amended, ("PUHCA")), regulation (including, without limitation, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree or permit applicable to it, (iii) violate, contravene or materially conflict with contractual provisions of, or cause an event of default under, any indenture, loan agreement, mortgage, deed of trust, contract or other agreement or instrument to which it is a party or by which it may be bound, the violation of which could have a Material Adverse Effect or (iv) result in or require the creation of any Lien upon or with respect to its properties;

(e) no approval or consent of, or other filing with or notice to, any governmental body is legally required for the issuance by the Borrower of the Note or the execution, delivery and performance by the Borrower of this Agreement and the Note except for (i) an order or orders of the SEC under PUHCA and (ii) an order or orders of the Florida Public Service Commission, which order or orders in each case have been obtained and are in effect;

(f) other than in the ordinary course of business (including, without limitation, actions, suits or proceedings involving rates or licenses or permits for the construction or operation of generating or transmission facilities), there are no actions, suits or proceedings pending or to the Borrower's knowledge threatened against or directly involving the Borrower or a Significant Subsidiary or any of their respective properties before any court, arbitrator or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, in which there is a possibility of an adverse decision which has had or would be reasonably expected to have a Material Adverse Effect, except as disclosed in the Exchange Act Documents;

(g) to the best knowledge of the Borrower, no Reportable Event (as defined in Title IV of ERISA) has occurred and is continuing with respect to any Plan of the Borrower;

(h) no Plan has an accumulated funding deficiency determined under Section 412 of the Code;

(i) no Default or Event of Default has occurred and is continuing;

(j) the Borrower has furnished to the Bank (i) its balance sheet as of December 31, 2003, and related statements of income and cash flows for the twelve months then ended, in each case audited by Deloitte & Touche LLP, independent certified public accountants and (ii) its balance sheet as of June 30, 2004, and related statements of income and cash flows for the fiscal quarter then ended, and all such financial statements fairly present the Borrower's financial position as of such dates, and the results of its operations for the respective periods then ended, in conformity with generally accepted accounting principles consistently applied during such period (except as stated therein);

(k) except as disclosed in the Exchange Act Documents, since December 31, 2003, no event or condition has occurred that had or would be likely to have a Material Adverse Effect;

(l) the proceeds of the Loan (i) will be used solely for the purposes specified in Section 5.04 and (ii) will not be used (A) in a manner that would cause a violation of, or be inconsistent with, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or (B) for the acquisition of another Person unless the board of directors (or other comparable governing body) or stockholder, as appropriate, of such Person has approved such acquisition;

(m) the Borrower is not an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or controlled by such a company;

(n) the Borrower has filed, or caused to be filed, all material tax returns (federal, state, local and foreign) required to be filed and paid all amounts of taxes shown thereon to be due (including interest and penalties) and has paid all other taxes, fees, assessments and other governmental charges (including mortgage recording taxes, documentary stamp taxes and intangible taxes) owing by it, except for such taxes (i) which are not yet delinquent or (ii) that are being contested in good faith and by proper proceedings, and against which adequate reserves are being maintained in accordance with GAAP. The Borrower is not aware of any proposed material tax assessments against it;

(o) the Borrower is not in default in any respect under any contract, lease, loan agreement, indenture, mortgage, security agreement or other agreement or obligation to which it is a party or by which any of its properties is bound which default has had or would be reasonably expected to have a Material Adverse Effect; and

(p) the Borrower is in compliance with all laws, rules, regulations, orders and decrees applicable to it, or to its properties, unless such failure to comply would not have a Material Adverse Effect.

ARTICLE V

AFFIRMATIVE COVENANTS

SECTION 5.01. Certain Covenants. So long as the Note shall remain unpaid, the Borrower will, unless the Bank shall otherwise consent in writing:

(a) pay and discharge all taxes, assessments and governmental charges or levies imposed upon the Borrower or upon its income or profits, or upon any properties belonging to the Borrower, prior to the date they shall become delinquent; provided, however, that the Borrower shall not be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by proper proceedings;

(b) maintain at all times in full force and effect insurance (including worker's compensation insurance, liability insurance, casualty insurance and business interruption insurance) in such amounts, covering such risks and liabilities and with such deductibles or self-insurance retentions as are in accordance with normal industry practice;

(c) except as permitted by Section 6.02, do all things necessary to preserve and keep in full force and effect its existence, rights, franchises and authority;

(d) comply with the requirements of all laws, rules, regulations and orders and all restriction imposed by all governmental authorities (including, without limitation, ERISA and environmental laws, rulings, regulations and orders) applicable to it and its property if non-compliance with any such law, rule, regulation, order or restriction would be reasonably expected to have a Material Adverse Effect;

(e) provide the Bank with prompt notice in writing of any Event of Default or any event which with the passage of time or giving of notice, or both, would constitute an Event of Default; and

(f) perform in all material respects all of its obligations under the terms of all material agreements, indentures, mortgages, security agreements or other material debt instruments to which it is a party or by which it is bound, including, without limitation, the First Mortgage Indenture.

SECTION 5.02. Financial Statements. The Borrower, so long as any indebtedness under this Agreement is outstanding and unpaid, will furnish or cause to be furnished to the Bank (a) within 120 days after the end of each of its fiscal years, its consolidated balance sheet and related consolidated statements of income and cash flows, in each case audited by independent certified public accountants of nationally recognized standing, showing its financial position at the close of such year and the results of its operations and cash flows for such year; (b) within 55 days after the end of each of the first three quarters in each of its fiscal years, its unaudited condensed consolidated balance sheet and related condensed consolidated statements of income and cash flows, such balance sheets to be as of the end of such quarter and such statements of income and cash flows to be for the period from the beginning of the fiscal year to the end of such quarter, in each case in the forms included in its Quarterly Report on Form 10-Q for such quarter filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, and accompanied by a certificate of the chief financial officer of the Borrower to the effect that such quarterly financial statements fairly present in all material respects the financial condition of the Borrower and its Subsidiaries and have been prepared in accordance with GAAP, subject to changes resulting from audit and normal year-end adjustments; (c) at the time of delivery of the financial statements provided in clauses (a) and (b) above, a certificate of the Borrower, in form and substance satisfactory to the Bank, (i) demonstrating compliance with the financial covenant contained in Section 5.03 by calculation thereof as of the end of each such fiscal period and (ii) stating that no Default or Event of Default exists, or if any Default or Event of Default exists, specifying the nature and extent thereof and what action the Borrower proposes to take with respect thereto; and (d) such other information respecting the Borrower's business, properties or its condition or operations, financial or otherwise, as the Bank may from time to time reasonably request.

SECTION 5.03. Indebtedness to Capitalization. The ratio of (a) Indebtedness to (b) Capitalization shall at all times be less than or equal to .65 to 1.0.

SECTION 5.04 Use of Proceeds. The proceeds of the Loan shall be used (a) to repay existing Indebtedness of the Borrower and (b) for other general corporate purposes of the Borrower.

ARTICLE VI

NEGATIVE COVENANTS

The Borrower hereby covenants and agrees that, so long as the Note shall remain unpaid, unless the Bank shall otherwise consent in writing:

SECTION 6.01. Nature of Business. The Borrower will not alter the character of its business from that conducted as of the Closing Date.

SECTION 6.02. Consolidation and Merger. The Borrower will not enter into any transaction of merger or consolidation or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); provided that notwithstanding the foregoing provisions of this Section 6.02, the following actions may be taken if after giving effect thereto no Default or Event of Default exists:

(a) a Subsidiary of the Borrower may be merged or consolidated with or into the Borrower; provided that the Borrower shall be the continuing or surviving corporation; and

(b) the Borrower may merge or consolidate with any other Person (other than one of its Subsidiaries), if either (i) the Borrower shall be the continuing or surviving corporation or (ii) the Borrower shall not be the continuing or surviving corporation and the corporation so continuing or surviving (A) is a corporation organized and duly existing under the law of any state of the United States and (B) executes and delivers to the Bank an instrument in form satisfactory to the Bank pursuant to which it expressly assumes the Loan and all of the other obligations of the Borrower hereunder and procures for the Bank an opinion in form satisfactory to the Bank and from counsel satisfactory to the Bank in respect to the due authorization, execution, delivery and enforceability of such instrument and covering such other matters as the Bank may reasonably request; provided that prior to any such merger or consolidation, the Borrower shall demonstrate compliance with Section 5.03 after giving pro forma effect to such merger or consolidation.

SECTION 6.03. Sale or Lease of Assets. The Borrower will not convey, sell, lease, transfer or otherwise dispose of in one transaction or a series of transactions, all or substantially all of its business or assets whether now owned or hereafter acquired.

SECTION 6.04. Transactions with Affiliates. Except as otherwise required by law, the Borrower will not enter into any transaction or series of transactions, whether or not in the ordinary course of business, with any of its Affiliates other (i) than on terms and conditions substantially as favorable as would be obtainable in a comparable arm's-length transaction with a Person other than an Affiliate or (ii) in accordance with PUHCA and the rules, regulations and orders of the SEC thereunder.

SECTION 6.05. Fiscal Year. The Borrower will not change its fiscal year (a) without prior written notification to the Bank and (b) if such change would materially affect the Bank's ability to read and interpret the financial statements delivered pursuant to Section 5.02 or calculate the financial covenant in Section 5.03.

SECTION 6.06. Liens. The Borrower will not contract, create, incur, assume or permit to exist any Lien with respect to any of its property or assets of any kind (whether real or personal, tangible or intangible), whether now owned or hereafter acquired, securing any Indebtedness (unless the Loan hereunder is equally and ratably secured with such other Indebtedness) other than the following: (a) Liens securing the Borrower's obligations hereunder or under the Note, (b) Liens for taxes not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof), (c) Liens in respect of property imposed by law arising in the ordinary course of business such as materialmen's, mechanics', warehousemen's, carrier's, landlords' and other nonconsensual statutory Liens which are not yet due and payable, which have been in existence less than 90 days or which are being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof), (d) pledges or deposits made in the ordinary course of business to secure payment of worker's compensation insurance, unemployment insurance, pensions or social security programs, (e) Liens arising from good faith deposits in connection with or to secure performance of tenders, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations incurred in the ordinary course of business (other than obligations in respect of the payment of borrowed money), (f) Liens arising from good faith deposits in connection with or to secure performance of statutory obligations and surety and appeal bonds, (g) easements, rights-of-way, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered property for its intended purposes, (h) judgment Liens that would not constitute an Event of Default, (i) Liens arising by virtue of any statutory or common law provision relating to banker's liens, rights of setoff or similar rights as to deposit accounts or other funds maintained with a creditor depository institution, (j) Liens securing Indebtedness created under the First Mortgage Indenture, (k) any Lien created or arising over any property which is acquired, constructed or created by the Borrower, but only if (i) such Lien secures only principal amounts (not exceeding the cost of such acquisition, construction or creation) raised for the purposes of such acquisition, construction or creation, together with any costs, expenses, interest and fees incurred in relation thereto or a guarantee given in respect thereof, (ii) such Lien is created or arises on or before 180 days after the completion of such acquisition, construction or creation and (iii) such Lien is confined solely to the property so acquired, constructed and created and any improvements thereto, (l) any Lien on any property acquired from a corporation or other entity which is merged with or into the Borrower in accordance with Section 6.02, and is not created in anticipation of any such transaction (unless such Lien is created to secure or provide for the payment of any part of the purchase price of such corporation or other entity), (m) any Lien on any property or assets existing at the time of acquisition of such property or assets by the Borrower and which is not created in anticipation of such acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such property or assets), (n) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Liens referred to in the foregoing clauses (a) through (m), for amounts not exceeding the principal amount of the Indebtedness secured by the Lien so extended, renewed or replaced, provided that such extension, renewal or replacement Lien is limited to all or a part of the same property or assets that were covered by the Lien extended, renewed or replaced (plus improvements on such property or assets) and (o) Liens on property, in addition to those otherwise permitted by clauses (a) through (n) above, securing, directly or indirectly, Indebtedness which does not exceed, in the aggregate at any one time outstanding, ten percent (10%) of Net Tangible Assets.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. Events of Default. Any one or more of the following shall constitute an "Event of Default" hereunder:

(a) the Borrower shall:

(i) default in the payment when due of any principal of the Note, or default for 5 Business Days in the payment when due of any interest on the Note;

(ii) default in the due performance or observance by it of any term, covenant or agreement contained in Sections 5.03, 5.04 or 6.01 through 6.06, inclusive;

(iii) default in the due performance or observance by it of any term covenant or agreement contained in Sections 5.01(e) or 5.02, and such default shall continue unremedied for a period of 10 Business Days after the earlier of an officer of the Borrower becoming aware of such default or written notice thereof given by the Bank; or

(iv) default in the performance of any other agreement or covenant contained in this Agreement (other than a covenant or agreement referred to in clauses (i), (ii) or (iii) above), and such default shall continue unremedied for a period of 30 days after the earlier of an officer of the Borrower becoming aware of such default or written notice thereof given by the Bank;

(b) any representation made by the Borrower hereunder shall prove incorrect in any material respect when made;

(c) with respect to any Indebtedness (other than the Indebtedness under this Agreement) of the Borrower or a Significant Subsidiary in a principal amount in excess of $25,000,000, (i) the Borrower or such Significant Subsidiary shall (A) default in any payment (interest or principal) (beyond the applicable grace period with respect thereto, if any) with respect to any such Indebtedness, or (B) default (after giving effect to any applicable grace period) in the observance or performance of any covenant or agreement relating to such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event or condition shall occur or condition exist, the effect of which default or other event or condition is to cause, or permit, the holder or holders of such Indebtedness (or trustee or agent on behalf of such holders) to cause any such Indebtedness to become due prior to its stated maturity, or (ii) any such Indebtedness shall be declared due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity date thereof, or (iii) any such Indebtedness matures and remains unpaid;

(d) the occurrence of any of the following with respect to the Borrower or a Significant Subsidiary: (i) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower or a Significant Subsidiary in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Borrower or a Significant Subsidiary or for any substantial part of its property or ordering the winding up or liquidation of its affairs; or (ii) an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect is commenced against the Borrower or a Significant Subsidiary and such petition remains unstayed and in effect for a period of 60 consecutive days; or (iii) the Borrower or a Significant Subsidiary shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of such Person or any substantial part of its property or make any general assignment for the benefit of creditors; or (iv) the Borrower or a Significant Subsidiary shall admit in writing its inability to pay its debts generally as they become due, or (vi) any action shall be taken by such Person in furtherance of any of the aforesaid actions;

(e) one or more judgments, orders or decrees shall be entered against the Borrower involving a liability of $25,000,000 or more, in the aggregate (to the extent not paid or covered by insurance provided by a carrier who has acknowledged coverage), and such judgments, orders or decrees shall continue unsatisfied, undischarged and unstayed for a period ending on the first to occur of (i) the last day on which such judgment, order or decree becomes final and unappealable and, where applicable, with the status of a judicial lien or (ii) 30 days;

(f) the occurrence of a Change of Control;

(g) (i) the Borrower or any member of the Controlled Group shall fail to pay when due an amount or amounts aggregating in excess of $100,000,000 which it shall have become liable to pay under Title IV of ERISA; or (ii) notice of intent to terminate a Plan or Plans which in the aggregate have unfunded liabilities in excess of $100,000,000 (individually and collectively, a "Material Plan") shall be filed under Title IV of ERISA by the Borrower or any member of the Controlled Group, any plan administrator or any combination of the foregoing; or (iii) the Pension Benefit Guaranty Corporation ("PBGC") shall institute proceedings under Title IV of ERISA to terminate, or impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer, any Material Plan; or (iv) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or (v) there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which would cause one or more members of the Controlled Group to incur a current payment obligation in excess of $100,000,000; or

(h) either this Agreement or the Note shall fail to be in full force and effect or to give the Bank the rights, powers and privileges purported to be created thereby.

SECTION 7.02. Remedies on Default. Upon the occurrence and continuation of an Event of Default, then, except in the case of an event described in clause (d) of Section 7.01 above, the Bank may, upon written notice to the Borrower, declare the principal and interest on the Note to be immediately due and payable, whereupon the outstanding principal amount of the Note, accrued interest thereon, and all other amounts payable under this Agreement and the Note, shall be immediately due and payable. In the case of an event described in clause (d) of Section 7.01 above, without any notice to the Borrower or declaration by the Bank, the outstanding principal amount of the Note, accrued interest thereon, and all other amounts payable by the Borrower under this Agreement and the Note shall be immediately due and payable.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. No Waiver. The Bank's rights and remedies under this Agreement and the Note are cumulative and not exclusive of any rights or remedies which the Bank would otherwise have, and no failure or delay by the Bank in exercising any right shall operate as a waiver of it, nor shall any single or partial exercise of any power or right preclude its other or further exercise or the exercise of any other power or right. Any term, covenant, agreement or condition of this Agreement and the Note may be amended by a writing executed by the parties hereto or the Bank may waive compliance therewith in writing (either generally or any particular instance or retrospectively or prospectively) and upon execution of such waiver or amendment, the failure to observe, perform or discharge any such term, covenant, agreement or condition (whether such amendment is executed or such waiver is given before or after such failure) shall not be construed as a breach of such term, covenant, agreement or condition or an Event of Default to the extent so amended or waived.

SECTION 8.02. Investment. The Bank represents that it is the present intention of the Bank to acquire the Note for its own account in the ordinary course of its banking business and not with a view to the distribution or sale thereof, subject, nevertheless, to the necessity that the Bank remain in control at all times of the disposition of property held by it for its own account, it being understood that the foregoing representation shall not affect the character of the Loan as a commercial lending transaction nor the ability or right of the Bank to (i) grant participations in its rights and obligations hereunder and under the Note as specified in Section 8.03 hereof, or (ii) with the prior written consent of the Borrower (provided that no consent of the Borrower shall be required during the existence and continuation of an Event of Default), which consent shall not be unreasonably withheld or delayed, assign all or a portion of its rights hereunder to another financial institution or institutions. If any such assignment is proposed to be made by the Bank hereunder, the Borrower agrees to enter into an amendment, or amendment and restatement, of this Agreement providing for the inclusion in this Agreement of provisions customarily included in syndicated loan facilities of this type as may be necessary or appropriate to facilitate such assignment. Notwithstanding the foregoing, nothing herein shall be deemed to prevent or prohibit the Bank from (i) pledging its rights, title and interests in the Loan hereunder to a Federal Reserve Bank in support of borrowings made by the Bank from such Federal Reserve Bank, or (ii) granting such assignments or participations hereunder to its parent company or to any other affiliate of the Bank.

SECTION 8.03. Participations. The Bank may from time to time enter into participation agreements and pursuant thereto assign its rights under this Agreement and the Note. All amounts payable by the Borrower under this Agreement and the Note shall be determined as if the Bank had not entered into any such participation agreement. The Bank may furnish any information concerning the Borrower in the possession of the Bank from time to time to participants and prospective participants.

SECTION 8.04. Notices. All notices and other communications under this Agreement shall be mailed, telegraphed, telexed, telecopied or delivered to each party at the address set forth below, unless such address shall have been changed by written notice to the other party of such change, in which event it shall be addressed to such changed address:

If to the Bank, to it at:

LEHMAN BROTHERS BANK, FSB
745 Seventh Avenue
16th Floor
New York, New York 10019
Attention: Ms. Diane Albanese
Telephone: (212) 526-6590
Facsimile: (212) 526-6643

If to the Borrower, and if via United States mail or facsimile, to it at:

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520
Attention: Treasurer
Telephone: (850) 444-6231
Facsimile: (850) 444-6026

with a copy to:

SOUTHERN COMPANY SERVICES, INC.
270 Peachtree Street, N.W., Suite 2000/Bin 932
Atlanta, Georgia 30303
Attention: Mr. Earl Long
Telephone.: (404) 506-0783
Facsimile: (404) 506-0735

If to the Borrower, and if via hand delivery, to it at:

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501
Attention: Treasurer

with a copy to:

SOUTHERN COMPANY SERVICES, INC.
270 Peachtree Street, N.W., Suite 2000/Bin 932
Atlanta, Georgia 30303
Attention: Mr. Earl Long

All such notices and communications shall, when mailed, telegraphed, telexed or telecopied, be effective when deposited in the mails or delivered to the telegraph company or sent by telex or telecopy, respectively, addressed as aforesaid.

SECTION 8.05. Payment of Expenses; Indemnity. The Borrower agrees (a) to pay or reimburse the Bank for all costs and expenses incurred in connection with the preparation and negotiation of this Agreement and any amendment, waiver, consent, supplement or modification to this Agreement or the Note, and any other documents prepared in connection therewith, and the consummation and administration of the transactions contemplated thereby, including, without limitation, all reasonable fees, costs and expenses of legal counsel of the Bank, (b) to pay or reimburse the Bank for all costs and expenses incurred in connection with any refinancing, restructuring, reorganization (including a bankruptcy reorganization) and enforcement or attempted enforcement, or preservation of any rights under this Agreement or the Note, and any other documents prepared in connection therewith, or in connection with any refinancing, or restructuring of any such documents in the nature of a "workout" or of any insolvency or bankruptcy proceeding, including, without limitation, all reasonable fees, costs and expenses of legal counsel of the Bank, and (c) to indemnify the Bank, its Affiliates and each of their respective officers, directors, employees, representatives and agents from and hold each of them harmless against any and all losses, liabilities, claims, damages or expenses incurred by any of them as a result of, or arising out of, or in any way related to, or by reason of, any investigation, litigation or other proceedings (whether or not the Bank or any Affiliate is a party thereto) related to the entering into and/or performance of this Agreement or the use of proceeds of the Loan hereunder or the consummation of any other transactions contemplated in this Agreement, including, without limitation, the reasonable fees, costs and expenses of counsel incurred in connection with any such investigation, litigation or other proceeding; provided that the Borrower shall not be responsible for any such losses, liabilities, claims, damages or expenses to the extent incurred by reason of gross negligence or willful misconduct on the part of the Person to be indemnified; and provided further that in no event shall the Borrower have any liability with respect to the settlement or compromise of any claim or proceeding effected without its prior written consent nor shall the Borrower be liable for the fees and disbursements of more than one firm of attorneys in connection with the same matter in the same jurisdiction for all Persons indemnified.

SECTION 8.06. Set-Off. In addition to any rights and remedies of the Bank or any participant of the Bank or any Affiliates thereof (each, a "Proceeding Party") provided by law, upon the occurrence and during the continuance of any Event of Default, each Proceeding Party is authorized at any time and from time to time, without prior notice to the Borrower, any such notice being waived by the Borrower to the fullest extent permitted by law, to proceed directly, by right of set-off, banker's lien or otherwise, against any assets of the Borrower which may be in the hands of such Proceeding Party (including all general or special, time or demand, provisional or other deposits and other indebtedness owing by such Proceeding Party to or for the credit or the account of the Borrower) and apply such assets against the obligations hereunder and under the Note, irrespective of whether such Proceeding Party shall have made any demand therefor and although such obligations may be unmatured.

SECTION 8.07. Governing Law; Waiver of Jury Trial. This Agreement and the Note shall be construed in accordance with and governed by the laws of the State of Florida. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ITS RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY CLAIM, DEMAND OR CAUSE OF ACTION ARISING UNDER THIS AGREEMENT OR THE NOTE.

SECTION 8.08. Survival of Indemnification and Representations and Warranties. All indemnities set forth herein and all representations and warranties made herein shall survive the execution and delivery of this Agreement, the making of the Loan and the repayment of the Loan and the other obligations hereunder and the termination of this Agreement.

SECTION 8.09. Severability. In case any provision in or obligation under this Agreement or the Note shall be invalid, illegal or unenforceable, in whole or in part, in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 8.10. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

WITNESS the hand and seal of the parties hereto through their duly authorized officers, as of the date first above written.

GULF POWER COMPANY

By: Susan D. Ritenour
Name: Susan D. Ritenour
Title: Secretary & Treasurer

ATTEST:

By: Linda G. Malone
Name: LINDA G. MALONE
Title: ASST. SECRETARY

LEHMAN BROTHERS BANK, FSB

By: ______________________
Name: ______________________
Title: ______________________

WITNESS the hand and seal of the parties hereto through their duly authorized officers, as of the date first above written.

GULF POWER COMPANY

By: ______________________
Name: ______________________
Title: ______________________

ATTEST:

By: ______________________
Name: ______________________
Title: ______________________

LEHMAN BROTHERS BANK, FSB

By: Gary T. Taylor
Name: Gary T. Taylor
Title: VICE PRESIDENT

EXHIBIT A

GULF POWER COMPANY

October 27, 2004

FOR VALUE RECEIVED, the undersigned promises to pay to the order of LEHMAN BROTHERS BANK, FSB (the "Bank") by wire transfer directed to the Payment Account (as defined below), the principal amount of One Hundred Million Dollars ($100,000,000) on October 28,2005, and to pay interest (calculated on the basis of a year of 360 days, and the actual number of days elapsed) on the unpaid principal amount hereof at the rate of 2.36% per annum from the date hereof to (but excluding) January 27, 2005, and at the rate determined as hereinafter provided for each Subsequent Interest Period, such interest being payable in arrears on January 27, 2005, on the last day of each Subsequent Interest Period and at the maturity hereof. Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the Loan and any other amounts owing hereunder or under that certain Loan Agreement dated as of October 27, 2004 (as amended, restated, supplemented or modified from time to time, the "Loan Agreement"), between the Borrower and the Bank, shall bear interest at a per annum rate equal to 2% plus the rate which would otherwise be applicable hereunder to the Loan (whether based on Adjusted LIBOR or the Base Rate), such interest to be payable on demand and upon payment in full of such principal.

Except as otherwise expressly provided in this Note or in Section 2.04 of the Loan Agreement, the interest rate for each Subsequent Interest Period shall be equal to the sum of the Adjusted LIBOR for such Subsequent Interest Period plus .25%.

"Adjusted LIBOR" applicable to any Subsequent Interest Period means a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100th of 1%) by dividing (i) the applicable LIBOR for such Subsequent Interest Period by (ii) 1.00 minus the Reserve Percentage.

"LIBOR" with respect to each Subsequent Interest Period, means the rate per annum determined on the basis of the rate for deposits in U.S. dollars for a period equal to such Subsequent Interest Period commencing on the first day of such Subsequent Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Subsequent Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), "LIBOR" for purposes of this definition shall be determined by reference to such other comparable publicly available service for displaying libor rates as may be selected by the Bank.

"Payment Account" means the account designated below or such other account as may be designated in writing from time to time by the Bank:

Bank Name: **Citibank**

ABA Routing No.: 021-000-089
For Credit to: 30434141 LCPI Bank Loans Agency

"Reserve Percentage" means for any day, the percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) which is the then stated maximum rate for all reserves (including any emergency, supplemental or other marginal reserve requirements) applicable to any member bank of the Federal Reserve System in respect of "Eurocurrency Liabilities" (or any successor category of liabilities under Regulation D of the Board of Governors of the Federal Reserve System). Such reserve percentage shall include, without limitation, those imposed pursuant to such Regulation D. The Adjusted LIBOR shall be adjusted automatically on and as of the effective date of any change in such reserve percentage.

"Subsequent Interest Period" means each period beginning on the last day of the immediately preceding interest period and ending three months after such date; provided, however, that if at the end of any Subsequent Interest Period, less than three months remain prior to maturity of the Loan, the applicable period or periods will be agreed to between the Borrower and the Bank with reference to LIBOR convention. Only one Subsequent Interest Period with a single duration may be in effect at any given time. No Subsequent Interest Period may extend beyond October 28, 2005.

In order for the Loan to bear interest at Adjusted LIBOR plus .25% for any Subsequent Interest Period, the undersigned shall give the Bank irrevocable notice not later than 10:00 a.m. (Atlanta time) at least three Business Days prior to (a) with respect to the first Subsequent Interest Period, January 27, 2005, (b) with respect to each subsequent Subsequent Interest Period, the last day of the Subsequent Interest Period then in effect and (c) if the Base Rate is then applicable to the Loan, any Business Day selected by the Borrower, specifying the Loan shall bear interest at Adjusted LIBOR for such Subsequent Interest Period. The undersigned's selection of Adjusted LIBOR for any Subsequent Interest Period pursuant to the preceding sentence shall be given effect unless, on the last day of the Subsequent Interest Period then in effect, either (i) Section 2.04 of the Loan Agreement requires that the Loan bear interest at the Base Rate or (ii) an Event of Default under the Loan Agreement has occurred and is continuing, in which case the Loan shall bear interest at the rate specified in the last sentence of the first paragraph of this Note. In the event that the undersigned fails to give any such notice in compliance with the first sentence of this paragraph, the Loan shall bear interest at the Base Rate until such time as a Subsequent Interest Period is selected and becomes effective in compliance with this paragraph.

On any day on which the Bank determines Adjusted LIBOR for any Subsequent Interest Period, the Bank shall provide facsimile notice of the new Adjusted LIBOR to the undersigned and to Southern Company Services, Inc., as provided in Section 8.04 of the Loan Agreement.

All payments hereunder shall be made in lawful money of the United States of America in immediately available funds and without setoff, counterclaim or other deduction. If any payment hereunder shall be specified to be made on a day which is not a Business Day, it shall be made on the next succeeding day which is a Business Day and such extension of time shall in such case be included in computing interest, if any, in connection with such payment.

The principal of this Note may be prepaid by the undersigned in whole or in part without premium or penalty on the last day of any Subsequent Interest Period (but not any other date) upon at least three Business Days' notice to the Bank. Any partial prepayment shall be in the principal amount of $500,000 or any integral multiple thereof.

Demand for payment, protest and notice of dishonor are hereby waived by the undersigned.

This Note evidences a loan made to the undersigned under and is entitled to the benefits of the Loan Agreement, to which Loan Agreement reference is hereby made for, among other things, the terms under which the maturity of this Note may be accelerated. Unless the context otherwise requires, capitalized terms used in this Note which are defined in the Loan Agreement shall have their defined meanings when used herein.

The undersigned promises to pay all out-of-pocket costs and expenses (including reasonable fees and out-of-pocket costs and expenses of legal counsel) which the Bank may incur in the enforcement against the undersigned of said Loan Agreement or this Note.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF FLORIDA.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed and delivered to the Bank as of the date first above written.

GULF POWER COMPANY

By: ______________________________
Name: ______________________________
Title: ______________________________

ATTEST:

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT C.3

BEGGS & LANE

A REGISTERED LIMITED LIABILITY PARTNERSHIP

ATTORNEYS AND COUNSELLORS AT LAW

POST OFFICE BOX 12950

PENSACOLA, FLORIDA 32502

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 BASS
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

801 COMMENDENCIA STREET
PENSACOLA, FLORIDA 32502
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

W. SPENCER MITCHEM
Of Counsel

E. DIXIE BEGGS
1908-2001

BERT H. LANE
1917-1981

October 27, 2004

Lehman Brothers Bank, FSB
745 Seventh Avenue
16th Floor
New York, New York 10019

Re: Gulf Power Company

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the execution and delivery of the Loan Agreement dated as of October 27, 2004 between Lehman Brothers Bank, FSB and the Company (the "Loan Agreement"). All capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement.

We have examined a copy of the Articles of Incorporation of the Company, and amendments thereto, a certified copy of the By-Laws of the Company, the Loan Agreement and the Note (together with the Loan Agreement, the "Loan Documents"). In addition we have examined such other corporate records of the Company, certificates, agreements, instruments and documents as we have deemed necessary as a basis for the opinions hereinafter expressed.

In such examination, we have assumed the genuineness of all signatures (other than signatures on behalf of the Company to the Loan Documents), 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. As to various matters of fact material to our opinions, we have relied without independent investigation on, among other things, the representations and warranties of the Company in the Loan Agreement.

Based upon the foregoing and upon such investigation as we have deemed necessary, subject to the qualifications stated herein, we are of the opinion that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Maine.

2. The Company has taken all necessary corporate action to authorize it to execute, deliver and perform each of the Loan Documents and to obtain the loan provided for in the Loan Documents.

3. Each of the Loan Documents has been duly executed and delivered by the Company and (assuming due authorization, execution and delivery of the Loan Agreement by the other party thereto) is a valid and binding obligation of the Company, enforceable in accordance with its terms, except as such enforcement may be limited by any bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally or by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

4. The Loan Documents do not violate any provisions of applicable law or conflict with, result in a breach of, or constitute a default under, the Articles of Incorporation or By-Laws of the Company or, to our knowledge, any material mortgage, indenture, contract, agreement or other instrument or any writ, judgment, injunction or award, by which the Company is bound or to which the Company is a party.

5. No approval or consent of any governmental body is legally required for the execution, delivery and performance by the Company of any Loan Document and any borrowings by the Company thereunder, except for (i) an order of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended, and (ii) an order or orders of the Florida Public Service Commission, which order or orders in each case have been obtained and are in effect.

In rendering the foregoing opinions, with respect to matters of federal law of the United States, we have relied on the opinion of Troutman Sanders LLP attached hereto as Annex I.

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

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.

Very truly yours,

Beggs & Lane

Beggs & Lane

ANNEX I

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

EXHIBIT C.4

October 27, 2004

Beggs & Lane, a Registered Limited Liability Partnership
P.O. Box 12950
Pensacola, Florida 32502-2950

Re: Gulf Power Company

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the execution and delivery of the Loan Agreement dated as of October 27, 2004 between Lehman Brothers Bank, FSB and the Company (the "Loan Agreement"). All capitalized terms not otherwise defined herein shall have the meanings set forth in the Loan Agreement.

We have examined a copy of the Articles of Incorporation of the Company, and amendments thereto, a certified copy of the By-Laws of the Company, the Loan Agreement and the Note (together with the Loan Agreement, the "Loan Documents"). In addition we have examined such other corporate records of the Company, certificates, agreements, instruments and documents as we have deemed necessary as a basis for the opinions hereinafter expressed.

In such examination, we have assumed the genuineness of all signatures (other than signatures on behalf of the Company to the Loan Documents), 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. As to various matters of fact material to our opinions, we have relied without independent investigation on, among other things, the representations and warranties of the Company in the Loan Agreement.

Based upon the foregoing and upon such investigation as we have deemed necessary, we are of the opinion that no approval or consent of any federal governmental body is legally required for the execution, delivery and performance by the Company of any Loan Document and any borrowings by the Company thereunder, except for an order of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended, which order has been obtained and is in effect.

We are members of the Georgia Bar and we do not express any opinion herein concerning any law other than 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.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

EXHIBIT C.5

Description of Holder

$100,000,000 Promissory Note

Lehman Brothers Bank, FSB
745 Seventh Avenue
16th Floor
New York, New York 10019

GULF POWER COMPANY **EXHIBIT C.6.**

Summary of Debt Expenses in Conjunction with the
$100,000,000 Promissory Note

Item Number	Issuance Expenses For:	Amount $
1	Fees and Expenses of Counsel	7,605.00
	Total Expenses of Note	7,605.00

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
For the Fiscal Year Ended December 31, 2004
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** (A Delaware Corporation) 270 Peachtree Street, N.W. Atlanta, Georgia 30303 (404) 506-5000	58-0690070
1-3164	**Alabama Power Company** (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	**Georgia Power Company** (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
0-2429	**Gulf Power Company** (A Maine Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
001-11229	**Mississippi Power Company** (A Mississippi Corporation) 2992 West Beach Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
1-5072	**Savannah Electric and Power Company** (A Georgia Corporation) 600 East Bay Street Savannah, Georgia 31401 (912) 644-7171	58-0418070
333-98553	**Southern Power Company** (A Delaware Corporation) 270 Peachtree Street, N.W. Atlanta, Georgia 30303 (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 listed 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 7.125% Trust Preferred Securities[2]	
Class A preferred, cumulative, $25 stated capital 5.20% Series 5.30% Series 5.83% Series	**Alabama Power Company**
Senior Notes 5 5/8% Series AA	
Senior Notes 5.90% Series O 5.75% Series T 6% Series R 6% Series W	**Georgia Power Company**
Mandatorily redeemable preferred securities, $25 liquidation amount 7 1/8% Trust Preferred Securities[3] 5 7/8% Trust Preferred Securities[4]	
Senior Notes 5.25% Series H 5.875% Series J 5.75% Series I	**Gulf Power Company**
Mandatorily redeemable preferred securities, $25 liquidation amount 7.375% Trust Preferred Securities[5]	

1 As of December 31, 2004.

2 Issued by Southern Company Capital Trust VI and guaranteed by The Southern Company.

3 Issued by Georgia Power Capital Trust V and guaranteed by Georgia Power Company.

4 Issued by Georgia Power Capital Trust VII 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
5.25% Series

Mandatorily redeemable preferred securities, $25 liquidation amount
7.20% Trust Originated Preferred Securities [6]

Preferred stock, non-cumulative, $25 par value **Savannah Electric and Power Company**
6% Series

Senior Notes
5.75% Series G

Securities registered pursuant to Section 12(g) of the Act: [7]

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			

6 Issued by Mississippi Power Capital Trust II and guaranteed by Mississippi Power Company.
7 As of December 31, 2004.

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 check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Securities Exchange Act of 1934).

Registrant	Yes	No
The Southern Company	x	
Alabama Power Company		x
Georgia Power Company		x
Gulf Power Company		x
Mississippi Power Company		x
Savannah Electric and Power Company		x
Southern Power Company		x

Aggregate market value of voting and non-voting stock held by non-affiliates of The Southern Company at June 30, 2004: $21.5 billion. All of the common stock of the other registrants is held by The Southern Company. A description of each registrant's common stock follows:

Registrant	Description of Common Stock	Shares Outstanding at January 31, 2005
The Southern Company	Par Value $5 Per Share	742,831,334
Alabama Power Company	Par Value $40 Per Share	8,250,000
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 2005 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 2005 Annual Meetings of Shareholders are incorporated by reference into PART III.

Southern Power meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format specified in General Instructions I(2)(b) and (c) of Form 10-K.

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.

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Table of Contents

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
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
JEA	Jacksonville Electric Authority
KUA	Kissimmee Utility Authority
MEAG	Municipal Electric Authority of Georgia
Mirant	Mirant Corporation
Mississippi Power	Mississippi Power Company
Moody's	Moody's Investors Service
NRC	Nuclear Regulatory Commission
OPC	Oglethorpe Power Corporation
OUC	Orlando Utilities Commission
PPA	Power Purchase Agreement
Progress Energy	Florida Power Corporaton, d/b/a Progress Energy Florida, Inc.
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, 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
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, SouthernLINC Wireless, Southern Company GAS and other subsidiaries
Southern Holdings	Southern Company Holdings, Inc.
SouthernLINC Wireless	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. Forward-looking statements include, among other things, statements concerning the strategic goals for Southern Company's wholesale business, retail sales growth, storm damage cost recovery, environmental regulations and expenditures, projections for postretirement benefit trust contributions, completion of construction projects and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, 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, IRS audits and Mirant related matters;
- the effects, extent and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity and gas, including those relating to weather, the general economy and population and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due;
- 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 terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes or other similar occurrences;
- the direct or indirect effects on Southern Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- 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.

Southern Company and its subsidiaries expressly disclaim any obligation to update any forward-looking statements.

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 SouthernLINC Wireless, Southern Company GAS, Southern Nuclear, SCS, Southern Telecom, Southern Holdings and other direct and indirect subsidiaries. SouthernLINC Wireless provides digital wireless communications services to the 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 synthetic fuels and leveraged leases and various other energy-related businesses.

Alabama Power and Georgia Power each own 50% of the outstanding common stock of SEGCO. SEGCO is an operating public utility company that owns electric generating units with an aggregate capacity of 1,019,680 kilowatts at Plant Gaston on the Coosa River near Wilsonville, Alabama. 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.

See 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 on Southern Company's website, 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 BUSINESS - "Territory Served by the Utilities" in Item 1 herein for additional information.

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 reliable 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, SouthernLINC Wireless 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 BUSINESS - "Regulation - Atomic Energy Act of 1954" in Item 1 herein for additional information.

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 risks 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. At December 31, 2004, Southern Power had approximately 4,775 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 12.2% market share as of December 31, 2004.

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, which provides energy services.

In 1996, SouthernLINC Wireless 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.

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.

Certain 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 in regulated and unregulated electric 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 and the value of its assets.

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.

Potential changes to the criteria used by the FERC for approval of market-based contracts may negatively impact the retail operating companies' and Southern Power's ability to charge market-based rates.

Each of the retail operating companies and Southern Power have authorization from the FERC to sell power to nonaffiliates at market-based prices. The retail operating companies and Southern Power 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, the retail operating companies and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in its retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, Southern Power and the retail operating companies may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

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 $1.1 billion through 2004 with an additional $500 million committed through 2007 for the states of Alabama and Georgia.

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. 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 condition 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. In addition, Georgia Power is a party to a civil suit regarding alleged violations of the Clean Air Act at four units of Plant Wansley. Attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and/or 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, hurricanes 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.

In addition, Southern Company's non-utility businesses depend on the successful operation of their respective facilities. For example, SouthernLINC Wireless' business could be adversely impacted in the event of a break-down of its telecommunications facilities.

Through its subsidiaries, 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 has been sold to purchasers under PPAs having initial terms of five to 15 years. In addition, the retail operating companies also enter into PPAs with non-affiliated parties. Southern Company's revenues are dependent on the continued performance by the purchasers of their obligations under the PPAs. Even though Southern Power and the retail operating companies have a rigorous credit evaluation, the failure of one of the purchasers to perform its obligations could have a negative impact on Southern Company's earnings. Although these credit evaluations take into account the possibility of default by a purchaser, Southern Company's actual exposure to a default by a purchaser may be greater than the credit evaluation predicts. Neither Southern Power nor the retail operating companies can predict whether the PPAs 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, a replacement PPA cannot be assured.

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.

Certain of the retail operating companies and Southern Power are in the process of constructing new generating facilities. Southern Company 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 a retail operating company or Southern Power is unable to complete the development or construction of a facility, or if a retail operating company or Southern Power decides to delay or cancel construction of a facility, it 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 the results of operations and financial position of a retail operating company or Southern Power. Furthermore, if construction projects are not completed according to specification, a retail operating company or 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. Significant portions of the retail operating companies' existing facilities were constructed many years ago. Older generation equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to maintain efficiency, to comply with changing environmental requirements or to provide reliable operations.

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, 2004. 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, in some cases, 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 through retail fuel cost recovery or 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;
- forced or unscheduled plant outages for us, our competitors or third party providers;
- the financial condition of market participants;
- the economy in the service territory and in general, including the impact of economic conditions on industrial and commercial demand for electricity;
- 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. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the value of the reported fair value of these contracts.

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.

Southern Company may not be able to obtain adequate supply of coal, which could limit its ability to operate its facilities.

The retail operating companies are dependent on coal for much of their electric generating capacity. Each retail operating company has coal supply contracts in place; however, there can be no assurance that the counterparties to these agreements will fulfill their obligations to supply coal to the retail operating companies. The suppliers under these agreements may experience financial or technical problems which inhibit their ability to fulfill their obligations to the retail operating companies. In addition, the suppliers under these agreements may not be required to supply coal to the retail operating companies under certain circumstances, such as in the event of a natural disaster.

If the retail operating companies are unable to obtain their coal requirements under these contracts, the retail operating companies may be required to purchase their coal requirements at higher prices, which may not be fully recoverable through rates.

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 under long-term PPAs. 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.

The September 11, 2001 terrorist attacks, the continuing threat of terrorism and the related military action by the United States have affected the nation's economy and financial markets. 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 2005 through 2007 by the retail operating companies, Southern Power and other subsidiaries are estimated as follows:

	2005	2006	2007
	(in millions)		
Alabama Power	$ 902	$ 921	$1,018
Georgia Power	911	1,067	1,210
Gulf Power	154	112	103
Mississippi Power	88	95	90
Savannah Electric	52	39	34
Southern Power	57	147	718
Other subsidiaries	67	79	67
	$2,231	$2,460	$3,240

Also included in the foregoing construction expenditure estimates are the estimates for environmental expenditures. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company and each retail operating company in Item 7 herein for additional information on estimated environmental expenditures.

Estimated construction costs in 2005 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	$ 89	$ -	$ 49	$ -	$ -	$10	$31
Other generating facilities including associated plant substations	770	387	240	82	29	6	26
New business	402	141	199	26	23	12	
Transmission	337	111	191	11	15	9	
Joint line and substation	39	-	34	5	-	-	
Distribution	253	130	71	22	15	13	
Nuclear fuel	142	78	64	-			
General plant	199	55	63	8	6	2	
	$2,231	$902	$911	$154	$88	$52	$57

*These amounts include the retail operating companies and Southern Power (as detailed in the table above) as well as the amounts for the other subsidiaries. See BUSINESS - "Other Business" in Item 1 herein for additional information.

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; environmental regulations; changes in existing nuclear plants to meet new regulatory requirements; changes in FERC rules and transmission regulations; increasing cost 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.

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 BUSINESS - "Rate Matters - Integrated Resource Planning" in Item 1 herein and Note 3 to the financial statements under "Plant McIntosh Construction Project" of Southern Company, Georgia Power and Savannah Electric and Note 2 to the financial statements of Southern Power in Item 8 herein under "Plant McIntosh Construction Project" for additional information regarding the acquisition by Georgia Power and Savannah Electric of the Plant McIntosh construction project and the withdrawal of the PPAs with Southern Power for Plant McIntosh's capacity.

See BUSINESS - "Regulation - Environmental Statutes and Regulations" in Item 1 herein for additional information with respect to certain existing and proposed environmental requirements and PROPERTIES - "Jointly-Owned Facilities" in Item 2 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

See each of the registrant's MANAGEMENT'S DISCUSSION AND ANALYSIS - FINANCIAL CONDITION AND LIQUIDITY in Item 7 herein, Note 6 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric and Note 5 to the financial statements of Southern Power in Item 8 herein for information concerning financing programs.

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 2002 through 2004 are shown below:

	Coal %	Nuclear %	Hydro %	Gas %	Oil %
Alabama Power					
2002	62	19	6	13	*
2003	64	19	8	9	*
2004	65	19	6	10	*
Georgia Power					
2002	78	21	1	*	*
2003	75	22	3	*	*
2004	76	22	2	*	*
Gulf Power					
2002	82	**	**	18	*
2003	87	**	**	13	*
2004	84	**	**	16	*
Mississippi Power					
2002	57	**	**	43	*
2003	74	**	**	26	*
2004	69	**	**	31	*
Savannah Electric					
2002	91	**	**	8	1
2003	94	**	**	4	2
2004	96	**	**	3	1
SEGCO					
2002	100	**	**	*	*
2003	100	**	**	*	*
2004	100	**	**	*	*
Southern Power					
2002	**	**	**	100	*
2003	**	**	**	99	1
2004	**	**	**	100	*
Southern Company system – weighted average					
2002	69	16	3	12	*
2003	71	16	4	9	*
2004	69	16	3	12	*

* Less than 0.5%.
** Not applicable.

The average costs of fuel in cents per net kilowatt-hour generated for 2002 through 2004 are shown below:

	2002	2003	2004
Alabama Power	1.44	1.54	1.69
Georgia Power	1.42	1.46	1.55
Gulf Power	2.08	2.11	2.32
Mississippi Power	2.03	1.95	2.47
Savannah Electric	2.44	2.38	2.57
SEGCO	1.53	1.54	1.60
Southern Power	3.17	3.79	4.36
Southern Company system – weighted average	1.58	1.66	1.87

The retail operating companies have long-term agreements in place from which they expect to receive approximately 85.7% of their coal burn requirements in 2005. These agreements cover remaining terms up to 8 years. In 2004, the weighted average sulfur content of all coal burned by the retail operating companies was 0.74% sulfur. This sulfur level, along with banked and purchased sulfur dioxide allowances, allowed the retail operating companies to remain within limits set by the Phase II acid rain requirements of the Clean Air Act. In 2004, Southern Company purchased approximately $45 million in sulfur dioxide and nitrogen oxide emission allowances. As additional environmental regulations are proposed that impact the utilization of coal, the retail operating companies' fuel mix will be monitored to ensure that the retail operating companies remain in compliance with applicable laws and regulations. Additionally, Southern Company and the retail operating companies will continue to evaluate the need to purchase additional emission allowances, and the timing of capital expenditures for emission control equipment. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Statutes and Regulations" of Southern Company and each of the retail operating companies in Item 7 herein for information on the Clean Air Act.

The retail operating companies, Southern Power and Southern Company GAS also have long-term agreements in place for their natural gas burn requirements. For 2005, the retail operating companies, Southern Power and Southern Company GAS have contracted for 103 billion cubic feet of natural gas supply. These agreements cover remaining terms up to 14 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 are generally reflected in fuel adjustment clauses contained in rate schedules. See BUSINESS - "Rate Matters - Rate Structure" in Item 1 herein for additional information.

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 Alabama Power and Georgia Power 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. Construction of an on-site dry storage facility at Plant Farley is in progress and scheduled for operation in 2005. The onsite storage facility is expected to provide adequate spent fuel storage through 2015 for both units. Also, the facility will be able to be expanded to provide storage through 2025. Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2015. Construction of an on-site dry storage facility at Plant Vogtle is expected to begin in sufficient time to maintain pool full-core discharge capability. 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.

The Energy Act established 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 ending in 2008. 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. See Note 1 to the financial statements of Southern Company, Alabama Power and Georgia Power under the heading "Fuel Costs" in Item 8 herein for additional information.

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 owns coal reserves near its Gorgas Steam Electric Generating Plant and uses the output of coal from the reserves in its generating plants. 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 transmission, 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, see MANAGEMENT'S DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS of each of the retail operating companies 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 8.16% 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 PROPERTIES - "Jointly-Owned Facilities" in Item 2 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.

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. In January 2005, three of these organizations began obtaining their power from

TVA, one from Southern Power under a 15-year agreement and one from other sources. OPC has a wholesale power contract with the remaining 38 of these cooperative organizations. OPC and these cooperative organizations utilize 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 their power supply obligations. Georgia Power, OPC, and Georgia Systems Operations Corporation have entered into a new control area compact agreement that will replace current coordination service agreements among the parties in 2005 pending acceptance by the FERC.

Pursuant to an agreement entered into in April 1999, OPC will purchase 250 megawatts of capacity from Georgia Power through March 2006. In April 2006, AEC will start purchasing such capacity for a 10-year term. In January 2005, 30 electric cooperative organizations served by OPC began purchasing a total of 700 megawatts of capacity from Georgia Power under individual contracts for 10-year terms. Also, on January 1, 2005, one of the electric cooperatives began purchasing 25 megawatts of peaking capacity from Georgia Power under a 10-year contract. Another of the electric cooperatives will purchase 50 megawatts and 75 megawatts of peaking capacity from Georgia Power beginning April 1, 2006 and June 1, 2010, respectively. See PROPERTIES - "Jointly-Owned Facilities" in Item 2 herein for additional information.

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 the financial statements of Alabama Power under "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 entered into a power supply agreement pursuant to which it will purchase 134 megawatts from Georgia Power for a 15-year term. In addition, another municipally-owned electric distribution system's full requirements are served under a market-based contract by Georgia Power. See PROPERTIES - "Jointly-Owned Facilities" in Item 2 herein for additional information.

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 PROPERTIES - "Jointly-Owned Facilities" in Item 2 herein for additional information.

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - "Other Matters" of Gulf Power and MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - "Power Sales Agreements" of Southern Power in Item 8 herein for information concerning certain PPAs entered into during 2004.

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 (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 BUSINESS - "Competition" in Item 1 herein for additional information.

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 BUSINESS - "Competition" in Item 1 herein for additional information.

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 375,000 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.

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.

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 2004, Alabama Power purchased approximately 178 million kilowatt-hours from such companies at a cost of $5.2 million.

Georgia Power currently has contracts in effect with nine small power producers whereby Georgia Power purchases their excess generation. During 2004, Georgia Power purchased 10 million kilowatt-hours from such companies at a cost of $0.6 million. Georgia Power has PPAs for electricity with two cogeneration facilities. Payments are subject to reductions for failure to meet minimum capacity output. During 2004, Georgia Power purchased 79 million kilowatt-hours at a cost of $53 million from these facilities. See Note 7 to the financial statements for Georgia Power herein under "Purchased Power Commitments" in Item 8 for additional 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 2004, Gulf Power purchased 31 million kilowatt-hours from such companies for $591,000.

Mississippi Power currently has a cogeneration agreement in effect with one of its industrial customers Under the terms of this contract, Mississippi Power purchases any excess generation. During 2004, Mississippi Power purchased approximately 12 million kilowatt-hours of excess generation at a cost of $300,000.

During 2004, 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 2004, Savannah Electric purchased a total of 34 million kilowatt-hours from the six suppliers at a cost of approximately $1.3 million.

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 BUSINESS - "Territory Served by the Utilities" in Item 1 herein for additional 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 PSCs, 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 BUSINESS - "Territory Served by the Utilities" and "Rate Matters" in Item 1 herein for additional information.

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 1,662,400 kilowatts and 18 existing Georgia Power generating stations having an aggregate installed capacity of 1,074,696 kilowatts.

In December 2002, Georgia Power filed a relicensing application for the Middle Chattahoochee Project with the FERC. On December 27, 2004, the FERC issued a new 30-year license for the Middle Chattahoochee Project. This project consists of the Goat Rock, Oliver and North Highlands facilities. In 2003, Georgia Power started the relicensing process for the Morgan Falls project and is currently working on developing study plans for the facility with license participants. 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 eight 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 PROPERTIES - "Jointly-Owned Facilities" in Item 2 herein for additional information.

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.

See Notes 1 and 9 to the financial statements of Southern Company, Alabama Power and Georgia Power in Item 8 herein for information on nuclear decommissioning costs and nuclear insurance.

FERC Matters

See Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, Savannah Electric's and Southern Power's, MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC and State PSC Matters," "FERC and Alabama PSC Matters," "FERC and Georgia PSC Matters," "FERC and Florida PSC Matters," "FERC and Mississippi PSC Matters," "FERC and Georgia PSC Matters" and "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. See MANAGEMENT'S DISCUSSION AND ANALYSIS - FUTURE EARNINGS POTENTIAL - "Environmental Matters" of Southern Company and each of the retail operating companies in Item 7 herein 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.

Additionally, each retail operating company and SEGCO has incurred costs for environmental remediation of various sites. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Remediation Reserves" of Southern Company and each of the retail operating companies in Item 7 herein for information regarding 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 "Environmental Matters – Environmental Remediation," 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.

See 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 IRPs 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 constructions costs and purchase power costs will be recoverable through rates.

In July 2001, the Georgia PSC approved Georgia Power's 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 at Plant Franklin. The purchase of the full 570 megawatts from the first unit began in 2003 with the purchase of approximately 250 megawatts beginning earlier in June 2002. The purchase of the full 610 megawatts from the second unit began in 2004 with the purchase of approximately 300 megawatts beginning earlier in June 2003. Also, an upgrade of 12 megawatts was approved for the existing Goat Rock hydro units 1 and 2. Additionally, this certification included approval of a 15-year PPA with Southern Power for 615 megawatts of gas-fired combined cycle generation at Plant Harris in Alabama.

In December 2002, the Georgia PSC certified the Duke Energy (Murray) generating facility. The Duke Energy (Murray) PPA provides for the purchase by Georgia Power of the full 620 megawatts of output for seven years beginning in June 2005.

On January 30, 2004, Georgia Power and Savannah Electric filed the 2004 IRP with the Georgia PSC and received Georgia PSC approval of the 2004 IRP on July 9, 2004. Through the approval of the 2004 IRP, Georgia Power de-certified the Atkinson combustion turbine units 5A and 5B totaling approximately 80 megawatts of capacity. Georgia Power and Savannah Electric will issue an RFP in July 2005 for approximately 1,200 megawatts to meet their future supply-side capacity needs for 2009 and beyond. Additionally, Georgia Power and Savannah Electric will each continue a residential load management program 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 ordered by the Georgia PSC.

In May 2004, the Georgia PSC ordered Georgia Power and Savannah Electric to purchase the McIntosh combined cycle generating facility from Southern Power and place it into their respective rate bases. The McIntosh resource was previously certified as a PPA by the Georgia PSC in the 2002 supply-side certification. The McIntosh units will produce a combined 1,240 megawatts of which Georgia Power's portion is 1,040 megawatts and Savannah Electric's portion is 200 megawatts. This new generation is expected to be available by June 2005. See Note 3 to the financial statements of Southern Company, Georgia Power and Savannah Electric under "Plant McIntosh Construction Project" in Item 8 herein for additional information.

Environmental Cost Recovery Plans

On October 5, 2004, the Alabama PSC approved a specific rate mechanism for the recovery of Alabama Power's retail costs associated with environmental laws, regulations or other such mandates. The rate mechanism began operation in January 2005 and provides for the recovery of these costs pursuant to a factor that will be calculated annually. Environmental costs to be recovered include operation and maintenance expense, depreciation and a return on invested capital. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNING POTENTIAL – "FERC and State PSC Matters" and "FERC and Alabama PSC Matters," respectively, in Item 7 herein and Note 3 to the financial statements of Southern Company and Alabama Power in Item 8 herein for a discussion on Alabama PSC rate matters.

The Florida Legislature has adopted legislation for an Environmental Cost Recovery Clause, 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. See Note 3 to the financial statements of Gulf Power in Item 8 herein under "Environmental Remediation" for additional information.

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 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. 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 1994 ECO Plan order. Mississippi Power filed its 2005 ECO Plan in January 2005, which, if approved as filed, will result in an increase in customer prices. See Note 3 to the financial statements of Mississippi Power under "Environmental Compliance Overview Plan" for additional information.

Employee Relations

The Southern Company system had a total of 25,648 employees on its payroll at December 31, 2004.

	Employees at December 31, 2004
Alabama Power	6,745
Georgia Power	8,731
Gulf Power	1,336
Mississippi Power	1,283
Savannah Electric	563
SCS	3,300
Southern Nuclear	3,094
Southern Power	*
Other	590
Total	25,642

* 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 five-year contract extending to August 15, 2009. 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. Negotiations are expected to begin in early May 2005 for a new agreement which is expected to be in effect for the next three years beginning July 1, 2005.

Gulf Power has an agreement with the IBEW covering wages and working conditions, which is in effect through August 15, 2005. Negotiations for a new agreement are scheduled to begin June 6, 2005. The term of the new agreement is subject to negotiation.

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. 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 10-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, 2004, 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	79,778
Savannah Electric Total		524,031
Gaston Units 1-4	Wilsonville, AL	
SEGCO Total		1,000,000 (7)
Total Fossil Steam		21,230,243
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	158,400
Wansley	Carrollton, GA	26,322
Wilson	Augusta, GA	354,100
Georgia Power Total		1,784,589
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		3,801,821
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		545,500
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		6,705,277
HYDROELECTRIC FACILITIES		
Weiss	Leesburg, AL	87,750
Henry	Ohatchee, AL	72,900
Logan Martin	Vincent, AL	135,000
Lay	Clanton, AL	177,000
Mitchell	Verbena, AL	170,000
Jordan	Wetumpka, AL	100,000
Bouldin	Wetumpka, AL	225,000
Harris	Wedowee, AL	132,000
Martin	Dadeville, AL	175,000
Yates	Tallassee, AL	47,000
Thurlow	Tallassee, AL	81,000
Lewis Smith	Jasper, AL	157,500
Bankhead	Holt, AL	53,985
Holt	Holt, AL	48,000
Alabama Power Total		1,662,135

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		2,739,871
Total Generating Capacity		38,621,710

Notes:

(1) See PROPERTIES - "Jointly-Owned Facilities" in Item 2 herein for additional information.

(2) Owned by Alabama Power and Mississippi Power as tenants in common in the proportions of 60% and 40%, respectively.

(3) Capacity shown is Alabama Power's portion (91.84%) of total plant capacity.

(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 BUSINESS in Item 1 herein for additional information.

(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, 2004, the unamortized portion of this cost was approximately $26.2 million.

The all-time maximum demand on the retail operating companies, Southern Power and SEGCO was 34,414,100 kilowatts and occurred on July 14, 2004. 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 20.2%. See SELECTED FINANCIAL DATA in Item 6 herein for additional information on peak demands.

Jointly-Owned Facilities

Alabama Power, Georgia Power and Southern Power have undivided interests in certain generating plants and other related facilities to or from non-affiliated parties. The percentages of ownership are as follows:

	Total Capacity	Percentage Ownership											
		Alabama Power	AEC	Georgia Power	OPC	MEAG	DALTON	FPC	Southern Power	OUC	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 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 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 Georgia PSC's disallowances 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, to second liens pursuant to pollution control bonds of Gulf Power and to excepted encumbrances as defined therein. See Note 6 to the financial statements of Southern Company, Alabama Power, Gulf Power, Mississippi Power and Savannah Electric under "Assets Subject to Lien" and Note 7 to the financial statements of Mississippi Power under "Operating Leases – Plant Daniel Combined Cycle Generating Units" in Item 8 herein for additional information. The retail operating companies own the fee interests in certain of their principal plants as tenants in common. See PROPERTIES - "Jointly-Owned Facilities" in Item 2 herein for additional information. 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)

See "New Source Review Actions" in Note 3 to Southern Company's and each retail operating company's financial statements in Item 8 herein for information.

(2) **Cooper et al. v. Georgia Power, Southern Company, SCS and Energy Solutions**
(Superior Court of Fulton County, Georgia)

See "Race Discrimination Litigation" in Note 3 to Southern Company and Georgia Power financial statements in Item 8 herein for information.

(3) **Environmental Remediation**

See "Environmental Remediation" in Note 3 to Southern Company's, Georgia Power's, Gulf Power's and Mississippi Power's financial statements in Item 8 herein for information related to environmental remediation.

(4) **In re: Mirant Corporation, et al.**
(U.S. Bankruptcy Court for the Northern District of Texas)

See "Mirant Bankruptcy" in Note 3 to Southern Company's financial statements in Item 8 herein for information.

(5) **In re: Mirant Corporation Securities Litigation**
(United States District Court for the Northern District of Georgia)

See "Mirant Securities Litigation" in Note 3 to Southern Company's financial statements in Item 8 herein for information.

(6) **In re: Mirant Corporation ERISA Litigation**
(United States District Court for the Northern District of Georgia)

See "Southern Company Employee Savings Plan Litigation" in Note 3 to Southern Company's financial statements in Item 8 herein for information.

(7) **Sierra Club, et al. v. Georgia Power**
(United States District Court for the Northern District of Georgia)

See "Plant Wansley Environmental Litigation" in Note 3 to Southern Company's and Georgia Power's financial statements in Item 8 herein for information.

(8) **Right of Way Litigation**

See "Right of Way Litigation" in Note 3 to Southern Company's, Georgia Power's, Gulf Power's, Mississippi Power's and Savannah Electric's financial statements in Item 8 herein for information.

(9) **Jerry A. Carter v. Gulf Power**

See "Personal Injury Litigation" in Note 3 to Gulf Power's financial statements in Item 8 herein for information.

See Note 3 to each registrant's financial statements in Item 8 herein for descriptions of additional legal and administrative 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, 2004.

David M. Ratcliffe
Chairman, President, Chief Executive Officer and Director
Age 56
Elected in 1999. President since April 2004; Chairman and Chief Executive Officer since July 2004. Previously served as Chief Executive Officer of Georgia Power from June 1999 to April 2004; and President of Georgia Power from June 1999 to December 2003.

Dwight H. Evans
Executive Vice President
Age 56
Elected in 2001. Executive Vice President since May 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 47
Elected in 2003. Executive Vice President, Chief Financial Officer and Treasurer since April 2003. Previously served as President, Chief Executive Officer and Director of Gulf Power from 2002 to April 2003; and Executive Vice President, Treasurer and Chief Financial Officer of Georgia Power from 1999 to 2002.

Michael D. Garrett
Executive Vice President
Age 55
Elected in 2004. Executive Vice President since January 1, 2004. He also serves as President and Director of Georgia Power since January 1, 2004 and Chief Executive Officer of Georgia Power since April 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.

Leonard J. Haynes
Executive Vice President and Chief Marketing Officer
Age 54
Elected in 2001. Executive Vice President and Chief Marketing Officer since May 2001. Previously served as Senior Vice President of Georgia Power from October 1998 to May 2001.

G. Edison Holland, Jr.
Executive Vice President
Age 52
Elected in 2001. Executive Vice President since 2001. Previously served as President and Chief Executive Officer of Savannah Electric from 1997 until 2001.

Charles D. McCrary
Executive Vice President
Age 53
Elected in 1998. Executive Vice President of Southern Company since February 2002; 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; and Vice President of Southern Company from February 1998 to April 2001.

W. Paul Bowers (1)
Executive Vice President of SCS and President and Chief Executive Officer of Southern Power.
Age 48
Elected in 2001. Executive Vice President of SCS and President and Chief Executive Officer of Southern Power since May 2001. Previously served as Senior Vice President and Chief Marketing Officer of Southern Company from March 2000 to May 2001; and 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.

J. Barnie Beasley
President and Chief Executive Officer of Southern Nuclear.
Age 53
Elected in 2004. President and Chief Executive Officer of Southern Nuclear since September 2004. Previously served as Executive Vice President of Southern Nuclear from January 2004 to September 2004; and Vice President from July 1998 through December 2003.

(1) *Mr. Bowers has resigned as President and Chief Executive Officer of Southern Power, effective March 17, 2005.*

The officers of Southern Company were elected for a term running from the first meeting of the directors following the last annual meeting (May 26, 2004) 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, 2004.

Charles D. McCrary
President, Chief Executive Officer and Director
Age 53
Elected in 2001. President, Chief Executive Officer and Director since October 2001; 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; and Vice President of Southern Company from February 1998 to April 2001.

Art P. Beattie
Executive Vice President, Chief Financial Officer and Treasurer
Age 50
Elected in 2004. Elected Executive Vice President, Chief Financial Officer and Treasurer in November 2004, effective February 1, 2005. Previously served as Vice President and Comptroller of Alabama Power from 1998 to February 1, 2005.

C. Alan Martin
Executive Vice President
Age 56
Elected in 1999. Executive Vice President of the Customer Service Organization since 2001. Previously served as Executive Vice President of External Affairs from January 2000 to April 2001.

Steven R. Spencer
Executive Vice President
Age 49
Elected in 2001. Executive Vice President of External Affairs since 2001. Previously served as Senior Vice President of External Affairs from July 2000 to April 2001; and Vice President of Southern Company's External Affairs organization from 1998 to 2000.

Jerry L. Stewart
Senior Vice President
Age 55
Elected in 1999. Senior Vice President of Fossil and Hydro Generation since 1999.

The officers of Alabama Power were elected for a term running from the last annual meeting of the directors (April 23, 2004) for one year until the next annual meeting or until their successors are elected and have qualified, except for Mr. Beattie whose election was effective on the date indicated.

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, 2004.

Michael D. Garrett
Chief Executive Officer, President and Director
Age 55
Elected in 2003. Chief Executive Officer since April 2004; President and Director since 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 56
Elected in 1995. Executive Vice President of External Affairs since 1995.

Mickey A. Brown
Executive Vice President
Age 57
Elected in 2001. Executive Vice President of the Customer Service Organization since January 10, 2005. Previously served as Senior Vice President of Distribution from 2001 to 2005; Vice President, Distribution from 2000 to 2001; and Vice President, Northern Region from 1993 to 2000.

C. B. Harreld (1)
Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Age 60
Elected in 2003. 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.

Cliff S. Thrasher (2)
Executive Vice President, Chief Financial Officer and Treasurer
Age 55
Elected in 2005. Currently serves as 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.

Judy M. Anderson
Senior Vice President
Age 56
Elected in 2001. Senior Vice President of Charitable Giving since 2001. Previously served as Vice President and Corporate Secretary of Georgia Power from 1989 to 2001.

Richard L. Holmes
Senior Vice President
Age 53
Elected in 2003. Senior Vice President of Metro Division, Diversity and Corporate Relations since February 2005. Previously served as Senior Vice President of Corporate Services from 2003 to 2005. Vice President of Corporate Services from 2002 to 2003; Vice President of Region Operations from 2000 to 2002; and Assistant to the President and Chief Executive Officer from 1999 to 2000.

Douglas E. Jones
Senior Vice President
Age 46
Elected in 2005. Senior Vice President since January 10, 2005. Previously served as Executive Vice President of Southern Power from January 2004 to January 2005; 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.

James H. Miller, III
Senior Vice President
Age 55
Elected in 2004. Senior Vice President and General Counsel since March 2004. Previously served as Vice President and Associate General Counsel for SCS and Senior Vice President, General Counsel and Assistant Secretary of Southern Power from 2001 to 2004; and Senior Vice President, Alabama Power - Birmingham Division from 1999 to 2001.

Leslie R. Sibert
Vice President
Age 42
Elected in 2001. Vice President, Transmission since 2001. Previously served as Decatur Region Manager from 1999 to 2001.

Christopher C. Womack
Senior Vice President
Age 46
Elected in 2001. Senior Vice President of Fossil and Hydro since 2001. Previously served as Vice President and Chief People Officer of Southern Company from 1998 to 2001.

(1) Mr. Harreld was elected Executive Vice President of SCS and Chief Financial Officer of Southern Company's transmission business unit, effective March 17, 2005 and resigned from Georgia Power effective as of such date.

(2) Mr. Thrasher was elected Executive Vice President, Chief Financial Officer and Treasurer, effective March 17, 2005.

The officers of Georgia Power were elected for a term running from the last annual meeting of the directors (May 19, 2004) 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 January 10, 2005, and Mr. Thrasher whose election will be effective on March 17, 2005.

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, 2004.

Susan N. Story
President, Chief Executive Officer and Director
Age 44
Elected in 2003. President, Chief Executive Officer and Director since 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 56
Elected in 1989. Vice President of Customer Operations since 1996.

P. Bernard Jacob
Vice President
Age 50
Elected in 2003. Vice President of External Affairs and Corporate Services since 2003. Previously served as Director of Information Resources 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 51
Elected in 2000. Vice President, Chief Financial Officer and Comptroller since July 27, 2001. Previously served as Comptroller and Chief Financial Officer from 2000 to 2001 and Comptroller from 1992 to 2000.

Penny M. Manuel
Vice President
Age 42
Elected in 2005. Vice President and Senior Production Officer since February 21, 2005. Previously served as Director, Human Resources, for Southern Company Generation from 2002 until February 2005; Vice President and Chief Information Officer, Alabama Power, and Regional Chief Information Officer for Southern Nuclear and SCS from 2001 until 2002; Manager, Business Technology Requirements, Southern Company Generation from 2000 to 2001; and Manager, Integrated Resource Planning, Alabama Power from 1999 to 2000.

The officers of Gulf Power were elected for a term running from the last annual meeting of the directors (July 22, 2004) for one year until the next annual meeting or until their successors are elected and have qualified, except for Ms. Manuel whose election was effective as shown above.

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, 2004.

Anthony J. Topazi
President, Chief Executive Officer and Director
Age 54
Elected in 2003. President, Chief Executive Officer and Director since January 1, 2004. Previously served as Executive Vice President of Southern Company Generation and Energy Marketing from November 2000 to December 2004; Senior Vice President of Southern Power from November 2002 to December 2004; Vice President of Southern Power from 2001 until November 2002 and Vice President of SCS – Fuel Services from 1999 to November 2000.

John W. Atherton
Vice President
Age 44
Elected in 2004. Vice President of External Affairs since January 2005. Previously served as the Director of Economic Development from September 2003 to January 2005; Manager, Sales and Marketing Services from April 2002 to August 2003; and Manager, State Legislative Affairs from August 1996 to April 2002.

Kimberly D. Flowers
Vice President
Age 40
Elected in 2005. Vice President and Senior Production Officer effective March 5, 2005. Previously served as Plant Manager, Plant Bowen, Georgia Power from November 2000 until March 2005.

Bobby J. Kerley
Vice President
Age 51
Elected in 2003. 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; and Transmission Lines Manager, Corporate Headquarters from March 1997 to January 2001.

Michael W. Southern (1)
Vice President, Treasurer and Chief Financial Officer
Age 52
Elected in 1995. Vice President, Treasurer and Chief Financial Officer since 2001. Previously served as Vice President, Secretary, Treasurer and Chief Financial Officer from 1995 to 2001.

Frances Turnage (2)
Comptroller
Age 56
Elected in 2005. Comptroller since 1993.

Gene L. Ussery, Jr. (3)
Vice President
Age 55
Elected in 2000. Vice President of Power Generation and Delivery since September 2000; 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. Southern was elected Senior Vice President, Comptroller and Chief Financial Officer of Southern Power, effective March 17, 2005, and has resigned from Mississippi Power effective as of such date.

(2) Ms. Turnage was elected Vice President, Treasurer and Chief Financial Officer, effective March 17, 2005.

(3) Mr. Ussery was elected Vice President of Georgia Power effective February 16, 2005, and has resigned from Mississippi Power effective March 5, 2005.

The officers of Mississippi Power were elected for a term running from the last annual meeting of the directors (April 28, 2004) for one year until the next annual meeting or until their successors are elected and have qualified, except for Mr. Atherton whose election was effective January 1, 2005, Ms.Flowers whose election will be effective as shown above and Ms. Turnage whose election will be effective March 17, 2005.

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
2004		
First Quarter	$30.87	$29.10
Second Quarter	30.59	27.86
Third Quarter	30.65	28.86
Fourth Quarter	33.92	29.95
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

There is no market for the other registrants' common stock, all of which is owned by Southern Company.

(b) Number of Southern Company's common stockholders of record at December 31, 2004:
125,975

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	2004	2003
		(in thousands)	
Southern Company	First	$ 257,506	$ 245,745
	Second	258,318	247,324
	Third	264,051	255,042
	Fourth	264,859	256,334
Alabama Power	First	109,325	107,550
	Second	109,325	107,550
	Third	109,325	107,550
	Fourth	109,325	107,550
Georgia Power	First	141,375	141,450
	Second	141,375	141,450
	Third	141,375	141,450
	Fourth	141,375	141,450
Gulf Power	First	17,500	17,550
	Second	17,500	17,550
	Third	17,500	17,550
	Fourth	17,500	17,550
Mississippi Power	First	16,550	16,500
	Second	16,550	16,500
	Third	16,550	16,500
	Fourth	16,550	16,500
Savannah Electric	First	5,800	5,750
	Second	5,800	5,750
	Third	5,800	5,750
	Fourth	5,800	5,750

In 2003 and 2004, Southern Power paid $77 million and $320 million, respectively, in dividends to Southern Company.

The dividend paid per share of Southern Company's common stock was 34.25¢ for the first and second quarters of 2003 and 35¢ for the third and fourth quarters of 2003 and the first two quarters of 2004 and 35.75¢ for the last two quarters of 2004.

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 under "Common Stock Dividend Restrictions," "Dividend Restrictions," "Dividend Restrictions" and "Common Stock Dividend Restrictions," respectively, 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, 2004 were as follows:

	Retained Earnings	Restricted Amount
	(in millions)	
Alabama Power	$ 1,341	$ -
Georgia Power	2,103	-
Gulf Power	160	127
Mississippi Power	216	118
Savannah Electric	108	68
Southern Power	122	-
Consolidated	5,839	313

Item 6. SELECTED FINANCIAL DATA

Southern Company. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA," contained herein at pages II-71 and II-72.

Alabama Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-119 and II-120.

Georgia Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-174 and II-175.

Gulf Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-220 and II-221.

Mississippi Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-266 and II-267.

Savannah Electric. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-314 and II-315.

Southern Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at page II-344.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Southern Company. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-11 through II-34.

Alabama Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-75 through II-92.

Georgia Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-123 through II-142.

Gulf Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-178 through II-195.

Mississippi Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-224 through II-240.

Savannah Electric. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-270 through II-286.

Southern Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION," contained herein at pages II-318 through II-329.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See MANAGEMENT'S DISCUSSION AND ANALYSIS - FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of each of the registrants in Item 7 herein and Note 1 of each of the registrant's financial statements in Item 8 herein under "Financial Instruments." See also Note 6 to the financial statements of Southern Company and each retail operating company and Note 5 to the financial statements of Southern Power in Item 8 herein under "Financial Instruments."

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO 2004 FINANCIAL STATEMENTS

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls And Procedures.

Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Southern Power

As of the end of the period covered by this annual report, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Southern Power conducted separate evaluations under the supervision and with the participation of each company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon these evaluations, the Chief Executive Officer and the Chief Financial Officer, in each case, concluded that the disclosure controls and procedures are effective in alerting them in a timely manner to material information relating to their company (including its consolidated subsidiaries, if any) required to be included in periodic filings with the SEC.

Savannah Electric

As of the end of the period covered by this annual report, Savannah Electric conducted an evaluation under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon this evaluation, the Chief Executive and Chief Financial Officer concluded that the disclosure controls and procedures were not effective in alerting them in a timely manner to material information relating to Savannah Electric required to be included in periodic filings with the SEC, because of an internal control weakness described below.

In connection with the review and preparation of the financial statements of Savannah Electric for the year ended December 31, 2004, errors in Savannah Electric's estimates of unbilled revenues for the years ended December 31, 2003 and 2002, and periods prior to 2002 were identified. The errors also affect Savannah Electric's previously issued financial statements for the quarters ended March 31, June 30 and September 30, 2004 and 2003. Savannah Electric's financial statements have been restated to reflect adjustments to Savannah Electric's financial information previously reported. See Note 9 to the financial statements of Savannah Electric in Item 8 herein.

Unbilled revenues represent an estimate of the kilowatt-hour sales of electricity delivered to customers, but not yet billed. Components of the unbilled revenue estimates include total kilowatt-hour territorial supply, total kilowatt-hours billed, total electricity lost in delivery (line losses) and customer usage. These components are affected by a number of factors including weather, generation patterns, power delivery volume and other operational constraints.

The errors in Savannah Electric's estimates were identified through comparisons of Savannah Electric's unbilled revenue account balance at December 31, 2004 to the billed kilowatt-hour sales recorded in January 2005 made in connection with Savannah Electric's 2004 audit. Savannah Electric analyzed the unbilled revenue calculations for the years 1999 through 2004 to determine the timing and source of the errors, which primarily relate to the estimates of line losses. For the years through 2002, line losses were understated and total unbilled revenues were overstated. However, in 2003, Savannah Electric revised its methodology of estimating line losses, which had the effect of overstating the line losses, and, thus, understating total unbilled revenues during 2003 and 2004. Since Savannah Electric's calculation of unbilled revenues utilized a net change methodology, the cumulative effect of each of these errors was carried forward from period to period.

Management believes Savannah Electric's failure to identify these errors would constitute a material weakness in internal control over financial reporting under standards adopted by the Public Company Accounting Oversight Board. Deloitte & Touche LLP and the management of Savannah Electric discussed these adjustments and the internal control deficiency with Southern Company's Audit Committee. Management has revised its process and controls related to estimating unbilled revenues to utilize a gross change methodology that reverses each period's estimate in total in the following period.

Internal Control Over Financial Reporting.

(a) Management's Annual Report on Internal Control Over Financial Reporting.

(1) Southern Company

Southern Company's Management's Report on Internal Control Over Financial Reporting is included on page II-8 of this Form 10-K.

(2) Retail operating companies and Southern Power

Not applicable because these companies are not accelerated filers.

~~(b) Attestation Report of the Registered Public Accounting Firm.~~

(1) Southern Company

The report of Deloitte & Touche LLP, Southern Company's independent registered public accounting firm, regarding management's assessment of Southern Company's internal control over financial reporting and the effectiveness of Southern Company's internal control over financial reporting is included on page II-9 of this Form 10-K.

(2) Retail operating companies and Southern Power

Not applicable because these companies are not accelerated filers.

(c) Changes in internal controls.

Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Southern Power

There have been no changes in Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's or Southern Power's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fourth quarter 2004 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's or Southern Power's internal control over financial reporting.

Savannah Electric

There have been no changes in Savannah Electric's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fourth quarter 2004 that have materially affected or are reasonably likely to materially affect Savannah Electric's internal control over financial reporting. However, as described above in this Item 9A under Savannah Electric's "Disclosure Controls And Procedures," Savannah Electric made changes to its process and controls related to estimating unbilled revenues during the first quarter of 2005.

Item 9B. OTHER INFORMATION

None.

THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

FINANCIAL SECTION

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Southern Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Under management's supervision, an evaluation of the design and effectiveness of Southern Company's internal control over financial reporting was conducted based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that Southern Company's internal control over financial reporting was effective as of December 31, 2004.

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of Southern Company's financial statements, has issued an attestation report on management's assessment of the effectiveness of Southern Company's internal control over financial reporting as of December 31, 2004. Deloitte & Touche LLP's report, which expresses unqualified opinions on management's assessment and on the effectiveness of Southern Company's internal control over financial reporting, is included herein.

David M. Ratcliffe
Chairman, President, and Chief Executive Officer

Thomas A. Fanning
Executive Vice President, Chief Financial Officer, and Treasurer

February 28, 2005

Internal Control over Financial Reporting

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Southern Company

We have audited management's assessment, included in the accompanying Management Report (page II-8), that Southern Company (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated February 28, 2005 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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-35 to II-70) present fairly, in all material respects, the financial position of Southern Company and Subsidiary Companies at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2003 the Southern Company changed its method of accounting for asset retirement obligations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
Southern Company and Subsidiary Companies 2004 Annual Report

OVERVIEW

Business Activities

Southern Company's primary business is 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.

Many factors affect the opportunities, challenges, and risks of Southern Company's electricity business. 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 more stringent environmental standards. In 2004, Alabama Power, Georgia Power, and Mississippi Power each completed retail rate proceedings that should help provide future earnings stability. These regulatory actions will also enable the recovery of substantial capital investments to facilitate the continued reliability of the transmission and distribution network and to continue environmental improvements at the generating plants. Appropriately balancing environmental expenditures with customer prices will continue to challenge the Company for the foreseeable future.

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. Southern Power continued executing its regional strategy in 2004 by signing several wholesale contracts with major utilities, as well as with cooperatives and municipal suppliers in the Southeast. Southern Company's average wholesale contract now extends more than 13 years, with the average Southern Power market-based contract extending more than 11 years. These contracts reduce remarketing risk until the middle of the next decade. However, the Company continues to face regulatory challenges related to transmission and market power issues at the national level.

Southern Company's other business activities include investments in synthetic fuels and leveraged lease projects, telecommunications, energy-related services, and natural gas marketing. Management continues to evaluate the contribution by each of these activities to total shareholder return and may pursue acquisitions and dispositions accordingly.

Key Performance Indicators

In striving to maximize shareholder value while providing low-cost energy to more than 4 million customers, Southern Company focuses on several key indicators. These indicators include customer satisfaction, peak season equivalent forced outage rate (Peak Season EFOR), return on equity (ROE), and earnings per share (EPS). Southern Company's financial success is directly tied to the satisfaction of its customers. Key elements of ensuring customer satisfaction include outstanding service, high reliability, and competitive prices. Management uses nationally recognized customer satisfaction surveys and reliability indicators to evaluate the Company's results. Peak Season EFOR is an indicator of plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. ROE is a performance standard used by both the investment community and many regulatory agencies. EPS is a major component of the Company's efforts to increase returns to shareholders through dividend growth. Southern Company's 2004 results compared with its targets for each of these indicators are reflected in the following chart.

Key Performance Indicator	2004 Target Performance	2004 Actual Performance
Customer Satisfaction	Top quartile in national and regional surveys	Top quartile
Peak Season EFOR	3.00% or less	1.22%
ROE	14.5%	15.4%
EPS	$1.94 – $1.99	$2.07

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The strong financial performance achieved in 2004 reflects the focus that management places on these indicators as well as the commitment shown by employees in achieving or exceeding management's expectations.

Earnings

Southern Company's financial performance in 2004 was the Company's best ever and again a leader in the electric utility industry. Net income of $1.53 billion in 2004 increased 3.9 percent over the prior year. Net income was $1.47 billion in 2003 and $1.32 billion in 2002, reflecting increases over the prior year of 11.8 percent and 17.6 percent, respectively. Basic EPS was $2.07 in 2004, $2.03 in 2003, and $1.86 in 2002. Dilution -- which factors in additional shares related to stock options -- decreased EPS by 1 cent each year.

Dividends

Southern Company has paid dividends on its common stock since 1948. Dividends paid per share on common stock were $1.415 in 2004, $1.385 in 2003, and $1.355 in 2002. In January 2005, Southern Company declared a quarterly dividend of 35.75 cents per share. This is the 229th 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 to achieve and maintain a payout of 70 percent of net income. The actual payout ratio was 68.2 percent for 2004.

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 electricity business is as follows:

	Amount	Increase (Decrease) from Prior Year		
	2004	**2004**	2003	2002
	(in millions)			
Electric operating revenues	**$11,465**	**$ 718**	$ 541	$ 291
Fuel	**3,395**	**397**	212	209
Purchased power	**643**	**170**	24	(269)
Other operation and maintenance	**3,008**	**150**	106	253
Depreciation and amortization	**908**	**(64)**	(16)	(155)
Taxes other than income taxes	**624**	**40**	29	22
Total electric operating expenses	**8,578**	**693**	355	60
Operating income	**2,887**	**25**	186	231
Other income, net	**23**	**21**	20	(41)
Interest expenses	**614**	**19**	10	(24)
Income taxes	**875**	**30**	68	75
Net income	**$ 1,421**	**$ (3)**	$ 128	$ 139

Revenues

Details of electric operating revenues are as follows:

	2004	2003	2002
	(in millions)		
Retail -- prior year	**$ 8,875**	$ 8,728	$ 8,440
Change in --			
Base rates	**41**	75	33
Sales growth	**216**	104	98
Weather	**48**	(135)	158
Fuel and other cost recovery clauses	**552**	103	(1)
Retail -- current year	**9,732**	8,875	8,728
Sales for resale --			
Within service area	**504**	444	443
Outside service area	**837**	914	725
Total sales for resale	**1,341**	1,358	1,168
Other electric operating revenues	**392**	514	310
Electric operating revenues	**$ 11,465**	$ 10,747	$ 10,206
Percent change	**6.7%**	5.3%	2.9%

Retail revenues increased $857 million in 2004, $147 million in 2003, and $288 million in 2002. The significant factors driving these changes are shown in the preceding table. Electric rates for the retail operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased energy costs. Under these provisions, fuel revenues generally equal fuel expenses -- including the fuel component of purchased energy -- and do not affect net income. Certain of the retail operating companies also have clauses to recover other costs, such as environmental and new plant additions.

Sales for resale revenues within the service area increased $60 million in 2004 due to continued customer growth in the Southeast and new contracts with utilities within the service area. Sales for resale were flat in 2003 and increased $104 million in 2002, primarily as a result of hotter than normal weather.

Revenues from energy sales for resale outside the service area decreased $77 million in 2004 and increased $189 million in 2003. 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 types of 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 2004, however, coal prices also increased, resulting in a lower marginal price differential that reduced demand. In addition, mild summer weather throughout the Southeast also reduced demand. In 2003, Southern Company entered into several new contracts with neighboring utilities. In addition, milder weather in Southern Company's service territory, compared with the rest of the Southeast and combined with higher gas prices, resulted in increases in both customer demand and available generation. In 2002, revenues from energy sales for resale outside the service area were down $111 million from 2001, resulting from the expiration of certain short-term energy sales contracts.

Southern Company's average wholesale contract now extends more than 13 years. As a result, the Company has significantly reduced its remarketing risk until the middle of the next decade. Under unit power sales contracts, principally sales to Florida utilities, 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:

	2004	2003	2002
		(in millions)	
Unit power --			
Capacity	**$185**	$182	$175
Energy	**213**	211	198
Other long term --			
Capacity	**78**	76	73
Energy	**361**	445	279
Total	**$837**	$914	$725

In May 2003, Mississippi Power and Southern Power entered into agreements with Dynegy, Inc. (Dynegy) that terminated all capacity sales contracts with subsidiaries of Dynegy. The termination payments from Dynegy resulted in an increase in other electric revenues of $135 million in 2003.

Energy Sales

Changes in revenues are influenced heavily by the volume of energy sold each year. Kilowatt-hour sales for 2004 and the percent change by year were as follows:

(billions of kilowatt-hours)	Amount **2004**	Percent Change **2004**	2003	2002
Residential	**49.7**	**3.9%**	(1.9)%	9.5%
Commercial	**50.0**	**3.4**	0.3	2.8
Industrial	**56.4**	**3.6**	1.0	1.8
Other	**1.0**	**0.8**	(0.2)	2.3
Total retail	**157.1**	**3.6**	(0.2)	4.5
Sales for resale --				
Within service area	**11.4**	**6.6**	(1.3)	15.6
Outside service area	**23.9**	**(20.1)**	37.4	1.5
Total	**192.4**	**0.1**	4.2	4.7

Energy sales in 2004 were strong across all retail customer classes as a result of an improved economy in the Southeast and customer growth of 1.5 percent. Residential energy sales in 2003 reflected a decrease in customer demand as a result of very mild weather partially offset by customer growth of 1.6 percent. In 2003, 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. Energy sales to retail customers are projected to increase at an average annual rate of 1.88 percent during the period 2005 through 2010.

Sales to customers outside the service area under contracts and opportunity sales decreased by 6.0 billion kilowatt-hours in 2004, increased by 8.1 billion kilowatt-hours in 2003, and were flat in 2002. The decrease in 2004 as compared with 2003 is due to the increased availability of coal-fired generation in 2003 resulting from weather-related lower retail demand coupled with higher natural gas prices, which increased the wholesale market demand for opportunity sales. Unit power energy sales increased 1.9 percent in 2004 and 4.0 percent in 2003 and decreased 3.3 percent in 2002. Fluctuations in oil and natural gas prices, which are the primary fuel sources for unit power sales customers, influence changes in these sales. However, these fluctuations in energy sales under long-term contracts have a minimal effect on earnings because the energy is generally sold at variable cost.

Electric Operating Expenses

Electric operating expenses in 2004 were $8.6 billion, an increase of $693 million over 2003 expenses. Production costs, including fuel and purchased power expenses, exceeded the prior year by $624 million as a result of increased sales, a 12.7 percent increase in the average unit cost of fuel, and maintenance costs that were deferred from 2003. Non-production operation and maintenance costs increased by $93 million due to additional administrative and general expenses of $106 million, primarily related to employee benefits, nuclear security, and property insurance, as well as increased transmission and distribution expenses of $49 million primarily related to expenditures that were deferred from 2003. These increases were partially offset by a $60 million regulatory liability related to Plant Daniel that was expensed in 2003. Depreciation and amortization expenses declined by $64 million in 2004, primarily as a result of amortization of the Plant Daniel regulatory liability and a Georgia Power regulatory liability related to the levelization of certain purchased power costs that reduced amortization expense by $17 million and $90 million, respectively, from the prior year. See FUTURE EARNINGS POTENTIAL - "FERC and State PSC Matters - Mississippi Power Retail Rate Filing" herein and Note 3 to the financial statements under "Georgia Power Retail Rate Activity" for more information on these regulatory adjustments. These reductions were partially offset by a higher depreciable plant base. Taxes other than income taxes increased $40 million as a result of additional plant in service and a higher property tax base.

In 2003, electric operating expenses were $7.9 billion, an increase of $355 million over 2002 expenses. Production costs exceeded the prior year by $209 million as a result of increased sales and a 5.1 percent increase in the average unit cost of fuel. Non-production operation and maintenance costs increased by $133 million over the prior year. This increase in expenses was primarily driven by additional administrative and general expenses of $46 million, primarily due to higher property insurance and employee benefits, customer service expenses of $14 million, and the $60 million Plant Daniel regulatory liability discussed previously. Taxes other than income taxes increased $29 million in 2003 as a result of additional generating facilities and a higher property tax base. The $16 million decrease in depreciation and amortization in 2003 was primarily due to a $49 million reduction in amortization of the previously discussed Georgia Power purchased power regulatory liability and was partially offset by a higher depreciable plant base.

In 2002, electric operating expenses were $7.5 billion, an increase of $60 million over 2001 expenses. Production costs exceeded 2001 costs by $87 million as a result of increased sales. Non-production operation and maintenance costs also increased in 2002 by $106 million due to additional administrative and general expenses of $56 million and transmission and distribution expenses of $37 million. Taxes other than income taxes increased $22 million in 2002 due to higher property taxes related to commercial operation of new generating plants. 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.

Fuel and Purchased Power Expenses

Fuel costs constitute the single largest expense for the 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:

	2004	2003	2002
Total generation (billions of kilowatt-hours)	**188**	189	183
Sources of generation (percent) --			
Coal	**69**	71	69
Nuclear	**16**	16	16
Gas	**12**	9	12
Hydro	**3**	4	3
Average cost of fuel per net kilowatt-hour generated (cents)	**1.87**	1.66	1.58
Average cost of purchased power per net kilowatt-hour (cents)	**4.48**	3.86	4.17

Fuel and purchased power expenses were $4.0 billion in 2004, an increase of $567 million or 16.3 percent above 2003 costs. This increase was attributed to higher average unit fuel cost.

Fuel and purchased power expenses were $3.5 billion in 2003, an increase of $236 million or 7.3 percent above the prior year costs. This increase was primarily attributed to higher average 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 expenses were $3.2 billion, a decrease of $60 million or 1.8 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.

A significant upward trend in the cost of coal and natural gas has emerged since 2003, and volatility in these markets is expected to continue. Increased coal prices have been influenced by a worldwide increase in demand as a result of rapid economic growth in China as well as by increases in mining costs. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, result in an immediate market response, however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas. Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the retail operating companies' fuel cost recovery provisions. Likewise, Southern Power's purchase power agreements (PPAs) generally provide that the purchasers are responsible for substantially all of the cost of fuel.

Electric Other Income and (Expense)

Total interest charges and other financing costs increased by $19 million in 2004 as a result of a lower percentage of interest costs capitalized as Southern Power projects reached completion in 2003. This increase was partially offset by the refinancing of higher cost debt at the retail operating companies in 2003. Total interest charges and other financing costs declined by $24 million in 2002 as a result of 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-related 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 various energy-related projects, including synthetic fuels and leveraged lease projects that receive tax benefits, which contribute significantly to the economic results of these investments; SouthernLINC Wireless 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 GAS is a retail gas marketer serving customers in the State of Georgia.

A condensed income statement for Southern Company's other business activities follows:

	Amount	Increase (Decrease) from Prior Year		
	2004	**2004**	2003	2002
		(in millions)		
Operating revenues	**$ 437**	**$ (2)**	$ 131	$ 68
Operation and maintenance	**447**	**8**	98	79
Depreciation and amortization	**47**	**(8)**	(4)	29
Taxes other than income taxes	**3**	**1**	–	–
Total operating expenses	**497**	**1**	94	108
Operating income	**(60)**	**(3)**	37	(40)
Equity in losses of unconsolidated subsidiaries	**(97)**	**(2)**	(3)	(31)
Leveraged lease income	**70**	**4**	8	(1)
Other income, net	**(7)**	**(14)**	7	(10)
Interest expenses	**83**	**(21)**	5	(36)
Income taxes	**(288)**	**(55)**	16	(105)
Net income	**$ 111**	**$ 61**	$ 28	$ 59

Southern Company's non-electric revenues were flat in 2004 and increased $131 million in 2003 and $68 million in 2002. The increases are primarily the result of Southern Company GAS beginning operations in August 2002 and increasing its revenues $5 million in 2004 and $101 million in 2003. SouthernLINC Wireless revenues also increased $6 million, $8 million, and $32 million in 2004, 2003, and 2002, respectively, as a result of increased wireless subscribers. A decrease in operating revenues in the energy-related services business offset the 2004 increases. Revenues from a subsidiary that primarily provides fuel transportation services related to synthetic fuel products were $115 million in 2004, increasing by $21 million, $37 million, and $26 million in 2004, 2003 and 2002, respectively, as a result of increased production at the synthetic fuel facilities. Most of these service revenues are ultimately included in the cost of the synthetic fuel purchased by Alabama Power and

Georgia Power and, therefore, have no significant effect on consolidated revenues. See Note 1 to the financial statements under "Related Party Transactions" for additional information.

Operation and maintenance expenses for these other businesses increased by $8 million in 2004 when compared with the prior year as a result of a $12.6 million bad debt reserve related to additional federal income taxes and interest Southern Company paid on behalf of Mirant. See FUTURE EARNINGS POTENTIAL – "Other Matters - Mirant Related Matters" herein and Note 3 to the financial statements under "Mirant Related Matters – Mirant Bankruptcy" for additional information. The more significant increases in 2004 and 2003 were primarily driven by Southern Company GAS increases in purchased gas expenses of $3 million and $78 million, respectively, following the inception of its operations in August 2002. In 2002, expenses also increased $19 million as a result of additional SouthernLINC Wireless subscribers and $30 million as a result of increased production at the synthetic fuel facilities.

The increase in depreciation expense in 2002 reflects a $16 million charge related to the impairment of assets under certain customer contracts for energy-related services as well as the impact of property additions at SouthernLINC Wireless.

The increases in equity in losses of unconsolidated subsidiaries in 2002 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 $146 million in 2004, $120 million in 2003, and $108 million in 2002. Additionally in 2004, a $37 million reserve related to these tax credits was reversed following the settlement of an Internal Revenue Service (IRS) audit. See FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Synthetic Fuel Tax Credits" herein and Note 3 to the financial statements under "Income Tax Matters – Synthetic Fuel Tax Credits" for additional information.

The decrease in other income in 2004 as compared with 2003 reflects a $15 million gain for a Southern Telecom contract settlement during 2003. The gain in 2003 was partially offset by an increase of $7 million in charitable contributions above the amount in 2002 made by the parent company.

Interest expenses for 2004 decreased $21 million as a result of the parent company's redemption of preferred securities in 2003. This decrease was partially offset by an increase in outstanding long-term debt in 2004. Interest expense in 2002 reflects lower interest rates and reduced amounts of debt outstanding for the parent company.

Effects of Inflation

The retail operating companies and Southern Power are subject to rate regulation and are party to long-term contracts, respectively, that are based on the

tax laws are 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 retail operating companies operate as vertically integrated companies providing electricity to customers within their service areas in the southeastern United States. Prices for electricity provided to retail customers are set by state public service commissions (PSC) under cost-based regulatory principles. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on ROE. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements for additional information about these and other regulatory matters.

The results of 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 that affect the opportunities, challenges, and risks 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 more stringent 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.

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 has constructed new generating capacity only 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.

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 in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws 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 and added allegations regarding two additional generating facilities owned by Alabama Power. 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 were effectively stayed in the spring of 2001 pending the appeal of a similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. In June 2004, following the final resolution of that appeal, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the court's active docket. At this time, no party to the case against Georgia Power and Savannah Electric has sought to reopen that case, which remains administratively closed in the U.S. District Court for the Northern District of Georgia. See Note 3 to the financial statements under "Environmental Matters - New Source Review Actions" for additional information.

Southern Company believes that the retail operating companies complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must also be adopted by the individual states to apply to facilities in the Southern Company system. The effect of these final regulations, related legal challenges, and potential state rulemakings cannot be determined at this time.

Carbon Dioxide Litigation

On July 21, 2004, attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. Plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. Southern Company and the other defendants have filed motions to dismiss both lawsuits. Southern Company intends to vigorously defend against these claims. While the outcome of these matters cannot be determined at this time, an adverse judgment in either of these actions could result in substantial capital expenditures.

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 for the Northern District of 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 liability phase of the case has concluded with the court ruling in favor of Georgia Power in part and the plaintiffs in part. Georgia Power has filed a petition for review of the decision with the U.S. Court of Appeals for the Eleventh Circuit. The district court case has been administratively closed pending that appeal. If necessary, the district court will hold a separate trial which will address civil penalties and possible injunctive relief requested by the plaintiffs. See Note 3 to the financial statements under "Environmental Matters - Plant Wansley Environmental Litigation" for additional information. The ultimate outcome of this matter cannot currently be determined; however, an adverse outcome could require substantial capital expenditures that cannot be determined at this time and could possibly require the 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

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 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 discussed under FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein. There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the 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 and resulted in total construction expenditures of approximately $400 million through 2000. Some of these previous 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 totaled approximately $1.1 billion through 2004 with an additional $500 million committed through 2007 for these two states. These expenditures include costs associated with the regional nitrogen oxide reduction rules discussed below. See Note 3 to the financial statements under "Alabama Power Retail Regulatory Matters" for information regarding Alabama Power's recovery of costs associated with environmental laws and regulations.

In addition, 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 in 2006 at a cost of approximately $138 million, of which $44 million remains to be spent. Gulf Power's costs have been approved under its environmental cost recovery clause. See Note 1 to the financial statements under "Environmental Cost Recovery" for additional information.

To help 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, were required to comply with the reduction requirements by May 31, 2004. However, as a result of litigation challenging the rule, the courts required the EPA to complete a separate rulemaking before the requirements could be applied in Georgia. In April 2004, the EPA published final regional nitrogen oxide reduction rules applicable to Georgia, specifying a May 1, 2007 compliance date. However, in October 2004, the EPA announced that it would stay implementation of the rule as it relates to Georgia, while it initiates rulemakings to address issues raised in a petition for reconsideration filed by a coalition of Georgia industries. The impact of the nitrogen oxide reduction rules will depend on the outcome of the petition for reconsideration and/or any subsequent development and approval of Georgia's state implementation plan and cannot be determined at this time.

In March 2004, the EPA redesignated the Birmingham, Alabama, area from nonattainment to attainment under the one-hour ozone standard. In addition, in September 2003 the EPA reclassified the Atlanta area from a "serious" to a "severe" nonattainment area for the one-hour standard effective January 1, 2004. However, based on the last three years of data, the State of Georgia believes that the Atlanta area has attained the one-hour standard and is in the process of applying for redesignation from the EPA.

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 and included development of an eight-hour ozone standard, as opposed to the previous one-hour ozone standard. 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. On April 30, 2004, the EPA published its eight-hour ozone nonattainment designations and a portion of the rules implementing the new eight-hour ozone standard. Areas within the Southern Company's service area that have been designated as nonattainment under the eight-hour ozone standard include Birmingham, Macon (Georgia), and a 20-county area within metropolitan Atlanta. Under the implementation provisions of the new rule, the EPA announced that the one-hour ozone standard will be revoked on June 15, 2005 and that areas classified as "severe" nonattainment areas under the one-hour standard, such as Atlanta, will not be required to impose emissions fees if those areas fail to come into attainment with the one-hour standard. With respect to the eight-hour nonattainment areas, state implementation plans, including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. These state implementation plans could require reductions in nitrogen oxide emissions from power plants. The impact of the eight-hour designations and the new standard will depend on the development and implementation of applicable state implementation plans and therefore cannot be determined at this time.

On December 17, 2004, the EPA issued its final "nonattainment" designations for the fine particulate national ambient air quality standard. Several areas within Southern Company's service area in Alabama and Georgia were included in the EPA's final particulate matter designations. The EPA plans to propose a fine particulate matter implementation rule in 2005 and finalize the implementation rule in 2006. State implementation plans addressing the nonattainment designations may be required by 2008 and could require reductions in sulfur dioxide emissions and further reductions in nitrogen oxide emissions from power plants. The impact of the fine particulate designations will depend on the development and implementation of applicable state implementation plans and therefore cannot be determined at this time.

In January 2004, the EPA issued a proposed Clean Air Interstate Rule (CAIR) 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 in 2005. If finalized, the rule could modify or supplant other state requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard, as well as other air quality regulations. 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.

The Company has developed and maintains an environmental compliance strategy for the installation of additional control technologies and the purchase of emission allowances to assure continued compliance with current sulfur dioxide and nitrogen oxide emission regulations. Additional expenses associated with these regulations are anticipated to be incurred each year to maintain current and future compliance. Because the Company's compliance strategy is impacted by factors such as changes to existing environmental laws and regulations, increases in the cost of emissions allowances, and any changes in the Company's fuel mix, future environmental compliance costs 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 and to implement emission reduction requirements that make progress toward remedying current visibility impairment in certain natural areas. 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 implementation plans in 2008 that contain emission reduction strategies for implementing BART and for achieving sufficient progress toward the Clean Air Act's visibility improvement goal. In response to litigation, the EPA proposed revised rules in May 2004, which it plans to finalize in April 2005. The impact of these regulations will depend on the promulgation of final rules and implementation of those rules by the states, and, therefore, it is not possible to determine the effect of these rules on the Company at this time.

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 March 2005, and compliance could be required as early as 2008. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants, including the Bush Administration's Clear Skies Act, have been re-proposed in 2005. The Clear Skies Act is expected to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury and to supplement the proposed CAIR and mercury regulatory programs. Other proposals to limit emissions of carbon dioxide have also been introduced. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

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. In July 2004, the EPA published final rules that 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 and the actual limits established by the regulatory agencies.

Georgia Power is installing cooling towers at additional facilities under the Clean Water Act to cool water prior to discharge. Near Atlanta, a cooling tower for one plant was completed in 2004 with two others scheduled for completion in 2008. The total estimated cost of these projects is $248 million, with $170 million remaining to be spent. Also, Georgia Power is conducting a study of the aquatic environment at another facility to determine if further thermal controls are necessary at that plant.

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 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.

Global Climate Issues

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 constraints on the emissions of greenhouse gases for a group of industrialized countries. The Bush Administration has not supported U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and, in 2002, announced a goal to reduce the greenhouse gas intensity of the U.S. – the ratio of greenhouse gas emissions to the value of U.S. economic output -- by 18 percent by 2012. A year later, the Department of Energy (DOE) announced the Climate VISION program to support this goal. Energy-intensive industries, including electricity generation, are the initial focus of this program. Southern Company is leading the development of a voluntary electric utility sector climate change initiative in partnership with the government. The utility sector has pledged to reduce its greenhouse gas emissions rate by 3 to 5 percent over the next decade and, on December 13, 2004, signed a memorandum of understanding with the DOE initiating this program under Climate VISION. Because efforts under this voluntary program are just beginning, the impact of this program on the Company cannot be determined at this time.

Environmental Remediation Reserves

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 retail operating companies could incur substantial costs to clean up properties. The retail operating companies 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 retail operating companies 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 "Environmental Matters - Environmental Remediation" for additional information.

In September 2004, Gulf Power increased its estimated liability for the estimated costs of environmental remediation projects by approximately $47 million. This increase relates to new regulations and more stringent site closure criteria by the Florida Department of Environmental Protection (FDEP) for impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of the remediation projects will be subject to FDEP approval. The projects have been approved by the Florida PSC for recovery, as expended, through Gulf Power's environmental cost recovery clause; therefore, there was no impact on Gulf Power's net income as a result of these revised estimates.

Under Georgia PSC ratemaking provisions, $22 million has been deferred in a regulatory liability account for use in meeting future environmental remediation costs of Georgia Power. Under the December 2004 three-year retail rate plan ending December 31, 2007 (2004 Retail Rate Plan), this regulatory liability will be amortized over a three-year period beginning January 1, 2005. However, the order also approved an annual environmental accrual of $5.4 million. Environmental remediation expenditures will be charged against the reserve as they are incurred. The annual accrual amount will be reviewed and adjusted in future regulatory proceedings.

FERC and State PSC Matters

Transmission

In December 1999, the Federal Energy Regulatory Commission (FERC) issued its final rule on Regional Transmission Organizations (RTOs). Since that time, there have been a number of additional proceedings at the FERC designed to encourage further voluntary formation of RTOs or to mandate their formation. However, at the current time, there are no active proceedings that would require Southern Company to participate in an RTO. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection, as well as an inquiry into, among other things, market power by vertically integrated utilities. See "Generation Interconnection Agreements" and "Market-Based Rate Authority" below for additional information. The final outcome of these proceedings cannot now be determined. However, Southern Company's financial condition, results of operations, and cash flows could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to three previously executed interconnection agreements with subsidiaries of Southern Company, have filed complaints at the FERC requesting that the FERC modify the agreements and that Southern Company refund a total of $19 million previously paid for interconnection facilities, with interest. Southern Company has also received similar requests from other entities totaling $9 million. Southern Company has opposed such relief, and the proceedings are still pending. The impact of Order 2003 and its subsequent rehearings on Southern Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

Each of the retail operating companies and Southern Power has authorization from the FERC to sell power to nonaffiliates at market-based prices. The retail operating companies and Southern Power 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in its retail service territory. Any new market-based rate transactions in its retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, Southern Power and the retail operating companies may be required to charge cost-based rates for certain wholesale sales in the retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Georgia Power Retail Rate Case

On December 21, 2004, the Georgia PSC approved the 2004 Retail Rate Plan for Georgia Power. Under the terms of the 2004 Retail Rate Plan, earnings will be evaluated against a retail ROE range of 10.25 percent to 12.25 percent. Two-thirds of any earnings above 12.25 percent will be applied to rate refunds, with the remaining one-third retained by Georgia Power. Retail rates and customer fees were increased by approximately $203 million effective January 1, 2005 to cover the higher costs of purchased power, operating and maintenance expenses, environmental compliance, and continued investment in new generation, transmission, and distribution facilities to support growth and ensure reliability.

Georgia Power will not file for a general base rate increase unless its projected retail return on common equity falls below 10.25 percent. Georgia Power is required to file a general rate case by July 1, 2007, in response to which the Georgia PSC would be expected to determine whether the 2004 Retail Rate Plan should be continued, modified, or discontinued. See Note 3 to the financial statements under "Georgia Power Retail Rate Activity" for additional information.

Alabama Power Environmental Rate Filing

On October 5, 2004, the Alabama PSC approved a specific rate mechanism for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism began operation in January 2005 and provides for the recovery of these costs pursuant to a factor that will be calculated annually. Environmental costs to be recovered include operation and maintenance expenses, depreciation, and a return on invested capital. Retail rates have increased 1 percent in 2005, which should yield an annual recovery of approximately $33 million, and are expected to increase an additional 1 percent in 2006. In conjunction with the Alabama PSC's approval, Alabama Power agreed to a moratorium until March 2007 on any retail rate increase under the previously approved Rate Stabilization and Equalization plan (RSE). Any increase in March 2007 would be based upon the retail ROE at December 31, 2006. See Note 3 to the financial statements under "Alabama Power Retail Regulatory Matters" for further information on RSE.

Mississippi Power Retail Rate Filing

In May 2004, the Mississippi PSC approved Mississippi Power's request to reclassify to jurisdictional cost of service the 266 megawatts of Plant Daniel unit 3 and 4 capacity, effective January 1, 2004. The Mississippi PSC authorized Mississippi Power to include the related costs and revenue credits in jurisdictional rate base, cost of service, and revenue requirement calculations for purposes of retail rate recovery. Mississippi Power is amortizing the regulatory liability established pursuant to the Mississippi PSC's interim December 2003 order, as approved in May 2004, to earnings as follows: $16.5 million in 2004, $25.1 million in

2005, $13.0 million in 2006, and $5.7 million in 2007, resulting in expense reductions in each of those years.

Plant McIntosh Construction Project

In December 2002 after a competitive bidding process, the Georgia PSC certified PPAs between Southern Power and Georgia Power and Savannah Electric for capacity from Plant McIntosh units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet the applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, Savannah Electric and Georgia Power in May 2004 requested the Georgia PSC to direct them to acquire the Plant McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined.

As directed by the Georgia PSC order, Georgia Power and Savannah Electric in June 2004 filed an application to amend the resource certificate granted by the Georgia PSC in 2002 to change the character of the resource from a purchase to a self-owned, rate based asset and to describe the approximate construction schedule and the proposed rate base treatment. In connection with the 2004 Retail Rate Plan, the Georgia PSC approved the transfer of the Plant McIntosh construction project at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance and reduced Southern Company's 2004 net income by approximately $9.5 million. The Georgia PSC also certified a total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. Under the 2004 Retail Rate Plan, the Plant McIntosh impact will be reflected in Georgia Power's rates evenly over the three years ending 2007. See Note 3 to the financial statements under "Georgia Power Retail Rate Activity" and "Plant McIntosh Construction Project" for additional information on the 2004 Retail Rate Plan and the Plant McIntosh construction project.

Retail Fuel Cost Recovery

The retail operating companies each have established fuel cost recovery rates approved by their respective state PSCs. In recent months, the retail operating companies have experienced higher than expected fuel costs for coal and gas. These higher fuel costs have increased the under recovered fuel costs included in the balance sheets. The retail operating companies will continue to monitor the under recovered fuel cost balance in light of these higher fuel costs.

Alabama Power fuel costs are recovered under Rate ECR (Energy Cost Recovery), which provides for the addition of a fuel and energy cost factor to base rates. In April 2005, this factor is scheduled to increase from its current level.

On February 18, 2005, Georgia Power filed a request with the Georgia PSC for a fuel cost recovery rate increase effective April 1, 2005, subject to refund. The requested increase, representing an average annual increase in revenues of approximately 11.7 percent, will allow for the recovery of fuel costs based on an estimate of future fuel costs, as well as the collection of the existing under recovery of fuel costs. Georgia Power's under recovered fuel costs as of January 31, 2005 totaled $390 million. The Georgia PSC will examine Georgia Power's fuel expenditures and determine whether the proposed fuel cost recovery rate is just and reasonable before issuing its decision in May 2005. The final outcome of the filing cannot be determined at this time. See Note 3 to the financial statements under "Georgia Power Retail Rate Activity" for additional information.

Storm Damage Cost Recovery

Each retail operating company maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property. In September 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama and continued north through Southern Company's service territory causing substantial damage.

At Gulf Power, the related costs charged to its property damage reserve as of December 31, 2004 were $93.5 million. Prior to Hurricane Ivan, Gulf Power's reserve balance was approximately $28 million. Gulf Power's current annual accrual to the property damage reserve, as approved by the Florida PSC, is $3.5 million. The Florida PSC has also approved additional accrual amounts at Gulf Power's discretion, and Gulf Power accrued an additional $15 million in 2004. In February 2005, Gulf Power, the Office of Public Counsel for the State of Florida, and the Florida Industrial Power Users Group filed a Stipulation and Settlement with the Florida PSC that, if approved, would allow Gulf Power to recover the retail portion of $51.7 million of these costs, plus interest and revenue taxes, from customers over a 24-month period. In connection with the stipulation, Gulf Power has agreed that it will not seek any additional increase in its base rates and charges to become effective on or before March 1, 2007.

At Alabama Power, operation and maintenance expenses associated with repairing the damage to its facilities and restoring service to customers as a result of Hurricane Ivan were $57.8 million for 2004. The balance in Alabama Power's natural disaster reserve prior to the storm was $14.6 million. In October 2004, Alabama Power received approval from the Alabama PSC to defer the negative balance for recovery in future periods. Alabama Power is allowed to accrue $250,000 per month until a 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 2004, Alabama Power accrued $9.9 million, including an additional amount of $6.9 million, to the reserve and at December 31, 2004, the negative balance totaled $37.7 million and is reflected in the balance sheet as a regulatory asset.

In February 2005, Alabama Power requested and received Alabama PSC approval of an accounting order that allows Alabama Power to immediately return certain regulatory liabilities to the retail customers. The order also allows Alabama Power to simultaneously recover from customers an accrual of approximately $45 million to offset the costs of Hurricane Ivan and restore a positive balance in the natural disaster reserve. The combined effects of this order will have no impact on Alabama Power's net income in 2005. See Notes 1 and 3 to the financial statements under "Storm Damage Reserves" and "Gulf Power and Alabama Power Storm Damage Recovery," respectively, for additional information on these reserves.

Income Tax Matters

Synthetic Fuel Tax Credits

As discussed in Note 3 to the financial statements under "Income Tax Matters - Synthetic Fuel Tax Credits," Southern Company has investments in two entities that produce synthetic fuel and receive tax credits under Section 29 of the Internal Revenue Code of 1986, as amended (Internal Revenue Code). These investments include a 30 percent interest in Alabama Fuel Products (AFP) and a 24.975 percent interest in Carbontronics Synfuels Investors, L.P. (Carbontronics). In January 2004, the IRS completed an audit of AFP for 1999 and 2000. In December 2004, the IRS notified Carbontronics that its audit for 2000 and 2001 had been completed. In addition, in December 2004, the IRS also concluded its audits of Southern Company's consolidated income tax returns for 2000 and 2001. The IRS raised no issues related to synthetic fuel tax credits upon conclusion of any of these audits. As a result, in December 2004, Southern Company reversed its related reserve of $37 million.

In accordance with Section 29 of the Internal Revenue Code, these tax credits are subject to limitation as the annual average price of oil (as determined by the DOE) increases over a specified, inflation-adjusted dollar amount published in the spring of the subsequent year. Southern Company, along with its partners in these investments, will continue to monitor oil prices. Any indicated potential limitation on these credits could affect either the timing or the amount of the credit recognition and could also require an impairment analysis of these investments by Southern Company.

Leveraged Lease Transactions

Southern Company participates in four international leveraged lease transactions and receives federal income tax deductions for rent, depreciation, and amortization, as well as interest on related debt. As discussed in Note 3 to the financial statements under "Income Tax Matters – Leveraged Lease Transactions," the IRS proposed to disallow the tax losses for one of the lease transactions in connection with its audit of 1996 through 1999. To stop the interest accretion, Southern Company deposited approximately $30 million of additional taxes and interest with the IRS and filed a refund claim. In connection with its audit of 2000 and 2001, the IRS proposed a similar assessment of approximately $18 million, including approximately $3 million of interest. In October 2004, Southern Company submitted the issue to the IRS appeals division and, in February 2005, reached a negotiated settlement with the IRS. The settlement had no material impact on Southern Company's financial statements.

In connection with its audit of 2000 and 2001, the IRS has also challenged Southern Company's deductions related to three other international lease transactions. Southern Company believes these transactions are valid leases for U.S. tax purposes and is pursuing resolution with the IRS. If the IRS is ultimately successful in disallowing the tax deductions related to these three transactions, beginning with the 2000 tax year, Southern Company could be subject to additional interest charges of up to $20 million. Additionally, although the payment of the tax liability, exclusive of this interest, would not affect Southern Company's results of operations under current accounting standards, it could have a material impact on cash flow. Furthermore, the Financial Accounting Standards Board (FASB) is currently considering changes to the accounting for income tax settlements related to leveraged leases, which may result in a net income impact from such settlements. See Note 1 to the financial statements under "Leveraged Leases" for additional details of the deferred taxes related to these transactions. The final outcome of these matters cannot now be determined.

American Jobs Creation Act of 2004

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. Southern Company is currently assessing the impact of the Jobs Act, including this deduction, as well as the related regulatory treatment, on its taxable income. However, Southern Company currently does not expect the Jobs Act to have a material impact on its financial statements.

Other Matters

Other Construction Projects

In October 2004, a partnership between Southern Company and the Orlando Utilities Commission (OUC) was selected by the DOE to build and operate a 285 megawatt coal-gasification facility. The facility will be located at OUC's Stanton Energy Center near Orlando, Florida, site of Plant Stanton A, an existing gas-fired 630 megawatt unit co-owned by Southern Power, OUC, and others. Southern Power will own and operate the Southern Company portion of the project. The project will demonstrate a coal gasification technology that has been under development, in partnership with the DOE, by Southern Company. The project is expected to begin commercial operation in 2011, with a projected total cost of $557 million. The DOE is expected to contribute approximately $235 million of the cost.

In August 2004, Southern Power completed limited construction activities on Plant Franklin Unit 3 to preserve the long-term viability of the project. Final completion is not anticipated until the 2008-2011 period. See Note 3 to the financial statements under "Plant Franklin Construction Project" for additional information. The final outcome of this matter cannot now be determined.

Mirant Related Matters

On July 14, 2003, Mirant Corporation (Mirant) filed for voluntary reorganization under Chapter 11 of the Bankruptcy Code 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 discussed in Note 3 to the financial statements under "Mirant Related Matters."

In December 2004, as a result of concluding an IRS audit for the tax years 2000 and 2001, Southern Company paid $39 million in additional tax and interest for issues related to Mirant tax items. Under the terms of the separation agreements entered in connection with the spin-off, Mirant agreed to indemnify Southern Company for costs associated with these guarantees, lawsuits, and additional IRS assessments. However, as a result of Mirant's bankruptcy, Southern Company must seek reimbursement as a creditor in the Chapter 11 proceeding. Based on management's assessment of the collectibility of this receivable, Southern Company reserved approximately $12.5 million. If Southern Company is ultimately required to make any additional payments related to these obligations, Mirant's indemnification obligation to Southern Company for these additional payments may also represent an unsecured claim, subject to compromise pursuant to Mirant's final reorganization plan.

Other

In accordance with FASB Statement No. 87, Employers' Accounting for Pensions, Southern Company recorded non-cash pension income, before tax, of approximately $44 million, $99 million, and $117 million in 2004, 2003, and 2002, respectively. Future pension income is dependent on several factors including trust earnings and changes to the pension 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 $106 million, $101 million, and $99 million in 2004, 2003, and 2002, 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 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.

Southern Company is involved in various other matters being litigated, regulatory matters, and certain 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 PSCs 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, which requires the financial statements to reflect the effects of rate 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 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, 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 legislative, 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 herein and Note 3 to the financial statements for more information regarding certain of these contingencies. Southern 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 Southern 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 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.

Unbilled Revenues

Revenues related to the sale of electricity are recorded when electricity is delivered to customers. However, the determination of kilowatt-hour sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total kilowatt-hour territorial supply, total kilowatt-hour billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, and power delivery volume and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company's results of operations.

New Accounting Standards

On March 31, 2004, Southern Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of FASB Interpretation No. 46R had no impact on Southern Company's net income. However, as a result of the adoption, Southern Company and the retail operating companies deconsolidated certain wholly-owned trusts established to issue preferred securities since Southern Company and the retail operating companies do not meet the definition of primary beneficiary established by FASB Interpretation No. 46R. In addition, Southern Company consolidated its 85 percent limited partnership investment in an energy/technology venture capital fund that was previously accounted for under the equity method. See Note 1 to the financial statements under "Variable Interest Entities" for additional information.

In the third quarter 2004, Southern Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced Southern Company's expenses for the six months ended December 31, 2004 by approximately $10.6 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $182 million. However, the ultimate impact on future periods is subject to final interpretation of the federal regulations which were published on January 21, 2005. See Note 2 to the financial statements under "Postretirement Benefits" for additional information.

FASB Statement No. 123R, Share-Based Payment was issued in December 2004. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. For Southern Company, this statement is effective beginning on July 1, 2005. Although the compensation expense required under the revised statement differs slightly, the impacts on the Company's financial statements are expected to be similar to the pro forma disclosures included in Note 1 to the financial statements under "Stock Options."

See FUTURE EARNINGS POTENTIAL - "Income Tax Matters - American Jobs Creation Act of 2004" herein for information regarding the adoption of new tax legislation. In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004, which requires that the generation deduction be accounted for as a special tax deduction rather than as a tax rate reduction. Southern Company is currently assessing the Jobs Act and this pronouncement, as well as the related regulatory treatment, but currently does not expect a material impact on the Company's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Company's financial condition continued to be strong at December 31, 2004. Net cash flow from operating activities totaled $2.7 billion, $3.1 billion, and $2.9 billion for 2004, 2003, and 2002, respectively. The $379 million decrease for 2004 resulted primarily from higher fuel costs at the retail operating companies. Those costs are recoverable in future periods and are reflected on the balance sheets as under recovered regulatory clause revenues. The $218 million increase from 2002 to 2003 resulted primarily from the deferral of income tax liabilities arising from accelerated depreciation deductions, partially offset by the settlement of interest rate hedges. Gross property additions to utility plant were $2.1 billion in 2004. The majority of funds needed for gross property additions since 2000 has been provided from operating activities.

Significant balance sheet changes include a $0.5 billion increase in long-term debt and preferred stock for 2004 due to the replacement of short-term financing with long-term debt, consistent with the Company's finance policy, and an increase of $0.8 billion in property, plant, and equipment.

At the close of 2004, the closing price of Southern Company's common stock was $33.52 per share, compared with book value of $13.86 per share. The market-to-book value ratio was 242 percent at the end of 2004, compared with 230 percent at year-end 2003.

Each of the retail operating companies, Southern Power, and Southern Company Services, Inc. (SCS), the system service company, have received investment grade ratings from the major rating agencies.

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, preferred stock, and equity. Equity capital can be provided from any combination of the Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised in 2005 -- 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 2005 and is currently developing a program to repurchase shares to offset issuances under the Company's stock compensation 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 operating cash flows. In recent years, financings primarily have utilized unsecured debt and preferred securities. However, the type and timing of any financings -- if needed -- will depend on market conditions and regulatory approval. The issuance of securities by Southern Company and its subsidiaries is generally subject to regulatory approval by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA), and, generally, for the retail operating companies, the appropriate state PSC. Additionally, with respect to the public offering of securities, Southern Company and its subsidiaries must file registration statements with the SEC under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the appropriate regulatory authorities.

as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

Southern Power plans to use operating cash flows, external funds, and equity capital from Southern Company to finance its capital expenditures. External funds are expected to be obtained from the issuance of unsecured senior debt and commercial paper or through credit arrangements from banks.

Southern Company and each retail operating company obtains 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 PUHCA, most loans between affiliated companies must be approved in advance by the SEC.

Southern Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt. To meet short-term cash needs and contingencies, Southern Company has various internal and external sources of liquidity. At December 31, 2004, Southern Company and its subsidiaries had approximately $373 million of cash and cash equivalents and $3.2 billion of unused credit arrangements with banks, as described below. 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.

At December 31, 2004, the Southern Company system had approximately $3.2 billion of unused credit arrangements with banks, of which $1.8 billion expire in 2005 and $1.4 billion expire in 2006 and beyond. Approximately $1.2 billion of the credit facilities expiring in 2005 allow for the execution of term loans for an additional two-year period, and $275 million allow for the execution of one-year term loans. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

Financing Activities

During 2004, Southern Company and its subsidiaries issued $2.1 billion of long-term debt, including long-term debt payable to affiliated trusts, and $175 million of preferred stock. In addition, Southern Company issued 7 million new shares of common stock through the Company's stock plans and realized proceeds of $124 million. The security issuances were primarily used to redeem $1.5 billion of long-term debt. 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, 2004, Georgia Power refinanced $250 million of maturing long-term debt.

Off-Balance Sheet Financing Arrangements

In May 2001, Mississippi Power began the initial 10-year term of a lease agreement 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. 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 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 assets. See Note 7 to the financial statements under "Operating Leases" for additional information.

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- or Baa3 or below. These contracts are primarily for physical electricity purchases and sales. At December 31, 2004, the maximum potential collateral requirements at a BBB- or Baa3 rating were approximately $40 million. The maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $324 million. Generally, collateral may be provided for by a Southern Company guaranty, letter of credit, or cash. The Company is also party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price and interest rate risk management activities. At December 31, 2004, Southern Company and its subsidiaries' maximum potential exposure to these contracts was $10 million.

Market Price Risk

Southern Company is exposed to market risks, primarily commodity price risk and interest rate risk. 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 risk management practices. Company policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

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 $1.8 billion of long-term variable interest rate exposure that has not been hedged at January 1, 2005 was 2.6 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 $20.1 million at January 1, 2005. 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 state PSCs. Southern Company GAS also has in place a risk management program to substantially mitigate its exposure to price volatility for its natural gas purchases.

The changes in fair value of energy-related derivative contracts and year-end valuations were as follows at December 31:

	Changes in Fair Value	
	2004	200[illegible]
	(in millions)	
Contracts beginning of year	**$ 15.8**	$ 47.3
Contracts realized or settled	**(58.7)**	(73.2)
New contracts at inception	**–**	–
Changes in valuation techniques	**–**	–
Current period changes (a)	**53.4**	41.7
Contracts end of year	**$ 10.5**	$ 15.8

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

Source of 2004 Year-End Valuation Prices	Total	Maturity	
	Fair Value	2005	2006-2007
		(in millions)	
Actively quoted	**$ 9.4**	**$ 6.3**	**$ 3.1**
External sources	**1.1**	**1.1**	**–**
Models and other methods	**–**	**–**	**–**
Contracts end of year	**$ 10.5**	**$ 7.4**	**$ 3.1**

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, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in millions)
Regulatory liabilities, net	**$ 12.8**
Other comprehensive income	**(1.7)**
Net income	**(0.6)**
Total fair value	**$ 10.5**

Unrealized pre-tax gains and losses recognized in income were not material for any year presented. 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 2005, $2.5 billion for 2006, and $3.2 billion for 2007. Environmental expenditures included in these amounts are $452 million, $615 million, and $896 million for 2005, 2006, and 2007, 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 Georgia Power and Savannah Electric in June 2005. 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 Nuclear Regulatory Commission, 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 "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, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

Contractual Obligations	2005	2006-2007	2008-2009	After 2009	Tota
			(in millions)		
Long-term debt[a] --					
Principal	$ 983	$ 2,266	$ 1,100	$ 9,100	$13,44
Interest	624	1,140	976	8,781	11,52
Preferred stock dividends[b]	30	60	60	-	15
Operating leases	123	195	156	259	73
Purchase commitments[c] --					
Capital[d]	2,232	5,699	-	-	7,93
Coal and nuclear fuel	3,135	4,574	1,126	193	9,02
Natural gas[e]	747	1,033	593	2,678	5,05
Purchased power	171	357	342	680	1,55
Long-term service agreements	67	145	168	1,049	1,42
Trusts --					
Nuclear decommissioning	29	55	55	316	45
Postretirement benefits[f]	35	79	-	-	114
DOE	7	9	-	-	16
Total	$8,183	$15,612	$4,576	$23,056	$51,427

(a) All amounts are reflected based on final maturity dates. Southern Company and its subsidiaries plan to 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, 2005, as reflected in the 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 $3.3 billion, $3.2 billion, and $3.1 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, 2004, 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 Exchange future prices at December 31, 2004.

(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 and postretirement plans, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from the Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Statements

Southern Company's 2004 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for Southern Company's wholesale business, retail sales growth, storm damage cost recovery, environmental regulations and expenditures, the Company's projections for postretirement benefit trust contributions, completion of construction projects, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, 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, IRS audits, and Mirant related matters;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity and gas, including those relating to weather, the general economy and population, and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due;
- 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 terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, or other similar occurrences;
- the direct or indirect effects on Southern Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by Southern Company from time to time with the SEC.

Southern Company expressly disclaims any obligation to update any forward-looking statements.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002
Southern Company and Subsidiary Companies 2004 Annual Report

	2004	2003	2002
		(in millions)	
Operating Revenues:			
Retail sales	**$ 9,732**	$ 8,875	$ 8,728
Sales for resale	**1,341**	1,358	1,168
Other electric revenues	**392**	514	310
Other revenues	**437**	439	308
Total operating revenues	**11,902**	11,186	10,514
Operating Expenses:			
Fuel	**3,521**	3,121	2,831
Purchased power	**643**	473	449
Other operations	**2,302**	2,237	2,083
Maintenance	**1,027**	937	965
Depreciation and amortization	**955**	1,027	1,047
Taxes other than income taxes	**627**	586	557
Total operating expenses	**9,075**	8,381	7,932
Operating Income	**2,827**	2,805	2,582
Other Income and (Expense):			
Allowance for equity funds used during construction	**47**	25	22
Interest income	**27**	36	22
Equity in losses of unconsolidated subsidiaries	**(95)**	(94)	(91)
Leveraged lease income	**70**	66	58
Interest expense, net of amounts capitalized	**(540)**	(527)	(492)
Interest expense to affiliate trusts	**(100)**	-	-
Distributions on mandatorily redeemable preferred securities	**(27)**	(151)	(175)
Preferred dividends of subsidiaries	**(30)**	(21)	(17)
Other income (expense), net	**(60)**	(53)	(63)
Total other income and (expense)	**(708)**	(719)	(736)
Earnings Before Income Taxes	**2,119**	2,086	1,846
Income taxes	**587**	612	528
Consolidated Net Income	**$ 1,532**	$ 1,474	$ 1,318
Common Stock Data:			
Earnings per share –			
Basic	**$2.07**	$2.03	$1.86
Diluted	**2.06**	2.02	1.85
Average number of shares of common stock outstanding – (in millions)			
Basic	**739**	727	708
Diluted	**743**	732	714
Cash dividends paid per share of common stock	**$1.415**	$1.385	$1.355

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003, and 2002
Southern Company and Subsidiary Companies 2004 Annual Report

	2004	2003	2002
		(in millions)	
Operating Activities:			
Consolidated net income	**$ 1,532**	$ 1,474	$ 1,318
Adjustments to reconcile consolidated net income to net cash provided from operating activities --			
Depreciation and amortization	**1,178**	1,221	1,185
Deferred income taxes and investment tax credits	**559**	429	172
Plant Daniel capacity	**(17)**	60	-
Allowance for equity funds used during construction	**(47)**	(25)	(22)
Equity in losses of unconsolidated subsidiaries	**95**	94	91
Leveraged lease income	**(70)**	(66)	(58)
Pension, postretirement, and other employee benefits	**-**	(25)	(78)
Tax benefit of stock options	**31**	30	23
Hedge settlements	**(10)**	(116)	(16)
Other, net	**(21)**	2	14
Changes in certain current assets and liabilities --			
Receivables, net	**(369)**	6	(35)
Fossil fuel stock	**(8)**	(17)	105
Materials and supplies	**(31)**	(12)	8
Other current assets	**14**	27	(58)
Accounts payable	**29**	(88)	105
Accrued taxes	**(109)**	19	(49)
Accrued compensation	**(16)**	(11)	41
Other current liabilities	**(48)**	69	107
Net cash provided from operating activities	**2,692**	3,071	2,853
Investing Activities:			
Gross property additions	**(2,110)**	(2,014)	(2,728)
Investment in unconsolidated subsidiaries	**(97)**	(94)	(90)
Cost of removal net of salvage	**(75)**	(80)	(109)
Construction receivables/payables, net	**25**	(34)	(17)
Other	**5**	27	(24)
Net cash used for investing activities	**(2,252)**	(2,195)	(2,968)
Financing Activities:			
Decrease in notes payable, net	**(141)**	(366)	(968)
Proceeds --			
Long-term debt	**1,861**	3,494	2,914
Mandatorily redeemable preferred securities	**200**	–	1,315
Preferred stock	**175**	125	–
Common stock	**124**	470	428
Redemptions --			
Long-term debt	**(1,245)**	(3,009)	(1,370)
Mandatorily redeemable preferred securities	**(240)**	(480)	(1,171)
Preferred stock	**(28)**	-	(70)
Payment of common stock dividends	**(1,045)**	(1,004)	(958)
Other	**(39)**	(68)	(86)
Net cash provided from (used for) financing activities	**(378)**	(838)	34
Net Change in Cash and Cash Equivalents	**62**	38	(81)
Cash and Cash Equivalents at Beginning of Year	**311**	273	354
Cash and Cash Equivalents at End of Year	**$ 373**	$ 311	$ 273

The accompanying notes are an integral part of these financial statements

CONSOLIDATED BALANCE SHEETS

At December 31, 2004 and 2003
Southern Company and Subsidiary Companies 2004 Annual Report

Assets	2004	2003
	(in millions)	
Current Assets:		
Cash and cash equivalents	**$ 373**	$ 311
Receivables --		
Customer accounts receivable	**755**	680
Unbilled revenues	**304**	275
Under recovered regulatory clause revenues	**532**	204
Other accounts and notes receivable	**320**	338
Accumulated provision for uncollectible accounts	**(46)**	(30)
Fossil fuel stock, at average cost	**325**	316
Vacation pay	**105**	97
Materials and supplies, at average cost	**602**	570
Prepaid expenses	**126**	269
Other	**67**	30
Total current assets	**3,463**	3,060
Property, Plant, and Equipment:		
In service	**41,437**	40,339
Less accumulated depreciation	**14,951**	14,312
	26,486	26,027
Nuclear fuel, at amortized cost	**218**	223
Construction work in progress	**1,657**	1,275
Total property, plant, and equipment	**28,361**	27,525
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	**905**	808
Leveraged leases	**976**	838
Other	**392**	280
Total other property and investments	**2,273**	1,926
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**864**	874
Prepaid pension costs	**986**	911
Unamortized debt issuance expense	**153**	152
Unamortized loss on reacquired debt	**323**	326
Other regulatory assets	**248**	132
Other	**291**	272
Total deferred charges and other assets	**2,865**	2,667
Total Assets	**$36,962**	$35,178

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS (continued)

At December 31, 2004 and 2003
Southern Company and Subsidiary Companies 2004 Annual Report

Liabilities and Stockholders' Equity	2004	2003
	(in millions)	
Current Liabilities:		
Securities due within one year	**$ 983**	$ 741
Notes payable	**426**	568
Accounts payable	**885**	688
Customer deposits	**200**	189
Accrued taxes --		
Income taxes	**47**	46
Other	**243**	249
Accrued interest	**179**	185
Accrued vacation pay	**137**	129
Accrued compensation	**431**	437
Other	**260**	273
Total current liabilities	**3,791**	3,505
Long-term Debt (See accompanying statements)	**10,488**	10,164
Long-term Debt Payable to Affiliated Trusts (See accompanying statements)	**1,961**	-
Mandatorily Redeemable Preferred Securities (See accompanying statements)	**-**	1,900
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**5,237**	4,837
Deferred credits related to income taxes	**373**	408
Accumulated deferred investment tax credits	**552**	579
Employee benefit obligations	**864**	765
Asset retirement obligations	**903**	845
Other cost of removal obligations	**1,296**	1,260
Miscellaneous regulatory liabilities	**350**	572
Other	**308**	272
Total deferred credits and other liabilities	**9,883**	9,538
Total Liabilities	**26,123**	25,107
Preferred Stock of Subsidiaries (See accompanying statements)	**561**	423
Common Stockholders' Equity (See accompanying statements)	**10,278**	9,648
Total Liabilities and Stockholders' Equity	**$36,962**	$35,178
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

At December 31, 2004 and 2003
Southern Company and Subsidiary Companies 2004 Annual Report

		2004	2003	**2004**	2003
		(in millions)		(percent of total)	
Long-Term Debt of Subsidiaries:					
First mortgage bonds --					
Maturity	Interest Rates				
2006	6.50% to 6.90%	**$ 45**	$ 45		
2025 through 2026	6.88% to 7.45%	**60**	60		
Total first mortgage bonds		**105**	105		
Long-term senior notes and debt --					
Maturity	Interest Rates				
2004	4.88% to 7.25%	**-**	580		
2005	5.49% to 5.50%	**379**	379		
2006	1.60% to 6.20%	**674**	679		
2007	2.79% to 7.13%	**1,220**	929		
2008	3.13% to 6.55%	**462**	458		
2009	4.10% to 7.27%	**169**	43		
2010 through 2044	4.00% to 8.12%	**4,535**	4,242		
Adjustable rates (at 1/1/05):					
2004	1.27% to 2.44%	**-**	89		
2005	1.66% to 3.63%	**563**	492		
2006	2.09%	**195**	195		
2007	3.76%	**90**	47		
2009	2.48% to 2.76%	**440**	-		
Total long-term senior notes and debt		**8,727**	8,133		
Other long-term debt --					
Pollution control revenue bonds --					
Maturity	Interest Rates				
Collateralized:					
2006	5.25%	**12**	12		
2024	5.50%	**24**	24		
Variable rates (at 1/1/05):					
2015 through 2017	2.01% to 2.16%	**90**	90		
Non-collateralized:					
2012 through 2034	1.08% to 5.45%	**850**	850		
Variable rates (at 1/1/05):					
2011 through 2038	1.24% to 2.65%	**1,565**	1,565		
Total other long-term debt		**2,541**	2,541		
Capitalized lease obligations		**115**	107		
Unamortized debt (discount), net		**(17)**	(21)		
Total long-term debt (annual interest requirement -- $496 million)		**11,471**	10,865		
Less amount due within one year		**983**	701		
Long-term debt excluding amount due within one year		**10,488**	10,164	**45.1%**	45.9%

CONSOLIDATED STATEMENTS OF CAPITALIZATION (continued)

At December 31, 2004 and 2003
Southern Company and Subsidiary Companies 2004 Annual Report

		2004	2003	2004	2003
		(in millions)		(percent of total)	
Long-term Debt Payable to Affiliated Trusts:					
Maturity	Interest Rates				
2027 through 2041	7.20% to 8.19%	**436**	-		
2042	4.75% to 7.13%	**1,319**	-		
2044	5.88%	**206**	-		
Total long-term debt payable to affiliated trusts (annual interest requirement -- $128 million)		**1,961**	-	**8.4**	0.0
Mandatorily Redeemable Preferred Securities:					
$25 liquidation value –					
Maturity	Interest Rates				
2028 through 2042	6.85% to 7.63%	**-**	944		
$1,000 liquidation value –					
Maturity	Interest Rates				
2027 through 2042	4.75% to 8.19%	**-**	996		
Total mandatorily redeemable preferred securities			1,940		
Less amount due within one year			40		
Total mandatorily redeemable preferred securities excluding amount due within one year		**-**	1,900	**0.0**	8.6
Preferred Stock of Subsidiaries:					
$100 cumulative par or stated value -- 4.20% to 7.00%		**100**	98		
$25 par or stated value --					
Cumulative -- 5.20% to 5.83%		**294**	200		
Non-cumulative -- 6.00%		**44**	-		
$100,000 cumulative par or stated value -- 4.95%		**123**	125		
Total preferred stock of subsidiaries (annual dividend requirement -- $30 million)		**561**	423	**2.4**	1.9
Common Stockholders' Equity:					
Common stock, par value $5 per share --		**3,709**	3,675		
Authorized -- 1 billion shares					
Issued -- 2004: 742 million shares					
-- 2003: 735 million shares					
Treasury -- 2004: 0.2 million shares					
-- 2003: 0.2 million shares					
Paid-in capital		**869**	747		
Treasury, at cost		**(6)**	(4)		
Retained earnings		**5,839**	5,343		
Accumulated other comprehensive income (loss)		**(133)**	(113)		
Total common stockholders' equity		**10,278**	9,648	**44.1**	43.6
Total Capitalization		**$23,288**	$22,135	**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, 2004, 2003, and 2002
Southern Company and Subsidiary Companies 2004 Annual Report

	Common Stock				Accumulated	
	Par Value	Paid-In Capital	Treasury	Retained Earnings	Other Comprehensive Income (Loss)	Total
			(in millions)			
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**
Net income	**–**	**–**	**–**	**1,532**	**–**	**1,532**
Other comprehensive income (loss)	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Stock issued	**34**	**122**	**–**	**–**	**–**	**156**
Cash dividends	**–**	**–**	**–**	**(1,044)**	**–**	**(1,044)**
Other	**–**	**–**	**(2)**	**8**	**–**	**6**
Balance at December 31, 2004	**$3,709**	**$ 869**	**$(6)**	**$ 5,839**	**$(133)**	**$10,278**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2004, 2003, and 2002
Southern Company and Subsidiary Companies 2004 Annual Report

	2004	2003	2002
		(in millions)	
Consolidated Net Income	**$1,532**	$1,474	$1,318
Other comprehensive income (loss):			
Change in additional minimum pension liability, net of tax of $(11), $(11), and $(18), respectively	**(20)**	(17)	(31)
Change in fair value of marketable securities, net of tax of $(4)	**6**		
Changes in fair value of qualifying hedges, net of tax of $(12), $(2), $(45), and respectively	**(18)**	(17)	(60)
Less: Reclassification adjustment for amounts included in net income, net of tax of $7, $1, and $1, respectively	**12**	3	2
Total other comprehensive income (loss)	**(20)**	(31)	(89)
Consolidated Comprehensive Income	**$1,512**	$1,443	$1,229

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 (SouthernLINC Wireless), 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 the subsidiary companies. SouthernLINC Wireless 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 the State of Georgia. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases and various other energy-related businesses. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

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 and for variable interest entities where the Company is not the primary beneficiary. All material intercompany items have been eliminated in consolidation. Certain prior years' data presented in the 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, as amended (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 (PSC). 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 2004, 2003, and 2002 were $409 million, $312 million, and $217 million, respectively. Synfuel Services, Inc. (SSI), another subsidiary of Southern Holdings, provides fuel transportation services to AFP that are ultimately reflected in the cost of the synthetic fuel billed to Alabama Power and Georgia Power. In connection with these services, the related revenues of approximately $82 million, $65 million, and $35 million in 2004, 2003, and 2002, respectively, have been eliminated against fuel expense in the financial statements. SSI also provides additional services to AFP, as well as to a related party of AFP. Revenues from these transactions totaled approximately $24 million, $20 million, and $15 million, in 2004, 2003, and 2002, respectively.

Revenues

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. 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 the actual recoverable costs and amounts billed 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 averaged less than 1 percent of revenues despite an increase in customer bankruptcies.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense generally includes the cost of purchased emission allowances as they are used. Fuel expense also includes the amortization of the cost of nuclear fuel and a charge, based on nuclear generation, the permanent disposal of spent nuclear fuel. Total charges for nuclear fuel included in fuel expense amounted to $134 million in 2004, $138 million in 2003, and $134 million in 2002. 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 1998 as required by the contracts, and Alabama Power and Georgia Power 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. Construction of an on-site dry storage facility at Plant Farley is in progress and scheduled for operation in 2005. The onsite storage facility is expected to provide adequate spent fuel storage through 2015 for both units. Also, the facility will be able to be expanded to provide storage through 2025. Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2015. Construction of an on-site dry storage facility at Plant Vogtle is scheduled to begin in sufficient time to maintain pool full-core discharge capability. 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.

Also, the Energy Policy Act of 1992 established 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, 2004 under this law to be approximately $9 million and $7 million.

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 balance sheets at December 31 relate to:

	2004	2003	Note
	(in millions)		
Deferred income tax charges	**$ 865**	$ 874	(a)
Asset retirement obligations	**(173)**	(138)	(a)
Other cost of removal obligations	**(1,296)**	(1,260)	(a)
Deferred income tax credits	**(374)**	(409)	(a)
Loss on reacquired debt	**323**	326	(b)
Vacation pay	**105**	97	(c)
Accelerated cost recovery	**(1)**	(115)	(d)
Building lease	**53**	54	(e)
Generating plant outage costs	**49**	45	(e)
Other assets	**104**	100	(e)
Storm damage	**83**	(53)	(e)
Environmental remediation	**13**	(41)	(e)
Deferred purchased power	**(19)**	(92)	(e)
Other liabilities	**(31)**	(26)	(e)
Plant Daniel capacity	**(44)**	(60)	(f)
Total	**$ (343)**	$ (698)	

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 60 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) Recorded as earned by employees and recovered as paid, generally within one year.

(d) Amortized over three-year period ending in 2004 for Georgia Power and 2005 for Savannah Electric.

(e) Recorded and recovered or amortized as approved by the appropriate state PSCs.

(f) Amortized over four-year period ending in 2007.

In the event that a portion of a retail operating company's operations is no longer subject to the provisions of FASB Statement No. 71, such company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the retail operating 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 currently reflected in rates.

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 life of the related property.

Depreciation and Amortization

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 3.0 percent in 2004, 3.1 percent in 2003, and 3.2 percent in 2002. When property subject to composite 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. For other property dispositions, the applicable cost and accumulated depreciation is removed from the balance sheet accounts and a gain or loss is recognized. Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

Under its 2001 rate order, the Georgia PSC ordered Georgia Power to amortize $333 million -- the cumulative balance of accelerated depreciation and amortization previously expensed -- equally over three years as a credit to depreciation and amortization expense beginning January 2002. Georgia Power was also ordered to recognize new certified purchased power costs in rates evenly over the three-year period by the 2001 rate order. As a result of this regulatory adjustment, Georgia Power recorded depreciation and amortization expense of $(77) million, $14 million, and $63 million in 2004, 2003, and 2002, respectively. See Note 3 under "Georgia Power Retail Rate Activity" for additional information.

In May 2004, the Mississippi PSC approved Mississippi Power's request to reclassify 266 megawatts of Plant Daniel units 3 and 4 capacity to jurisdictional cost of service effective January 1, 2004 and authorized Mississippi Power to include the related costs and revenue credits in jurisdictional rate base, cost of service, and revenue requirement calculations for purposes of retail rate recovery. Mississippi Power is amortizing the regulatory liability established pursuant to the Mississippi PSC's interim December 2003 order, as approved in May 2004, to earnings as follows: $16.5 million in 2004, $25.1 million in 2005, $13.0 million in 2006, and $5.7 million in 2007, resulting in increases to earnings in each of those years.

Asset Retirement Obligations and Other Costs of Removal

Effective January 1, 2003, Southern 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 costs 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. Although 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 retail operating companies have received accounting guidance from their respective state PSCs allowing such treatment. Accordingly, the accumulated removal costs for other obligations previously accrued will continue to be reflected on the balance sheets 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, 2004 was $905 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 statements of income 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 balance sheets. See "Nuclear Decommissioning" herein for further information on amounts included in rates.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2004	2003
	(in millions)	
Balance beginning of year	**$ 845**	$ –
Liabilities incurred	**–**	780
Liabilities settled	**(3)**	–
Accretion	**57**	55
Cash flow revisions	**4**	10
Balance end of year	**$ 903**	$ 845

Nuclear Decommissioning

The Nuclear Regulatory Commission (NRC) requires licensees of commercial nuclear power reactors to establish a plan for providing reasonable assurance of funds for future 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 PSCs, 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 PSCs. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission only 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 studies as of December 31, 2004 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
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

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 PSCs. The amount expensed in 2004 and fund balances were as follows:

	Plant Farley	Plant Hatch	Plant Vogtle
	(in millions)		
Amount expensed in 2004	**$18**	**$7**	**$2**
Accumulated provisions:			
External trust funds, at fair value	$446	$294	$165
Internal reserves	29		2
Total	$475	$294	$167

Alabama Power's decommissioning costs for ratemaking are based on the site study. Effective January 1, 2005, the Georgia PSC has ordered the annual decommissioning costs for ratemaking be decreased from $9 million to $7 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2003 -- $421 million and $326 million for plants Hatch and Vogtle, respectively. Significant assumptions used to determine these costs for ratemaking were an inflation rate of 4.5 percent and 3.1 percent for Alabama Power and Georgia Power, respectively, and a trust earnings rate of 7.0 percent and 5.1 percent for Alabama Power and Georgia Power, respectively. Another significant assumption used was the change in the operating license for

Plant Hatch. 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. The NRC is expected to rule on the application by July 2005. Alabama Power and Georgia Power expect their respective state PSCs to periodically review and adjust, if necessary, the amounts collected in rates for the anticipated cost of decommissioning.

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 $551 million, $603 million, and $560 million in 2004, 2003, and 2002, respectively, net of amounts capitalized of $36 million, $49 million, and $59 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 state PSC 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. See Note 3 under "Plant McIntosh Construction Project" for information on a regulatory disallowance by the Georgia PSC in December 2004.

Storm Damage Reserves

Each retail operating company maintains a reserve for property damage to cover the cost of uninsured damages from major storms to transmission and distribution lines and to generation facilities and other property. In accordance with their respective state PSC orders, the retail operating companies accrue a total of $16 million annually. Alabama Power, Gulf Power, and Mississippi Power also have discretionary authority from their state PSCs to accrue additional amounts as circumstances warrant. In 2004, Alabama Power, Gulf Power, and Mississippi Power accrued additional amounts of $6.9 million, $15 million, and $3.1 million, respectively. See Note 3 under "Gulf Power and Alabama Power Storm Damage Recovery" for additional information regarding the impact of Hurricane Ivan on these reserves.

Environmental Cost Recovery

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 may also incur substantial costs to clean up properties. Alabama Power, Gulf Power, and Mississippi Power have each received authority from their respective state PSCs to recover approved environmental compliance costs through specific retail rate clauses. Within limits approved by the state PSCs, these rates are adjusted annually. Georgia Power and Savannah Electric continue to recover environmental costs through their base rates.

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:

	2004	2003
	(in millions)	
Net rentals receivable	**$1,755**	$1,512
Unearned income	**(779)**	(674)
Investment in leveraged leases	**976**	838
Deferred taxes arising from leveraged leases	**(392)**	(351)
Net investment in leveraged leases	**$ 584**	$ 487

A summary of the components of income from leveraged leases is as follows:

	2004	2003	2002
		(in millions)	
Pretax leveraged lease income	**$70**	$66	$58
Income tax expense	**27**	23	20
Net leveraged lease income	**$43**	$43	$38

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 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.

The pro forma impact of fair-value accounting for options granted on earnings from continuing operations is as follows:

	As Reported	Pro Forma
2004		
Net income (in millions)	**$1,532**	**$1,516**
Earnings per share (dollars):		
Basic	**$2.07**	**$2.05**
Diluted	**$2.06**	**$2.04**
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

The estimated fair values of stock options granted in 2004, 2003, and 2002 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:

	2004	2003	2002
Interest rate	**3.1%**	2.7%	2.8%
Average expected life of stock options (in years)	**5.0**	4.3	4.3
Expected volatility of common stock	**19.6%**	23.6%	26.3%
Expected annual dividends on common stock	**$1.40**	$1.37	$1.34
Weighted average fair value of stock options granted	**$3.29**	$3.59	$3.37

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 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, 2004	**$13,317**	**$13,560**
At December 31, 2003	10,759	10,971
Preferred securities:		
At December 31, 2004	**-**	**-**
At December 31, 2003	1,940	2,059

The fair values were based on either closing market price or closing price of comparable instruments. See "Variable Interest Entities" herein and Note 6 under "Mandatorily Redeemable Preferred Securities/Long-Term Debt Payable to Affiliated Trusts" for further information.

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 value of qualifying cash flow hedges and marketable securities, and changes in additional minimum pension liability, less income taxes and reclassifications for amounts included in net income.

Variable Interest Entities

On March 31, 2004, Southern Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of Interpretation No. 46R had no impact on the net income of Southern Company. However, as a result of the adoption, Southern Company deconsolidated certain wholly-owned trusts established to issue preferred securities since Southern Company and the retail operating companies are not the primary beneficiaries of the trusts. Therefore, the investments in these trusts are reflected as Other Investments, and the related loans from the trusts are reflected as Long-term Debt Payable to Affiliated Trusts on the balance sheet as of December 31, 2004. This treatment resulted in a $60 million increase in both total assets and total liabilities as of March 31, 2004.

In addition, Southern Company consolidated its 85 percent limited partnership investment in an energy/technology venture capital fund that was previously accounted for under the equity method. During the third quarter of 2004, Southern Company terminated new investments in this fund; however, additional contributions to existing investments will still occur. Southern Company has committed to a maximum investment of $50 million. At December 31, 2004, Southern Company's investment totaled $22.0 million.

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 of 1974, as amended (ERISA), requirements. No contributions to the plan are expected for the year ending December 31, 2005. 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, 2005, postretirement trust contributions are expected to total approximately $34.5 million.

The measurement date for plan assets and obligations is September 30 for each year.

Pension Plans

The accumulated benefit obligation for the pension plans was $4.6 billion in 2004 and $4.2 billion in 2003. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

	Projected Benefit Obligations	
	2004	2003
	(in millions)	
Balance at beginning of year	**$4,573**	$4,094
Service cost	**128**	115
Interest cost	**270**	261
Benefits paid	**(207)**	(197)
Plan amendments	**6**	11
Actuarial (gain) loss	**305**	289
Balance at end of year	**$5,075**	$4,573

	Plan Assets	
	2004	2003
	(in millions)	
Balance at beginning of year	**$5,159**	$4,600
Actual return on plan assets	**501**	735
Employer contributions	**23**	-
Benefits paid	**(207)**	(176)
Balance at end of year	**$5,476**	$5,159

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal 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	**2004**	2003
Domestic equity	37%	**36%**	37%
International equity	20	**20**	20
Fixed income	26	**26**	24
Real estate	10	**10**	11
Private equity	7	**8**	8
Total	100%	**100%**	100%

The reconciliations of the funded status with the accrued pension costs recognized in the balance sheets were as follows:

	2004	2003
	(in millions)	
Funded status	**$ 401**	$ 586
Unrecognized transition amount	**(14)**	(26)
Unrecognized prior service cost	**292**	314
Unrecognized net (gain) loss	**185**	(70)
Prepaid pension asset, net	**$ 864**	$ 804

The prepaid pension asset, net is reflected in the balance sheets in the following line items:

	2004	2003
	(in millions)	
Prepaid pension asset	**$ 986**	$ 911
Employee benefit obligations	**(280)**	(229)
Other Property and Investments Other	**50**	45
Accumulated other comprehensive income	**108**	77
Prepaid pension asset, net	**$ 864**	$ 804

Components of the pension plans' net periodic cost were as follows:

	2004	2003	2002
	(in millions)		
Service cost	**$ 128**	$ 115	$ 109
Interest cost	**269**	261	277
Expected return on plan assets	**(452)**	(450)	(449)
Recognized net gain	**(7)**	(42)	(65)
Net amortization	**18**	17	11
Net pension cost (income)	**$ (44)**	$ (99)	$(117)

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2004, estimated benefit payments were as follows:

	(in millions)
2005	$ 207
2006	211
2007	218
2008	226
2009	237
2010 to 2014	1,482

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	
	2004	2003
	(in millions)	
Balance at beginning of year	**$1,655**	$1,461
Service cost	**27**	25
Interest cost	**93**	93
Benefits paid	**(68)**	(66)
Actuarial (gain) loss	**72**	142
Plan amendments	**(67)**	-
Balance at end of year	**$1,712**	$1,655

	Plan Assets	
	2004	2003
	(in millions)	
Balance at beginning of year	**$522**	$417
Actual return on plan assets	**64**	70
Employer contributions	**74**	101
Benefits paid	**(68)**	(66)
Balance at end of year	**$592**	$522

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal 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	**2004**	2003
Domestic equity	43%	**43%**	44%
International equity	17	**18**	18
Fixed income	33	**32**	31
Real estate	4	**4**	4
Private equity	3	**3**	3
Total	100%	**100%**	100%

The accrued postretirement costs recognized in the balance sheets were as follows:

	2004	2003
	(in millions)	
Funded status	**$(1,120)**	$(1,133)
Unrecognized transition obligation	**129**	144
Unrecognized prior service cost	**130**	211
Unrecognized net loss (gain)	**408**	357
Fourth quarter contributions	**30**	19
Accrued liability recognized in the balance sheets	**$ (423)**	$ (402)

Components of the postretirement plans' net periodic cost were as follows:

	2004	2003	2002
	(in millions)		
Service cost	**$ 28**	$ 25	$ 21
Interest cost	**93**	93	91
Expected return on plan assets	**(50)**	(47)	(42)
Net amortization	**35**	30	29
Net postretirement cost	**$ 106**	$ 101	$ 99

In the third quarter 2004, Southern Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plan. The effect of the subsidy reduced Southern Company's expenses for the six months ended December 31, 2004 by approximately $10.6 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $182 million.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the accumulated benefit obligation for the postretirement plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	Benefit Payments	Subsidy Receipts	Total
		(in millions)	
2005	$ 67	$ -	$ 67
2006	73	(8)	65
2007	80	(9)	71
2008	87	(10)	77
2009	96	(11)	85
2010 to 2014	612	(72)	540

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:

	2004	2003	2002
Discount	**5.75%**	6.00%	6.50%
Annual salary increase	**3.50**	3.75	4.00
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 11 percent for 2004, decreasing gradually to 5 percent through the year 2012, 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, 2004 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	**$156**	**$123**
Service and interest costs	**9**	**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 2004, 2003, and 2002 were $56 million, $55 million, and $53 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 Bankruptcy

In July 2003, Mirant Corporation (Mirant) filed for voluntary reorganization under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court (Bankruptcy Court). In January 2005, Mirant filed its plan of reorganization (POR), which must be approved by the 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 below. Southern Company has paid approximately $1.4 million in connection with the guarantees. Also, Southern Company has joint and several liability with Mirant regarding the joint consolidated federal income tax returns through 2001, as discussed in Note 5. In December 2004, as a result of concluding an IRS audit for the tax years 2000 and 2001, Southern Company paid $39 million in additional tax and interest for issues related to Mirant tax items. Based on management's assessment of the collectibility of this receivable, Southern Company reserved approximately $12.5 million.

Under the terms of the separation agreements, Mirant agreed to indemnify Southern Company for costs associated with these guarantees, lawsuits, and additional IRS assessments. However, as a result of Mirant's bankruptcy, Southern Company must seek reimbursement as a creditor in Mirant's Chapter 11 proceeding. Southern Company has filed several claims against Mirant in connection with Mirant's indemnity obligations.

The POR provides for the settlement of court-approved claims by unsecured creditors with common stock of a new corporation to which Mirant would transfer substantially all of its assets and its restructured debt and interests in a trust to which Mirant would transfer certain assets, including any claims that Mirant may have against Southern Company. Mirant's disclosure statement filed with the POR states that it is unlikely that there is sufficient value to provide a full recovery to all creditors. A valuation hearing is scheduled before the Bankruptcy Court for April 11, 2005. If Southern Company is ultimately required to make any additional payments related to these obligations, Mirant's indemnification obligation to Southern Company for those additional payments may also represent an unsecured claim, subject to compromise pursuant to the POR.

In April 2004, the U.S. Bankruptcy Court judge presiding over Mirant's proceedings ordered that an examiner be appointed and defined the duties of the examiner, including the investigation of any potential causes of action against insiders, past or present, of Mirant or any basis for objecting to or subordinating any claim that may be available to Mirant against any past or present insider or any member of a committee appointed in Mirant's bankruptcy proceeding. As a former shareholder of Mirant, Southern Company could be considered a past insider. In June 2004, Mirant's bankruptcy counsel notified Southern Company that it is investigating, on behalf of a committee of independent Mirant directors, potential claims against Southern Company. Southern Company has produced documents in response to related informal requests by Mirant's bankruptcy counsel and is cooperating in the investigation. The final outcome of these matters cannot now be determined.

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 class action lawsuit that several Mirant shareholders originally filed against Mirant and certain Mirant officers in May 2002. 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.

In July 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 do not allege any improper trading and marketing activity, accounting errors, or material misstatements or omissions on the part of Southern Company but 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 in September 2003. Plaintiffs have also filed a motion for class certification.

As a result of Mirant's Chapter 11 proceeding, the Bankruptcy Code automatically stayed all litigation as to Mirant. In November 2003, the Bankruptcy Court granted a request to extend this automatic stay to all other non-debtor defendants, including Southern Company and its current and/or former officers named as defendants in the Mirant securities litigation. However, the Bankruptcy Court authorized Mirant 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 agreed that document discovery could proceed. In October 2003, the Bankruptcy Court entered an order authorizing Southern Company's insurance companies to pay related defense costs.

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 who are also named as defendants in this lawsuit. The final outcome of these matters cannot now be determined.

Southern Company Employee Savings Plan Litigation

On June 30, 2004, an employee of a subsidiary of Southern Company filed a complaint in the U.S. District Court for the Northern District of Georgia alleging violations of ERISA, on behalf of a purported class of individuals who were participants in or beneficiaries of The Southern Company Employee Savings Plan (Plan) at any time since April 2, 2001 and whose Plan accounts included investments in Mirant common stock. The complaint, which was amended on December 6, 2004, named as defendants Southern Company, SCS, the Employee Savings Plan Committee, the Fund Investment Review Committee, individual members of such committees, and the SCS Board of Directors during the class period.

In the amended complaint, the plaintiff alleges that the various defendants had certain fiduciary duties under ERISA regarding the Mirant shares distributed to Southern Company shareholders in the spin off and held in the Mirant stock fund in the Plan. The plaintiff alleges that the various defendants breached their respective fiduciary duties by, among other things, failing to adequately determine whether Mirant stock was an appropriate investment option to hold in the Plan and by failing to adequately inform Plan participants that Mirant stock was not an appropriate investment for their retirement assets based on Mirant's alleged improper energy trading and accounting practices, mismanagement, and dire business conditions. The amended complaint also alleges that certain defendants failed to monitor Plan fiduciaries and that certain defendants had conflicting interests regarding Mirant, which prevented them from acting solely in the interests of Plan participants and beneficiaries. The plaintiff seeks class-wide equitable relief and an unspecified amount of money damages.

On February 7, 2005, the Southern Company defendants filed a motion to dismiss all of the claims asserted in the amended complaint. The ultimate outcome of this matter cannot now be determined.

Environmental Matters

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 and Georgia Power, alleging violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws at five coal-fired generating facilities. The EPA concurrently issued to each of the retail operating companies notices of violation relating to 10 generating facilities, including 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.

The U.S. District Court for the Northern District of Georgia subsequently granted Alabama Power's motion to dismiss and denied the EPA's motion to add Gulf Power and Mississippi Power for lack of jurisdiction in Georgia. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant and to add allegations regarding two additional generating facilities owned by Alabama Power. 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 civil complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA has not refiled against Gulf Power or Mississippi Power.

The actions against Alabama Power, Georgia Power, and Savannah Electric were effectively stayed in the spring of 2001 during the appeal of a similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the cases pending against Alabama Power, Georgia Power, and Savannah Electric. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the case. In June 2004, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the court's active docket. At this time, no party to the case against Georgia Power and Savannah Electric has sought to reopen that case, which remains administratively closed in the U.S. District Court for the Northern District of Georgia.

Since the inception of the NSR proceedings against Alabama Power, Georgia 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. District courts addressing these cases have, to date, issued opinions that reached conflicting conclusions.

Southern Company believes that the retail operating companies complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must be adopted by the individual states to apply to facilities in the Southern Company system. The effect of these final regulations, related legal challenges, and potential state rulemakings cannot be determined at this time.

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 for the Northern District of 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.

The court has concluded the liability phase of the action. The court ruled in favor of Georgia Power on the allegations regarding the hazardous air pollutants, the allegations regarding emission offsets, and a majority of the allegations regarding the permit provision that requires the combined cycle units to operate above certain levels. The court ruled in favor of the plaintiffs on a majority of the opacity incidents. Georgia Power has filed a petition for review of the decision with the U.S. Court of Appeals for the Eleventh Circuit. The district court case has been administratively closed pending that appeal. If necessary, the district court will hold a separate remedy trial which will address civil penalties and possible injunctive relief requested by the plaintiffs. The ultimate outcome of this matter cannot currently be determined; however, an adverse outcome could require substantial capital expenditures that cannot be determined at this time and could possibly require the 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 Remediation

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. 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. As of December 31, 2004, Georgia Power had recorded approximately $6 million in cumulative expenses associated with its agreed-upon share of the removal and remedial investigation and feasibility study costs for the

Brunswick site. Additional claims for recovery of natural resource damages at the site are anticipated. Georgia Power has also recognized $35 million in cumulative expenses through December 31, 2004 for the assessment and anticipated cleanup of other sites on the Georgia Hazardous Sites Inventory.

Under Georgia PSC ratemaking provisions, $22 million has been deferred in a regulatory liability account for use in meeting future environmental remediation costs at Georgia Power. Under the December 2004 three-year retail rate plan ending December 31, 2007 (2004 Retail Rate Plan), this regulatory liability will be amortized over a three-year period beginning January 1, 2005. However, the order also approved an annual environmental accrual of $5.4 million. Environmental remediation expenditures will be charged against the reserve as they are incurred. The annual accrual amount will be reviewed and adjusted in future regulatory proceedings.

In September 2004, Gulf Power increased its liability and related regulatory asset for the estimated costs of environmental remediation projects by approximately $47 million to $59.8 million. This increase relates to new regulations and more stringent site closure criteria by the Florida Department of Environmental Protection (FDEP) for impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of these remediation projects will be subject to FDEP approval.

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

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to three previously executed interconnection agreements with subsidiaries of Southern Company, have filed complaints at the FERC requesting that the FERC modify the agreements and that Southern Company refund a total of $19 million previously paid for interconnection facilities, with interest. Southern Company has also received similar requests from other entities totaling $9 million. Southern Company has opposed such relief, and the proceedings are still pending. The impact of Order 2003 and its subsequent rehearings on Southern Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

Each of the retail operating companies and Southern Power has authorization from the FERC to sell power to nonaffiliates at market-based prices. The retail operating companies and Southern Power 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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.

In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, Southern Company submitted additional information on February 15, 2005 related to generation dominance in its retail service territory. Any new market-based rate transactions in its retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, Southern Power and the retail operating companies may be required to charge cost-based rates for certain wholesale sales in the retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

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 U.S. Court of Appeals for the Eleventh Circuit subsequently denied plaintiffs' petition seeking permission to file an appeal of the October 2001 decision. In March 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. In April 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. On November 10, 2004, a three-judge panel of the U.S. Court of Appeals for the Eleventh Circuit issued an order affirming in all respects the district court's rulings. On December 1, 2004, the plaintiffs filed a petition for rehearing seeking a review of the November 2004 order by the entire Eleventh Circuit panel of judges. If this petition is denied, the plaintiffs will have 90 days from the date of the court's order denying the petition to file a petition for writ of certiorari to the U.S. Supreme Court. 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, have been named as defendants in numerous lawsuits brought by landowners since 2001. The plaintiffs' lawsuits claim that defendants may not use, or sublease to third parties, some or all of the fiber optic communications lines on the rights of way that cross the plaintiffs' properties and that such actions exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment and seek compensatory and punitive damages and injunctive relief. Management of Southern Company and its subsidiaries believe that they 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 November 2003, the Second Circuit Court in Gadsden County, Florida, ruled in favor of the plaintiffs on their motion for partial summary judgment concerning liability in 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. Subsequently, the plaintiffs sought to amend their complaint and asked the court to enter a final declaratory judgment and to enter an order enjoining Gulf Power from allowing expanded general telecommunications use of the fiber optic cables that are the subject of this litigation. On January 6, 2005, the trial judge entered an order granting in part the plaintiffs' motion to amend their complaint and denying the requested declaratory and injunctive relief at this time. On January 14, 2005, the Superior Court of Decatur County, Georgia, granted partial summary judgment in another such lawsuit brought by landowners against Georgia Power on the plaintiffs' declaratory judgment claim that the easements do not permit general telecommunications use. Georgia Power is appealing this ruling to the Georgia Court of Appeals. The court also dismissed Southern Telecom from this case. The question of damages and other liability or remedies issues with respect to these actions, if any, will be decided at future trials. In the event of an adverse verdict in either case, Gulf Power or Georgia Power, as applicable, could appeal the issues of both liability and damages or other relief granted. With respect to approximately one-third of the plaintiffs in the actions pending against Mississippi Power, Mississippi Power has entered into an agreement with plaintiffs' counsel clarifying Mississippi Power's easement rights. This agreement has been approved by the Circuit Court of Harrison County, Mississippi (First Judicial District) and dismissals of the related cases are in progress.

In addition, in late 2001, certain subsidiaries of Southern Company, including Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, and Southern Telecom, 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 it in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of the underlying landowner litigation discussed above. On January 12, 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

Income Tax Matters

Synthetic Fuel Tax Credits

Southern Company has investments in two entities that produce synthetic fuel and receive tax credits under Section 29 of the Internal Revenue Code -- a 30 percent ownership interest in Alabama Fuel Products (AFP) and a 24.975 percent limited partnership interest in Carbontronics Synfuels Investors, L.P. (Carbontronics). At December 31, 2004, Southern Company's total investment in these entities was approximately $29 million.

In June 2003, the IRS completed 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 and announced that it has 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 required taxpayers applying for future rulings, as well as those already holding rulings, to implement and maintain certain sampling and quality control procedures, as well as additional documentation and record retention procedures. Both AFP and Carbontronics 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.

In October 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. There has been no significant activity related to this investigation to date.

In January 2004, the IRS completed an audit of AFP for tax years 1999 and 2000. In December

2004, the IRS notified Carbontronics that its audit for 2000 and 2001 had been completed. In addition, in December 2004, the IRS also concluded its audit of Southern Company's consolidated income tax returns for 2000 and 2001. The IRS raised no issues related to synthetic fuel tax credits upon conclusion of any of these audits. As a result, in December 2004, Southern Company reversed its related reserve of $37 million.

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 2001. As part of the audit for the 1996-1999 tax years, the IRS proposed to disallow the tax losses associated with Southern Company's lease-in-lease-out (LILO) transaction, resulting in an additional tax payment of approximately $30 million, including approximately $6.5 million of interest. To stop interest accretion, Southern Company deposited this payment with the IRS in May 2003 and filed a refund claim. In January 2004, the IRS proposed to disallow the refund claim. In connection with its audit of 2000 and 2001, the IRS proposed a similar assessment of approximately $18 million, including approximately $3 million of interest. In October 2004, Southern Company submitted the issue to the IRS appeals division and in February 2005 reached a negotiated settlement with the IRS. The settlement had no material impact on Southern Company's financial statements.

In connection with its audit of 2000 and 2001, the IRS has also challenged Southern Company's deductions related to three other international lease transactions (so-called SILO or sale-in-lease-out transactions). Southern Company believes that these transactions are valid leases for U.S. tax purposes and is pursuing resolution with the IRS. If the IRS is ultimately successful in disallowing the tax deductions related to these three transactions, beginning with the 2000 tax year, Southern Company could be subject to additional interest charges of up to $20 million. Additionally, although the payment of the tax liability, exclusive of this interest, would not affect Southern Company's results of operations under current accounting standards, it could have a material impact on cash flow. See Note 1 under "Leveraged Leases" for additional information on deferred taxes arising from these transactions. Furthermore, the FASB is currently considering changes to the accounting for income tax settlements related to leveraged leases, which may result in a net income impact from such settlements. The final outcome of these matters cannot now be determined.

Alabama Power Retail Regulatory Matters

Alabama Power operates under a Rate Stabilization and Equalization plan (Rate RSE) originally adopted by the Alabama PSC in November 1982. Rate RSE provides for periodic annual adjustments based upon Alabama Power's earned return on end-of-period retail common equity. Such annual adjustments are limited to 3 percent. Within a range of return on common equity of 13 percent to 14.5 percent, rates remain unchanged. The Alabama PSC has also approved a rate mechanism that provides 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 (Rate CNP). Both increases and decreases have been placed into effect since the adoption of these rates.

In accordance with Rate RSE, a 2 percent increase in retail rates was effective in April 2002, amounting to an annual increase of $55 million. Also, to recover certificated purchased power costs under Rate CNP, an increase of 2.6 percent in retail rates, or $79 million annually, was effective July 2003. An additional increase of $25 million annually was effective in June 2004 under Rate CNP for new certificated purchased power costs. In April 2005, an annual true-up adjustment to Rate CNP is expected to decrease retail rates by approximately 0.5 percent or $18.5 million annually.

In October 2004, the Alabama PSC approved a request by Alabama Power to amend Rate CNP to also provide for the recovery of retail costs associated with environmental laws and regulations, effective in January 2005. In conjunction with the Alabama PSC's approval, Alabama Power agreed to a moratorium until March 2007 on any retail rate increase under the Rate RSE. Any increase in March 2007 would be based upon the earned return on retail common equity at December 31, 2006. The ratemaking procedures will remain in effect until the Alabama PSC votes to modify or discontinue them.

Alabama Power fuel costs are recovered under Rate ECR (Energy Cost Recovery), which provides for the addition of a fuel and energy cost factor to base rates. In April 2005, this factor is scheduled to increase from its current level.

Georgia Power Retail Rate Activity

On December 21, 2004, the Georgia PSC voted to approve the 2004 Retail Rate Plan for Georgia Power. Under the terms of the 2004 Retail Rate Plan, earnings will be evaluated against a retail return on common equity range of 10.25 percent to 12.25 percent. Two-thirds of any earnings above 12.25 percent will be applied to rate refunds, with the remaining one-third retained by Georgia Power. Retail rates and customer fees will be increased by approximately $203 million effective January 1, 2005 to cover the higher costs of purchased power, operating and maintenance expenses, environmental compliance, and continued investment in new generation, transmission, and distribution facilities to support growth and ensure reliability.

Georgia Power will not file for a general base rate increase unless its projected retail return on common equity falls below 10.25 percent. Georgia Power is required to file a general rate case by July 1, 2007, in response to which the Georgia PSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

In December 2001, the Georgia PSC approved a three-year retail rate plan (2001 Retail Rate Plan) for Georgia Power ending December 31, 2004. Under the terms of the 2001 Retail Rate Plan, earnings were evaluated against a retail return on common equity range of 10 percent to 12.95 percent. Georgia Power's earnings in all three years were within the common equity range. Under the 2001 Retail Rate Plan, Georgia Power amortized a regulatory liability of $333 million, related to previously recorded accelerated amortization expenses, equally over three years beginning in 2002. Also, the 2001 Retail Rate Plan 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.

On February 18, 2005, Georgia Power filed a request with the Georgia PSC for a fuel cost recovery rate increase. The requested increase, representing an average annual increase in revenues of approximately 11.7 percent, will allow for the recovery of fuel costs based on an estimate of future fuel costs, as well as the collection of the existing under recovery of fuel costs. Georgia Power's under recovered fuel costs as of January 31, 2005 totaled $390 million. The Georgia PSC will examine Georgia Power's fuel expenditures and determine whether the proposed fuel cost recovery rate is just and reasonable before issuing its decision in May 2005. The final outcome of the filing cannot be determined at this time.

Gulf Power and Alabama Power Storm Damage Recovery

In September 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama and continued north through Southern Company's service territory causing substantial damage. At Gulf Power, the related costs charged to its property damage reserve were $141.5 million, resulting in a negative reserve balance of $96.5 million at December 31, 2004. At Alabama Power, the related costs charged to its natural disaster reserve were $57.8 million, resulting in a negative reserve balance of $37.7 million at December 31, 2004, which is reflected in the balance sheet as a regulatory asset pursuant to Alabama PSC order. See Note 1 under "Storm Damage Reserves" for additional information on these reserves.

In February 2005, the Citizens of the State of Florida through the Office of Public Counsel for the State of Florida, the Florida Industrial Power Users Group, and Gulf Power filed a Stipulation and Settlement with the Florida PSC that, if approved, would allow Gulf Power to recover the retail portion of $51.7 million of these costs, plus interest and revenue taxes, from customers over a 24-month period. In connection with the stipulation, Gulf Power has agreed that it will not seek any additional increase in its base rates and charges to become effective on or before March 1, 2007.

Also in February 2005, Alabama Power requested and received Alabama PSC approval of an accounting order that allows Alabama Power to immediately return certain regulatory liabilities to its retail customers. The order also allows Alabama Power to simultaneously recover from its customers an accrual of approximately $45 million to offset the costs of Hurricane Ivan and restore the natural disaster reserve. The combined effects of this order will have no impact on Alabama Power's net income in 2005.

Plant McIntosh Construction Project

In December 2002, after a competitive bidding process, the Georgia PSC certified purchased power agreements (PPAs) between Southern Power and Georgia Power and Savannah Electric for capacity from Plant McIntosh units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet the applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, Savannah Electric and Georgia Power in May 2004 requested the Georgia PSC to direct them to acquire the Plant McIntosh construction project. The Georgia PSC issued such an order, and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined.

As directed by the Georgia PSC order, Georgia Power and Savannah Electric in June 2004 filed an application to amend the resource certificate granted by the Georgia PSC in 2002. In connection with the 2004 Retail Rate Plan, the Georgia PSC approved the transfer of the Plant McIntosh construction project at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance and reduced Southern Company's net income by approximately $9.5 million. The Georgia PSC also certified a total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. Under the 2004 Retail Rate Plan, the Plant McIntosh impact will be reflected in Georgia Power's rates evenly over the three years ending 2007. See "Georgia Power Retail Rate Activity" above for additional information on the 2004 Retail Rate Plan.

Plant Franklin Construction Project

Southern Power completed 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, 2004, Southern Power's investment in Unit 3 of Plant Franklin was $172 million. The final 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, 2004, 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%	$3,304	$1,756
Plant Hatch (nuclear)	50.1	932	485
Plant Miller (coal) Units 1 and 2	91.8	776	356
Plant Scherer (coal) Units 1 and 2	8.4	114	53
Plant Wansley (coal)	53.5	394	164
Rocky Mountain (pumped storage)	25.4	169	89
Intercession City (combustion turbine)	33.3	12	2
Plant Stanton (combined cycle) Unit A	65.0	156	6

Alabama Power, Georgia Power, and Southern Power have contracted to operate and maintain the jointly owned facilities -- except for Rocky Mountain 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 statements of income.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and a combined State of Georgia income tax return. Under a joint consolidated income tax allocation agreement, as required by the PUHCA, 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. In December 2004, the IRS concluded its audit for the tax years 2000 and 2001, and Southern Company paid $39 million in additional tax and interest for issues related to Mirant tax items. Under the terms of the separation agreements, Mirant agreed to indemnify Southern Company for subsequent assessment of any additional taxes related to its transactions prior to the spin off. However, as a result of Mirant's bankruptcy, Southern Company must seek reimbursement as an unsecured creditor. For additional information, see Note 3 under "Mirant Related Matters -- Mirant Bankruptcy."

At December 31, 2004, the tax-related regulatory assets and liabilities were $865 million and $374 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:

	2004	2003	2002
		(in millions)	
Total provision for income taxes:			
Federal --			
Current	**$ 14**	$141	$284
Deferred	**482**	393	167
	496	534	451
State --			
Current	**15**	44	64
Deferred	**76**	34	13
	91	78	77
Total	**$587**	$612	$528

Net cash payments for income taxes in 2004, 2003, and 2002 were $78 million, $189 million, and $374 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:

	2004	2003
	(in millions)	
Deferred tax liabilities:		
Accelerated depreciation	**$4,252**	$3,854
Property basis differences	**1,047**	1,035
Leveraged lease basis differences	**447**	351
Employee benefit obligations	**305**	283
Under recovered fuel clause	**209**	70
Premium on reacquired debt	**132**	133
Other	**195**	165
Total	**6,587**	5,891
Deferred tax assets:		
Federal effect of state deferred taxes	**246**	220
State effect of federal deferred taxes	**111**	99
Employee benefit obligations	**190**	161
Other property basis differences	**162**	171
Deferred costs	**105**	128
Alternative minimum tax carryforward	**106**	-
Other	**386**	436
Total	**1,306**	1,215
Total deferred tax liabilities, net	**5,281**	4,676
Portion included in prepaid expenses (accrued income taxes), net	**(57)**	150
Deferred state tax assets	**13**	11
Accumulated deferred income taxes in the balance sheets	**$5,237**	$4,837

At December 31, 2004, 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 $59 million, if utilized. These deductions will expire between 2010 and 2021. During 2004, Southern Company realized $10 million in such state income tax benefits. Beginning in 2002, the State of Georgia allowed 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 statements of income. Credits amortized in this manner amounted to $27 million in 2004, $29 million in 2003, and $27 million in 2002. At December 31, 2004, 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:

	2004	2003	2002
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**2.8**	2.4	2.7
Synthetic fuel tax credits	**(8.5)**	(5.7)	(5.8)
Employee stock plans dividend deduction	**(1.5)**	(1.5)	(2.9)
Non-deductible book depreciation	**1.1**	1.1	1.3
Difference in prior years' deferred and current tax rate	**(0.7)**	(0.7)	(1.0)
Other	**(0.9)**	(1.5)	(0.9)
Effective income tax rate	**27.3%**	29.1%	28.4%

6. FINANCING

Mandatorily Redeemable Preferred Securities/ Long-Term Debt Payable to Affiliated Trusts

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 and are reflected on the balance sheets as Long-term Debt Payable to Affiliated Trusts. Southern Company and the retail operating companies each consider 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, 2004, preferred securities of $1.9 billion were outstanding. Southern Company guarantees the notes related to $574 million of these securities issued on its behalf. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities.

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:

	2004	2003
	(in millions)	
Capitalized leases	**$ 12**	$ 11
Senior notes	**675**	655
Other long-term debt	**296**	35
Total	**$983**	$701

Debt redemptions and/or serial maturities through 2009 applicable to total long-term debt are as follows: $983 million in 2005; $967 million in 2006; $1.3 billion in 2007; $476 million in 2008, and $624 million in 2009.

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 retail operating 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 2005, unused credit arrangements with banks totaled $3.2 billion, of which $1.8 billion expires during 2005 and $1.4 billion expires during 2006 and beyond. The following table outlines the credit arrangements by company:

	Amount of Credit		Expires	
Company	Total	Unused	2005	2006 & beyond
	(in millions)			
Alabama Power	$ 868	$ 868	$ 643	$ 225
Georgia Power	773	773	423	350
Gulf Power	57	57	57	–
Mississippi Power	101	101	101	–
Savannah Electric	80	80	70	10
Southern Company	1,000	1,000	500	500
Southern Power	325	325	–	325
Other	30	30	30	–
Total	$3,234	$3,234	$1,824	$1,410

Approximately $1.2 billion of the credit facilities expiring in 2005 allow the execution of term loans for an additional two-year period, and $275 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 one-eighth of 1 percent for Southern Company and the retail operating companies and less than three-eighths of 1 percent for Southern Power. Compensating balances are not legally restricted from withdrawal. Included in the total $3.2 billion of unused credit arrangements is $2.5 billion of syndicated credit arrangements that require the payment of agent fees.

Most of the credit arrangements with banks have covenants that limit debt levels to 65 percent of total capitalization, as defined in the agreements. For purposes of these definitions, debt excludes the long-term debt payable to affiliated trusts. At December 31, 2004, Southern Company, Southern Power, and the retail operating companies were each 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. Except for Southern Power, 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. Southern Power's bank credit arrangements have 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 $40 million would be prohibited if the borrower experiences a material adverse change, as defined in such arrangements. 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 $3.2 billion unused credit with banks is allocated to provide liquidity support to the retail operating companies' variable rate pollution control bonds. The amount of variable rate pollution control bonds requiring liquidity support as of December 31, 2004 was $662 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. Southern Company and the retail operating companies may also borrow through extendible commercial note programs. The amount of commercial paper and extendible commercial notes outstanding and included in notes payable on the balance sheets at December 31, 2004 and December 31, 2003 was $377 million and $568 million, respectively. During 2004, the peak amount outstanding for commercial paper was $848 million, and the average amount outstanding was $511 million. The average annual interest rate on commercial paper was 1.3 percent in both 2004 and 2003.

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 state PSCs. 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, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in millions)
Regulatory liabilities, net	**$ 12.8**
Other comprehensive income	**(1.7)**
Net income	**(0.6)**
Total fair value	**$ 10.5**

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 2004, 2003, and 2002, approximately $(3) million, $22 million, and $3 million, respectively, of pre-tax gains (losses) were reclassified from other comprehensive income to fuel expense. For the year 2005, approximately $3 million of pre-tax gains are expected to be reclassified from other comprehensive income to fuel expense. There was no significant ineffectiveness recorded in earnings for any period presented. Southern Company has energy-related hedges in place up to and including 2007.

Southern Company and certain subsidiaries also enter into derivatives to hedge exposure to changes in interest rates. 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. As the derivatives employed as hedging instruments are generally structured to match the critical terms of the hedged debt instruments, no material ineffectiveness has been recorded in earnings.

At December 31, 2004, Southern Company had $2.6 billion notional amount of interest rate swaps and options outstanding with net fair value gains of $12 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	$17.1
	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)	
Alabama Power				
	2007	2.01*	$536	$5.6
	2006	1.89	195	3.2
	2035	5.68	250	(16.0)
Georgia Power				
	2005	1.96	250	0.3
	2005	1.56	50	0.1
	2015	4.66	250	0.7
	2015	5.03	100	(0.9)
	2006	6.00**	150	(0.1)
	2005-07	2.35-3.85***	400	0.6
Savannah Electric				
	2007	2.50*	14	0.1

* Hedged using the Bond Market Association Municipal Swap Index.
** Costless collar with cap rate of 6.00 percent.
*** Capped rate based on formula approximating the yield on tax-exempt auction rate securities.

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 2004, 2003, and 2002, the Company settled losses of $7 million, $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 original interest derivative. For 2004, 2003, and 2002, approximately $23 million, $26 million, and $6 million, respectively, of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2005, pre-tax losses of approximately $11 million are expected to be reclassified from other comprehensive income to interest expense. The Company has interest-related hedges in place through 2035.

7. COMMITMENTS

Construction Program

Southern Company is engaged in continuous construction programs, currently estimated to total $2.2 billion in 2005, $2.5 billion in 2006, and $3.2 billion in 2007. These amounts include $64 million, $45 million, and $39 million in 2005, 2006, and 2007, respectively, for construction expenditures related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services included herein 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, 2004, 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 during 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. 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 $1.4 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.

In December 2004, Georgia Power entered into a LTSA with GE for blanket coverage of neutron monitoring system parts and electronics at Plant Hatch. GE will be responsible for parts and service for 10 years. Total payments under the agreement are estimated at $14 million. The contract contains cancellation provisions at the option of Georgia Power.

Payments made to GE prior to the performance of any planned inspections 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, 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. Coal commitments include forward contract purchases for sulfur dioxide emission allowances. 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 Exchange future prices at December 31, 2004. Also, Southern Company has entered into various long-term commitments for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2004 were as follows:

Year	Natural Gas	Coal and Nuclear Fuel	Purchased Power
	(in millions)		
2005	$ 747	$3,135	$ 171
2006	635	2,652	178
2007	398	1,922	179
2008	303	777	181
2009	290	349	161
2010 and thereafter	2,678	193	680
Total commitments	$5,051	$9,028	$1,550

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 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. In 2003, approximately $11 million in lease termination costs were also included in operation expenses. 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. 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. Mississippi Power is required to amortize approximately 4 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. A liability of approximately $13 million for the fair market value of this residual value guarantee is included in the balance sheet as of December 31, 2004.

Southern Company also has other operating lease agreements with various terms and expiration dates. Total operating lease expenses were $156 million, $172 million, and $169 million for 2004, 2003, and 2002, respectively. At December 31, 2004, estimated minimum rental commitments for noncancelable operating leases were as follows:

Year	Plant Daniel	Rail Cars	Other	Total
	(in millions)			
2005	$ 29	$ 38	$ 56	$123
2006	29	35	42	106
2007	29	26	34	89
2008	29	25	27	81
2009	29	23	23	75
2010 and thereafter	56	98	105	259
Total minimum payments	$ 201	$245	$287	$733

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 leases with respect to the residual value of the leased property. These leases expire in 2006, 2009, and 2011, and the maximum obligations are $66 million, $19.5 million, and $72 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. The total notional amount of guarantees outstanding at December 31, 2004 is less than $20 million, all of which will expire by 2009.

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.

8. COMMON STOCK

Stock Issued

Southern Company raised $124 million (7 million shares) in 2004 and $470 million (18 million shares) in 2003 from the issuance of new common shares under the Company's various stock plans.

Shares Reserved

At December 31, 2004, a total of 39.2 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, 2004, 6,286 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 stock option plan. Activity from 2002 to 2004 for the stock option plan is summarized below:

	Shares Subject To Option	Average Option Price Per Share
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	7,165,398	27.98
Options canceled	(181,381)	24.37
Options exercised	(5,725,336)	16.56
Balance at December 31, 2003	**33,933,495**	**21.97**
Options granted	**7,231,703**	**29.49**
Options canceled	**(72,225)**	**26.85**
Options exercised	**(6,557,690)**	**18.11**
Balance at December 31, 2004	**34,535,283**	**$24.27**

Shares reserved for future grants:	
At December 31, 2002	46,788,994
At December 31, 2003	39,751,477
At December 31, 2004	**32,583,523**
Options exercisable:	
At December 31, 2002	15,463,414
At December 31, 2003	18,874,426
At December 31, 2004	**21,782,064**

The following table summarizes information about options outstanding at December 31, 2004:

	Dollar Price Range of Options		
	13-20	20-26	26-32
Outstanding:			
Shares (in thousands)	**9,328**	**11,073**	**14,134**
Average remaining life (in years)	**4.5**	**6.2**	**8.1**
Average exercise price	**$17.51**	**$24.25**	**$28.75**
Exercisable:			
Shares (in thousands)	**9,328**	**8,918**	**3,536**
Average exercise price	**$17.51**	**$24.00**	**$28.26**

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		
	2004	2003	2002
	(in thousands)		
As reported shares	**738,879**	726,702	708,161
Effect of options	**4,197**	5,202	5,409
Diluted shares	**743,076**	731,904	713,570

Common Stock Dividend Restrictions

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 2004, consolidated retained earnings included $4.1 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 $10.76 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 the 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 $39 million and $43 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, which 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. 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. Southern Power's revenues from sales to the retail operating companies were $425 million, $313 million, and $183 million in 2004, 2003, and 2002, respectively. In addition, see Note 1 under "Related Party Transactions" for information regarding revenues from services for synthetic fuel production that are included in the cost of fuel purchased by Alabama Power and Georgia Power. All other intersegment revenues are not material. Financial data for business segments and products and services are as follows:

Business Segment

	Electric Utilities						
	Retail Operating Companies	Southern Power	Eliminations	Total	All Other	Eliminations	Consolidated
2004				(in millions)			
Operating revenues	**$11,300**	**$701**	**$(536)**	**$11,465**	**$549**	**$(112)**	**$11,902**
Depreciation and amortization	**857**	**51**	**-**	**908**	**47**	**-**	**955**
Interest income	**24**	**1**	**-**	**25**	**4**	**(2)**	**27**
Interest expense	**518**	**66**	**-**	**584**	**84**	**(1)**	**667**
Income taxes	**802**	**73**	**-**	**875**	**(288)**	**-**	**587**
Segment net income (loss)	**1,309**	**112**	**-**	**1,421**	**112**	**(1)**	**1,532**
Total assets	**33,524**	**2,067**	**(103)**	**35,488**	**1,996**	**(522)**	**36,962**
Gross property additions	**2,318**	**116**	**(415)**	**2,019**	**91**	**-**	**2,110**

	Electric Utilities						
	Retail Operating Companies	Southern Power	Eliminations	Total	All Other	Eliminations	Consolidated
2003				(in millions)			
Operating revenues	$10,502	$ 682	$(437)	$10,747	$ 526	$ (87)	$11,186
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	31,506	2,409	(122)	33,793	1,671	(286)	35,178
Gross property additions	1,636	344	–	1,980	34	–	2,014

	Electric Utilities						
	Retail Operating Companies	Southern Power	Eliminations	Total	All Other	Eliminations	Consolidated
2002				(in millions)			
Operating revenues	$10,109	$ 299	$(202)	$10,206	$ 365	$ (57)	$10,514
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	1,784	1,215	(390)	2,609	119	–	2,728

Products and Services

	Electric Utilities Revenues			
Year	Retail	Wholesale	Other	Total
		(in millions)		
2004	**$9,732**	**$1,341**	**$392**	**$11,465**
2003	8,875	1,358	514	10,747
2002	8,728	1,168	310	10,206

11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2004 and 2003 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 2004	**$2,732**	**$ 623**	**$ 331**	**$0.45**	**$0.3500**	**$30.87**	**$29.10**
June 2004	**3,009**	**695**	**352**	**0.48**	**0.3500**	**30.59**	**27.86**
September 2004	**3,441**	**1,113**	**645**	**0.87**	**0.3575**	**30.65**	**28.86**
December 2004	**2,720**	**396**	**204**	**0.28**	**0.3575**	**33.92**	**29.95**
March 2003	$2,541	$ 588	$ 298	$0.41	$0.3425	$30.81	$27.71
June 2003	2,824	781	432	0.60	0.3425	31.81	27.94
September 2003	3,301	1,095	619	0.85	0.3500	30.53	27.76
December 2003	2,520	341	125	0.17	0.3500	30.40	28.65

Southern Company's business is influenced by seasonal weather conditions.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 2000-2004

	2004	2003	2002	2001	2000
Operating Revenues (in millions)	**$11,902**	$11,186	$10,514	$10,155	$10,066
Total Assets (in millions)	**$36,962**	$35,178	$33,721	$31,856	$33,282
Gross Property Additions (in millions)	**$2,110**	$2,014	$2,728	$2,617	$2,225
Return on Average Common Equity (percent)	**15.38**	16.05	15.79	13.51	13.20
Cash Dividends Paid Per Share of Common Stock	**$1.415**	$1.385	$1.355	$1.34	$1.34
Consolidated Net Income (in millions):					
Continuing operations	**$1,532**	$1,474	$1,318	$1,120	$ 994
Discontinued operations	–	–	–	142	319
Total	**$1,532**	$1,474	$1,318	$1,262	$1,313
Earnings Per Share From Continuing Operations --					
Basic	**$2.07**	$2.03	$1.86	$1.62	$1.52
Diluted	**2.06**	2.02	1.85	1.61	1.52
Earnings Per Share Including Discontinued Operations --					
Basic	**$2.07**	$2.03	$1.86	$1.83	$2.01
Diluted	**2.06**	2.02	1.85	1.82	2.01
Capitalization (in millions):					
Common stock equity	**$10,278**	$ 9,648	$ 8,710	$ 7,984	$10,690
Preferred stock	**561**	423	298	368	368
Mandatorily redeemable preferred securities	**-**	1,900	2,380	2,276	2,246
Long-term debt payable to affiliated trusts	**1,961**	-	-	-	-
Long-term debt	**10,488**	10,164	8,714	8,297	7,843
Total excluding amounts due within one year	**$23,288**	$22,135	$20,102	$18,925	$21,147
Capitalization Ratios (percent):					
Common stock equity	**44.1**	43.6	43.3	42.2	50.6
Preferred stock	**2.4**	1.9	1.5	1.9	1.7
Mandatorily redeemable preferred securities	**-**	8.6	11.8	12.0	10.6
Long-term debt payable to affiliated trusts	**8.4**	-	-	-	-
Long-term debt	**45.1**	45.9	43.4	43.9	37.1
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)	**$13.86**	$13.13	$12.16	$11.43	$15.69
Market price per share (dollars):					
High	**$33.920**	$31.810	$30.850	$26.000	$35.000
Low	**27.860**	27.710	23.890	16.152	20.375
Close	**33.520**	30.250	28.390	25.350	33.250
Market-to-book ratio (year-end) (percent)	**241.8**	230.4	233.5	221.8	211.9
Price-earnings ratio (year-end) (times)	**16.2**	14.9	15.3	15.6	16.5
Dividends paid (in millions)	**$1,044**	$1,004	$958	$922	$873
Dividend yield (year-end) (percent)	**4.2**	4.6	4.8	5.3	4.0
Dividend payout ratio (percent)	**68.2**	68.1	72.8	82.4	66.5
Shares outstanding (in thousands):					
Average	**738,879**	726,702	708,161	689,352	653,087
Year-end	**741,495**	734,829	716,402	698,344	681,158
Stockholders of record (year-end)	**125,975**	134,068	141,784	150,242	160,116
Customers for Retail Operating Companies (year-end) (in thousands):					
Residential	**3,600**	3,552	3,496	3,441	3,398
Commercial	**578**	564	553	539	527
Industrial	**14**	14	14	14	14
Other	**5**	6	5	4	5
Total	**4,197**	4,136	4,068	3,998	3,944

Note: Common stock data in 2001 declined as a result of the Mirant spin off.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 2000-2004 (continued)
Southern Company and Subsidiary Companies 2004 Annual Report

	2004	2003	2002	2001	2000
Employees (year-end)	**25,642**	25,762	26,178	26,122	26,021
Operating Revenues (in millions):					
Residential	**$3,848**	$ 3,565	$ 3,556	$ 3,247	$ 3,361
Commercial	**3,346**	3,075	3,007	2,966	2,918
Industrial	**2,446**	2,146	2,078	2,144	2,289
Other	**92**	89	87	83	32
Total retail	**9,732**	8,875	8,728	8,440	8,600
Sales for resale within service area	**504**	444	443	338	377
Sales for resale outside service area	**837**	914	725	836	600
Total revenues from sales of electricity	**11,073**	10,233	9,896	9,614	9,577
Other revenues	**829**	953	618	541	489
Total	**$11,902**	$11,186	$10,514	$10,155	$10,066
Kilowatt-Hour Sales (in millions):					
Residential	**49,702**	47,833	48,784	44,538	46,213
Commercial	**50,037**	48,372	48,250	46,939	46,249
Industrial	**56,399**	54,415	53,851	52,891	56,746
Other	**1,005**	998	1,000	977	970
Total retail	**157,143**	151,618	151,885	145,345	150,178
Sales for resale within service area	**11,417**	10,712	10,853	9,388	9,579
Sales for resale outside service area	**23,822**	29,808	21,698	21,380	17,190
Total	**192,382**	192,138	184,436	176,113	176,947
Average Revenue per Kilowatt-Hour (cents):					
Residential	**7.74**	7.45	7.29	7.29	7.27
Commercial	**6.69**	6.36	6.23	6.32	6.31
Industrial	**4.34**	3.94	3.86	4.05	4.03
Total retail	**6.19**	5.85	5.75	5.81	5.73
Sales for resale	**3.81**	3.35	3.59	3.82	3.65
Total sales	**5.76**	5.33	5.37	5.46	5.41
Average Annual Kilowatt-Hour Use per Residential Customer	**13,879**	13,562	14,036	13,014	13,702
Average Annual Revenue per Residential Customer	**$1,074**	$1,011	$1,023	$949	$996
Plant Nameplate Capacity Owned (year-end) (megawatts)	**38,622**	38,679	36,353	34,579	32,807
Maximum Peak-Hour Demand (megawatts):					
Winter	**28,467**	31,318	25,939	26,272	26,370
Summer	**34,414**	32,949	32,355	29,700	31,359
System Reserve Margin (at peak) (percent)	**20.2**	21.4	13.3	19.3	8.1
Annual Load Factor (percent)	**61.4**	62.0	51.1	62.0	60.2
Plant Availability (percent):					
Fossil-steam	**88.5**	87.7	84.8	88.1	86.8
Nuclear	**92.8**	94.4	90.3	90.8	90.5
Source of Energy Supply (percent):					
Coal	**64.6**	66.4	65.7	67.5	72.3
Nuclear	**14.4**	14.8	14.7	15.2	15.1
Hydro	**2.9**	3.8	2.6	2.6	1.5
Oil and Gas	**10.9**	8.8	11.4	8.4	4.0
Purchased power	**7.2**	6.2	5.6	6.3	7.1
Total	**100.0**	100.0	100.0	100.0	100.0

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ALABAMA POWER COMPANY

FINANCIAL SECTION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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-118) present fairly, in all material respects, the financial position of Alabama Power Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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
February 28, 2005

OVERVIEW

Business Activities

Alabama Power Company (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.

Many factors affect the opportunities, challenges, and risks 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 more stringent environmental standards.

On September 15 and 16, 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama and continued north through the state of Alabama, causing substantial damage in the service territory of the Company. Approximately 826,000 of the Company's 1,370,000 customer accounts were without electrical service immediately after the hurricane. Almost 95% of those without power had service restored within one week, and two weeks after the storm, power had been restored to all who could receive service.

In 2004, the Company completed a retail rate proceeding that should help enable the recovery of substantial capital investments associated with environmental improvements.

Key Performance Indicators

In striving to maximize shareholder value while providing low-cost energy to nearly 1.4 million customers, the Company focuses on several key indicators. These indicators include customer satisfaction, peak season equivalent forced outage rate (Peak Season EFOR), and return on equity (ROE). The Company's financial success is directly tied to the satisfaction of its customers. Key elements of ensuring customer satisfaction include outstanding service, high reliability, and competitive prices. Management uses nationally recognized customer satisfaction surveys and reliability indicators to evaluate the Company's results. Peak Season EFOR is an indicator of plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. ROE is a performance standard used by both the investment community and many regulatory agencies. The Company's 2004 results compared with its targets for each of these indicators are reflected in the following chart.

Key Performance Indicator	2004 Target Performance	**2004 Actual Performance**
Customer Satisfaction	Top quartile in national and regional surveys	**Top quartile**
Peak Season EFOR	2.81% or less	**1.86%**
ROE	13.50%	**13.53%**

The strong financial performance achieved in 2004 reflects the focus that management places on these indicators, as well as the commitment shown by the Company's employees in achieving or exceeding management's expectations.

Earnings

The Company's 2004 net income after dividends on preferred stock was $481 million, representing an $8 million (1.8 percent) increase from the prior year. This improvement is due primarily to higher retail sales, increases in other revenues, and lower interest expense, partially offset by higher non-fuel operating expenses.

The 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 was due primarily to higher retail sales, 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.

The return on average common equity for 2004 was 13.53 percent compared to 13.75 percent in 2003 and 13.80 percent in 2002.

RESULTS OF OPERATIONS

A condensed income statement is as follows:

	Amount	Increase (Decrease) From Prior Year		
	2004	**2004**	2003	2002
	(in millions)			
Operating revenues	**$4,236**	**$276**	$250	$124
Fuel	**1,187**	**119**	98	(31)
Purchased power	**413**	**98**	66	(44)
Other operation and maintenance	**947**	**26**	67	71
Depreciation and amortization	**426**	**13**	15	15
Taxes other than income taxes	**243**	**14**	11	2
Total operating expenses	**3,216**	**270**	257	13
Operating income	**1,020**	**6**	(7)	111
Total other income and (expense)	**(202)**	**30**	20	6
Income taxes	**313**	**23**	(2)	44
Net income	**505**	**13**	15	73
Dividends on preferred stock	**24**	**5**	3	(1)
Net income after dividends on preferred stock	**$ 481**	**$ 8**	$ 12	$ 74

Revenues

Operating revenues for 2004 were $4.2 billion, reflecting a $276 million increase from 2003. The following table summarizes the principal factors that have affected operating revenues for the past three years:

	Amount		
	2004	2003	2002
	(in millions)		
Retail -- prior year	**$3,051**	$2,951	$2,748
Change in -			
Base rates	**41**	51	76
Sales growth	**48**	68	70
Weather	**12**	(61)	60
Fuel cost recovery and other	**141**	42	(3)
Retail -- current year	**3,293**	3,051	2,951
Sales for resale --			
Non-affiliates	**484**	488	474
Affiliates	**308**	277	188
Total sales for resale	**792**	765	662
Other operating revenues	**151**	144	97
Total operating revenues	**$4,236**	$3,960	$3,710
Percent change	**7.0%**	6.7%	3.5%

Retail revenues in 2004 were $3.3 billion. Revenues increased $242 million (7.9 percent) from the prior year, increased $100 million (3.4 percent) in 2003, and increased $203 million (7.4 percent) in 2002. All sectors of retail revenues increased $68 million (3.7 percent) for the Company in 2004. These 2004 and 2003 increases were primarily due to increased fuel revenue and 2.6 percent and 0.8 percent increases in retail base rates which went into effect in July 2003 and July 2004, respectively. 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 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.

Fuel rates billed to customers are designed to fully recover fluctuating fuel and purchased power costs over a period of time. At December 31, 2004, the Company had $102 million of unrecovered fuel costs. Fuel revenues generally have no effect on net income because they represent the recording of revenues to offset fuel and purchased power 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:

	2004	2003	2002
	(in thousands)		
Unit power -			
Capacity	**$134,615**	$130,022	$119,193
Energy	**146,809**	145,342	134,051
Total	**$281,424**	$275,364	$253,244

No significant declines in the amount of capacity are scheduled until the termination of the 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 based rates that generally provide a margin above the Company's variable cost to produce the energy. Revenues associated with other power sales to non-affiliates were as follows:

	2004	2003	2002
	(in thousands)		
Other power sales -			
Capacity and other	**$ 90,673**	$ 96,263	$ 81,884
Variable cost of energy	**111,742**	115,829	139,162
Total	**$202,415**	$212,092	$221,046

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. These affiliated sales and purchases are made in accordance with the affiliated company interchange agreements as approved by the Federal Energy Regulatory Commission (FERC). In 2004, sales for resale revenues increased $31 million primarily due to increases in fuel-related expenses. Sales for resale revenues increased $89.1 million in 2003 due to increased capacity payments received from affiliates. 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 2004 increased $7.0 million (4.9 percent) from 2003 due to an increase of $7.7 million in revenues from gas-fueled co-generation steam facilities -- primarily as a result of higher gas prices – and a $2.4 million increase in revenues from rent from electric property offset by a $2.0 million decrease in transmission revenues. Since co-generation steam revenues are generally offset by fuel expense, these revenues did not have a significant impact on earnings.

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.

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.

Energy Sales

Changes in revenues are influenced heavily by the volume of energy sold each year. Kilowatt-hour (KWH) sales for 2004 and the percent change by year were as follows:

	KWH	Percent Change		
	2004	**2004**	2003	2002
	(millions)			
Residential	**17,368**	**2.4%**	(2.5)%	9.6%
Commercial	**13,823**	**2.8**	0.7	4.4
Industrial	**22,855**	**5.8**	2.3	3.1
Other	**198**	**(2.4)**	(1.1)	3.7
Total retail	**54,244**	**3.9**	0.3	5.5
Sales for resale -				
Non-affiliates	**15,483**	**(9.4)**	9.9	1.8
Affiliates	**7,234**	**(23.2)**	6.5	
Total	**76,961**	**(2.2)**	2.9	4.1

Energy sales in the residential sector grew by 2.4 percent in 2004 due primarily to continued customer growth and a return to normal summer temperatures. Commercial sales increased 2.8 percent in 2004 primarily due to the State of Alabama's continuing transition from a manufacturing-based economy to a more service-based economy. Industrial sales rebounded 5.8 percent during the year with primary metal, chemical, and paper sectors leading the growth.

In 2003, residential energy sales 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.

Assuming normal weather, sales to retail customers are projected to grow approximately 1.7 percent annually on average during 2005 through 2009.

Expenses

Total operating expenses in 2004 grew $270 million (9.2 percent) to $3.2 billion. This increase over the previous year was primarily related to an increase in natural gas and coal prices. In addition, purchased power expenses increased $98 million (31.0 percent) primarily due to a 71.7 percent increase in energy purchased, while purchased power prices decreased by 1.9 percent. Depreciation and amortization expense increased $13 million (3.1 percent) primarily due to an increase in utility plant in service.

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.

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 kilowatt-hour (KWH) generated and the average cost of purchased power were as follows:

	2004	2003	2002
Total generation (billions of KWHs)	**70**	72	71
Sources of generation (percent) --			
Coal	**65**	64	62
Nuclear	**19**	19	19
Hydro	**6**	8	6
Gas	**10**	9	13
Average cost of fuel per net KWH generated (cents)	**1.69**	1.54	1.44
Average cost of purchased power per net KWH (cents)	**4.79**	3.61	2.91

Fuel and purchased power expenses totaled $1.6 billion in 2004, an increase of $216 million (15.6 percent). This was due to the average natural gas prices increasing by 30.5 percent, the average coal prices increasing 3.1 percent over the previous year, and higher capacity payments associated with an existing power purchase agreement (PPA). 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 KWHs (4.1 percent) compared with the amounts recorded in 2001.

A significant upward trend in the cost of coal and natural gas has emerged since 2003, and volatility in these markets is expected to continue. Increased coal prices have been influenced by a worldwide increase in demand as a result of rapid economic growth in China as well as by increases in mining costs. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, result in an immediate market response; however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas. Fuel expenses, including purchased power, are offset by fuel revenues through the Company's energy cost recovery clause and generally have no effect on net income.

Purchased power consists of purchases from affiliates in the Southern Company 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. Purchased power from non-affiliates increased $75 million (68 percent) in 2004. This was due to a 71.7 percent increase in energy purchased offset by a 1.9 percent decrease in purchased power prices over the previous year. 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 KWHs in 2002, an 18.4 percent increase over the previous year.

Depreciation and amortization expense increased 3.1 percent in 2004, 3.6 percent in 2003, and 3.9 percent in 2002. These increases reflect additions to property, plant, and equipment.

Allowance for equity funds used during construction (AFUDC) increased $3.5 million (28.2 percent) in 2004 due primarily to an increase in the amount of construction work in progress over the prior year. 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. See Note 1 to the financial statements under "AFUDC" for additional information.

Interest expense, net of amounts capitalized of $194 million in 2004 decreased $20.7 million (9.7 percent) from 2003, which had decreased $11.4 million (5.1 percent) from 2002, which had decreased $21 million (8.4 percent) from 2001. All years reflect a decrease in interest rates on long-term debt due to refinancing activities.

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 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 Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in the State of Alabama and to wholesale customers in the Southeast. Prices for electricity provided by the Company to retail customers are set by the Alabama PSC 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 FERC. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on ROE. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements for additional information about these and other regulatory matters.

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 that affect the opportunities, challenges, and risks of the Company's primary 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 more stringent 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 Company's service area.

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, Inc. (SCS).

Environmental Matters

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, alleging that the Company had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws with respect to coal-fired generating facilities at the Company's Plants Miller, Barry, and Gorgas. 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. 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 was effectively stayed in the spring of 2001 pending the appeal of a similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. In June 2004, following the final resolution of that appeal, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against the Company, placing the case back onto the court's active docket. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

The Company believes that it complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must also be adopted by the State of Alabama in order to apply to the Company's facilities. The effect of these final regulations, related legal challenges, and potential state rulemakings cannot be determined at this time.

Carbon Dioxide Litigation

On July 21, 2004, attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. Plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. Southern Company and the other defendants have filed motions to dismiss both lawsuits. Southern Company intends to vigorously defend against these claims. While the outcome of these matters cannot be determined at this time, an adverse judgment in either of these actions could result in substantial capital expenditures.

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 involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions. See "FERC and Alabama PSC Matters – Environmental Rate Filing" and Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for additional information. Environmental costs that are known and estimable at this time are included in capital expenditures discussed under FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein. There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the 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 and resulted in total construction expenditures of approximately $66 million through 2000. Some of these previous 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 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 totaled approximately $249 million through 2004.

To help 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, were required to comply with these reductions by May 31, 2004. Additional construction expenditures for compliance with these rules are currently estimated at approximately $369 million, of which $169 million remains to be spent. In March 2004, the EPA redesignated the Birmingham, Alabama area from nonattainment to attainment under the one-hour ozone standard.

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 and included development of an eight-hour ozone standard, as opposed to the previous one-hour ozone standard. 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. On April 30, 2004, the EPA published its eight-hour ozone nonattainment designations and a portion of the rules implementing the new eight-hour ozone standard. The counties around Birmingham have been designated as nonattainment under the eight-hour ozone standard. Under the implementation provisions of the new rule, the EPA announced that the one-hour ozone standard will be revoked on June 15, 2005. With respect to the eight-hour nonattainment areas, state implementation plans, including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. These state implementation plans could require reductions in nitrogen oxide emissions from power plants. The impact of the eight-hour designations and the new standard will depend on the development and implementation of Alabama's state implementation plan and therefore cannot be determined at this time.

On December 17, 2004, the EPA issued its final "nonattainment" designations for the fine particulate national ambient air quality standard. Several areas within the Company's service area were included in the EPA's final particulate matter designations. The EPA plans to propose a fine particulate matter implementation rule in 2005 and finalize the implementation rule in 2006. State implementation plans addressing the nonattainment designations may be required by 2008 and could require reductions in sulfur dioxide emissions and further reductions in nitrogen oxide emissions from power plants. The impact of the fine particulate designations will depend on the development and implementation of Alabama state implementation plans and therefore cannot be determined at this time.

In January 2004, the EPA issued a proposed Clean Air Interstate Rule (CAIR) 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 in 2005. If finalized, the rule could modify or supplant other state requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard, as well as other air quality regulations. 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.

The Company has developed and maintains an environmental compliance strategy for the installation of additional control technologies and the purchase of emission allowances to assure continued compliance with current sulfur dioxide and nitrogen oxide emission regulations. Additional expenses associated with these regulations are anticipated to be incurred each year to maintain current and future compliance. Because the Company's compliance strategy is impacted by factors such as changes to existing environmental laws and regulations, increases in the cost of emissions allowances, and any change in the Company's fuel mix, future environmental compliance costs 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 and to implement emission reduction requirements that make progress toward remedying current visibility impairment in certain natural areas. 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 implementation plans in 2008 that contain emission reduction strategies for implementing BART and for achieving sufficient progress toward the Clean Air Act's visibility improvement goal. In response to litigation, the EPA proposed revised rules in May 2004, which it plans to finalize in April 2005. The impact of these regulations will depend on the promulgation of final rules and implementation of those rules by the states and, therefore, it is not possible to determine the effect of these rules on the Company at this time.

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 March 2005, and compliance could be required as early as 2008. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants, including the Bush Administration's Clear Skies Act, have been re-proposed in 2005. The Clear Skies Act is expected to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury and to supplement the proposed CAIR and mercury regulatory programs. Other proposals to limit emissions of carbon dioxide have also been introduced. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

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. In July 2004, the EPA published final rules that 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 and the actual limits established by the regulatory agencies.

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 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.

Global Climate Issues

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 constraints on the emissions of greenhouse gases for a group of industrialized countries. The Bush Administration has not supported U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and, in 2002, announced a goal to reduce the greenhouse gas intensity of the U.S. – the ratio of greenhouse gas emissions to the value of U.S. economic output -- by 18 percent by 2012. A year later, the Department of Energy (DOE) announced the Climate VISION program to support this goal. Energy-intensive industries, including electricity generation, are the initial focus of this program. Southern Company is leading the development of a voluntary electric utility sector climate change initiative in partnership with the government. The utility sector has pledged to reduce its greenhouse gas emissions rate by 3 to 5 percent over the next decade and, on December 13, 2004, signed a memorandum of understanding with the DOE initiating this program under Climate VISION. Because efforts under this voluntary program are just beginning, the impact of this program on the Company cannot be determined at this time.

Environmental Remediation Reserves

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.

FERC and Alabama PSC Matters

Transmission

In December 1999, the FERC issued its final rule on Regional Transmission Organizations (RTOs). Since that time, there have been a number of additional proceedings at the FERC designed to encourage further voluntary formation of RTOs or to mandate their formation. However, at the current time, there are no active proceedings that would require the Company to participate in an RTO. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection, as well as an inquiry into, among other things, market power by vertically integrated utilities. See "Generation Interconnection Agreements" and "Market-Based Rate Authority" herein for additional information. The final outcome of these proceedings cannot now be determined. However, the Company's financial condition, results of operations and cash flows could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to two previously executed interconnection agreements with the Company, have filed complaints at the FERC requesting that the FERC modify the agreements and that the Company refund a total of $11 million previously paid for interconnection facilities, with interest. The Company has also received similar requests from other entities totaling $2.5 million. The Company has opposed such relief, and the proceedings are still pending. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to nonaffiliates at market-based prices. Through SCS, as an 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, the retail operating companies, and Southern Power, and found them and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in its retail service territory. Any new market-based rate transactions in Southern Company's retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in Southern Company's retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

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. The final outcome of this matter cannot be determined at this time.

Nuclear Relicensing

The Company filed an application with the Nuclear Regulatory Commission (NRC) in September 2003 to extend the operating license for Plant Farley for an additional 20 years. The NRC is expected to rule on the application by July 2005. If the NRC approves the extension, the Company's annual decommissioning expense could decrease, subject to Alabama PSC approval. See Note 1 to the financial statements under "Nuclear Decommissioning" for additional information.

Environmental Rate Filing

On October 5, 2004, the Alabama PSC approved a specific rate mechanism for the recovery of the Company's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism began operation in January 2005 and provides for the recovery of these costs pursuant to a factor that will be calculated annually. Environmental costs to be recovered include operation and maintenance expenses, depreciation and a return on invested capital. Retail rates have increased 1 percent in 2005, which should yield an annual recovery of approximately $33 million, and are expected to increase an additional 1 percent in 2006. In conjunction with the Alabama PSC's approval, the Company agreed to a moratorium until March 2007 on any retail rate increase under the previously approved Rate Stabilization and Equalization plan (RSE). Any increase in March 2007 would be based upon the earned return on retail common equity at December 31, 2006. See Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for further information on RSE.

Retail Rate Adjustments

The Company's retail rates, approved by the Alabama PSC, also provide for adjustments to recognize the placing of new generating facilities into retail service and the recovery of retail costs associated with certificated PPAs under Rate Certificated New Plant (CNP). 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. An additional increase of $25 million annually was effective July 2004 under Rate CNP for new certificated PPAs. In April 2005, an adjustment to Rate CNP is expected to decrease retail rates by approximately 0.5 percent, or $18.5 million annually. See Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for additional information.

Retail Fuel Cost Recovery

The Company has established fuel cost recovery rates approved by the Alabama PSC. In recent months, the Company has experienced higher than expected fuel costs for coal and gas. Those higher fuel costs have increased the under recovered fuel costs included in the balance sheets. In April 2005, the retail energy clause recovery factor is scheduled to increase from its current level. The Company will continue to monitor the under recovered fuel cost balance to determine if an additional adjustment to billing rates should be requested from the Alabama PSC.

Natural Disaster Cost Recovery

The Company maintains a reserve for operation and maintenance expense to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property. On September 15 and 16, 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama and continued north through the state of Alabama, causing substantial damage in the service territory of the Company. Approximately 826,000 of the Company's 1,370,000 customer accounts were without electrical service immediately after the hurricane. Almost 95% of those without power had service restored within one week, and two weeks after the storm, power had been restored to all who could receive service.

The operation and maintenance expenses associated with repairing the damage to the Company's facilities and restoring service to customers as a result of Hurricane Ivan were $57.8 million for 2004. The balance in the Company's natural disaster reserve prior to the storm was $14.6 million. On October 19, 2004, the Company received approval from the Alabama PSC to record its hurricane related operation and maintenance expenses in its natural disaster reserve, thereby deferring the regulatory asset for recovery in future periods. The Company is allowed to accrue $250 thousand per month until a 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 2004, the Company accrued $9.9 million, including an additional amount of $6.9 million, to the reserve and at December 31, 2004 the regulatory asset totaled $37.7 million.

In February 2005, the Company requested and received Alabama PSC approval of an accounting order that allows the Company to immediately return certain regulatory liabilities to the retail customers. The order also allows the Company to simultaneously recover from customers an accrual of approximately $45 million to offset the costs of Hurricane Ivan and restore the natural disaster reserve. The combined effects of this order will have no impact on the Company's net income in 2005. See Notes 1 and 3 to the financial statements under "Natural Disaster Reserve" and "Natural Disaster Cost Recovery," respectively, for additional information on these reserves.

Income Tax Matters

American Jobs Creation Act of 2004

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. The Company is currently assessing the impact of the Jobs Act, including this deduction, as well as the related regulatory treatment, on its taxable income. However, the Company currently does not expect the Jobs Act to have a material impact on its financial statements.

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 $36 million, $52 million, and $56 million in 2004, 2003, and 2002, respectively. Future pension income is dependent on several factors including trust earnings and changes to the pension plan. The decline in pension income is expected to continue, but should not become a pension expense in the foreseeable future. Postretirement benefit costs for the Company were $22 million, $23 million, and $23 million in 2004, 2003, and 2002, respectively, and are expected to trend upward. A portion of pension income and postretirement benefit costs is capitalized based on construction-related labor charges. Pension 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.

The Company is involved in various other 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. Southern Company 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

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, which requires the financial statements to reflect the effects of rate 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 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 legislative, 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" herein 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.

Unbilled Revenues

Revenues related to the sale of electricity are recorded when electricity is delivered to customers. However, the determination of KWH sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, power delivery volume, and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company's results of operations.

New Accounting Standards

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of FASB Interpretation No. 46R had no impact on the Company's net income. However, as a result of the adoption, the Company deconsolidated certain wholly-owned trusts established to issue preferred securities since the Company does not meet the definition of primary beneficiary established by FASB Interpretation No. 46R. See Note 1 to the financial statements under "Variable Interest Entities" for additional information.

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $3.2 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $59.8 million. However, the ultimate impact on future periods is subject to final interpretation of the federal regulations which were published on January 21, 2005. See Note 2 to the financial statements under "Postretirement Benefits" for additional information.

FASB Statement No. 123R, Share-Based Payment was issued in December 2004. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. For the Company, this statement is effective beginning on July 1, 2005. Although the compensation expense calculation required under the revised statement differs slightly, the impact on the Company's financial statements are expected to be similar to the pro forma disclosures included in Note 1 to the financial statements under "Stock Options."

See FUTURE EARNINGS POTENTIAL – "Income Tax Matters -- American Jobs Creation Act of 2004" herein for information regarding the adoption of new tax legislation. In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004, which requires that the generation deduction be accounted for as a special tax deduction rather than as a tax rate reduction. The Company is currently assessing the Jobs Act and this pronouncement, as well as the related regulatory treatment, but currently does not expect a material impact on the Company's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition continued to be strong at December 31, 2004. Net cash flow from operating activities totaled $1.0 billion, $1.1 billion, and $973 million for 2004, 2003, and 2002, respectively. The $107 million decrease for 2004 in operating activities primarily relates to an increase in under recovered fuel cost and storm damage costs related to Hurricane Ivan. These increases were partially offset by the deferral of income tax liabilities arising from accelerated depreciation deductions. Fuel costs are recoverable in future periods and are reflected on the balance sheets as under recovered regulatory clause revenues. The $145 million increase from 2002 to 2003 resulted from the deferral of income tax liabilities arising from accelerated depreciation deductions offset by the settlement of interest rate hedges.

Significant balance sheet changes include the $478 million increase in long-term debt for 2004 primarily due to the replacement of debt due within one year with long-term debt, and an increase of $412 million in gross plant.

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 42.6 percent in 2004, 43.3 percent in 2003, and 42.6 percent in 2002. 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, preferred stock, and preferred securities.

Security issuances are subject to regulatory approval by the Alabama PSC. Additionally, with respect to the public offering of securities, the Company must file registration statements with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the Alabama PSC, as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

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 of 1935, as amended (PUHCA), most loans between affiliated companies must be approved in advance by the 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 has various internal and external sources of liquidity. At the beginning of 2005, the Company had approximately $84 million of cash and cash equivalents and $868 million of unused credit arrangements with banks. 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.

The Company maintains committed lines of credit in the amount of $868 million of which $643 million will expire at various times during 2005. $225 million of the credit facilities expiring in 2005 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. 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 retail operating company. The obligations of each company under these arrangements are several and there is no cross affiliate credit support.

At December 31, 2004, the Company had no commercial paper or extendible commercial notes outstanding.

Financing Activities

During 2004, the Company issued $900 million of long-term debt and $100 million of preferred stock. In addition, the Company issued 1 million new shares of common stock to Southern Company at $40.00 a share and realized proceeds of $40 million. The proceeds of these issues were used to redeem or repay at maturity long-term debt, to repay short-term indebtedness, and for other general corporate purposes.

Composite financing rates for long-term debt, preferred stock, and preferred securities for the years 2002 through 2004, as of year-end, were as follows:

	2004	2003	2002
Long-term debt interest rate	**4.14%**	4.42%	5.05%
Preferred securities distribution rate	**5.25**	5.25	5.25
Preferred stock dividend rate	**5.14**	5.10	5.17

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. However, the Company is party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price and interest rate risk management activities. At December 31, 2004, the Company's maximum potential exposure to these contracts was $9.8 million.

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 risk management practices. Company policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

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 January 1, 2005 was 2.57 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 $2.5 million at January 1, 2005. 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. The Company has implemented fuel hedging programs at the instruction of the Alabama PSC.

In addition, the Company's Rate ECR allows the recovery of specific costs associated with the sales of natural gas that become necessary due to operating considerations at the Company's electric generating facilities. Rate ECR also allows recovery of 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, 2004, exposure from these activities was not material to the Company's financial position, results of operations, or cash flows. The fair value changes in energy related derivative contracts and year-end valuations were as follows at December 31:

	Changes in Fair Value	
	2004	2003
	(in thousands)	
Contracts beginning of year	**$ 6,413**	$ 21,402
Contracts realized or settled	**(26,384)**	(38,809)
New contracts at inception	-	-
Changes in valuation techniques	-	-
Current period changes(a)	**23,988**	23,820
Contracts end of year	**$ 4,017**	$ 6,413

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

	Source of 2004 Year-End Valuation Prices		
	Total	Maturity	
	Fair Value	2005	2006-2007
	(in thousands)		
Actively quoted	**$3,985**	**$2,917**	**$1,068**
External sources	**32**	**32**	-
Models and other methods	-		
Contracts end of Year	**$4,017**	**$2,949**	**$1,068**

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, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts (in thousands)
Regulatory liabilities, net	$3,978
Other comprehensive income	-
Net income	39
Total fair value	$4,017

Unrealized pre-tax gains (losses) on energy contracts recognized in income in 2004 and 2003 were not material. For 2002, pre-tax losses of $2.0 million were recognized in income. 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 $902 million for 2005, $921 million for 2006, and $1.0 billion for 2007. Over the next three years, the Company estimates spending $913 million on environmental related additions (including $276 million on selective catalytic reduction facilities), $238 million on Plant Farley (including $177 million for nuclear fuel), $767 million on distribution facilities, and $411 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 $1.4 billion will be required by the end of 2007 for maturities of long-term debt. The Company plans to continue, when economically feasible, to retire higher cost securities 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 2004 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 "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.

The Company has 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 for other purposes and may require the Company to seek capital from other sources. For additional information, see Note 2 to the financial statements under "Postretirement Benefits."

Other funding requirements related to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest, preferred stock dividends, leases, and other purchase commitments, are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

Contractual Obligations

	2005	2006-2007	2008-2009	After 2009	Total
			(in millions)		
Long-term debt[a] --					
Principal	$ 225.0	$1,215.0	$ 660.0	$2,294.4	$ 4,394.4
Interest	185.2	327.3	243.0	1,924.7	2,680.2
Preferred stock dividends[b]	23.6	47.2	47.2	-	118.0
Operating leases	29.1	35.3	19.0	34.6	118.0
Purchase commitments[c] --					
Capital[d]	902.5	1,938.4	-	-	2,840.9
Coal and nuclear fuel	907.0	1,517.0	356.0	97.0	2,877.0
Natural gas[e]	249.0	309.0	52.0	108.0	718.0
Purchased power	87.0	175.0	179.0	38.0	479.0
Long-term service agreements	17.2	35.8	37.3	103.1	193.4
Trusts --					
Nuclear decommissioning	20.3	40.6	40.6	192.1	293.6
Postretirement benefits[f]	25.3	51.6	-	-	76.9
DOE assessments	4.4	4.5	-	-	8.9
Total	$2,675.6	$5,696.7	$1,634.1	$4,791.9	$14,798.3

(a) All amounts are reflected based on final maturity dates. The Company plans to 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, 2005, 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 $947 million, $921 million, and $854 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, 2004, 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 Exchange future prices at December 31, 2004.

(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 and postretirement plans, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from the Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Statements

The Company's 2004 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales growth and retail rates, storm damage cost recovery, environmental regulations and expenditures, the Company's projections for postretirement benefit trust contributions, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, 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;
- variations in demand for electricity and gas, including those relating to weather, the general economy and population and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- 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 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 effect on the Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the Company from time to time by the Company with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Alabama Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Revenues:			
Retail sales	**$3,292,828**	$3,051,463	$2,951,217
Sales for resale --			
Non-affiliates	**483,839**	487,456	474,291
Affiliates	**308,312**	277,287	188,163
Other revenues	**151,012**	143,955	96,862
Total operating revenues	**4,235,991**	3,960,161	3,710,533
Operating Expenses:			
Fuel	**1,186,472**	1,067,821	969,521
Purchased power --			
Non-affiliates	**186,187**	110,885	90,998
Affiliates	**226,697**	204,353	158,121
Other operations	**634,030**	611,418	574,979
Maintenance	**313,407**	309,451	279,406
Depreciation and amortization	**425,906**	412,919	398,428
Taxes other than income taxes	**242,809**	228,414	216,919
Total operating expenses	**3,215,508**	2,945,261	2,688,372
Operating Income	**1,020,483**	1,014,900	1,022,161
Other Income and (Expense):			
Allowance for equity funds used during construction	**16,141**	12,594	11,168
Interest income	**15,677**	15,220	13,991
Interest expense, net of amounts capitalized	**(193,590)**	(214,302)	(225,706)
Interest expense to affiliate trusts	**(16,191)**	-	-
Distributions on mandatorily redeemable preferred securities	**-**	(15,255)	(24,599)
Other income (expense), net	**(24,728)**	(31,702)	(28,785)
Total other income and (expense)	**(202,691)**	(233,445)	(253,931)
Earnings Before Income Taxes	**817,792**	781,455	768,230
Income taxes	**313,024**	290,378	292,436
Net Income	**504,768**	491,077	475,794
Dividends on Preferred Stock	**23,597**	18,267	14,439
Net Income After Dividends on Preferred Stock	**$ 481,171**	$ 472,810	$ 461,355

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004, 2003, and 2002
Alabama Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Activities:			
Net income	**$504,768**	$ 491,077	$ 475,794
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization	**497,010**	487,370	442,660
Deferred income taxes and investment tax credits, net	**252,858**	153,154	48,828
Deferred revenues	**(11,510)**	(17,932)	(8,099)
Allowance for equity funds used during construction	**(16,141)**	(12,594)	(11,168)
Pension, postretirement, and other employee benefits	**(29,362)**	(38,953)	(34,977)
Tax benefit of stock options	**10,672**	8,680	6,670
Other, net	**10,817**	6,292	19,271
Changes in certain current assets and liabilities --			
Receivables, net	**(144,256)**	(13,488)	33,074
Fossil fuel stock	**30,130**	(13,251)	25,535
Materials and supplies	**(26,229)**	(4,651)	3,728
Other current assets	**19,131**	(953)	1,479
Accounts payable	**(12,778)**	77,128	(1,034)
Accrued taxes	**(24,568)**	(33,507)	(40,922)
Accrued compensation	**(7,041)**	664	17,122
Other current liabilities	**(42,544)**	29,058	(4,798)
Net cash provided from operating activities	**1,010,957**	1,118,094	973,163
Investing Activities:			
Gross property additions	**(797,014)**	(661,154)	(645,262)
Cost of removal net of salvage	**(37,369)**	(35,440)	(32,111)
Other	**11,575**	(1,169)	5,017
Net cash used for investing activities	**(822,808)**	(697,763)	(672,356)
Financing Activities:			
Increase (decrease) in notes payable, net	**-**	(36,991)	26,994
Proceeds --			
Senior notes	**900,000**	1,415,000	975,000
Mandatorily redeemable preferred securities			300,000
Preferred stock	**100,000**	125,000	
Common stock	**40,000**	50,000	
Capital contributions from parent company	**17,541**	17,826	43,118
Redemptions --			
First mortgage bonds			(350,000)
Senior notes	**(725,000)**	(1,507,000)	(415,602)
Other long-term debt	**(1,445)**	(943)	(883)
Mandatorily redeemable preferred securities		-	(347,000)
Preferred stock		-	(70,000)
Payment of preferred stock dividends	**(23,639)**	(18,181)	(14,176)
Payment of common stock dividends	**(437,300)**	(430,200)	(431,000)
Other	**(16,597)**	(14,775)	(30,329)
Net cash used for financing activities	**(146,440)**	(400,264)	(313,878)
Net Change in Cash and Cash Equivalents	**41,709**	20,067	(13,071)
Cash and Cash Equivalents at Beginning of Period	**42,752**	22,685	35,756
Cash and Cash Equivalents at End of Period	**$ 84,461**	$ 42,752	$ 22,685
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $6,832, $6,367, and $6,738 capitalized, respectively)	**$188,556**	$185,272	$230,102
Income taxes (net of refunds)	**69,068**	161,004	269,043

The accompanying notes are an integral part of these financial statements

BALANCE SHEETS
At December 31, 2004 and 2003
Alabama Power Company 2004 Annual Report

Assets	2004	2003
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 84,461**	$ 42,752
Receivables --		
Customer accounts receivable	**235,221**	223,865
Unbilled revenues	**96,486**	95,953
Under recovered regulatory clause revenues	**119,773**	16,697
Other accounts and notes receivable	**52,145**	53,547
Affiliated companies	**61,149**	48,876
Accumulated provision for uncollectible accounts	**(5,404)**	(4,756)
Fossil fuel stock, at average cost	**57,787**	86,993
Vacation pay	**36,494**	35,530
Materials and supplies, at average cost	**237,919**	211,690
Prepaid expenses	**61,896**	78,409
Other	**11,269**	19,454
Total current assets	**1,049,196**	909,010
Property, Plant, and Equipment:		
In service	**14,636,168**	14,224,117
Less accumulated provision for depreciation	**5,097,930**	4,907,549
	9,538,238	9,316,568
Nuclear fuel, at amortized cost	**93,388**	93,611
Construction work in progress	**470,844**	321,316
Total property, plant, and equipment	**10,102,470**	9,731,495
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**45,455**	47,811
Nuclear decommissioning trusts, at fair value	**445,634**	384,574
Other	**44,322**	23,708
Total other property and investments	**535,411**	456,093
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**316,528**	321,077
Prepaid pension costs	**489,193**	446,256
Unamortized debt issuance expense	**28,392**	23,457
Unamortized loss on reacquired debt	**109,403**	110,946
Other regulatory assets	**46,603**	13,092
Other	**106,263**	91,370
Total deferred charges and other assets	**1,096,382**	1,006,198
Total Assets	**$12,783,459**	$12,102,796

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Alabama Power Company 2004 Annual Report

Liabilities and Stockholder's Equity	**2004**	2003
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 225,005**	$ 526,019
Accounts payable --		
Affiliated	**141,096**	141,940
Other	**198,834**	162,314
Customer deposits	**49,598**	47,507
Accrued taxes --		
Income taxes	**28,498**	3,679
Other	**29,688**	22,274
Accrued interest	**40,029**	46,489
Accrued vacation pay	**36,494**	35,530
Accrued compensation	**76,858**	75,726
Other	**26,365**	34,407
Total current liabilities	**852,465**	1,095,885
Long-term Debt (See accompanying statements)	**3,855,257**	3,377,148
Long-term Debt Payable to Affiliated Trusts (See accompanying statements)	**309,279**	-
Mandatorily Redeemable Preferred Securities (See accompanying statements)	**-**	300,000
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**1,885,120**	1,684,741
Deferred credits related to income taxes	**148,395**	162,168
Accumulated deferred investment tax credits	**205,353**	216,309
Employee benefit obligations	**194,837**	174,036
Deferred capacity revenues	**25,056**	36,567
Asset retirement obligations	**383,621**	358,759
Asset retirement obligation regulatory liability	**159,230**	127,346
Other cost of removal obligations	**597,147**	572,816
Miscellaneous regulatory liabilities	**55,459**	86,323
Other	**36,989**	37,526
Total deferred credits and other liabilities	**3,691,207**	3,456,591
Total Liabilities	**8,708,208**	8,229,624
Cumulative Preferred Stock (See accompanying statements)	**465,047**	372,512
Common Stockholder's Equity (See accompanying statements)	**3,610,204**	3,500,660
Total Liabilities and Stockholder's Equity	**$12,783,459**	$12,102,796
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION

At December 31, 2004 and 2003

Alabama Power Company 2004 Annual Report

	2004	2003	2004	2003
	(in thousands)		(percent of total)	
Long-Term Debt:				
Long-term notes payable --				
4.875% to 7.125% due 2004	$ -	$ 525,000		
5.49% due November 1, 2005	225,000	225,000		
2.65% to 2.80% due 2006	520,000	520,000		
Floating rate (2.09% at 1/1/05) due 2006	195,000	195,000		
3.50% to 7.125% due 2007	500,000	200,000		
3.125% to 5.375% due 2008	410,000	410,000		
Floating rate (2.57% at 1/1/05) due 2009	250,000	-		
4.70% to 6.75% due 2010-2039	1,425,000	1,275,000		
Total long-term notes payable	3,525,000	3,350,000		
Other long-term debt --				
Pollution control revenue bonds --				
Collateralized:				
5.50% due 2024	24,400	24,400		
Variable rates (2.01% to 2.16% at 1/1/05) due 2015-2017	89,800	89,800		
Non-collateralized:				
Variable rates (2.01% to 2.16% at 1/1/05) due 2021-2031	445,940	445,940		
Total other long-term debt	560,140	560,140		
Capitalized lease obligations	52	1,497		
Unamortized debt premium (discount), net	(4,930)	(8,470)		
Total long-term debt (annual interest requirement -- $169.0 million)	4,080,262	3,903,167		
Less amount due within one year	225,005	526,019		
Long-term debt excluding amount due within one year	$3,855,257	$3,377,148	46.8%	44.7%

STATEMENTS OF CAPITALIZATION (continued)

At December 31, 2004 and 2003

Alabama Power Company 2004 Annual Report

	2004	2003	2004	2003
		(in thousands)		*(percent of total)*
Long-term Debt Payable to Affiliated Trusts:				
4.75% through 2007 due 2042*	**103,093**			
5.5% through 2009 due 2042*	**206,186**			
Total long-term debt payable to affiliated trusts (annual interest requirement -- $16.2 million)	**309,279**	-	**3.8**	0.0
Mandatorily Redeemable Preferred Securities:				
$1,000 liquidation value due 2042 --				
4.75% through 2007*	-	100,000		
5.50% through 2009*	-	200,000		
Total mandatorily redeemable preferred securities	-	300,000	**0.0**	4.0
Cumulative Preferred Stock:				
$100 par or stated value -- 4.20% to 4.92%	**47,611**	47,512		
$25 par or stated value -- 5.20% to 5.83%	**294,105**	200,000		
$100,000 stated value -- 4.95%	**123,331**	125,000		
Total cumulative preferred stock (annual dividend requirement -- $24.3 million)	**465,047**	372,512	**5.6**	4.9
Common Stockholder's Equity:				
Common stock, par value $40 per share --	**330,000**	290,000		
Authorized - 15,000,000 shares				
Outstanding - 8,250,000 shares in 2004 and 7,250,000 shares in 2003				
Paid-in capital	**1,955,183**	1,927,069		
Retained earnings	**1,341,049**	1,291,558		
Accumulated other comprehensive income (loss)	**(16,028)**	(7,967)		
Total common stockholder's equity	**3,610,204**	3,500,660	**43.8**	46.4
Total Capitalization	**$8,239,787**	$7,550,320	**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, 2004, 2003, and 2002

Alabama Power Company 2004 Annual Report

	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Income (loss)	Total
			(in thousands)		
Balance at December 31, 2001	$240,000	$1,850,775	$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	1,900,563	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**	**1,927,069**	**1,291,558**	**(7,967)**	**3,500,660**
Net income after dividends on preferred stock	**-**	**-**	**481,171**	**-**	**481,171**
Issuance of common stock	**40,000**	**-**	**-**	**-**	**40,000**
Capital contributions from parent company	**-**	**28,213**	**-**	**-**	**28,213**
Other comprehensive income (loss)	**-**	**-**	**-**	**(8,061)**	**(8,061)**
Cash dividends on common stock	**-**	**-**	**(437,300)**	**-**	**(437,300)**
Other	**-**	**(99)**	**5,620**	**-**	**5,521**
Balance at December 31, 2004	**$330,000**	**$1,955,183**	**$1,341,049**	**$(16,028)**	**$3,610,204**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Alabama Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Net income after dividends on preferred stock	**$481,171**	$472,810	$461,355
Other comprehensive income (loss):			
Change in additional minimum pension liability, net of tax of $(2,482), $(2,301) and $(2,536), respectively	**(4,083)**	(3,785)	(4,172)
Change in fair value of marketable securities, net of tax of $252	**414**		
Changes in fair value of qualifying hedges, net of tax of $(4,807), $1,330 and $(6,430), respectively	**(7,906)**	2,188	(10,576)
Less: Reclassification adjustment for amounts included in net income, net of tax of $2,136, $4,285 and $810, respectively	**3,514**	7,047	1,331
Total other comprehensive income (loss)	**(8,061)**	5,450	(13,417)
Comprehensive Income	**$473,110**	$478,260	$447,938

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 (SouthernLINC Wireless), 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. SouthernLINC Wireless 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 various other energy-related businesses. Southern Nuclear operates and provides services to Southern Company's nuclear power plants, including the Company's Plant Farley.

The equity method is used for subsidiaries in which the Company has significant influence but does not control and for variable interest entities where the Company is not the primary beneficiary. Certain prior years' data presented in the financial statements have been reclassified to conform with current year presentation.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935, as amended (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. In addition, the Company is 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.

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 $224 million, $217 million, and $218 million during 2004, 2003, and 2002, 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 under which Southern Nuclear operates the Company's Plant Farley and provides 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 $169 million, $153 million, and $154 million during 2004, 2003, and 2002, respectively.

The Company jointly owns Plant Greene County with Mississippi Power. The Company has an agreement with Mississippi Power under which the Company operates Plant Greene County, and Mississippi Power reimburses the Company for its proportionate share of expenses which were $7.2 million in 2004, $6.6 million in 2003, and $6.4 million in 2002. 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 $28.7 million, $27.5 million, and $34.5 million in 2004, 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 2004, 2003, and 2002 totaled $236.9 million, $209.2 million, and $211.0 million, respectively.

In June 2003, the Company entered into an agreement with Southern Power under which the Company operates and maintains Plant Harris at cost. In 2004 and 2003, the Company billed Southern Power $1.8 million and $0.8 million, respectively, for operation and maintenance. Under a power purchase agreement (PPA) with Southern Power, the Company's purchased power costs from Plant Harris in 2004 and 2003 totaled $59.0 million and $41.7 million, respectively. The Company also provides the fuel, at cost, associated with the PPA and the fuel cost recognized by the Company in 2004 was $65.7 million and $33.9 million in 2003. 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, 2004 and 2003. See Note 3 under "Retail Rate Adjustment Procedures" and Note 7 under "Purchased Power Commitments" for additional information.

The Company has an agreement with SouthernLINC Wireless to provide digital wireless communications services to the Company. Costs for these services amounted to $5.3 million, $4.9 million, and $4.4 million during 2004, 2003, and 2002, respectively.

Also, see Note 4 for information regarding the Company's ownership in and PPA with Southern Electric Generating Company (SEGCO) and Note 5 for information on certain deferred tax liabilities due to affiliates.

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.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense includes the cost of purchased emission allowances as they are used. Fuel expense also 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 $61 million in 2004, $64 million in 2003, and $63 million in 2002. 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 nuclear fuel in 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. Construction of an on-site dry spent fuel storage facility at Plant Farley is in progress and scheduled for operation in 2005. The onsite storage facility is expected to provide adequate spent fuel storage through 2015 for both units and can be expanded to provide storage through 2025. See Note 7 under "Construction Program" for additional information.

Also, the Energy Policy Act of 1992 established 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 at December 31, 2004 under this law to be approximately $9 million.

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:

	2004	2003	Note
	(in millions)		
Deferred income tax charges	**$ 317**	$ 321	(a)
Loss on reacquired debt	**109**	111	(b)
DOE assessments	**9**	13	(c)
Vacation pay	**36**	36	(d)
Rate CNP under recovery	**18**	17	(e)
Natural disaster reserve	**38**	(13)	(e)
Fuel-hedging assets	**6**	-	(f)
Other assets	**14**	(1)	(e)
Asset retirement obligations	**(159)**	(127)	(a)
Other cost of removal obligations	**(597)**	(573)	(a)
Deferred income tax credits	**(148)**	(162)	(a)
Deferred purchased power	**(19)**	(15)	(e)
Other liabilities	**(2)**	(5)	(e)
Mine reclamation & remediation	**(25)**	(33)	(e)
Fuel-hedging liabilities	**(10)**	(6)	(f)
Total	**$(413)**	$(437)	

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) 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.

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 currently reflected in rates.

Revenues

Energy and other revenues are recognized as services are provided. Capacity revenues are generally recognized on a levelized basis over the appropriate contract periods. Unbilled revenues are accrued at the end of each fiscal period. 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 the actual recoverable costs and amounts billed 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. Investment tax credits utilized are deferred and amortized to income over the average life of the related property.

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 3.0 percent in 2004, 3.1 percent in 2003, and 3.2 percent in 2002. 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

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 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. Although 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 received accounting guidance from the Alabama PSC allowing such treatment. Accordingly, the accumulated removal costs for other obligations previously accrued will continue to be reflected on the balance sheets 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, 2004 was $446 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, 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 statements of income 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. See "Nuclear Decommissioning" herein for further information on amounts included in rates.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2004	2003
	(in millions)	
Balance beginning of year	**$359**	$ -
Liabilities incurred	**-**	301
Liabilities settled	**-**	-
Accretion	**25**	23
Cash flow revisions	**-**	35
Balance end of year	**$384**	$359

Nuclear Decommissioning

The Nuclear Regulatory Commission (NRC) requires licensees of commercial nuclear power reactors to establish a plan for providing reasonable assurance of funds for future 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 only 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, 2004, for Plant Farley were as follows:

Decommissioning periods:	
Beginning year	2017
Completion year	2046
	(in millions)
Site study costs:	
Radiated structures	$892
Non-radiated structures	63
Total	$955

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 Alabama PSC. The amount expensed in 2004 and fund balances were as follows:

	(in millions)
Amount expensed in 2004	**$ 18**
Accumulated provisions:	
External trust funds, at fair value	$446
Internal reserves	29
Total	$475

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 paid into the reserve and deposited into external trusts. Significant assumptions used to determine these costs for ratemaking were an inflation rate of 4.5 percent and a trust earnings rate of 7.0 percent.

The Company filed an application with the NRC in September 2003 to extend the operating license for Plant Farley for an additional 20 years. The NRC is expected to rule on the application by July 2005. If the NRC approves the extension, the annual provision for nuclear decommissioning could decrease, subject to Alabama PSC approval.

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 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. All current construction costs are included in retail rates. The composite rate used to determine the amount of AFUDC was 8.6 percent in 2004, 9.0 percent in 2003, and 8.2 percent in 2002. AFUDC, net of income tax, as a percent of net income after dividends on preferred stock was 4.2 percent in 2004, 3.5 percent in 2003, and 3.3 percent in 2002.

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 2004, the Company accrued $22.6 million to the nuclear refueling outage reserve and at December 31, 2004 the reserve balance was a regulatory asset of $0.6 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 by either 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 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.

Natural Disaster Reserve

In accordance with an Alabama PSC order, the Company has established a natural disaster reserve to cover the cost of uninsured damages from major storms to transmission and distribution lines and to generation facilities and other property. 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 2004, the Company accrued $9.9 million, including an additional amount of $6.9 million, to the reserve and at December 31, 2004, the reserve balance was a regulatory asset of $37.7 million. See Note 3 under "Natural Disaster Cost Recovery" for further information.

Environmental Cost Recovery

The Company must comply with environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company may also incur substantial costs to clean up properties. The Company has received authority from the Alabama PSC to recover approved environmental compliance costs through specific retail rate clauses. Within limits approved by the Alabama PSC, these rates are adjusted annually. See Note 3 under "Retail Regulatory Matters" for additional information.

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 of Southern Company's common stock 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.

The pro forma impact of fair-value accounting for options granted on earnings is as follows:

Net Income	As Reported	Pro Forma
	(in thousands)	
2004	**$481,171**	**$478,317**
2003	472,810	469,599
2002	461,355	457,928

The estimated fair values of stock options granted in 2004, 2003, and 2002 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:

	2004	2003	2002
Interest rate	**3.1%**	2.7%	2.8%
Average expected life of stock options (in years)	**5.0**	4.3	4.3
Expected volatility of common stock	**19.6%**	23.6%	26.3%
Expected annual dividends on common stock	**$1.40**	$1.37	$1.34
Weighted average fair value of stock options granted	**$3.29**	$3.59	$3.37

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, 2004	**$4,389**	**$4,454**
At December 31, 2003	3,903	3,958
Preferred Securities:		
At December 31, 2004	**-**	**-**
At December 31, 2003	300	305

The fair values were based on either closing market price or closing price of comparable instruments. See "Variable Interest Entities" herein and Note 6 under "Mandatorily Redeemable Preferred Securities/Long-Term Debt Payable to Affiliate Trusts" for further information regarding the accounting treatment of the preferred securities, which underlie the Company's long-term debt payable to affiliated trusts.

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 value of qualifying cash flow hedges and marketable securities, and changes in additional minimum pension liability, less income taxes and reclassifications for amounts included in net income.

Variable Interest Entities

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of Interpretation No. 46R had no impact on the net income of the Company. However, as a result of the adoption, the Company deconsolidated certain wholly-owned trusts established to issue preferred securities since the Company is not the primary beneficiary of the trusts. Therefore, the investments in these trusts are reflected as Other Investments, and the related loans from the trusts are reflected as Long-term Debt Payable to Affiliated Trusts on the balance sheets. This treatment resulted in a $9 million increase in both total assets and total liabilities as of March 31, 2004.

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 of 1974, as amended (ERISA), requirements. No contributions to the plan are expected for the year ending December 31, 2005. 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, 2005, postretirement trust contributions are expected to total approximately $25.3 million.

The measurement date for plan assets and obligations is September 30 for each year.

Pension Plans

The accumulated benefit obligation for the pension plans was $1.21 billion in 2004 and $1.10 billion in 2003. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

	Projected Benefit Obligations	
	2004	2003
	(in millions)	
Balance at beginning of year	**$1,200**	$1,088
Service cost	**30**	27
Interest cost	**71**	68
Benefits paid	**(64)**	(61)
Plan amendments	**1**	3
Actuarial (gain) loss	**87**	75
Balance at end of year	**$1,325**	$1,200

	Plan Assets	
	2004	2003
	(in millions)	
Balance at beginning of year	**$1,583**	$1,419
Actual return on plan assets	**157**	226
Benefits paid	**(64)**	(62)
Balance at end of year	**$1,676**	$1,583

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal Revenue Code). Southern 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. Southern Company primarily minimizes the risk of large losses through diversification but also monitors and manages other aspects of risk.

	Plan Assets		
	Target	**2004**	2003
Domestic equity	37%	**36%**	37%
International equity	20	**20**	20
Fixed income	26	**26**	24
Real estate	10	**10**	11
Private equity	7	**8**	8
Total	100%	**100%**	100%

The reconciliations of the funded status with the accrued pension costs recognized in the balance sheets were as follows:

	2004	2003
	(in millions)	
Funded status	**$351**	$383
Unrecognized transition amount	**-**	(5)
Unrecognized prior service cost	**80**	87
Unrecognized net (gain) loss	**27**	(37)
Prepaid pension asset, net	**$458**	$428

The prepaid pension asset, net is reflected in the balance sheets in the following line items:

	2004	2003
	(in millions)	
Prepaid pension asset	**$489**	$446
Employee benefit obligations	**(60)**	(39)
Intangible asset	**10**	8
Accumulated other comprehensive income	**19**	13
Prepaid pension asset, net	**$458**	$428

Components of the pension plans' net periodic cost were as follows:

	2004	2003	2002
		(in millions)	
Service cost	**$ 30**	$ 27	$ 26
Interest cost	**71**	68	74
Expected return on plan assets	**(138)**	(138)	(138)
Recognized net gain	**(3)**	(12)	(20)
Net amortization	**4**	3	2
Net pension cost (income)	**$ (36)**	$ (52)	$ (56)

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligations for the pension plans. At December 31, 2004, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2005	$ 63.9
2006	64.3
2007	65.3
2008	66.9
2009	69.4
2010 to 2014	$412.6

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	
	2004	2003
	(in millions)	
Balance at beginning of year	**$441**	$405
Service cost	**7**	6
Interest cost	**24**	26
Benefits paid	**(18)**	(20)
Actuarial (gain) loss	**11**	24
Balance at end of year	**$465**	$441

	Plan Assets	
	2004	2003
	(in millions)	
Balance at beginning of year	**$186**	$158
Actual return on plan assets	**24**	25
Employer contributions	**20**	23
Benefits paid	**(18)**	(20)
Balance at end of year	**$212**	$186

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal 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	**2004**	2003
Domestic equity	46%	**46%**	50%
International equity	13	**13**	14
Fixed income	34	**33**	28
Real estate	4	**5**	5
Private equity	3	**3**	3
Total	100%	**100%**	100%

The accrued postretirement costs recognized in the balance sheets were as follows:

	2004	2003
	(in millions)	
Funded status	**$(253)**	$(255)
Unrecognized transition obligation	**33**	37
Unrecognized prior service cost	**68**	73
Unrecognized net loss (gain)	**87**	82
Fourth quarter contributions	**9**	6
Accrued liability recognized in the balance sheets	**$ (56)**	$ (57)

Components of the postretirement plans' net periodic cost were as follows:

	2004	2003	2002
	(in millions)		
Service cost	**$ 7**	$ 6	$ 5
Interest cost	**24**	25	25
Expected return on plan assets	**(18)**	(17)	(16)
Net amortization	**9**	9	9
Net postretirement cost	**$ 22**	$ 23	$ 23

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $3.2 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $59.8 million. However, the ultimate impact on future periods is subject to federal regulations governing the subsidy created in the Medicare Act which are being finalized.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the accumulated benefit obligation for the postretirement plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	Benefit Payments	Subsidy Receipts	Total
		(in millions)	
2005	$ 20.7	$ -	$ 20.7
2006	22.0	(2.9)	19.1
2007	23.3	(3.1)	20.2
2008	25.2	(3.4)	21.8
2009	27.8	(3.8)	24.0
2010 to 2014	$173.2	$(24.3)	$148.9

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:

	2004	2003	2002
Discount	**5.75%**	6.00%	6.50%
Annual salary increase	**3.50**	3.75	4.00
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 obligations was a weighted average medical care cost trend rate of 11 percent for 2004, decreasing gradually to 5 percent through the year 2012, 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, 2004 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	**$41**	**$32**
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 for 2004, 2003, and 2002 were $13 million, $12 million, and $12 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 Matters

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 related state laws with respect to coal-fired generating facilities at the Company's Plants Miller, Barry, and Gorgas. 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.

The U.S. District Court in Georgia subsequently granted the Company's motion to dismiss for lack of jurisdiction in Georgia. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant. 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 the Company in the U.S. District Court for the Northern District of Alabama. These civil complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA has not refiled against Gulf Power or Mississippi Power.

The actions against the Company, Georgia Power, and Savannah Electric were effectively stayed in the spring of 2001 during the appeal of a similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the cases pending against the Company, Georgia Power, and Savannah Electric. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the case. In June 2004, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the Court's active docket. At this time, no party to the case against Georgia Power and Savannah Electric has sought to reopen that case, which remains administratively closed in the District Court for the Northern District of Georgia.

Since the inception of the NSR proceedings against the Company, Georgia 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. District courts addressing these cases have, to date, issued opinions that reached conflicting conclusions.

The Company believes that it complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. 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, related legal challenges, and potential state rulemakings cannot be determined at this time.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to two previously executed interconnection agreements with the Company, have filed complaints at the FERC requesting that the FERC modify the agreements and that the Company refund a total of $11 million previously paid for interconnection facilities, with interest. The Company has also received similar requests from other entities totaling $2.5 million. The Company has opposed such relief, and the proceedings are still pending. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to nonaffiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found them and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, Southern Company submitted additional information on February 15, 2005 related to generation dominance in its retail service territory. Any new market based rate transactions in Southern Company's retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in Southern Company's retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Natural Disaster Cost Recovery

In September 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama and continued north through the Company's service territory causing substantial damage. The related costs charged to the Company's natural disaster reserve were $57.8 million. During 2004, the Company accrued $9.9 million to the reserve and at December 31, 2004, the reserve balance was a regulatory asset of $37.7 million.

In February 2005, the Company requested and received Alabama PSC approval of an accounting order that allows the Company to immediately return certain regulatory liabilities to the retail customers. The order also allows the Company to simultaneously recover from customers an accrual of approximately $45 million to offset the costs of Hurricane Ivan and restore the natural disaster reserve. The combined effects of this order will have no impact on the Company's net income in 2005.

Retail Regulatory Matters

The Alabama PSC has adopted a Rate Stabilization and Equalization plan (Rate RSE) that provides for periodic annual adjustments based upon the Company's earned return on end-of-period retail common equity. Such annual adjustments are limited to 3 percent. Rates remain unchanged when the return on common equity ranges between 13.0 percent and 14.5 percent. The Alabama PSC has also approved a rate mechanism that provides 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 (Rate CNP). Both increases and decreases have been placed into effect since the adoption of these rates.

In accordance with Rate RSE, a 2 percent increase in retail rates was effective in April 2002, amounting to an annual increase of $55 million. Also, to recover certificated purchased power costs under Rate CNP, an increase of 2.6 percent in retail rates, or $79 million annually, was effective July 2003. An additional increase of $25 million annually was effective July 2004 under Rate CNP for new certificated purchased power costs. In April 2005, an annual true-up adjustment to Rate CNP will decrease retail rates by approximately 0.5 percent, or $18.5 million annually.

In October 2004, the Alabama PSC approved a request by the Company to amend Rate CNP to also provide for the recovery of retail costs associated with environmental laws and regulations, effective in January 2005. In conjunction with the Alabama PSC's approval, the Company agreed to a moratorium until March 2007 on any retail rate increase under Rate RSE. Any increase in March 2007 would be based upon the earned return on retail common equity at December 31, 2006 and would become effective with the April 2007 billing.

The Company's fuel costs are recovered under Rate ECR (Energy Cost Recovery), which provides for the addition of a fuel and energy cost factor to base rates. In April 2005, this factor is scheduled to increase from its current level.

The ratemaking procedures will remain in effect until the Alabama PSC votes to modify or discontinue them.

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, as well as 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 $86 million in 2004, $87 million in 2003, and $84 million in 2002 and is included in "Purchased power from affiliates" in the statements of income. The Company accounts for SEGCO using the equity method on the balance sheets.

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. Also, the Company has guaranteed $50 million principal amount of unsecured senior notes issued by SEGCO for general corporate purposes. Georgia Power has agreed to reimburse the Company for the pro rata portion of such obligations 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, 2004, the capitalization of SEGCO consisted of $59 million of equity and $88 million of debt on which the annual interest requirement is $3.2 million. SEGCO paid dividends totaling $12.0 million in 2004, $2.3 million in 2003, and $5.8 million in 2002, 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, 2004 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	**$114**	**$ 56**
Plant Miller Units 1 and 2	**776**	**356**

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 operating expenses in the statements of income.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and a combined State of Georgia income tax return. Under a joint consolidated income tax allocation agreement, as required by the PUHCA, each subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more expense than would be paid if they filed a separate income tax return. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

In 2004, in order to avoid the loss of certain federal income tax credits related to the production of synthetic fuel, Southern Company chose to defer certain deductions otherwise available to the subsidiaries. The cash flow benefit associated with the utilization of the tax credits was allocated to the subsidiary that otherwise would have claimed the available deductions on a separate company basis without the deferral. This allocation concurrently reduced the tax benefit of the credits allocated to those subsidiaries that generated the credits. As the deferred expenses are deducted, the benefit of the tax credits will be repaid to the subsidiaries that generated the tax credits. The Company has recorded $21.4 million and $2.3 million payable to these subsidiaries in "Accumulated Deferred Income Taxes" and "Accrued Taxes – Income Tax", respectively, on the balance sheets.

At December 31, 2004, the Company's tax-related regulatory assets and liabilities were $317 million and $148 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:

	2004	2003	2002
		(in millions)	
Total provision for income taxes:			
Federal --			
Current	**$ 44**	$111	$209
Deferred	**219**	137	41
	263	248	250
State --			
Current	**16**	26	35
Deferred	**34**	16	7
	50	42	42
Total	**$313**	$290	$292

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:

	2004	2003
	(in millions)	
Deferred tax liabilities:		
Accelerated depreciation	**$1,524**	$1,319
Property basis differences	**461**	466
Premium on reacquired debt	**45**	46
Pensions	**136**	128
Fuel clause under recovered	**48**	-
Other	**36**	29
Total	**2,250**	1,988
Deferred tax assets:		
Federal effect of state deferred taxes	**112**	100
State effect of federal deferred taxes	**110**	98
Pole attachment rentals	**45**	27
Unbilled revenue	**22**	23
Pension and other benefits	**16**	15
Fuel clause over recovered	**-**	2
Other	**32**	72
Total	**337**	337
Total deferred tax liabilities, net	**1,913**	1,651
Portion included in current (liabilities) assets, net	**(28)**	34
Accumulated deferred income taxes in the balance sheets	**$1,885**	$1,685

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 2004, 2003, and 2002. At December 31, 2004, 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:

	2004	2003	2002
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**4.0**	3.5	3.5
Non-deductible book depreciation	**1.1**	1.2	1.3
Differences in prior years' deferred and current tax rates	**(0.8)**	(0.9)	(1.2)
Other	**(1.0)**	(1.6)	(0.5)
Effective income tax rate	**38.3%**	37.2%	38.1%

6. FINANCING

Mandatorily Redeemable Preferred Securities/ Long-Term Debt Payable to Affiliated Trusts

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 and are reflected on the balance sheets as Long-term Debt Payable to Affiliated 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, 2004, preferred securities of $300 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities.

First Mortgage Bonds

The Company has 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 through October 2006. 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, 2004, $18.7 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 and Preferred Stock

The Company issued a total of $900 million of unsecured senior notes and $100 million of preferred stock in 2004. The proceeds of these issues were used to redeem or repay at maturity long-term debt, to repay short-term indebtedness, and for other general corporate purposes.

At December 31, 2004 and 2003, the Company had $3.5 billion and $3.4 billion of senior notes outstanding, respectively. These senior notes are subordinate to all secured debt of the Company which amounted to approximately $286 million at December 31, 2004.

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:

	2004	2003
	(in millions)	
Capitalized leases	$ -	$ 1
Senior notes	225	525
Total	$225	$526

Debt serial maturities through 2009 applicable to total long-term debt are as follows: $225 million in 2005; $715 million in 2006; $500 million in 2007; $410 million in 2008; and $250 million in 2009.

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 $868 million (including $504 million of such lines which are dedicated to funding purchase obligations relating to variable rate pollution control bonds), of which $643 million will expire at various times during 2005. $225 million of the credit facilities expiring in 2005 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 banks.

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 arrangements. For purposes of calculating these covenants, long-term notes payable to affiliated trusts are excluded from debt but included in capitalization. Exceeding this debt level would result in a default under the credit arrangements. At December 31, 2004, 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, 2004 and 2003, the Company had no extendible commercial notes and no commercial paper outstanding. During 2004, the peak amount outstanding for commercial paper was $190 million and the average amount outstanding was $41.5 million. The average annual interest rate on commercial paper in 2004 was 1.51 percent. Commercial paper and extendible commercial notes are included in notes payable on the balance sheets.

At December 31, 2004, 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. There was no material ineffectiveness recorded in earnings in 2004 and 2003.

At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts (in thousands)
Regulatory liabilities, net	$3,978
Net income	39
Total fair value	$4.017

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 has energy-related hedges in place through 2007.

The Company also enters into derivatives to hedge exposure to changes in interest rates. Derivatives related to variable rate securities or forecasted transactions are accounted for as cash flow hedges. As the derivatives employed as hedging instruments are generally structured to match the critical terms of the hedged debt instruments, no material ineffectiveness has been recorded in earnings.

At December 31, 2004, the Company had $981 million notional amount of interest rate swaps outstanding with net fair value losses of $7.2 million as follows:

Cash Flow Hedges

Maturity	Weighted Average Fixed Rate Paid	Notional Amount (in millions)	Fair Value Gain/ (Loss) (in millions)
2006	1.89	$195	$3.2
2007	2.01*	536	5.6
2035	5.68	250	(16.0)

*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 2004 and 2003, the Company settled gains (losses) of $5.5 million and $(8) million, respectively, upon termination of certain interest derivatives at the same time it issued debt. These gains (losses) have been deferred in other comprehensive income and will be amortized to interest expense over the life of the original interest derivative, which approximates to the underlying related debt.

For the years 2004, 2003 and 2002, approximately $6.3 million, $11.3 million, and $2.1 million, respectively, of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2005, pre-tax gains of approximately $0.7 million are expected to be reclassified from other comprehensive income to interest expense. The Company has interest-related hedges in place through 2035.

7. COMMITMENTS

Construction Program

The Company is engaged in continuous construction programs, currently estimated to total $902 million in 2005, $921 million in 2006, and $1.0 billion in 2007. These amounts include $24 million, $12 million, and $11 million in 2005, 2006, and 2007, respectively, for construction expenditures related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services included 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, 2004, 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.

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 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, 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 for facilities owned are currently estimated at $253 million over the term of the agreements, which are approximately 12 to 14 years per unit. At December 31, 2004, the remaining balance was approximately $193 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 either prepayments or other deferred charges and assets 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, 2004 were as follows:

	Commitments		
Year	Affiliated	Non-Affiliated	Total
	(in millions)		
2005	$ 50	$ 37	$ 87
2006	50	37	87
2007	50	38	88
2008	50	39	89
2009	50	40	90
2010 and thereafter	13	25	38
Total commitments	$263	$216	$479

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. Coal commitments include forward contract purchases for sulfur dioxide emission allowances. 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 Exchange future prices at December 31, 2004. Total estimated minimum long-term commitments at December 31, 2004 were as follows:

Year	Natural Gas	Coal & Nuclear Fuel
	(in millions)	
2005	$249	$ 907
2006	195	804
2007	114	713
2008	26	225
2009	26	131
2010 and thereafter	108	97
Total commitments	$718	$2,877

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 $28.3

million in 2004, $29.5 million in 2003, and $29.6 million in 2002. Of these amounts, $16.3 million, $19.4 million, and $19.1 million for 2004, 2003, and 2002, respectively, relates to the rail car leases and are recoverable through the Company's Rate ECR clause. At December 31, 2004, estimated minimum rental commitments for noncancellable operating leases were as follows:

Year	Rail Cars	Vehicles & Other	Total
		(in millions)	
2005	$17.7	$11.4	$ 29.1
2006	14.1	8.6	22.7
2007	6.9	5.7	12.6
2008	6.6	4.0	10.6
2009	4.8	3.6	8.4
2010 and thereafter	27.4	7.2	34.6
Total minimum payments	$77.5	$40.5	$118.0

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 2006 and 2009, and the Company's maximum obligations are $66 million and $19.5 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, 2004, the Company had outstanding guarantees related to SEGCO's purchase of certain pollution control facilities and issuance of senior notes, as discussed in Note 4, and to certain residual values of leased assets. See "Operating Leases" above.

8. STOCK OPTION PLAN

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. As of December 31, 2004, 1,111 current and former employees of the Company participated in this stock option plan. The maximum number of shares of Southern Company common stock that may be issued under the 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 stock option plan. Activity from 2002 to 2004 for the options granted to the Company's employees under the stock option plan is summarized below:

	Shares Subject to Option	Average Option Price per Share
Balance at December 31, 2001	5,201,605	$17.56
Options granted	1,332,716	25.26
Options canceled	(12,515)	22.59
Options exercised	(827,883)	15.03
Balance at December 31, 2002	5,693,923	19.72
Options granted	1,201,677	27.98
Options canceled	(6,726)	23.11
Options exercised	(1,043,013)	16.16
Balance at December 31, 2003	5,845,861	22.05
Options granted	1,168,140	29.50
Options canceled	(3,379)	28.82
Options exercised	(1,252,277)	18.07
Balance at December 31, 2004	**5,758,345**	**24.42**

Options exercisable:		
At December 31, 2002	2,702,614	
At December 31, 2003	3,171,383	
At December 31, 2004	**3,404,264**	

The following table summarizes information about options outstanding at December 31, 2004:

	Dollar Price Range of Options		
	13-20	20-26	26-32
Outstanding:			
Shares (in thousands)	1,386	2,032	2,340
Average remaining life (in years)	5.7	6.8	8.6
Average exercise price	$17.56	$24.12	$28.74
Exercisable:			
Shares (in thousands)	1,386	1,609	409
Average exercise price	$17.56	$23.83	$28.00

9. 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 $10.76 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 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 $39 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. 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. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2004 and 2003 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
		(in millions)	
March 2004	**$ 960**	**$202**	**$ 91**
June 2004	**1,059**	**239**	**104**
September 2004	**1,246**	**415**	**220**
December 2004	**971**	**164**	**66**
March 2003	$ 890	$211	$ 92
June 2003	950	227	107
September 2003	1,216	414	217
December 2003	904	163	57

The Company's business is influenced by seasonal weather conditions.

SELECTED FINANCIAL AND OPERATING DATA 2000-2004

Alabama Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands)	**$4,235,991**	$3,960,161	$3,710,533	$3,586,390	$3,667,461
Net Income after Dividends on Preferred Stock (in thousands)	**$481,171**	$472,810	$461,355	$386,729	$419,916
Cash Dividends on Common Stock (in thousands)	**$437,300**	$430,200	$431,000	$393,900	$417,100
Return on Average Common Equity (percent)	**13.53**	13.75	13.80	11.89	13.58
Total Assets (in thousands)	**$12,783,459**	$12,102,796	$11,591,666	$11,303,605	$11,228,118
Gross Property Additions (in thousands)	**$797,014**	$661,154	$645,262	$635,540	$870,581
Capitalization (in thousands):					
Common stock equity	**$3,610,204**	$3,500,660	$3,377,740	$3,310,877	$3,195,772
Preferred stock	**465,047**	372,512	247,512	317,512	317,512
Mandatorily redeemable preferred securities	**-**	300,000	300,000	347,000	347,000
Long-term debt payable to affiliated trusts	**309,279**	-	-	-	-
Long-term debt	**3,855,257**	3,377,148	2,872,609	3,742,346	3,425,527
Total (excluding amounts due within one year)	**$8,239,787**	$7,550,320	$6,797,861	$7,717,735	$7,285,811
Capitalization Ratios (percent):					
Common stock equity	**43.8**	46.4	49.7	42.9	43.9
Preferred stock	**5.6**	4.9	3.6	4.1	4.4
Mandatorily redeemable preferred securities	**-**	4.0	4.4	4.5	4.8
Long-term debt payable to affiliated trusts	**3.8**				
Long-term debt	**46.8**	44.7	42.3	48.5	46.9
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	**AA-**	A+	A+	A+	AA-
Preferred Stock -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	a2
Standard and Poor's	**BBB+**	BBB+	BBB+	BBB+	BBB+
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	**1,170,814**	1,160,129	1,148,645	1,139,542	1,132,410
Commercial	**208,547**	204,561	203,017	196,617	193,106
Industrial	**5,260**	5,032	4,874	4,728	4,819
Other	**753**	757	789	751	745
Total	**1,385,374**	1,370,479	1,357,325	1,341,638	1,331,080
Employees (year-end):	**6,745**	6,730	6,715	6,706	6,871

SELECTED FINANCIAL AND OPERATING DATA 2000-2004 (continued)
Alabama Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands):					
Residential	**$1,346,669**	$1,276,800	$1,264,431	$1,138,499	$1,222,509
Commercial	**980,771**	913,697	882,669	829,760	854,695
Industrial	**948,528**	844,538	788,037	763,934	859,668
Other	**16,860**	16,428	16,080	15,480	15,835
Total retail	**3,292,828**	3,051,463	2,951,217	2,747,673	2,952,707
Sales for resale - non-affiliates	**483,839**	487,456	474,291	485,974	461,730
Sales for resale - affiliates	**308,312**	277,287	188,163	245,189	166,219
Total revenues from sales of electricity	**4,084,979**	3,816,206	3,613,671	3,478,836	3,580,656
Other revenues	**151,012**	143,955	96,862	107,554	86,805
Total	**$4,235,991**	$3,960,161	$3,710,533	$3,586,390	$3,667,461
Kilowatt-Hour Sales (in thousands):					
Residential	**17,368,321**	16,959,566	17,402,645	15,880,971	16,771,821
Commercial	**13,822,926**	13,451,757	13,362,631	12,798,711	12,988,728
Industrial	**22,854,399**	21,593,519	21,102,568	20,460,022	22,101,407
Other	**198,253**	203,178	205,346	198,102	205,827
Total retail	**54,243,899**	52,208,020	52,073,190	49,337,806	52,067,783
Sales for resale - non-affiliates	**15,483,420**	17,085,376	15,553,545	15,277,839	14,847,533
Sales for resale - affiliates	**7,233,880**	9,422,301	8,844,050	8,843,094	5,369,474
Total	**76,961,199**	78,715,697	76,470,785	73,458,739	72,284,790
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**7.75**	7.53	7.27	7.17	7.29
Commercial	**7.10**	6.79	6.61	6.48	6.58
Industrial	**4.15**	3.91	3.73	3.73	3.89
Total retail	**6.07**	5.84	5.67	5.57	5.67
Sales for resale	**3.49**	2.88	2.72	3.03	3.11
Total sales	**5.31**	4.85	4.73	4.74	4.95
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,894**	14,688	15,198	13,981	14,875
Residential Average Annual Revenue Per Customer	**$1,155**	$1,106	$1,104	$1,002	$1,084
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**12,216**	12,174	12,153	12,153	12,122
Maximum Peak-Hour Demand (megawatts):					
Winter	**9,556**	10,409	9,423	9,300	9,478
Summer	**10,938**	10,462	10,910	10,241	11,019
Annual Load Factor (percent)	**63.2**	64.1	62.9	62.5	59.3
Plant Availability (percent):					
Fossil-steam	**87.8**	85.9	85.8	87.1	89.4
Nuclear	**88.7**	94.7	93.2	83.7	88.3
Source of Energy Supply (percent):					
Coal	**56.5**	56.5	55.5	56.8	63.0
Nuclear	**16.4**	17.0	17.1	15.8	16.9
Hydro	**5.6**	7.0	5.1	5.1	2.9
Gas	**8.9**	7.6	11.6	10.7	4.9
Purchased power -					
From non-affiliates	**5.4**	4.1	4.0	4.4	4.6
From affiliates	**7.2**	7.8	6.7	7.2	7.7
Total	**100.0**	100.0	100.0	100.0	100.0

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GEORGIA POWER COMPANY

FINANCIAL SECTION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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-143 to II-173) present fairly, in all material respects, the financial position of Georgia Power Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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
February 28, 2005

OVERVIEW

Business Activities

Georgia Power Company (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.

Many factors affect the opportunities, challenges and risks 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 stringent environmental standards. In 2004, the Company completed a major retail rate proceeding that should help provide future earnings stability. This regulatory action will also enable the recovery of substantial capital investments to facilitate the continued reliability of the transmission and distribution network and continue environmental improvements at the generating plants. Appropriately balancing environmental expenditures with customer prices will continue to challenge the Company for the foreseeable future.

Key Performance Indicators

The Company strives to maximize shareholder value while providing low-cost energy to more than 2 million customers by focusing on several key indicators. These include customer satisfaction, peak season equivalent forced outage rate (Peak Season EFOR), and return on equity (ROE). The Company's financial success is directly tied to the satisfaction of its customers. Key elements of ensuring that satisfaction include outstanding service, high reliability, and competitive prices. Management uses nationally recognized customer satisfaction surveys and reliability indicators to evaluate the Company's results. Peak Season EFOR is an indicator of plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. ROE is a performance standard used by the investment community and many regulatory agencies.

The Company's 2004 results compared to its targets for each of these indicators are reflected in the following chart.

Key Performance Indicator	2004 Target Performance	2004 Actual Performance
Customer Satisfaction	Top quartile performance on national surveys	**Top quartile**
Peak Season EFOR	2.90% or less	**0.81%**
ROE	13.70%	**13.95%**

The strong financial performance achieved in 2004 reflects the focus that management places on these indicators, as well as the commitment shown by employees in achieving or exceeding management's expectations.

Earnings

The Company's 2004 earnings totaled $658 million representing a $27 million (4.3 percent) increase over 2003. Operating income increased in 2004 due to higher base retail revenues attributable to more favorable weather and customer growth during the year, partially offset by higher non-fuel operating expenses. In addition, lower depreciation and amortization expense in the final year of a Georgia Public Service Commission (PSC) retail rate plan that was effective January 2002 (2001 Retail Rate Plan) significantly offset increased purchased power capacity expenses. The 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 resulting from lower financing costs and a lower effective tax rate due to the realization of certain state tax credits. 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 the 2001 Retail Rate Plan.

RESULTS OF OPERATIONS

A condensed income statement for the Company is as follows:

	Amount	Increase (Decrease) From Prior Year		
	2004	**2004**	2003	2002
		(in millions)		
Operating revenues	**$5,371**	**$457**	$ 92	$(144)
Fuel	**1,233**	**128**	101	64
Purchased power	**976**	**200**	92	(87)
Other operation and maintenance	**1,400**	**153**	(78)	85
Depreciation and amortization	**275**	**(74)**	(54)	(197)
Taxes other than income taxes	**228**	**15**	11	(1)
Total operating expenses	**4,112**	**422**	72	(136)
Operating income	**1,259**	**35**	20	(8)
Total other income and (expense)	**(221)**	**5**	2	9
Income taxes	**379**	**13**	9	(7)
Net income	**659**	**27**	13	8
Dividends on preferred stock	**1**	**-**	-	-
Net income after dividends on preferred stock	**$ 658**	**$ 27**	$ 13	$ 8

Revenues

Operating revenues in 2004, 2003, and 2002 and the percent of change from the prior year are as follows:

	Amount		
	2004	2003	2002
	(in millions)		
Retail – prior year	**$4,310**	$4,288	$4,349
Change in -			
Base rates	**-**	-	(118)
Sales growth and other	**151**	30	2
Weather	**32**	(66)	82
Fuel cost recovery and other	**284**	58	(27)
Retail – current year	**4,777**	4,310	4,288
Sales for resale -			
Non-affiliates	**247**	260	271
Affiliates	**166**	175	98
Total sales for resale	**413**	435	369
Other operating revenues	**181**	169	165
Total operating revenues	**$5,371**	$4,914	$4,822
Percent change	**9.3%**	1.9%	(2.9)%

Retail base revenues of $3.2 billion in 2004 increased by $183 million (6.0 percent) from 2003 primarily due to an improved economy, customer growth, generally higher prices to the Company's large business customers, and more favorable weather. Retail base revenues of $3 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. 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 2001 Retail Rate Plan and generally lower prices to large business customers.

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. In August 2003, the Georgia PSC issued an order allowing the Company to increase customer fuel rates to recover existing under recovered deferred fuel costs. In recent months, the Company has experienced higher than expected fuel costs for coal and gas. Those higher fuel costs have increased the under recovered fuel costs. On February 18, 2005, the Company filed a request with the Georgia PSC for a fuel cost recovery rate increase. In the ordinary course, these new rates will be effective June 1, 2005 following a hearing before and approval by the Georgia PSC. In its filing, the Company asked that the Georgia PSC accept the new rate, effective April 1, 2005, prior to a formal hearing on the Company's request. This action, if taken by the Georgia PSC, would serve to mitigate expected increases in the under recovered balance during April and May, but will not preclude the Georgia PSC from subsequently adjusting the rates. The requested increase, representing an annual increase in revenues of approximately 11.7 percent, will allow for the recovery of fuel costs based on an estimate of future fuel costs, as well as the collection of the existing under recovery of fuel costs. The Company's under recovered fuel costs as of January 31, 2005 totaled $390 million. The Georgia PSC will examine the Company's fuel expenditures and determine whether the proposed fuel cost recovery rate is just and reasonable before issuing its decision in May 2005. The final outcome of the filing cannot be determined at this time. See Note 3 to the financial statements under "Fuel Cost Recovery" for further information regarding this filing.

Wholesale revenues from sales to non-affiliated utilities were:

	2004	2003	2002
	(in millions)		
Unit power sales --			
Capacity	**$ 31**	$ 34	$ 34
Energy	**33**	31	34
Other power sales --			
Capacity	**75**	93	62
Energy	**108**	102	141
Total	**$247**	$260	$271

Revenues from unit power sales contracts remained relatively constant in 2004. Revenues from unit power contracts decreased slightly in 2003 due to decreased energy sales. Revenues from other non-affiliated sales decreased $12 million (6.2 percent), $8 million (3.9 percent), and $102 million (33.4 percent) in 2004, 2003, and 2002, respectively, 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. These affiliated sales and purchases are made in accordance with the affiliate company interchange agreement, as approved b the Federal Energy Regulatory Commission (FERC). Ir 2004, kilowatt-hour (KWH) energy sales to affiliates decreased 18.2 percent due to lower demand. However, the decline in associated revenues was only 4.9 percent due to higher fuel prices. In 2003, KWH energy sales tc 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 servicε territory. These transactions do not have a significant impact on earnings since this energy is generally sold at marginal cost.

Other operating revenues increased $11.7 million (6.9 percent) in 2004 primarily due to higher revenues from outdoor lighting of $4.2 million and pole attachment rentals of $4.9 million and higher gains on sales of emission allowances of $2 million. 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 revenues from the rental of electric property of $4 million. Other operating revenue in 2002 increased $14 million (9.5 percent) primarily due to the collection of new late payment fees approved under the 2001 Retail Rate Plan of $7 million and highei revenues from increased customer demand for outdoor lighting services of $5 million and the transmission of electricity of $3 million.

Energy Sales

KWH sales for 2004 and the percent change by year were as follows:

	KWH	Percent Change		
	2004	**2004**	2003	2002
	(in billions)			
Residential	**22.9**	**5.3%**	(1.7)%	10.1%
Commercial	**28.0**	**4.0**	(0.1)	1.7
Industrial	**26.4**	**2.5**	(0.1)	1.5
Other	**0.6**	**1.1**	0.4	1.7
Total retail	**77.9**	**3.8**	(0.5)	4.0
Sales for resale -				
Non-affiliates	**6.0**	**(32.5)**	9.5	(0.5)
Affiliates	**4.8**	**(18.2)**	47.5	26.5
Total sales for resale	**10.8**	**(26.8)**	22.0	7.0
Total sales	**88.7**	**(1.2)**	2.6	4.4

Residential KWH sales increased 5.3 percent in 2004 due to more favorable weather and a 1.9 percent increase in residential customers. Commercial KWH sales increased 4.0 percent in 2004 due to an improved economy and a 2.8 percent increase in commercial customers. Industrial sales increased 2.5 percent in 2004 due to the improved economy. Residential KWH sales decreased 1.7 percent in 2003 due to the effect of the milder summer weather, despite the 2.0 percent increase in residential customers. Commercial KWH sales in 2003 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 in 2002 increased 1.7 percent and 1.5 percent, respectively, due to corresponding increases of 2.6 percent and 2.4 percent, respectively, in customers. Retail sales growth assuming normal weather is expected to be 1.9 percent on average from 2005 to 2009.

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, the average cost of fuel per net KWH generated, and the average cost of purchased power per net KWH were as follows:

	2004	2003	2002
Total generation (billions of KWH)	**71.5**	73.1	70.4
Sources of generation (percent) --			
Coal	**75.4**	75.4	77.4
Nuclear	**22.5**	21.6	21.1
Hydro	**2.0**	2.7	1.2
Oil and gas	**0.1**	0.3	0.3
Average cost of fuel per net KWH generated (cents) --	**1.55**	1.46	1.42
Average cost of purchased power per net KWH (cents) --	**5.17**	4.03	3.29

Fuel expense increased 11.6 percent in 2004 primarily due to an increase in the average cost of fuel. 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.

Purchased power expense increased $200 million (25.9 percent) in 2004 primarily due to a 38.5 percent increase in the average cost of fuel per net KWH and $65 million of additional capacity expense associated with new purchased power agreements (PPAs) between the Company and Southern Power that went into effect in June 2004 and June 2003. Purchased power expense increased $92 million (13.3 percent) in 2003 primarily due to $75 million of additional capacity expense associated with new PPAs between the Company and Southern Power that went into effect in 2003 and 2002. Purchased power expense decreased $87 million (11.2 percent) in 2002 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 PPAs between the Company and Southern Power.

A significant upward trend in the cost of coal and natural gas has emerged since 2003, and volatility in these markets is expected to continue. Increased coal prices have been influenced by a worldwide increase in demand as a result of rapid economic growth in China as well as by increases in mining costs. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, result in an immediate market response; however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas. Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the Company's fuel cost recovery provisions.

In 2004, other operation and maintenance expenses increased $153 million (12.3 percent) due to the timing of generating plant maintenance of $39 million and transmission and distribution maintenance of $39 million. Increased employee benefit expense of $30 million related to pension and medical benefits and higher workers compensation expense of $8 million also contributed to the increase. 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.

Depreciation and amortization decreased $74 million and $54 million in 2004 and 2003, respectively, primarily as a result of the amortization of a regulatory liability related to the inclusion of new certified PPAs in retail rates on a levelized basis as ordered by the Georgia PSC. 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 as part of the 2001 Retail Rate Plan. See Note 3 to the financial statements under "Retail Rate Orders" for additional information.

Taxes other than income taxes increased $15 million (7.0 percent) in 2004 due to higher municipal gross receipts taxes associated with increased operating revenues. 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.

Allowance for equity funds used during construction increased $15.9 million in 2004 primarily due to the Company's acquisition of the Plant McIntosh combined cycle Units 10 and 11 construction project from Southern Power. See FUTURE EARNINGS POTENTIAL – "FERC and Georgia PSC Matters" and Note 3 to the financial statements under "Retail Rate Orders" and "Plant McIntosh Construction Project" for additional information.

Interest income decreased $9 million in 2004 and increased $12 million in 2003 when compared to the prior year primarily due to interest on a favorable income tax settlement of $14.5 million in 2003. Interest income remained relatively constant in 2002.

Interest expense remained relatively constant in 2004. Interest expense increased in 2003 primarily due to an increase in senior notes outstanding that was partially offset by a reduction in short-term debt outstanding. Interest expense decreased in 2002 primarily due to lower interest rates that offset new financing costs. The Company refinanced or retired $400 million, $665 million, and $929 million of securities in 2004, 2003, and 2002, respectively. Interest capitalized increased in 2004 due to the Plant McIntosh construction project referenced above and decreased in 2003 and 2002 due to the transfer of three generation projects to Southern Power in 2002 and 2001. See Note 3 to the financial statements under "Retail Rate Orders" and "Plant McIntosh Construction Project" for additional information regarding the Plant McIntosh construction project.

Other income and (expense), net decreased in 2004 primarily due to the $13 million disallowance of Plant McIntosh construction costs pursuant to a Georgia PSC order issued on December 21, 2004 (2004 Retail Rate Plan), partially offset by a $7.5 million decrease in donations and $3.4 million in increased income from a customer pricing program. See Note 3 to the financial statements under "Retail Rate Orders" and "Plant McIntosh Construction Project" for additional information on the disallowance.

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, preferred stock, 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 Company operates as a vertically integrated company providing electricity to retail customers within its traditional service territory located within the State of Georgia and to wholesale customers in the southeastern United States. Prices for electricity provided by the Company to retail customers are set by the Georgia PSC 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 FERC. Retail rates and revenues are reviewed and adjusted periodically within certain limitations based on earned ROE. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements under "Retail Rate Orders" and "Market-Based Rate Authority" for additional information about this and other regulatory matters.

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 that affect the opportunities, challenges, and risks of the Company's business of selling electricity. These factors include the ability to maintain a stable regulatory environment, to recover costs related to growing demand, to achieve energy sales growth while containing costs, and to meet increasingly stringent 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.

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, Inc. (SCS).

Environmental Matters

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, alleging that the Company had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws with respect to coal-fired generating facilities at plants Bowen and Scherer. 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 was effectively stayed in the spring of 2001 pending the appeal of a similar NSR action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the case pending against the Company. At this time, no party to the case against the Company has sought to reopen the case, which remains administratively closed in the U.S.

District Court for the Northern District of Georgia. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

The Company believes that it complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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 possibly financial condition if such costs are not recovered through regulated rates.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must also be adopted by the State of Georgia in order to apply to the Company's facilities. The effect of these final regulations, related legal challenges, and potential rulemakings by the State of Georgia cannot be determined at this time.

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 for the Northern District of 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. The liability phase of the case has concluded with the Court ruling in favor of the Company in part and the plaintiffs in part. The Company has filed a petition for review of the decision with the U.S. Court of Appeals for the Eleventh Circuit. The district court case has been administratively closed pending that appeal. If necessary, the district court will hold a separate remedy trial which will address civil penalties and possible injunctive relief requested by the plaintiffs. See Note 3 to the financial statements under "Plant Wansley Environmental Litigation" for additional information. The ultimate outcome of this matter cannot currently be determined; however, an adverse outcome could result in 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.

Carbon Dioxide Litigation

On July 21, 2004, attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel of New York filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining, global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. Plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. Southern Company and the other defendants have filed motions to dismiss both lawsuits. Southern Company intends to vigorously defend against these claims. While the outcome of these matters cannot be determined at this time, an adverse judgment could result in substantial capital expenditures.

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 involves 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 FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein. There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the 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 and resulted in total construction expenditures of approximately $206 million through 2000. Some of these previous 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 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 totaled $687.2 million through 2004, with an additional $6 million committed through 2007.

To help 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 could be applied in Georgia. In April 2004, the EPA published final regional nitrogen oxide reduction rules applicable to Georgia, specifying a May 1, 2007 compliance date. However, in October 2004, the EPA announced that it would stay implementation of the rule as it relates to Georgia, while it initiates rulemakings to address issues raised in a petition for reconsideration filed by a coalition of Georgia industries. The impact of the nitrogen oxide reduction rules will depend on the outcome of the petition for reconsideration and/or any subsequent development and approval of Georgia's state implementation plan and cannot be determined at this time.

In September 2003, the EPA reclassified the Atlanta area from a "serious" to a "severe" nonattainment area for the one-hour ozone standard effective January 1, 2004. However, based on the last three years of data, the State of Georgia believes that the Atlanta area has attained the one-hour standard and is in the process of applying for redesignation from the EPA.

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 and included development of an eight-hour ozone standard, as opposed to the previous one-hour ozone standard. 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. On April 30, 2004, the EPA published its eight-hour ozone nonattainment designations and a portion of the rules implementing the new eight-hour standard. Areas within the Company's service territory that have been designated as nonattainment under the eight-hour ozone standard include Macon, Georgia and a 20-county area within metropolitan Atlanta. Under the implementation provisions of the new rule, the EPA announced that the one-hour ozone standard will be revoked on June 15, 2005, and that areas classified as "severe" nonattainment areas under the one-hour standard, such as Atlanta, will not be required to impose emissions fees if those areas fail to come into attainment with the one-hour standard. With respect to the eight-hour nonattainment areas, state implementation plans, including new emission control regulations necessary to bring those areas into attainment, could be required as early as 2007. These state implementation plans could require reductions in nitrogen oxide emissions from power plants. The impact of the eight-hour designations and the new standard will depend on the development and implementation of applicable state implementation plans and therefore cannot be determined at this time.

On December 17, 2004, the EPA issued its final "nonattainment" designations for the fine particulate national ambient air quality standard. Several areas within the Company's service territory in Georgia were included in the EPA's final particulate matter designations. The EPA plans to propose a fine particulate matter implementation rule in 2005 and finalize the implementation rule in 2006. State implementation plans addressing the nonattainment designations may be required by 2008 and could require reductions in sulfur dioxide emissions and further reductions in nitrogen oxide emissions from power plants. The impact of the fine particulate designations will depend on the development and implementation of applicable state implementation plans and therefore cannot be determined at this time.

In January 2004, the EPA issued a proposed Clean Air Interstate Rule (CAIR) 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 in 2005. If finalized, the rule could modify or supplant other state requirements for attainment of the fine particulate matter standard, the eight-hour ozone standard, and other air quality regulations. 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.

The Company has developed and maintains an environmental compliance strategy for the installation of additional control technologies and the purchase of emission allowances to assure continued compliance with current sulfur dioxide and nitrogen oxide emission regulations. Additional expenses associated with these regulations are anticipated to be incurred each year to maintain current and future compliance. Because the Company's compliance strategy is impacted by factors such as changes to existing environmental laws and regulations, increases in the cost of emissions allowances, and any changes in the Company's fuel mix, future environmental compliance costs 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 and to implement emission reduction requirements that make progress toward remedying current visibility impairment in certain natural areas. 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 implementation plans in 2008 that contain emission reduction strategies for implementing BART and for achieving sufficient progress toward the Clean Air Act's visibility improvement goal. In response to litigation, the EPA proposed revised rules in May 2004, which it plans to finalize in April 2005. The impact of these regulations will depend on the promulgation of final rules and implementation of those rules by the states and, therefore, it is not possible to determine the effect of these rules on the Company at this time.

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 March 2005, and compliance could be required as early as 2008. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants, including the Bush Administration's Clear Skies Act, have been proposed in 2005. The Clear Skies Act is expected to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury and to supplement the proposed CAIR and mercury regulatory programs. Other proposals have also been introduced 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.

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. In July 2004, the EPA published final rules that 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 and the actual limits established by the regulatory agencies.

The Company is installing cooling towers at additional facilities under the Clean Water Act to cool water prior to discharge. Near Atlanta, a cooling tower for one plant was completed in 2004 with two others scheduled for completion in 2008. The total estimated cost of these projects is $248 million, with $170 million remaining to be spent. Also, the Company is conducting a study of the aquatic environment at another facility to determine if further thermal controls are necessary at that plant.

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 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.

Global Climate Issues

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 constraints on the emissions of greenhouse gases for a group of industrialized countries. The Bush Administration has not supported U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and, in 2002, announced a goal to reduce the greenhouse gas intensity of the U.S. – the ratio of greenhouse gas emissions to the value of U.S. economic output -- by 18 percent by 2012. A year later, the Department of Energy (DOE) announced the Climate VISION program to support this goal. Energy-intensive industries, including electricity generation, are the initial focus of this program. Southern Company is leading the development of a voluntary electric utility sector climate change initiative in partnership with the government. The utility sector has pledged to reduce its greenhouse gas emissions rate by 3 to 5 percent over the next decade and, on December 13, 2004, signed a memorandum of understanding with the DOE initiating this program under Climate VISION. Because efforts under this voluntary program are just beginning, the impact of this program on the Company cannot be determined at this time.

Environmental Remediation Reserves

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 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. See Note 3 to the financial statements under "Environmental Remediation" for additional information.

Under Georgia PSC ratemaking provisions, $22 million has been deferred in a regulatory liability account for use in meeting future environmental remediation costs of the Company. Under the 2004 Retail Rate Plan, this regulatory liability will be amortized as a credit to expense over a three-year period beginning January 1, 2005. However, the Georgia PSC also approved an annual environmental accrual of $5.4 million. Environmental remediation expenditures will be charged against the reserve as they are incurred. The annual accrual amount will be reviewed and adjusted in future regulatory proceedings.

FERC and Georgia PSC Matters

Transmission

In December 1999, the FERC issued its final rule on Regional Transmission Organizations (RTOs). Since that time, there have been a number of additional proceedings at the FERC designed to encourage further voluntary formation of RTOs or to mandate their formation. However, at the current time, there are no active proceedings that would require the Company to participate in an RTO. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection, as well as an inquiry into, among other things, market power by vertically integrated utilities. See "Generation Interconnection Agreements" and "Market-Based Rate Authority" herein for additional information. The final outcome of these proceedings cannot now be determined. However, the Company's financial condition, results of operations, and cash flows could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to previously executed interconnection agreements with the Company and another Southern Company subsidiary, have filed complaints at the FERC requesting that the FERC modify the agreements and that the Company refund a total of $7.9 million previously paid for interconnection facilities, with interest. The Company has opposed such relief and the proceedings are still pending. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to nonaffiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found Southern Company, and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC which included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in its retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Retail Rate Case

On December 21, 2004, the Georgia PSC approved the 2004 Retail Rate Plan for the three-year period ending December 31, 2007. Under the terms of the 2004 Retail Rate Plan, earnings will be evaluated annually against a retail ROE range of 10.25 percent to 12.25 percent. Two-thirds of any earnings above 12.25 percent will be applied to rate refunds, with the remaining one-third retained by the Company. Retail rates will be increased by approximately $194 million and customer fees will be increased by approximately $9 million effective January 1, 2005 to cover the higher costs of purchased power; operating and maintenance expenses; environmental compliance; and continued investment in new generation, transmission and distribution facilities to support growth and ensure reliability.

The Company will not file for a general base rate increase unless its projected retail ROE falls below 10.25 percent. The Company is required to file a general rate case by July 1, 2007, in response to which the Georgia PSC would be expected to determine whether the 2004 Retail Rate Plan should be continued, modified or discontinued. See Note 3 to the financial statements under "Retail Rate Orders" for additional information.

Plant McIntosh Construction Project

In December 2002 after a competitive bidding process, the Georgia PSC certified PPAs between Southern Power and the Company and Savannah Electric and Power Company (Savannah Electric) for capacity from Plant McIntosh Units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet the applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, in May 2004, the Company and Savannah Electric requested the Georgia PSC to direct them to acquire the McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined at this time.

As directed by the Georgia PSC order, in June 2004, the Company and Savannah Electric filed an application to amend the resource certificate granted by the Georgia PSC in 2002 to change the character of the resource from a PPA to a self-owned, rate based asset and to describe the approximate construction schedule and the proposed rate base treatment. In connection with the 2004 Retail Rate Plan, the Georgia PSC approved the transfer of the Plant McIntosh construction project at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance, of which $13 million is attributable to the Company, and reduced the Company's net income by approximately $8 million. The Georgia PSC also certified a total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. Under the 2004 Retail Rate Plan, the Plant McIntosh revenue requirements impact will be reflected in the Company's rates evenly over the three years ending 2007. See Note 3 to the financial statements under "Retail Rate Orders" and "Plant McIntosh Construction Project" for additional information.

Retail Fuel Cost Recovery

The Company has established fuel cost recovery rates approved by the Georgia PSC. In recent months, the Company has experienced higher than expected fuel costs for coal and gas. Those higher fuel costs have increased the under recovered fuel costs included in the balance sheets herein. On February 18, 2005, the Company filed a request with the Georgia PSC for a fuel cost recovery rate increase. In the ordinary course, these new rates will be effective June 1, 2005 following a hearing before and approval by the Georgia PSC. In its filing, the Company asked that the Georgia PSC accept the new rate, effective April 1, 2005, prior to a formal hearing on the Company's request. This action, if taken by the Georgia PSC, would serve to mitigate expected increases in the under recovered balance during April and May, but will not preclude the Georgia PSC from subsequently adjusting the rates. The requested increase, representing an annual increase in revenues of approximately 11.7 percent, will allow for the recovery of fuel costs based on an estimate of future fuel costs, as well as the collection of the existing under recovery of fuel costs. The Company's under recovered fuel costs as of January 31, 2005 totaled $390 million. The Georgia PSC will examine the Company's fuel expenditures and determine whether the proposed fuel cost recovery rate is just and reasonable before issuing its decision in May 2005. The final outcome of the filing cannot be determined at this time. See Note 3 to the financial statements under "Fuel Cost Recovery" for further information regarding this filing.

Storm Damage Cost Recovery

During the month of September 2004, the Company's service territory was impacted by Hurricanes Frances, Ivan and Jeanne. The Company maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property as mandated by the Georgia PSC. The total amount of damage related to these hurricanes was estimated to be approximately $15 million and was charged to the storm damage reserve in 2004. These costs are expected to be recovered through regular monthly accruals which total $6.3 million annually under the 2004 Retail Rate Plan. See Note 3 to the financial statements under "Retail Rate Orders" for additional information.

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 $35 million, $54 million, and $59 million in 2004, 2003, and 2002, respectively. Future pension income is dependent on several factors including trust earnings and changes to the pension 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 $44 million, $41 million and $43 million in 2004, 2003, and 2002, respectively, and are expected to trend upward. A portion of pension income and postretirement benefit costs is capitalized based on construction-related labor charges. For the Company, 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 October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. The Company is currently assessing the impact of the Jobs Act, including this deduction, as well as the related regulatory treatment, on its taxable income. However, the Company currently does not expect the Jobs Act to have a material impact on its financial statements.

The Company is involved in various other 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. Southern Company 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

The Company is subject to retail regulation by the Georgia 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, which requires the financial statements to reflect the effects of rate 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, 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 legislative, 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 herein 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.

Unbilled Revenues

Revenues related to the sale of electricity are recorded when electricity is delivered to customers. However, the determination of KWH sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, power delivery volume and other power delivery operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company's results of operations.

New Accounting Standards

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of FASB Interpretation No. 46R had no impact on the Company's net income. However, as a result of the adoption, the Company deconsolidated certain wholly-owned trusts established to issue preferred securities since the Company did not meet the definition of primary beneficiary established by FASB Interpretation No. 46R. See Note 1 to the financial statements under "Variable Interest Entities" for additional information.

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $5 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $72 million. However, the ultimate impact on future periods is subject to final interpretation of the federal regulations which were published on January 21, 2005. See Note 2 to the financial statements under "Postretirement Benefits" for additional information.

FASB Statement No. 123R, Share-Based Payments, was issued in December 2004. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. For the Company, this statement is effective beginning July 1, 2005. Although the compensation expense calculation required under the revised statement differs slightly, the impacts on the financial statements are expected to be similar to the pro forma disclosures included in Note 1 to the financial statements under "Stock Options."

See FUTURE EARNINGS POTENTIAL – "Other Matters" herein for information regarding the adoption of new tax legislation. In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004, which requires that the generation deduction be accounted for as a special tax deduction rather than as a tax rate reduction. The Company is currently assessing the Jobs Act and this pronouncement, as well as the related regulatory treatment, but currently does not expect a material impact on the Company's financial statements.

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 costs of capital, achieved through the refinancing and/or redemption of higher-cost securities. Cash flow from operations decreased $219 million resulting primarily from the increase in under recovered deferred fuel costs.

In 2004, gross utility plant additions were $1.1 billion. These additions were primarily related to the construction of Plant McIntosh Units 10 and 11, 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 and capital contributions from Southern Company. The statements of cash flows provide additional details.

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 47.7 percent in 2004 and 48.3 percent in 2003 and 2002. 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 capital contributions from

Southern Company and by the issuance of new debt securities, term loans, and short-term borrowings. 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 securities to meet its long-term external financing requirements.

The issuance of securities by the Company is subject to regulatory approval by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA), and by the Georgia PSC. Additionally, with respect to the public offering of securities, the Company must file registration statements with the SEC under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the appropriate regulatory authorities, as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

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 PUHCA, most loans between affiliated companies must be approved in advance by the 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 $773.1 million of unused credit arrangements with banks at the beginning of 2005. 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. As of December 31, 2004, the Company had outstanding $208 million of commercial paper and no extendible commercial notes.

At the beginning of 2005, the Company had not used any of its available credit arrangements. Bank credit arrangements are as follows:

		Expires		
Total	Unused	2005	2006	2007
(in millions)				
$773.1	$773.1	$423.1	-	$350

The credit arrangements that expire in 2005 allow for the execution of term loans for an additional two-year period.

Financing Activities

During 2004, the Company issued $806 million of long-term debt including long-term debt payable to affiliated trusts. The issuances were used to refund $400 million of long-term debt, as well as to finance the Company's purchase of the Plant McIntosh construction project from Southern Power. The remainder was used to reduce short-term debt and fund the Company's ongoing construction program.

Subsequent to December 31, 2004, the Company has issued $250 million of securities with the proceeds used to fund the February 2005 maturity of floating rate senior notes.

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- or Baa3 or below. Generally, collateral may be provided for by a Southern Company guaranty, letter of credit or cash. These contracts are primarily for physical electricity purchases and sales. At December 31, 2004, the maximum potential collateral requirements at a BBB- or Baa3 rating were approximately $8 million. The maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $247 million. The Company is also party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price and interest rate risk management activities. At December 31, 2004, the Company had no material exposure related to these 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 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 January 1, 2005 was 2.04 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 $8 million at January 1, 2005. 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.

The Company has implemented a fuel hedging program at the instruction of the Georgia PSC. Fair value of changes in energy-related derivative contracts and year-end valuations were as follows at December 31:

	Changes in Fair Value	
	2004	2003
	(in millions)	
Contracts beginning of year	**$3.2**	$ 0.1
Contracts realized or settled	**(12.2)**	(0.4)
New contracts at inception	-	-
Changes in valuation techniques	-	-
Current period changes (a)	**14.8**	3.5
Contracts end of year	**$5.8**	$ 3.2

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

	Source of 2004 Year-End Valuation Prices		
	Total	Maturity	
	Fair Value	Year 1	1-3 Years
	(in millions)		
Actively quoted	**$4.8**	$3.8	$1.0
External sources	**1.0**	1.0	
Models and other methods	**-**	-	
Contracts end of year	**$5.8**	$4.8	$1.0

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. See Note 3 to the financial statements for information regarding the retail fuel hedging program. Gains and losses on derivative contracts that are not designated as hedges are recognized in the statements of income as incurred. At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in millions)
Regulatory liabilities, net	$5.7
Other comprehensive income	-
Net income	0.1
Total fair value	$5.8

Unrealized gains (losses) recognized in income in 2004, 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 $911 million for 2005, $1.1 billion for 2006, and $1.2 billion for 2007. Environmental expenditures included in these amounts are $127 million, $284 million, and $506 million for 2005, 2006, and 2007, 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 currently has under construction Plant McIntosh Units 10 and 11 scheduled for completion in June 2005. In addition, 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 Nuclear Regulatory Commission, 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 "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 Georgia PSC and the FERC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt and preferred securities and the related interest, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

Contractual Obligations

	2005	2006-2007	2008-2009	After 2009	Total
			(in millions)		
Long-term debt [(a)] --					
Principal	$ 452	$ 456	$ 282	$ 3,942	$ 5,132
Interest	232	426	387	4,283	5,328
Preferred stock dividends[(b)]	1	1	1	-	3
Operating leases	32	52	42	63	189
Purchase commitments[(c)] --					
~~Capital [(d)]~~	~~911~~	~~2,277~~	~~2,571~~	~~-~~	~~5,759~~
Coal and nuclear fuel	1,731	2,722	771	96	5,320
Natural gas[(e)]	248	388	389	1,669	2,694
Purchased power	339	692	673	1,222	2,926
Long-term service agreements	6	19	22	150	197
Trusts[(f)] --					
Nuclear decommissioning	9	14	14	124	161
Postretirement benefits	8	24	-	-	32
DOE assessments	3	4	-	-	7
Total	$3,972	$7,075	$5,152	$11,549	$27,748

(a) All amounts are reflected based on final maturity dates. The Company plans to 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, 2005, 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 $1.4 billion, $1.2 billion, and $1.3 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, 2004, 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 Exchange future prices at December 31, 2004.

(f) Projections of nuclear decommissioning trust contributions are based on the 2004 Retail Rate Plan. 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, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from the Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Statements

The Company's 2004 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales growth, environmental regulations and expenditures, the Company's projections for postretirement benefit trust contributions, completion of construction projects, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, 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;
- variations in demand for electricity, including those relating to weather, the general economy and population, and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- 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 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 effect on the Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports filed by the Company (including the Form 10-K) from time to time with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Georgia Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Revenues:			
Retail sales	**$4,776,985**	$4,309,972	$4,288,097
Sales for resale --			
Non-affiliates	**246,545**	259,376	270,678
Affiliates	**166,245**	174,855	98,323
Other revenues	**181,033**	169,304	165,362
Total operating revenues	**5,370,808**	4,913,507	4,822,460
Operating Expenses:			
Fuel	**1,232,496**	1,103,963	1,002,703
Purchased power --			
Non-affiliates	**304,978**	258,621	264,814
Affiliates	**671,098**	516,944	419,839
Other operations	**902,167**	827,972	848,436
Maintenance	**498,114**	419,206	476,962
Depreciation and amortization	**275,488**	349,984	403,507
Taxes other than income taxes	**227,806**	212,827	201,857
Total operating expenses	**4,112,147**	3,689,517	3,618,118
Operating Income	**1,258,661**	1,223,990	1,204,342
Other Income and (Expense):			
Allowance for equity funds used during construction	**26,659**	10,752	7,622
Interest income	**6,657**	15,625	3,857
Interest expense, net of amounts capitalized	**(182,370)**	(182,583)	(168,391)
Interest expense to affiliate trusts	**(44,565)**	-	-
Distributions on mandatorily redeemable preferred securities	**(15,839)**	(59,675)	(62,553)
Other income (expense), net	**(11,362)**	(10,551)	(9,259)
Total other income and (expense)	**(220,820)**	(226,432)	(228,724)
Earnings Before Income Taxes	**1,037,841**	997,558	975,618
Income taxes	**379,170**	366,311	357,319
Net Income	**658,671**	631,247	618,299
Dividends on Preferred Stock	**670**	670	670
Net Income After Dividends on Preferred Stock	**$658,001**	$630,577	$617,629

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003, and 2002

Georgia Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Activities:			
Net income	**$ 658,671**	$ 631,247	$ 618,299
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization	**361,958**	424,321	459,563
Deferred income taxes and investment tax credits, net	**251,623**	199,265	65,550
Deferred expenses - affiliates	**(10,563)**	(7,399)	(11,575)
Allowance for equity funds used during construction	**(26,659)**	(10,752)	(7,622)
Pension, postretirement, and other employee benefits	**2,636**	(16,162)	(64,771)
Tax benefit of stock options	**9,701**	11,649	8,184
~~Hedge settlements~~	~~**(12,394)**~~	~~(11,250)~~	~~860~~
Other, net	**(27,624)**	16,591	(82,190)
Changes in certain current assets and liabilities --			
Receivables, net	**(225,454)**	(4,870)	68,527
Fossil fuel stock	**(46,730)**	(17,490)	82,711
Materials and supplies	**618**	(7,677)	15,874
Other current assets	**(9,314)**	(2,352)	(18,880)
Accounts payable	**132,001**	(62,553)	64,902
Accrued taxes	**(64,563)**	52,348	(6,540)
Accrued compensation	**(6,664)**	(3,111)	(29,749)
Other current liabilities	**5,836**	19,845	45,915
Net cash provided from operating activities	**993,079**	1,211,650	1,209,058
Investing Activities:			
Gross property additions	**(786,314)**	(742,808)	(883,968)
Purchase of property from affiliates	**(339,750)**	(2)	
Cost of removal net of salvage	**(21,756)**	(28,265)	(60,912)
Sale of property to affiliates	**-**	-	387,212
Change in construction payables, net of joint owner portion	**413**	(32,223)	(7,411)
Other	**31,503**	17,124	37,557
Net cash used for investing activities	**(1,115,904)**	(786,174)	(527,522)
Financing Activities:			
Increase (decrease) in notes payable, net	**70,956**	(220,400)	(389,860)
Proceeds --			
Senior notes	**600,000**	1,000,000	500,000
Mandatorily redeemable preferred securities	**200,000**	-	740,000
Capital contributions from parent company	**260,068**	40,809	165,299
Redemptions --			
First mortgage bonds	**-**	-	(1,860)
Pollution control bonds	**-**	-	(7,800)
Senior notes	**(200,000)**	(665,000)	(330,000)
Mandatorily redeemable preferred securities	**(200,000)**	-	(589,250)
Capital distributions to parent company	**-**	-	(200,000)
Payment of preferred stock dividends	**(654)**	(696)	(721)
Payment of common stock dividends	**(565,500)**	(565,800)	(542,900)
Other	**(17,247)**	(22,563)	(30,831)
Net cash provided from (used for) financing activities	**147,623**	(433,650)	(687,923)
Net Change in Cash and Cash Equivalents	**24,798**	(8,174)	(6,387)
Cash and Cash Equivalents at Beginning of Period	**8,699**	16,873	23,260
Cash and Cash Equivalents at End of Period	**$ 33,497**	$ 8,699	$ 16,873
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $8,920, $5,428, and $9,368 capitalized, respectively)	**$228,190**	$215,463	$203,707
Income taxes (net of refunds)	**127,115**	145,048	326,698

The accompanying notes are an integral part of these financial statements

BALANCE SHEETS
At December 31, 2004 and 2003
Georgia Power Company 2004 Annual Report

Assets	2004	2003
		(in thousands)
Current Assets:		
Cash and cash equivalents	**$ 33,497**	$ 8,699
Receivables --		
Customer accounts receivable	**317,937**	261,771
Unbilled revenues	**140,027**	117,327
Under recovered regulatory clause revenues	**345,542**	151,447
Other accounts and notes receivable	**94,377**	101,783
Affiliated companies	**17,042**	52,413
~~Accumulated provision for uncollectible accounts~~	**~~(7,100)~~**	~~(5,350)~~
Fossil fuel stock, at average cost	**184,267**	137,537
Vacation pay	**57,372**	50,150
Materials and supplies, at average cost	**270,422**	271,040
Prepaid expenses	**32,696**	114,882
Other	**25,260**	83
Total current assets	**1,511,339**	1,261,782
Property, Plant, and Equipment:		
In service	**18,681,533**	18,171,862
Less accumulated provision for depreciation	**7,217,607**	6,898,725
	11,463,926	11,273,137
Nuclear fuel, at amortized cost	**124,745**	129,056
Construction work in progress	**766,140**	341,783
Total property, plant, and equipment	**12,354,811**	11,743,976
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**66,192**	38,714
Nuclear decommissioning trusts, at fair value	**459,194**	423,319
Other	**66,775**	52,386
Total other property and investments	**592,161**	514,419
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**505,664**	509,887
Prepaid pension costs	**450,270**	405,164
Unamortized debt issuance expense	**77,925**	75,245
Unamortized loss on reacquired debt	**176,825**	177,707
Other regulatory assets	**72,639**	84,901
Other	**80,704**	77,673
Total deferred charges and other assets	**1,364,027**	1,330,577
Total Assets	**$15,822,338**	$14,850,754

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Georgia Power Company 2004 Annual Report

Liabilities and Stockholder's Equity	2004	2003
		(in thousands)
Current Liabilities:		
Securities due within one year	**$ 452,498**	$ 2,304
Notes payable	**208,233**	137,277
Accounts payable --		
Affiliated	**194,253**	134,884
Other	**310,763**	238,069
Customer deposits	**115,661**	103,756
Accrued taxes --		
Income taxes	**78,269**	39,970
Other	**129,520**	166,892
Accrued interest	**74,529**	70,844
Accrued vacation pay	**44,894**	38,206
Accrued compensation	**127,340**	134,004
Other	**75,699**	105,234
Total current liabilities	**1,811,659**	1,171,440
Long-term Debt (See accompanying statements)	**3,709,852**	3,762,333
Long-term Debt Payable to Affiliated Trusts (See accompanying statements)	**969,073**	
Mandatorily Redeemable Preferred Securities (See accompanying statements)	**-**	940,000
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**2,556,040**	2,439,373
Deferred credits related to income taxes	**170,973**	186,625
Accumulated deferred investment tax credits	**300,018**	312,506
Employee benefit obligations	**331,002**	282,833
Asset retirement obligations	**504,515**	475,585
Other cost of removal obligations	**411,692**	412,161
Miscellaneous regulatory liabilities	**92,611**	249,687
Other	**59,733**	63,431
Total deferred credits and other liabilities	**4,426,584**	4,422,201
Total Liabilities	**10,917,168**	10,295,974
Preferred Stock (See accompanying statements)	**14,609**	14,569
Common Stockholder's Equity (See accompanying statements)	**4,890,561**	4,540,211
Total Liabilities and Stockholder's Equity	**$15,822,338**	$14,850,754
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION
At December 31, 2004 and 2003
Georgia Power Company 2004 Annual Report

	2004	2003	**2004**	2003
	(in thousands)		*(percent of total)*	
Long-Term Debt:				
Long-term notes payable --				
5.50% due December 1, 2005	**$ 150,000**	$ 150,000		
Variable rate (1.66% to 1.96% at 1/1/05) due 2005	**300,000**	300,000		
6.20% due February 1, 2006	**150,000**	150,000		
4.875% due July 15, 2007	**300,000**	300,000		
4.10% due August 15, 2009	**125,000**	-		
Variable rate (2.48% at 1/1/05) due 2009	**150,000**	-		
4.00% to 6.70% due 2010-2044	**1,225,000**	1,100,000		
Total long-term notes payable	**2,400,000**	2,000,000		
Other long-term debt --				
Pollution control revenue bonds -- non-collateralized:				
1.08% to 5.45% due 2012-2034	**812,560**	812,560		
Variable rate (1.24% to 2.30% at 1/1/05) due 2011-2032	**873,330**	873,330		
Total other long-term debt	**1,685,890**	1,685,890		
Capitalized lease obligations	**76,982**	79,286		
Unamortized debt premium (discount), net	**(522)**	(539)		
Total long-term debt (annual interest requirement -- $172.7 million)	**4,162,350**	3,764,637		
Less amount due within one year	**452,498**	2,304		
Long-term debt excluding amount due within one year	**3,709,852**	3,762,333	**38.7%**	40.6%
Long-term Debt Payable to Affiliated Trusts:				
4.875% through 2007 due 2042*	**309,279**			
5.875% to 7.125% due 2042 to 2044	**659,794**			
Total long-term debt payable to affiliated trusts (annual interest requirement -- $59.5 million)	**969,073**	-	**10.1**	0.0
Mandatorily Redeemable Preferred Securities:				
$25 liquidation value --				
6.85% due 2029	-	200,000		
7.125% due 2042	-	440,000		
$1,000 liquidation value -- 4.875% through 2007 due 2042*	-	300,000		
Total mandatorily redeemable preferred securities	-	940,000	**0.0**	10.2
Cumulative Preferred Stock:				
$100 stated value at 4.60% (annual dividend requirement -- $0.7 million)	**14,609**	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	**2,478,268**	2,208,538		
Retained earnings	**2,102,798**	2,010,297		
Accumulated other comprehensive income (loss)	**(34,755)**	(22,874)		
Total common stockholder's equity	**4,890,561**	4,540,211	**51.0**	49.0
Total Capitalization	**$9,584,095**	$9,257,113	**100.0%**	100.0%

*The fixed rate thereafter is determined through remarketings for specific periods of varying length or 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, 2004, 2003, and 2002

Georgia Power Company 2004 Annual Report

	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Income (loss)	Total
			(in thousands)		
Balance at December 31, 2001	$344,250	$2,182,597	$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**	**2,156,080**	**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**	**2,208,538**	**2,010,297**	**(22,874)**	**4,540,211**
Net income after dividends on preferred stock	-	-	**658,001**	-	**658,001**
Capital contributions from parent company	-	**269,769**	-	-	**269,769**
Other comprehensive income (loss)	-	-	-	**(11,881)**	**(11,881)**
Cash dividends on common stock	-	-	**(565,500)**	-	**(565,500)**
Other	-	**(39)**	-	-	**(39)**
Balance at December 31, 2004	**$344,250**	**$2,478,268**	**$2,102,798**	**$(34,755)**	**$4,890,561**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Georgia Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Net income after dividends on preferred stock	**$658,001**	$630,577	$617,629
Other comprehensive income (loss):			
Change in additional minimum pension liability, net of tax of $(3,861), $(5,133) and $(4,853), respectively	**(6,122)**	(8,138)	(7,693)
Change in fair value of marketable securities, net of tax of $(114)	**(181)**	-	-
Changes in fair value of qualifying hedges, net of tax of $(5,046), $(3,241) and $(2,502), respectively	**(7,999)**	(5,550)	(3,555)
Less: Reclassification adjustment for amounts included in net income, net of tax of $1,528, $1,208 and $-, respectively	**2,421**	2,217	(2)
Total other comprehensive income (loss)	**(11,881)**	(11,471)	(11,250)
Comprehensive Income	**$646,120**	$619,106	$606,379

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Georgia Power Company (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 (SouthernLINC Wireless), 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. 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 the subsidiary companies. SouthernLINC Wireless 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 various other energy-related businesses. 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, as amended (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. In addition, the Company is subject to regulation by the FERC and the Georgia Public Service Commission (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 operations. Costs for these services amounted to $292 million in 2004, $303 million in 2003, and $318 million in 2002. 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 $311 million in 2004, $289 million in 2003, and $301 million in 2002.

The Company has an agreement with Southern Power under which the Company operates and maintains Southern Power owned plants Dahlberg, Franklin, Wansley, and Stanton at cost. Reimbursements under these agreements with Southern Power amounted to $4.9 million in 2004, $5.3 million in 2003, and $5.3 million in 2002.

The Company has an agreement with SouthernLINC Wireless under which the Company receives digital wireless communications services and purchases digital equipment. Costs for these services amounted to $7.7

million in 2004, $7.4 million in 2003 and $5.9 million in 2002.

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 $53 million in 2004 and $38 million in 2003. In addition, the Company purchases synthetic fuel from AFP for use at plants Branch, McDonough, and Bowen. Fuel purchases totaled $163 million in 2004 and $91 million in 2003.

The Company has entered into several purchased power agreements (PPAs) with Southern Power for capacity and energy. Purchased power costs were $282 million, $203 million and $128 million in 2004, 2003 and 2002, respectively. Additionally, the Company recorded $11 million and $7 million of prepaid capacity expenses included on the balance sheets at December 31 2004 and 2003, respectively. See Note 7 under "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 $6.8 million in 2004, $4.9 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 $3.3 million in 2004, $3.7 million in 2003, and $2.2 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 (SEGCO) and Note 5 for information on certain deferred tax liabilities due to affiliates.

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" for additional information.

Revenues

Energy and other revenues are recognized as services are provided. Unbilled revenues are accrued at the end of each fiscal period. 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 costs and amounts billed 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 despite an increase in customer bankruptcies.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense includes the cost of purchased emission allowances as they are used. Fuel expense also 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 $73 million in 2004, $74 million in 2003, and $71 million in 2002. The Company has contracts with the 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 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 2015. Construction of an on-site dry storage facility at Plant Vogtle is expected to begin in sufficient time to maintain pool full-core discharge capability. 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.

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, ending in 2008. 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, 2004 under this law to be approximately $7 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.

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 percent to 8 percent of qualified 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 that they are more likely than not to be allowed by the Georgia Department of Revenue. Manufacturer's tax credits of $12.9 million, $12.0 million, and $4.7 million were recorded on the Company's books in 2004, 2003 and 2002, respectively.

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 Company's balance sheets at December 31 relate to the following:

	2004	2003	No
	(in millions)		
Deferred income tax charges	$ 506	$ 510	(a)
Premium on reacquired debt	177	178	(b)
Corporate building lease	53	54	(f)
Vacation pay	57	50	(d)
Postretirement benefits	20	23	(f)
DOE assessments	10	13	(c)
Generating plant outage costs	40	49	(h)
Other regulatory assets	11	1	(f)
Asset retirement obligation	(20)	(16)	(a)
Other cost of removal obligations	(412)	(412)	(a)
Accelerated cost recovery	-	(111)	(e)
Deferred income tax credits	(171)	(187)	(a)
Environmental remediation reserve	(22)	(21)	(g)
Purchased power	-	(77)	(e)
Other regulatory liabilities	(6)	(3)	(f)
Total	$ 243	$ 51	

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 60 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 Georgia PSC.

(g) Amortized over a three-year period ending in 2007. See Note 3 under "Retail Rate Orders."

(h) See "Property, Plant, and Equipment" herein.

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 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 2.6 percent in 2004, 2.7 percent in 2003, and 2.9 percent in 2002. Under a new retail rate plan for the Company ending December 31, 2007 (2004 Retail Rate Plan), the depreciation rates have been revised by the Georgia PSC. 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 the three-year retail rate plan for the Company ending December 31, 2004 (2001 Retail Rate Plan), the Company discontinued recording accelerated depreciation and amortization. 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, the Company was ordered to recognize new Georgia PSC certified purchased power costs in rates evenly over the three years covered by the 2001 Retail Rate Plan. 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 recorded 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

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 costs 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. Although 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 received accounting guidance from the Georgia PSC allowing such treatment. Accordingly, the accumulated removal costs for other obligations previously accrued will continue to be reflected on the balance sheets 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, 2004 was $459 million. In addition, the Company has recognized 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, liabilities for the removal of these facilities have not been 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. In 2003, the Company revised the estimated cost to retire plants Hatch and Vogtle as a result of a new 2003 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" herein for further information on amounts included in rates.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2004	2003
	(in millions)	
Balance beginning of year	$476	$469
Liabilities incurred	-	-
Liabilities settled	(2)	-
Accretion	31	31
Cash flow revisions	-	(24)
Balance end of year	$505	$476

Nuclear Decommissioning

The Nuclear Regulatory Commission (NRC) requires licensees of commercial nuclear power reactors to establish a plan for providing reasonable assurance of funds for future 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 Georgia 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 Georgia PSC. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission only 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 based on the most current study as of December 31, 2004 for 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 these estimates.

Annual provisions for nuclear decommissioning are based on an annuity method as approved by the Georgia PSC. The amount expensed in 2004 and fund balances were as follows:

	Plant Hatch	Plant Vogtle
	(in millions)	
Amount expensed in 2004	$ 7	$ 2
Accumulated provisions:		
External trust funds, at fair value	$294	$165
Internal reserves	-	2
Total	$294	$167

Based on the 2001 Retail Rate Plan, effective January 1, 2002, the Georgia PSC decreased the annual decommissioning costs for ratemaking to $9 million. This amount was based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2000. The estimates were $383 million and $282 million for plants Hatch and Vogtle, respectively. Significant assumptions used to determine the costs for ratemaking included an estimated inflation rate of 4.7 percent and an estimated trust earnings rate of 6.5 percent.

Effective January 1, 2005, the Georgia PSC has ordered the annual decommissioning costs for ratemaking be decreased from $9 million to $7 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2003. The estimates are $421 million and $326 million for plants Hatch and Vogtle, respectively. Significant assumptions used to determine the costs for ratemaking include an estimated inflation rate of 3.1 percent and an estimated trust earnings rate of 5.1 percent. Another significant assumption used was the change in the operating license for Plant Hatch. 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 Company expects the Georgia PSC to periodically review and adjust, if necessary, the amounts collected in rates for the anticipated cost of decommissioning.

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. For the years 2004, 2003, and 2002, the average AFUDC rates were 8.22 percent, 5.51 percent, and 3.79 percent, respectively. AFUDC and interest capitalized, net of taxes, were 4.9 percent of net income after dividends on preferred stock for 2004 and less than 3 percent for 2003 and 2002.

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. As mandated by the Georgia PSC, the Company defers and amortizes nuclear refueling costs over the unit's operating cycle before the next refueling. The refueling cycles are 18 and 24 months for plants Vogtle and Hatch, respectively. In accordance with the 2001 Retail Rate Plan, 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, 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. See Note 3 under "Retail Rate Orders" and "Plant McIntosh Construction Project" for information regarding the disallowance of Plant McIntosh costs under the 2004 Retail Rate Plan.

Storm Damage Reserve

The Company maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property as mandated by the Georgia PSC. These costs are expected to be recovered through regular monthly accruals which total $6.3 million annually under the 2004 Retail Rate Plan.

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 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 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 of Southern Company's common stock 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.

The pro forma impact of fair-value accounting for options granted on earnings is as follows:

Net Income	As Reported	Pro Forma
	(in thousands)	
2004	**$658,001**	**$654,482**
2003	$630,577	$626,738
2002	$617.629	$613.483

The estimated fair value of stock options granted in 2004, 2003, and 2002 were derived using the Black-Scholes stock option pricing model. The following table shows the assumptions and the weighted coverage. Fair values of stock options are as follows:

	2004	2003	2002
Interest rate	**3.10%**	2.70%	2.80%
Average expected life of stock options (in years)	**5.0**	4.3	4.3
Expected volatility of common stock	**19.60%**	23.60%	26.30%
Expected annual dividends on common stock	**$1.40**	$1.37	$1.34
Weighted average fair value of stock options granted	**$3.29**	$3.59	$3.37

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, 2004	**$5,055**	**$5,125**
At December 31, 2003	$3,685	$3,739
Preferred securities:		
At December 31, 2004	**-**	**-**
At December 31, 2003	$940	$976

The fair values were based on either closing market prices or closing prices of comparable instruments. See "Variable Interest Entities" herein and Note 6 under "Mandatorily Redeemable Preferred Securities/Long-Term Debt Payable to Affiliated Trusts" for further information.

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 value of marketable securities and qualifying cash flow hedges, and changes in additional minimum pension liability, less income taxes less reclassifications for amounts included in net income.

Variable Interest Entities

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of Interpretation No. 46R had no impact on the net income of the Company. However, as a result of the adoption, the Company deconsolidated certain wholly-owned trusts established to issue preferred securities since the Company is not the primary beneficiary of the trusts. Therefore, the investments in these trusts are reflected as Other Investments and the related loans from the trusts are reflected as Long-term Debt Payable to Affiliated Trusts on the balance sheets. This treatment resulted in a $29 million increase in both total assets and total liabilities as of March 31, 2004.

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 of 1974, as amended (ERISA), requirements. No contributions to the plan are expected for the year ending December 31, 2005. 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 Georgia PSC and the FERC. For the year ended December 31, 2005, such contributions are expected to total approximately $7.7 million.

The measurement date for plan assets and obligations is September 30 for each year.

Pension Plans

The accumulated benefit obligation for the pension plans was $1.7 billion in 2004 and $1.6 billion in 2003. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and the fair value of plan assets were as follows:

	Projected Benefit Obligation	
	2004	2003
	(in millions)	
Balance at beginning of year	**$1,727**	$1,564
Service cost	**42**	38
Interest cost	**101**	100
Benefits paid	**(85)**	(83)
Plan amendments	**1**	6
Actuarial loss	**99**	102
Balance at end of year	**$1,885**	$1,727

	Plan Assets	
	2004	2003
	(in millions)	
Balance at beginning of year	**$2,055**	$1,838
Actual return on plan assets	**207**	294
Benefits paid	**(81)**	(77)
Balance at end of year	**$2,181**	$2,055

Pension plan assets are managed and invested in accordance with all applicable requirements including ERISA and the Internal Revenue Code of 1986, as amended (Internal 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	**2004**	2003
Domestic equity	**37%**	**36%**	37%
International equity	**20**	**20**	20
Fixed income	**26**	**26**	24
Real estate	**10**	**10**	11
Private equity	**7**	**8**	8
Total	**100%**	**100%**	100%

The reconciliations of the funded status with the accrued pension costs recognized in the balance sheets were as follows:

	2004	2003
	(in millions)	
Funded status	**$295**	$328
Unrecognized transition amount	**(8)**	(13)
Unrecognized prior service cost	**108**	118
Unrecognized net actuarial gain (loss)	**21**	(66)
Prepaid pension asset, net	**$416**	$367

The prepaid pension asset, net is reflected in the balance sheets in the following line items:

	2004	2003
	(in millions)	
Prepaid pension asset	**$450**	$405
Employee benefit obligations	**(89)**	(82)
Other property and investments - other	**19**	18
Accumulated other comprehensive income	**36**	26
Prepaid pension asset, net	**$416**	$367

Components of the plans' net periodic cost were as follows:

	2004	2003	2002
		(in millions)	
Service cost	**$ 42**	$ 38	$ 36
Interest cost	**101**	100	107
Expected return on plan assets	**(180)**	(179)	(179)
Recognized net gain	**(5)**	(19)	(27)
Net amortization	**7**	6	4
Net pension (income)	**$ (35)**	$(54)	$ (59)

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2004, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2005	$ 83
2006	83
2007	86
2008	89
2009	93
2010 to 2014	$568

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	
	2004	2003
	(in millions)	
Balance at beginning of year	**$723**	$627
Service cost	**10**	9
Interest cost	**41**	40
Benefits paid	**(31)**	(29)
Actuarial loss	**42**	76
Plan amendments	**(59)**	-
Balance at end of year	**$726**	$723

	Plan Assets	
	2004	2003
	(in millions)	
Balance at beginning of year	**$265**	$199
Actual return on plan assets	**32**	36
Employer contributions	**33**	59
Benefits paid	**(31)**	(29)
Balance at end of year	**$299**	$265

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal 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	**2004**	2003
Domestic equity	43%	**42%**	42%
International equity	20	**23**	21
Domestic fixed income	19	**19**	-
Global fixed income	13	**11**	32
Real estate	3	**3**	3
Private equity	2	**2**	2
Total	100%	**100%**	100%

The accrued postretirement costs recognized in the balance sheets were as follows:

	2004	2003
	(in millions)	
Funded status	**$(428)**	$(458)
Unrecognized transition obligation	**78**	87
Unrecognized prior service cost	**27**	91
Unrecognized net loss	**203**	171
Fourth quarter contributions	**15**	9
Employee benefit obligations recognized in the balance sheets	**$(105)**	$(100)

Components of the postretirement plans' net periodic cost were as follows:

	2004	2003	2002
	(in millions)		
Service cost	**$ 10**	$ 9	$ 8
Interest cost	**41**	40	40
Expected return on plan assets	**(25)**	(24)	(20)
Net amortization	**18**	16	15
Net postretirement cost	**$ 44**	$ 41	$ 43

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $5 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $72 million. However, the ultimate impact on future periods is subject to federal regulations governing the subsidy created in the Medicare Act which are being finalized.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the accumulated benefit obligation for the postretirement plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	Benefit Payments	Subsidy Receipts	Total
	(in millions)		
2005	**$ 28**	$ -	$ 28
2006	**31**	(3)	28
2007	**34**	(3)	31
2008	**37**	(4)	33
2009	**41**	(4)	37
2010 to 2014	**$257**	$(28)	$229

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:

	2004	2003	2002
Discount	**5.75%**	6.00%	6.50%
Annual salary increase	**3.50**	3.75	4.00
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 11.0 percent for 2004, decreasing gradually to 5.0 percent through the year 2012, 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, 2004, as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$75	$59
Service and interest costs	5	4

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 2004, 2003, and 2002 were $18 million, $18 million, and $17 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

On December 21, 2004, the Georgia PSC voted to approve the 2004 Retail Rate Plan. Under the terms of the 2004 Retail Rate Plan, earnings will be evaluated against a retail return on common equity range of 10.25 percent to 12.25 percent. Two-thirds of any earnings above 12.25 percent will be applied to rate refunds, with the remaining one-third retained by the Company. Retail rates will be increased by approximately $194 million and customer fees by approximately $9 million effective January 1, 2005 to cover the higher costs of purchased power; operating and maintenance expenses; environmental compliance; and continued investment in new generation, transmission and distribution facilities to support growth and ensure reliability.

In the 2004 Retail Rate Plan, the Georgia PSC also approved the transfer of the Plant McIntosh construction project, which is scheduled for completion in June 2005, to the Company and Savannah Electric at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance, of which $13 million is attributable to the Company, and reduced the Company's 2004 net income by approximately $8 million. The Georgia PSC also certified the total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. Under the 2004 Retail Rate Plan, the Plant McIntosh revenue requirement impact will be reflected in the Company's rates evenly over the three years ending 2007.

The Company will not file for a general base rate increase unless its projected retail return on common equity falls below 10.25 percent. The Company is required to file a general rate case by July 1, 2007, in response to which the Georgia PSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

Under Georgia PSC ratemaking provisions, $22 million has been deferred in a regulatory liability account for use in meeting future environmental remediation costs. Under the 2004 Retail Rate Plan, this regulatory liability will be amortized over a three-year period beginning January 1, 2005. However, the Georgia PSC also approved an annual environmental accrual of $5.4 million. Environmental remediation expenditures will be charged against the reserve as they are incurred. The annual accrual amount will be reviewed and adjusted in future regulatory proceedings.

Under the 2001 Retail Rate Plan, retail rates were decreased by $118 million effective January 1, 2002. Under the terms of the 2001 Retail Rate Plan, earnings were 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 were to be applied to rate refunds, with the remaining one-third retained by the Company. The Company's earnings in 2004, 2003 and 2002 were within the common equity range.

Under the 2001 Retail Rate Plan, 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 2001 Retail Rate Plan required the Company to recognize capacity and operating and maintenance costs related to new Georgia PSC-certified PPAs evenly in rates over a three-year period ended December 31, 2004.

Retail Fuel Hedging Program

Effective in January 2003, the Georgia PSC approved an order 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 total net gains. In 2004, the Company had a total net gain of $7.4 million, of which the Company retained $1.9 million.

Fuel Cost Recovery

On August 19, 2003, the Georgia PSC issued an order allowing 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 represented an average annual increase in rates paid by customers of approximately 1.6 percent. In recent months, the Company has experienced higher than expected fuel costs since the order was issued. Those higher fuel costs have increased the under recovered fuel costs. On February 18, 2005, the Company filed a request with the Georgia PSC for a fuel cost recovery rate increase. In the ordinary course, these new rates will be effective June 1, 2005 following a hearing before and approval by the Georgia PSC. In its filing, the Company asked that the Georgia PSC accept the new rate, effective April 1, 2005, prior to a formal hearing on the Company's request. This action, if taken by the Georgia PSC, would serve to mitigate expected increases in the under recovered balance during April and May, but will not preclude the Georgia PSC from subsequently adjusting the rates. The requested increase, representing an annual increase in revenues of approximately 11.7 percent, will allow for the recovery of fuel costs based on an estimate of future fuel costs, as well as the collection of the existing under recovery of fuel costs. The Company's under recovered fuel costs as of January 31, 2005 totaled $390 million. The Georgia

PSC will examine the Company's fuel expenditures and determine whether the proposed fuel cost recovery rate is just and reasonable before issuing its decision in May 2005. The final outcome of the filing cannot be determined at this time.

Nuclear Performance Standards

Through December 31, 2004, the Company has operated in accordance with the nuclear performance standard the Georgia PSC adopted 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. Such amounts flow through the fuel cost recovery mechanism. Any award or penalty for the 2002-2004 evaluation period will not be known until the second quarter of 2005.

Effective January 1, 2005, the Georgia PSC has discontinued the nuclear performance standard.

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, alleging violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws 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 was stayed in the spring of 2001 during the appeal of a similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the case pending against the Company. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the case. At this time, no party to the case against the Company has sought to reopen the case, which remains administratively closed in the U.S. District Court for the Northern District of Georgia.

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. District courts addressing these cases have, to date, issued opinions that reached conflicting conclusions.

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 maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. 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, related legal challenges and potential rulemakings by the State of Georgia cannot be determined at this time.

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 for the Northern District of Georgia against the Company for alleged violations of the Clean Air Act at four of the 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.

The court has concluded the liability phase of the action. The court ruled in favor of the Company on the allegations regarding the hazardous air pollutants, the allegations regarding emission offsets, and a majority of the allegations regarding the permit provision that requires the combined cycle units to operate above certain levels. The court ruled in favor of the plaintiffs on a majority of the opacity incidents. The Company has filed a petition for review of the decision with the U.S. Court of Appeals for the Eleventh Circuit. The district court case has been administratively closed pending that appeal. If necessary, the district court will hold a separate remedy trial which will address civil penalties and possible injunctive relief requested by the plaintiffs. The ultimate outcome of this matter cannot currently be determined; however, an adverse outcome could require substantial capital expenditures that cannot be determined at this time and could possibly require the 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 Remediation

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 $35 million in cumulative expenses through December 31, 2004 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, 2004, 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 of the Company's 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, 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 U.S. Court of Appeals for the Eleventh Circuit subsequently denied plaintiff's petition seeking permission to file an appeal of the October 2001 decision. In March 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. In April 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. On November 10, 2004, a three-judge panel of the U.S. Court of Appeals for the Eleventh Circuit issued an order affirming in all respects the district court's rulings. On December 1, 2004, the plaintiffs filed a petition for rehearing seeking a review of the November 2004 order by the entire Eleventh Circuit panel of judges. If this petition is denied, the plaintiffs will have 90 days from the date of the court's order denying the petition within which to file a petition for writ of certiorari to the U.S. Supreme Court. 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, have been named as defendants in numerous lawsuits brought by landowners since 2001. The plaintiffs' lawsuits claim that defendants may not use, or sublease to third parties, some or all of the fiber optic communications lines on the rights of way that cross the plaintiffs' properties and that such actions exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment, and seek compensatory and punitive damages and injunctive relief.

On January 14, 2005, the Superior Court of Decatur County, Georgia granted partial summary judgment in a lawsuit brought by landowners against the Company based on the plaintiffs' declaratory judgment claim that the easements do not permit general telecommunications use. The Company is appealing this ruling to the Georgia Court of Appeals. The question of damages and other liabilities or remedies issues with respect to this action, if any, will be decided at a future trial. In the event of an adverse verdict in the case, the Company could appeal both liability and damages or other relief granted. Management believes that the Company 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 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, 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 it in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of the underlying landowner litigation discussed above. On January 12, 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to previously executed interconnection agreements with the Company and another Southern Company subsidiary, have filed complaints at the FERC requesting that the FERC modify the agreements and that the Company refund a total of $7.9 million previously paid for interconnection facilities, with interest. The Company has opposed such relief and the proceedings are still pending. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to nonaffiliates at market-based prices. 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, the retail operating companies, and Southern Power and found them to be "pivotal suppliers" in their retail service territories and ordered the implementation of certain mitigation measures. Southern Company and others sought rehearing of the FERC order, and the FERC delayed implementation of certain mitigation measures. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April. In August 2004, Southern Company submitted a filing to the FERC which included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within the Southern Company retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15 2005, Southern Company submitted additional information related to generation dominance in the retail service territory. Any new market-based rate transactions in Southern Company's retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Plant McIntosh Construction Project

In December 2002 after a competitive bidding process, the Georgia PSC certified PPAs between Southern Power and the Company and Savannah Electric for capacity from Plant McIntosh Units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet the applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, in May 2004, the Company and Savannah Electric requested the Georgia PSC to direct them to acquire the McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including approximately $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot be determined at this time.

As directed by the Georgia PSC order, on June 3, 2004, the Company and Savannah Electric filed an application to amend the resource certificate granted by the Georgia PSC in 2002. In connection with the 2004 Retail Rate Plan, the Georgia PSC approved the transfer of the Plant McIntosh construction project at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance, of which $13 million is attributable to the Company, and reduced the Company's net income by approximately $8 million. The Georgia PSC also certified a total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. Under the 2004 Retail Rate Plan, the Plant McIntosh revenue requirements impact will be reflected in the Company's rates evenly over the three years ending 2007. See "Retail Rate Orders" herein for additional information regarding the transfer of the Plant McIntosh construction project.

4. JOINT OWNERSHIP AGREEMENTS

The Company and an affiliate, Alabama 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, 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:

	2004	2003	2002
	(in millions)		
Energy	**$51**	$55	$53
Capacity	**36**	34	32
Total	**$87**	$89	$85

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 combustion-turbine units 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, 2004, 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	Accumula Depreciati
		(in millions)	
Plant Vogtle (nuclear)	45.7%	$3,304*	$1,756
Plant Hatch (nuclear)	50.1	932	485
Plant Wansley (coal)	53.5	394	164
Plant Scherer (coal)			
Units 1 and 2	8.4	114	53
Unit 3	75.0	561	259
Plant McIntosh Common Facilities (combustion-turbine)	75.0	34	4
Rocky Mountain (pumped storage)	25.4	169*	89
Intercession City (combustion-turbine)	33.3	12	2

*Investment includes write-offs

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 and a combined State of Georgia income tax return. Under a joint consolidated income tax allocation agreement, as required by the PUHCA, each subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more expense than would be paid if they filed a separate tax return. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

In 2004, in order to avoid the loss of certain federal income tax credits related to the production of synthetic fuel, Southern Company chose to defer certain deductions otherwise available to the subsidiaries. The cash flow benefit associated with the utilization of the tax credits was allocated to the subsidiary that otherwise would have claimed the available deductions on a separate company basis without the deferral. This allocation concurrently reduced the tax benefit of the credits allocated to those subsidiaries that generated the credits. As the deferred expenses are deducted, the benefit of the tax credits will be repaid to the subsidiaries that generated the tax credits. The Company has recorded $25 million payable to these subsidiaries in Accumulated Deferred Income Taxes on the balance sheets at December 31, 2004.

The transfer of the Plant McIntosh construction project from Southern Power to the Company resulted in a deferred gain to Southern Power for federal income tax purposes. The Company will reimburse Southern Power for the related $5.4 million deferred taxes reflected in Southern Power's future taxable income. This payable to Southern Power is included in Other Deferred Credits on the balance sheets at December 31, 2004.

The transfer of the Dahlberg, Wansley and Franklin projects to Southern Power from the Company in 2001 and 2002 also resulted in a deferred gain for federal income tax purposes. Southern Power will reimburse the Company for the remaining balance of the related deferred taxes of $13.3 million reflected in the Company's future taxable income. This receivable from Southern Power is included in Other Deferred Debits on the balance sheets at December 31, 2004.

At December 31, 2004, tax-related regulatory assets were $506 million and tax-related regulatory liabilities were $171 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:

	2004	2003	2002
Total provision for income taxes:	(in millions)		
Federal:			
Current	**$116**	$143	$261
Deferred	**221**	181	60
	337	324	321
State:			
Current	**12**	24	31
Deferred	**30**	16	5
Deferred investment tax credits	**-**	2	-
Total	**$379**	$366	$357

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:

	2004	2003
	(in millions)	
Deferred tax liabilities:		
Accelerated depreciation	**$2,050**	$1,966
Property basis differences	**577**	563
Other	**449**	329
Total	**3,076**	2,858
Deferred tax assets:		
Federal effect of state deferred taxes	**106**	96
Other property basis differences	**147**	156
Other deferred costs	**149**	160
Other	**52**	75
Total	**454**	487
Net deferred tax liabilities	**2,622**	2,371
Portion included in current (liabilities) assets, net	**(66)**	68
Accumulated deferred income taxes in the balance sheets	**$2,556**	$2,439

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 $12 million in 2004, $15 million in 2003, and $12 million in 2002. At December 31, 2004, 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:

	2004	2003	2002
Federal statutory rate	**35%**	35%	35%
State income tax, net of federal deduction	**3**	3	2
Non-deductible book depreciation	**1**	1	1
Other	**(2)**	(2)	(1)
Effective income tax rate	**37%**	37%	37%

6. FINANCING

Mandatorily Redeemable Preferred Securities/Long-Term Debt Payable to Affiliated Trusts

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 $969 million, which constitute substantially all of the assets of the trusts and are reflected in the balance sheets as Long-Term Debt Payable to Affiliated 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, 2004, preferred securities of $940 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities. The preferred securities are recognized as liabilities in the balance sheets.

Long-Term Debt Due Within One Year

A summary of the scheduled maturities and redemptions of securities due within one year at December 31 is as follows:

	2004	2003
	(in millions)	
Capital lease	**$ 2**	$2
Senior notes	**450**	-
Total	**$452**	$2

Serial maturities through 2009 applicable to total long-term debt are as follows: $452 million in 2005; $153 million in 2006; $303 million in 2007; $3 million in 2008; and $279 million in 2009.

Pollution Control Bonds

Pollution control obligations represent loans to the Company from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control facilities. The Company is required to make payments sufficient for the authorities to meet principal and interest requirements of such 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, 2004 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, 2004 and 2003, the Company had a capitalized lease obligation for its corporate headquarters building of $77 million and $79 million, respectively, with an interest rate of 8.1 percent. For ratemaking purposes, the Georgia PSC 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 Georgia PSC. At December 31, 2004 and 2003, the interest and lease amortization deferred on the balance sheets were $53 million and $54 million, respectively.

Bank Credit Arrangements

At the beginning of 2005, the Company had an unused credit arrangement with banks totaling $773.1 million. Of these facilities, $423.1 million expire at various times throughout 2005, with the remaining $350 million expiring in 2007. The facilities that expire in 2005 provide the option of converting borrowings into a two-year term loan. The agreements contain stated borrowing rates but also allow for competitive bid loans. All the agreements 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 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 arrangements. For purposes of these definitions, indebtedness excludes the long-term debt payable to affiliated trusts. 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 $773.1 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, 2004 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, 2004 was $208 million. There were no outstanding extendible commercial notes at December 31, 2004. The amount of commercial paper outstanding at December 31, 2003 was $137 million. During 2004, the peak amount of commercial paper outstanding was $391.5 million and the average amount outstanding was $130.7 million. The average annual interest rate on commercial paper in 2004 was 1.27 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 Georgia PSC. The Company also enters into hedges of forward electricity sales. There was no material ineffectiveness recorded in earnings in 2004 and 2003.

At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts (in millions)
Regulatory liabilities, net	$5.7
Other comprehensive income	-
Net income	0.1
Total fair value	$5.8

The fair value gain or loss for cash flow hedges that are recoverable through the regulatory fuel clauses are recorded in regulatory assets and liabilities and are recognized in earnings at the same time the hedged items affect earnings. The Company has energy-related hedges in place up to and including 2007.

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. In addition to interest rate swaps, the Company has also entered into certain options agreements that effectively cap its interest rate exposure in return for payment of a premium. In some cases, costless collars have been used that effectively establish a floor and a ceiling to interest rate expense.

At December 31, 2004, the Company had interest derivatives outstanding with net fair value losses as follows:

Cash Flow Hedges

Maturity	Weighted Average Fixed Rate Paid	Notional Amount	Fair Value Gain/ (Loss)
		(in millions)	
2005	1.56%	$50	$0.1
2005	1.96	250	0.3
2005-2007	2.35-3.85[1]	400	0.6
2006	6.00[2]	150	(0.1)
2015	4.66	250	0.7
2015	5.03	100	(0.9)

1. Capped rate based on formula approximating the yield on short rate tax-exempt, auction rate securities.
2. Costless collar with cap rate of 6.00 percent.

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 2004, the Company settled losses totaling $12.4 million upon termination of certain interest derivatives at the same time it issued debt. For the years 2004 and 2003, approximately $3.9 million and $3.4 million, respectively, were reclassified from other comprehensive income to interest expense. For 2002, the amounts reclassified were immaterial. For 2005, pre-tax losses of approximately $0.4 million are expected to be reclassified from other comprehensive income to interest expense. The Company has interest-related hedges in place through 2017. Subsequent to December 31, 2004, the Company terminated an interest rate swap with a notional amount of $250 million at a gain of $1.2 million. The gain will be amortized to interest expense over a 10-year period.

7. COMMITMENTS

Construction Program

The Company currently estimates property additions to be approximately $911 million, $1.1 billion, and $1.2 billion in 2005, 2006, and 2007, respectively. These amounts include $40 million, $33 million, and $28 million in 2005, 2006, and 2007, respectively, for construction expenditures related to contractual purchase commitments for uranium and nuclear fuel conversion, enrichment, and fabrication services included under "Fuel 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, 2004, significant purchase commitments were outstanding in connection with the construction program.

The Company currently has under construction Plan McIntosh Units 10 and 11 scheduled for completion in June 2005. In addition, construction related to new transmission and distribution facilities and capital improvements to existing generation, transmission and distribution facilities, including those needed to meet environmental standards, are ongoing.

Long-Term Service Agreements

The Company and Savannah Electric have entered into a Long-Term Service Agreement (LTSA) with General Electric (GE) for the purpose of securing maintenance support for the combustion turbines at the Plant McIntosh combine cycle facility. 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 each contract.

In general, this LTSA is 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 this agreement are currently estimated at $182 million over the remaining term of the agreement, which may range up to 30 years. However, the LTSA contains various cancellation provisions at the option of the Company.

The Company has entered into a LTSA with GE to provide all necessary labor and parts for neutron monitoring at Plant Hatch for a period of 10 years. Total payments to GE under this agreement are currently estimated at $14.9 million, of which $7.4 is expected to be billed to the joint owners.

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 Exchange future prices at December 31, 2004. Also the Company has entered into various long-term commitments for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2004 were as follows:

Year	Natural Gas	Coal and Nuclear Fuel
	(in millions)	
2005	$ 248	$1,731
2006	237	1,617
2007	151	1,105
2008	200	552
2009	189	219
2010 and thereafter	1,669	96
Total commitments	$2,694	$5,320

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.

Purchased Power Commitments

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 $55 million, $57 million, and $57 million in 2004, 2003, and 2002, respectively. The current projected Plant Vogtle capacity payments are:

Year	Capacity Payments
	(in millions)
2005	$ 56
2006	55
2007	54
2008	54
2009	54
2010 and thereafter	315
Total	$588

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, 2004 were as follows:

Year	Affiliated	Non-Affiliated
	(in millions)	
2005	$ 205	$ 78
2006	205	86
2007	205	87
2008	205	88
2009	205	67
2010 and thereafter	567	340
Total	$1,592	$746

Operating Leases

The Company has entered into various operating leases with various terms and expiration dates. Rental expenses related to these operating leases totaled $38 million for 2004, $36 million for 2003, and $35 million for 2002. At December 31, 2004, estimated minimum rental commitments for these noncancelable operating leases were as follows:

Year	Minimum Obligations		
	Rail Cars	Other	Total
		(in millions)	
2005	$ 15	$17	$ 32
2006	16	13	29
2007	13	10	23
2008	14	8	22
2009	13	7	20
2010 and thereafter	55	8	63
Total	$126	$63	$189

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 2011, and the Company's maximum obligation is $72 million. 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 Georgia PSC.

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, 2004, the outstanding loans guaranteed by the Company were $5.1 million and loan loss reserves of $1.1 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. 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, 2004, 1,547 current and former employees of the Company participated in the stock option plan. The maximum number of shares of Southern Company 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 stock option plan. Activity from 2002 to 2004 for the options granted to the Company's employees under the stock option plan is summarized below:

	Shares Subject To Option	Average Option Price Per Share
Balance at December 31, 2001	6,597,517	$17.41
Options granted	1,781,940	25.27
Options canceled	(40,607)	16.67
Options exercised	(1,160,253)	15.18
Balance at December 31, 2002	7,178,597	19.73
Options granted	1,455,517	27.98
Options canceled	(54,860)	25.47
Options exercised	(1,428,273)	16.92
Balance at December 31, 2003	**7,150,981**	**21.92**
Options granted	**1,434,915**	**29.50**
Options canceled	**(5,802)**	**25.99**
Options exercised	**(1,450,309)**	**18.25**
Balance at December 31, 2004	**7,129,785**	**$24.19**

Options exercisable:	
At December 31, 2002	3,405,398
At December 31, 2003	3,956,234
At December 31, 2004	**4,304,091**

The following table summarizes information about options outstanding at December 31, 2004:

	Dollar Price Range of Options		
	13-20	20-26	26-32
Outstanding:			
Shares (in thousands)	**1,914**	**2,411**	**2,805**
Average remaining life (in years)	**5.6**	**6.8**	**8.6**
Average exercise price	**$17.42**	**$24.26**	**$28.76**
Exercisable:			
Shares (in thousands)	**1,914**	**1,906**	**483**
Average exercise price	**$17.42**	**$23.99**	**$28.01**

9. 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 $10.76 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 $43 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.

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2004 and 2003 is as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Incom After Dividends Preferrec Stock
		(in millions)	
March 2004	**$1,199**	**$285**	**$144**
June 2004	**1,353**	**322**	**156**
September 2004	**1,582**	**486**	**287**
December 2004	**1,237**	**166**	**71**
March 2003	$1,126	$262	$133
June 2003	1,190	293	159
September 2003	1,487	490	265
December 2003	1,111	179	74

The Company's business is influenced by seasonal weather conditions.

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SELECTED FINANCIAL AND OPERATING DATA 2000-2004

Georgia Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands)	**$5,370,808**	$4,913,507	$4,822,460	$4,965,794	$4,870,618
Net Income after Dividends on Preferred Stock (in thousands)	**$658,001**	$630,577	$617,629	$610,335	$559,420
Cash Dividends on Common Stock (in thousands)	**$565,500**	$565,800	$542,900	$527,300	$549,600
Return on Average Common Equity (percent)	**13.95**	14.05	13.99	14.12	13.66
Total Assets (in thousands)	**$15,822,338**	$14,850,754	$14,342,656	$14,447,973	$13,971,211
Gross Property Additions (in thousands)	**$1,126,064**	$742,810	$883,968	$1,389,751	$1,078,163
Capitalization (in thousands):					
Common stock equity	**$4,890,561**	$4,540,211	$4,434,447	$4,397,485	$4,249,544
Preferred stock	**14,609**	14,569	14,569	14,569	14,569
Mandatorily redeemable preferred securities	-	940,000	940,000	789,250	789,250
Long-term debt payable to affiliated trusts	**969,073**	-	-	-	-
Long-term debt	**3,709,852**	3,762,333	3,109,619	2,961,726	3,041,939
Total (excluding amounts due within one year)	**$9,584,095**	$9,257,113	$8,498,635	$8,163,030	$8,095,302
Capitalization Ratios (percent):					
Common stock equity	**51.0**	49.0	52.2	53.9	52.5
Preferred stock	**0.2**	0.2	0.2	0.2	0.2
Mandatorily redeemable preferred securities	-	10.2	11.1	9.6	9.7
Long-term debt payable to affiliated trusts	**10.1**	-	-	-	-
Long-term debt	**38.7**	40.6	36.5	36.3	37.6
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0	100.0
Security Ratings:					
Preferred Stock -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	a2
Standard and Poor's	**BBB+**	BBB+	BBB+	BBB+	BBB+
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	**1,801,426**	1,768,662	1,734,430	1,698,407	1,669,566
Commercial	**265,543**	258,276	250,993	244,674	237,977
Industrial	**7,676**	7,899	8,240	8,046	8,533
Other	**3,482**	3,434	3,328	3,239	3,159
Total	**2,078,127**	2,038,271	1,996,991	1,954,366	1,919,235
Employees (year-end):	**8,731**	8,714	8,837	9,048	8,860

N/A = Not Applicable

SELECTED FINANCIAL AND OPERATING DATA 2000-2004 (continued)
Georgia Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands):					
Residential	**$ 1,736,072**	$1,583,082	$1,600,438	$1,507,031	$1,535,684
Commercial	**1,812,096**	1,661,054	1,631,130	1,682,918	1,620,466
Industrial	**1,172,936**	1,012,267	1,004,288	1,106,420	1,154,789
Other	**55,881**	53,569	52,241	52,943	6,399
Total retail	**4,776,985**	4,309,972	4,288,097	4,349,312	4,317,338
Sales for resale - non-affiliates	**246,545**	259,376	270,678	366,085	297,643
Sales for resale - affiliates	**166,245**	174,855	98,323	99,411	96,150
Total revenues from sales of electricity	**5,189,775**	4,744,203	4,657,098	4,814,808	4,711,131
Other revenues	**181,033**	169,304	165,362	150,986	159,487
Total	**$5,370,808**	$4,913,507	$4,822,460	$4,965,794	$4,870,618
Kilowatt-Hour Sales (in thousands):					
Residential	**22,930,372**	21,778,582	22,144,559	20,119,080	20,693,481
Commercial	**28,014,357**	26,940,572	26,954,922	26,493,255	25,628,402
Industrial	**26,357,271**	25,703,421	25,739,785	25,349,477	27,543,265
Other	**602,202**	595,742	593,202	583,007	568,906
Total retail	**77,904,202**	75,018,317	75,432,468	72,544,819	74,434,054
Sales for resale - non-affiliates	**5,969,983**	8,835,804	8,069,375	8,110,096	6,463,723
Sales for resale - affiliates	**4,782,873**	5,844,196	3,962,559	3,133,485	2,435,106
Total	**88,657,058**	89,698,317	87,464,402	83,788,400	83,332,883
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**7.57**	7.27	7.23	7.49	7.42
Commercial	**6.47**	6.17	6.05	6.35	6.32
Industrial	**4.45**	3.94	3.90	4.36	4.19
Total retail	**6.13**	5.75	5.68	6.00	5.80
Sales for resale	**3.84**	2.96	3.07	4.14	4.43
Total sales	**5.85**	5.29	5.32	5.75	5.65
Residential Average Annual Kilowatt-Hour Use Per Customer	**12,838**	12,421	12,867	11,933	12,520
Residential Average Annual Revenue Per Customer	**$972**	$903	$930	$894	$929
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**13,978**	13,980	14,059	14,474	15,114
Maximum Peak-Hour Demand (megawatts):					
Winter	**12,208**	13,153	11,873	11,977	12,014
Summer	**15,180**	14,826	14,597	14,294	14,930
Annual Load Factor (percent)	**61.5**	61.0	60.4	61.7	61.6
Plant Availability (percent):					
Fossil-steam	**90.3**	87.6	80.9	88.5	86.1
Nuclear	**94.8**	94.2	88.8	94.4	91.5
Source of Energy Supply (percent):					
Coal	**57.9**	58.6	59.5	58.5	62.3
Nuclear	**17.3**	16.8	16.2	18.1	17.4
Hydro	**1.5**	2.1	0.9	1.1	0.7
Oil and gas	**0.1**	0.3	0.3	0.4	1.8
Purchased power -					
From non-affiliates	**7.0**	7.5	6.3	7.8	8.1
From affiliates	**16.2**	14.7	16.8	14.1	9.7
Total	**100.0**	100.0	100.0	100.0	100.0

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GULF POWER COMPANY

FINANCIAL SECTION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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-196 to II-219) present fairly, in all material respects, the financial position of Gulf Power Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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
February 28, 2005

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

OVERVIEW

Business Activities

Gulf Power Company (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 (PSC).

Many 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 more stringent environmental standards.

On September 15 and 16, 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama causing substantial damage. Nearly 90% of the Company's customers were without electric service immediately after the hurricane. Almost 95% of those without power had service restored within one week, and two weeks after the storm, power had been restored to all who could receive service. The hurricane's financial impact to the Company is provided herein, along with management's discussion and analysis.

Key Performance Indicators

In striving to maximize shareholder value while providing low-cost energy to nearly 400,000 customers, the Company focuses on several key indicators. These indicators include customer satisfaction, peak season equivalent forced outage rate (Peak Season EFOR), and return on equity (ROE). The Company's financial success is directly tied to the satisfaction of its customers. Key elements of ensuring satisfaction include outstanding service, high reliability, and competitive prices. Management uses nationally recognized customer satisfaction surveys and reliability indicators to evaluate the Company's results. Peak Season EFOR is an indicator of plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. ROE is a performance standard used by both the investment community and many regulatory agencies. The Company's 2004 results compared with its targets for each of these indicators are reflected in the following chart.

Key Performance Indicator	2004 Target Performance	2004 Actual Performance
Customer Satisfaction	Top quartile performance in national and regional surveys	**Top quartile**
Peak Season EFOR	2.33%	**2.64%**
ROE	12.33%	**11.83%**

The financial performance achieved in 2004 reflects the focus that management places on these indicators, as well as the commitment shown by the Company's employees in achieving or exceeding management's expectations. The Company's 2004 actual ROE was below the targeted performance level primarily due to an additional discretionary accrual made to the property insurance reserve. The Peak Season EFOR target was not achieved due to outages caused by Hurricane Ivan. See Note 1 to the financial statements under "Provision for Property Damage" for additional information.

Earnings

The Company's 2004 net income after dividends on preferred stock was $68.2 million, a decrease of $0.8 million from the previous year. In 2003, earnings were $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. The decrease in earnings in 2004 is due primarily to higher operating expenses related to storm damage reserves and employee benefits. The improvement in earnings in 2003 was primarily due 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 was primarily due 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.

RESULTS OF OPERATIONS

A condensed statement of income follows:

	Amount	Increase (Decrease) From Prior Year		
	2004	2004	2003	2002
	(in thousands)			
Operating revenues	**$960,131**	**$82,434**	$57,230	$95,264
Fuel	**367,155**	**50,652**	42,643	73,227
Purchased power	**65,897**	**15,740**	(12,841)	(43,247)
Other operation and maintenance	**229,712**	**19,012**	10,625	22,488
Depreciation and amortization	**82,799**	**477**	5,308	8,796
Taxes other than income taxes	**69,856**	**3,741**	5,082	5,772
Total operating expenses	**815,419**	**89,622**	50,817	67,036
Operating income	**144,712**	**(7,188)**	6,413	28,228
Total other income and (expense)	**(36,577)**	**5,219**	(706)	(13,615)
Income taxes	**39,695**	**(1,182)**	3,733	5,884
Net Income	**68,440**	**(787)**	1,974	8,729
Dividends on Preferred Stock	**217**	**-**	-	-
Net Income after Dividends on Preferred Stock	**$ 68,223**	**$ (787)**	$1,974	$ 8,729

Revenues

Operating revenues increased in 2004 when compared to 2003 and 2002. The following table summarizes the changes in operating revenues for the past three years:

	2004	2003	2002
	(in thousands)		
Retail – Prior Year	**$699,174**	$665,836	$584,591
Change in -			
Base rates	**-**	22,000	31,200
Sales growth	**4,896**	7,040	16,557
Weather	**3,313**	(6,757)	9,497
Fuel and other cost recovery	**29,487**	11,055	23,991
Retail—Current Year	**736,870**	699,174	665,836
Sales for resale--			
Non-affiliates	**73,537**	76,767	77,171
Affiliates	**110,264**	63,268	40,391
Total sales for resale	**183,801**	140,035	117,562
Other operating revenues	**39,460**	38,488	37,069
Total operating revenues	**$960,131**	$877,697	$820,467
Percent change	**9.4%**	7.0%	13.1%

Retail revenues increased $37.7 million, or 5.4 percent, in 2004, $33.3 million, or 5.0 percent, in 2003, and $81.2 million, or 13.9 percent, in 2002. The significant factors driving these changes are shown in the table above. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information on the base rate increase that became effective in May 2002.

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 Note 1 to the financial statements under "Revenues" and "Environmental Cost Recovery" for additional information.

Sales for resale were $183.8 million in 2004, an increase of $43.8 million, or 31.3 percent, as compared to 2003, primarily due to increased energy sales to affiliates at a higher unit cost resulting from higher incremental fuel prices. Sales for resale were $140.0 million in 2003, an increase of $22.5 million, or 19.1 percent, as compared to 2002, primarily due to increased energy sales to affiliates reflecting the availability of additional generation following the commercial operation of Plant Smith Unit 3. Sales for resale were $117.6 million in 2002, an increase of $8.1 million, or 7.4 percent, as compared to 2001, primarily due to increased energy sales to affiliates reflecting the commercial operation of Plant Smith Unit 3. Sales to affiliated companies, as well as purchases, vary from year to year depending on demand and the availability and cost of generating resources at each company. These affiliate sales and purchases are made in accordance with the affiliate company interchange agreement, as approved by the Federal Energy Regulatory Commission (FERC). 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 revenues through the Company's fuel cost recovery clause.

Sales for resale to non-affiliates are predominantly unit power sales under long-term contracts to other Florida utilities. Revenues from 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. The capacity and energy components under these unit power contracts were as follows:

	2004	2003	2002
	(in thousands)		
Unit Power --			
Capacity	**$18,780**	$18,598	$19,898
Energy	**29,360**	30,892	28,560
Total	**$48,140**	$49,490	$48,458

During 2004, the Company entered into agreements with Florida Power & Light (FP&L), Progress Energy Florida, and Flint Electric Membership Corporation to provide capacity beginning in June 2010. The new contracts will extend the sale of the capacity discussed above. See FUTURE EARNINGS POTENTIAL – "Other Matters" herein for additional information.

Other operating revenues increased $1.0 million, $1.4 million, and $3.3 million in 2004, 2003, and 2002, respectively, primarily due to an increase in franchise fees, which are proportional to changes in revenue. Other operating revenues for 2002 also increased as a result of a $1.7 million settlement related to a purchased power agreement (PPA) and a $0.9 million increase in revenues from the transmission of electricity to others.

Energy Sales

Kilowatt-hour (KWH) sales for 2004 and the percent changes by year were as follows:

	KWH	Percent Change		
	2004	**2004**	2003	2002
	(millions)			
Residential	**5,215**	**2.2%**	(0.8)%	9.1%
Commercial	**3,695**	**2.2**	1.7	4.0
Industrial	**2,113**	**(1.6)**	4.5	1.8
Other	**23**	**0.4**	4.7	
Total retail	**11,046**	**1.5**	1.0	5.9
Sales for resale				
Non-affiliates	**2,257**	**(9.9)**	16.1	3.1
Affiliates	**3,125**	**28.1**	41.8	78.4
Total	**16,428**	**3.8**	8.0	10.7

Residential sales increased 2.2 percent in 2004 due to more favorable weather conditions and customer growth, as compared to 2003. Residential sales decreased 0.8 percent in 2003 primarily due to milder summer weather, as 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. Residential sales are expected to increase just over 2 percent annually over the next five years, given normal weather conditions.

Commercial sales increased 2.2 percent in 2004, as compared to 2003, primarily due to more favorable weather conditions and customer growth. Commercial sales increased 1.7 percent in 2003, as compared to 2002, primarily due to customer growth, which offset milder summer weather. In 2002, commercial sales increased 4.0 percent primarily due to more extreme weather as compared to 2001. Commercial sales are expected to increase approximately 3 percent annually over the next five years, given normal weather conditions.

Industrial sales decreased 1.6 percent in 2004, as compared to 2003, primarily due to the short-term outage experienced as a result of Hurricane Ivan in September 2004. 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 are expected to increase approximately 1 percent annually over the next five years.

Sales for resale to non-affiliates decreased 9.9 percent in 2004, increased 16.1 percent in 2003, and increased 3.1 percent in 2002 primarily as a result of fluctuations in the fuel cost to produce energy sold to Florida utilities under long-term contracts and energy sold to other non-affiliated utilities under short-term contracts. The degree to which oil and natural gas prices, which are the primary fuel sources for these customers, differ from the Company's fuel costs will influence these changes in sales. However, these fluctuations in energy sales under long-term contracts have a minimal effect on earnings because the energy is generally sold at marginal cost.

Expenses

Total operating expenses increased $89.6 million, or 12.3 percent, in 2004, and $50.8 million, or 7.5 percent, in 2003 over the amount recorded in the prior year primarily due to higher fuel and operation and maintenance expenses. In 2002, total operating expenses increased $67.0 million, or 11 percent, compared to 2001 primarily due to higher fuel and maintenance costs.

In 2004, other operation and maintenance expenses increased $19.0 million, or 9.0 percent, primarily due to increases of $7.9 million in the accumulated provision for property damage, $2.9 million in the accrued expenses for uninsured litigation and workers compensation claims, $3.4 million for employee benefit expenses, and $2.5 million for production expenses. See Notes 1 and 3 to the financial statements under "Provision for Property Damage" and "Retail Regulatory Matters," respectively, for additional information. In 2003, other operation and maintenance expenses increased $10.6 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. In 2002, other operation and maintenance expenses increased $22.5 million, or 12.7 percent, mainly due to scheduled generating plant maintenance.

Depreciation and amortization expense remained flat in 2004 due to no significant change in depreciable assets. Depreciation and amortization expense increased $5.3 million, or 6.9 percent, and $8.8 million, or 12.9 percent, in 2003 and 2002, respectively, primarily due to the commercial operation of Plant Smith Unit 3 beginning in April 2002. The 2003 increase also reflects the amortization of a regulatory asset related to corporate facilities, in accordance with an order from the Florida PSC.

Fuel and Purchased Power Expenses

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. Fuel expense increased $50.7 million, or 16.0 percent, in 2004 and $42.6 million, or 15.6 percent, in 2003, compared to the prior year primarily due to increased generation to meet the demand for energy and higher average costs of fuel. Fuel expense in 2002, compared to 2001, increased $73.2 million, or 36.5 percent, primarily due to the commercial operation of Plant Smith Unit 3 beginning in April 2002.

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:

	2004	2003	2002
Total generation (millions of kilowatt-hours)	**15,841**	14,988	13,142
Sources of generation (percent)			
Coal	**84**	87	82
Gas	**16**	13	18
Average cost of fuel per net kilowatt-hour generated (cents)	**2.32**	2.11	2.08
Average cost of purchased power per net kilowatt-hour (cents)	**4.97**	3.29	2.79

Purchased power expense in 2004 increased $15.7 million, or 31.4 percent, as compared to 2003, primarily due to increased power purchases from merchant generation resources to minimize total system production cost. Purchased power expense decreased in 2003 by $12.8 million, or 20.4 percent, as compared to 2002, 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, as compared to 2001, primarily due to the additional generating capacity from the Company's Plant Smith Unit 3.

A significant upward trend in the cost of coal and natural gas has emerged since 2003, and volatility in these markets is expected to continue. Increased coal prices have been influenced by a worldwide increase in demand as a result of rapid economic growth in China as well as by increases in mining costs. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, result in an immediate market response, however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas.

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.

Other Income and (Expense)

The equity portion of allowance for funds used during construction (AFUDC) increased $1.1 million in 2004 primarily due to ongoing construction activities related to the installation of pollution controls equipment at Plant Crist. AFUDC 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 in April 2002. See FUTURE EARNINGS POTENTIAL – "Environmental Matters -- Environmental Statutes and Regulations" herein and Note 1 to the financial statements under "AFUDC" for additional information.

Interest expense decreased $2.1 million, or 5.5 percent, in 2004 and $1.8 million, or 4.6 percent, in 2003 primarily as the result of refinancing higher cost securities. Interest expense increased $8.5 million, or 26.9 percent, in 2002 primarily due to the issuance of $180 million of senior notes in 2001 and 2002 that were used to finance the construction of Plant Smith Unit 3.

Effects of Inflation

The Company is subject to rate regulation based on the recovery of historical costs. In addition, the income tax laws are 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 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 PSC 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 FERC. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements for additional information about these and other regulatory matters.

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 more stringent 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.

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.

Environmental Matters

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 and Georgia Power. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws at 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. See Note 4 to the financial statements 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. 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.

The Company believes that it has complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of \$25,000 to \$32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must be adopted by the individual states within the Company's service territory in order to apply to the Company's facilities. The effect of these final regulations, related legal challenges, and potential state rulemaking cannot be determined at this time.

Carbon Dioxide Litigation

On July 21, 2004, attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. Plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. Southern Company and the other defendants have filed motions to dismiss both lawsuits. Southern Company intends to vigorously defend against these claims. While the outcome of these matters cannot be determined at this time, an adverse judgment in either of these actions could result in substantial capital expenditures.

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 involves 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 discussed under FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein. The Florida Legislature has adopted legislation that allows a utility to petition the Florida PSC 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 Remediation." 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 (ECRC). There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the 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 (NOx) emissions and resulted in total construction expenditures of approximately $42 million through 2000.

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 and included development of an eight-hour ozone standard, as opposed to the one-hour ozone standard previously established by the EPA. 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. On April 30, 2004, the EPA published its eight-hour ozone nonattainment designations and a portion of the rules implementing the new eight-hour ozone standard. Based on recommendations from the State of Florida, the EPA designated the entire State of Florida as in attainment for the eight-hour ozone standard. The Company is, however, a partial owner of a plant in Georgia that is located in an area determined by the EPA to be in nonattainment for the standard. State implementation plans, including new emission control regulations necessary to bring nonattainment areas into attainment, could be required as early as 2007. These state implementation plans could require reductions in NOx emissions from power plants. The impact of the eight-hour designations and the new standard will depend on the development and implementation of applicable state implementation plans and therefore cannot be determined at this time.

On December 17, 2004, the EPA issued its final "nonattainment" designations for the fine particulate national ambient air quality standard. The Company is a partial owner of a plant in Georgia that is located in an area included in the EPA's final particulate matter designations. The EPA plans to propose a fine particulate matter implementation rule in 2005 and finalize the implementation rule in 2006. State implementation plans addressing the nonattainment designations may be required by 2008 and could require reductions in sulfur dioxide emissions and further reductions in NOx emissions from power plants. The impact of the fine particulate designations will depend on the development and implementation of applicable state implementation plans and therefore cannot be determined at this time.

In August 2002, the Company entered into an agreement with the Florida Department of Environmental Protection (FDEP) calling for 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 during 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 $138 million, of which $43.6 million remains to be spent. Costs for implementation of the agreement have been approved for recovery through the ECRC. See Note 1 to the financial statements under "Environmental Cost Recovery" for additional information.

In January 2004, the EPA issued a proposed Clean Air Interstate Rule (CAIR) to address interstate transport of ozone and fine particles. This proposed rule would require additional year-round sulfur dioxide and NOx 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 in 2005. If finalized, the rule could modify or supplant other state requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard, as well as other air quality regulations. 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.

The Company has developed and maintains an environmental compliance strategy for the installation of additional control technologies and the purchase of emission allowances to assure continued compliance with current sulfur dioxide and NOx emission regulations. Additional expenses associated with these regulations are anticipated to be incurred each year to maintain current and future compliance. Because the Company's compliance strategy is impacted by factors such as changes to existing environmental laws and regulations, increases in the cost of emissions allowances, and any changes in the Company's fuel mix, future environmental compliance costs cannot be determined at this time.

Further reductions in sulfur dioxide and NOx 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 and to implement emission reduction requirements that make progress toward remedying current visibility impairment in certain natural areas. 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 implementation plans in 2008 that contain emission reduction strategies for implementing BART and for achieving sufficient progress toward the Clean Air Act's visibility improvement goal. In response to litigation, the EPA proposed revised rules in May 2004, which it plans to finalize in April 2005. The impact of these regulations will depend on the promulgation of final rules and implementation of those rules by the states and, therefore, 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. This will begin taking place in 2005 for the Company's affected units. Field testing information collected in 2002, 2003, and 2004 was used to develop CAM protocols which were successfully adopted into the Title V permit renewals at all affected Company plants.

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 March 2005, and compliance could be required as early as 2008. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants, including the Bush Administration's Clear Skies Act, have been re-proposed in 2005. The Clear Skies Act is expected to further limit power plant emissions of sulfur dioxide, NOx, and mercury and to supplement the proposed CAIR and mercury regulatory programs. Other proposals to limit emissions of carbon dioxide have also been introduced. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

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. In July 2004, the EPA published final rules that 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 and the actual limits established by the regulatory agencies.

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, 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.

Global Climate Issues

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 constraints on the emissions of greenhouse gases for a group of industrialized countries. The Bush Administration has not supported U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and, in 2002, announced a goal to reduce the greenhouse gas intensity of the U.S. – the ratio of greenhouse gas emissions to the value of U.S. economic output -- by 18 percent by 2012. A year later, the Department of Energy (DOE) announced the Climate VISION program to support this goal. Energy-intensive industries, including electricity generation, are the initial focus of this program. Southern Company is leading the development of a voluntary electric utility sector climate change initiative in partnership with the government. The utility sector has pledged to reduce its greenhouse gas emissions rate by 3 to 5 percent over the next decade and, on December 13, 2004, signed a memorandum of understanding with the DOE initiating this program under Climate VISION. Because efforts under this voluntary program are just beginning, the impact of this program on the Company cannot be determined at this time.

Environmental Remediation Reserves

The Company must comply with environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company may incur substantial costs to remediate properties. The Company conducts studies to determine the extent of any required remediation and has recognized in the financial statements costs to remediate known sites. During the third quarter 2004, the Company increased its estimated liability for the estimated costs of environmental remediation projects by approximately $47 million. This increase relates to new regulations and more stringent site closure criteria by the FDEP for impacts to soil and groundwater from herbicide applications at certain substation sites. Because FDEP approval is required prior to the issuance of site closure, a timeframe for the completion of the remediation projects cannot be determined. The projects have been approved by the Florida PSC for recovery, as expended, through the Company's ECRC; therefore, there was no impact on the Company's net income as a result of these revised estimates. Amounts for actual cleanup and ongoing monitoring costs were not material for any year presented. The Company may be liable for some or all required remediation costs for additional sites that may require environmental remediation. See Note 3 to the financial statements under "Environmental Remediation" for additional information.

FERC and Florida PSC Matters

Transmission

In December 1999, the FERC issued its final rule on Regional Transmission Organizations (RTOs). Since that time, there have been a number of additional proceedings at the FERC designed to encourage further voluntary formation of RTOs or to mandate their formation. However, at the current time, there are no active proceedings that would require the Company to participate in an RTO. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection, as well as an inquiry into, among other things, market power by vertically integrated utilities. See "Generation Interconnection Agreements" and "Market-Based Rate Authority" herein for additional information. The final outcome of these proceedings cannot now be determined. However, the Company's financial condition, results of operations, and cash flows could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to three previously executed interconnection agreements with other subsidiaries of Southern Company, have filed complaints at the FERC requesting that the FERC modify the agreements and that Southern Company refund amounts previously paid for interconnection facilities, with interest. The Company has received similar requests from other entities totaling $6.6

million. The Company has opposed such relief, and these matters are still outstanding. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in its retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Florida PSC and FDEP Report on Renewable Energy

The Florida PSC, 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 Florida PSC and the FDEP in January 2003. This report describes various renewable and green energy options. The report provided the Florida PSC, 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 Florida 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.

Retail Fuel Cost Recovery

The Company has established fuel cost recovery rates approved by the Florida PSC. The Company experienced higher than projected fuel costs for coal and natural gas which increased the under recovered fuel costs included in the balance sheet in 2003. At December 31, 2004, the under recovered amount was $7.9 million, a decrease of $12.4 million, or 61 percent, when compared to 2003, primarily due to more sales for resale which reduced the net amount of fuel expense to be recovered from retail customers. 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.

Storm Damage Cost Recovery

On September 15 and 16, 2004, Hurricane Ivan hit the Gulf Coast of Florida and Alabama causing substantial damage. Nearly 90% of the Company's customers were without electric service immediately after the hurricane. Almost 95% of those without power had service restored within one week, and two weeks after the storm, power had been restored to all who could receive service.

Under authority granted by the Florida PSC, the Company maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property. Prior to Hurricane Ivan, the Company's reserve balance was approximately $27.8 million. The Company's estimated total cost of Hurricane Ivan is $141.5 million. Of this amount, approximately $17.2 million is covered by insurance. As a result, the accumulated reserve had a deficit balance of approximately $96.5 million to be addressed through future accruals to the reserve or other alternative recovery mechanisms. The Company's current annual accrual to the property damage reserve, as approved by the Florida PSC, is $3.5 million. The Florida PSC has also authorized the Company to make additional accruals at the Company's discretion.

On February 2, 2005, the Citizens of the State of Florida through the Office of Public Counsel, the Florida Industrial Power Users Group, and the Company filed a Stipulation and Settlement with the Florida PSC to resolve all matters regarding the effects of Hurricane Ivan on the Company's reserve for property damage (Stipulation).

Under the terms of the Stipulation, the Company will recover the retail portion of $51.7 million of Hurricane Ivan storm damage costs, plus interest and revenue taxes, through a monthly surcharge applied to retail customer bills for a 24-month period. For purposes of the Stipulation, such recovery amount excludes $44.8 million from the amount to be recovered, including $26.4 million in capital that will be included in retail rate base, and a $15 million discretionary accrual to the reserve recorded by the Company in 2004 pursuant to the agreement between the parties reached in the Stipulation.

Except under circumstances provided for within the Stipulation, the Company has agreed that it will not seek any additional increase in its base rates and charges to become effective on or before March 1, 2007. The Stipulation is subject to the approval of the Florida PSC, which is expected to rule on the Stipulation at its next meeting in March 2005. The ultimate outcome of this matter cannot now be determined. See Notes 1 and 3 to the financial statements under "Provision for Property Damage" and "Retail Regulatory Matters," respectively, for additional information.

Income Tax Matters

American Jobs Creation Act of 2004

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. The Company is currently assessing the impact of the Jobs Act, including this deduction, as well as the related regulatory treatment, on its taxable income. However, the Company currently does not expect the Jobs Act to have a material impact on its financial statements.

Other Matters

On August 12, 2004, Georgia Power and the Company entered into a PPA with FP&L. Under the agreement, Georgia Power and the Company will provide FP&L with 165 megawatts of capacity annually from the jointly owned Plant Scherer Unit 3 for the period from June 2010 through December 2015. The contract provides for fixed capacity payments and variable energy payments based on actual energy delivered. The Florida PSC approved the contract on January 24, 2005; however, it is still contingent on certain events.

On November 29, 2004, Georgia Power and the Company entered into a PPA with Progress Energy Florida. Under the PPA, Georgia Power and the Company will provide Progress Energy with 74 megawatts of capacity annually from the jointly owned Plant Scherer Unit 3 for the period from June 2010 through December 2015. The contract provides for fixed capacity payments and variable energy payments based on actual energy delivered. The contract is contingent upon certain events, including approval of the Florida PSC. A hearing has been scheduled for March 2005. The final outcome of this matter cannot now be determined.

Also in 2004, Georgia Power and the Company entered into a PPA with Flint Electric Membership Corporation. Under the agreement, Georgia Power and the Company will provide Flint Electric Membership Corporation with 75 megawatts of capacity annually from the jointly owned Plant Scherer Unit 3 for the period from June 2010 through December 2019. The contract provides for fixed capacity payments and variable energy payments based on actual energy delivered.

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 $2.5 million, $4.9 million, and $5.6 million in 2004, 2003, and 2002, respectively. Future pension income is dependent on several factors including trust earnings and changes to the pension 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 $5.1 million, $4.9 million, and $4.5 million in 2004, 2003, and 2002, 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 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.

The Company is involved in various other 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. Southern Company 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

The Company is subject to retail regulation by the Florida 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, which requires the financial statements to reflect the effects of rate 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 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, 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 legislative, 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 herein 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.

Unbilled Revenues

Revenues related to the sale of electricity are recorded when electricity is delivered to customers. However, the determination of KWH sales to individual customers is based on the reading of their meters, which is performed on a systematic basis through the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, power delivery volume, and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company's results of operations.

New Accounting Standards

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of FASB Interpretation No. 46R had no impact on the Company's net income. However, as a result of the adoption, the Company deconsolidated certain wholly-owned trusts established to issue preferred securities since the Company does not meet the definition of primary beneficiary established by FASB Interpretation No. 46R. See Note 1 to the financial statements under "Variable Interest Entities" for additional information.

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $0.5 million and is expected to have a similar impact on future years. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $8.0 million. However, the ultimate impact on future periods is subject to final interpretation of the federal regulations which were published on January 21, 2005. See Note 2 to the financial statements under "Postretirement Benefits" for additional information.

FASB Statement No. 123R, Share-Based Payment was issued in December 2004. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. For the Company, this statement is effective beginning on July 1, 2005. Although the compensation expense required under the revised statement differs slightly, the impacts on the financial statements are expected to be similar to the pro forma disclosures included in Note 1 to the financial statements under "Stock Options."

See FUTURE EARNINGS POTENTIAL – "Income Tax Matters -- American Jobs Creation Act of 2004" herein for information regarding the adoption of new tax legislation. In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, which requires that the generation deduction be accounted for as a special tax deduction rather than as a tax rate reduction. The Company is currently assessing the Jobs Act and this pronouncement, as well as the related regulatory treatment, but currently does not expect a material impact on the Company's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition continued to be strong at December 31, 2004. Net cash flow from operating activities totaled $143.2 million, $191.2 million, and $135.9 million for 2004, 2003, and 2002, respectively. The majority of the decrease from 2003 to 2004 is due to payments related to storm damage from Hurricane Ivan. The increase from 2002 to 2003 is primarily due to an increase in prepayments, reduced accounts receivable from customers and the recovery of additional fuel costs. Gross property additions were $161.2 million in 2004. 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.

Significant balance sheet changes include the $50 million increase in securities due within one year due to bank notes issued to temporarily finance costs associated with Hurricane Ivan restoration.

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 43.2 percent in 2004, 45.3 percent in 2003, and 44.0 percent in 2002. See Note 6 to the financial statements for additional information.

The Company has received investment grade ratings from the major rating agencies.

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 flows and the issuance of unsecured debt and preferred securities, as well as 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 in order 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 that the Company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

The issuance of securities, including financing associated with the issuance of pollution control bonds, is subject to regulatory approval by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 as amended (PUHCA), and the Florida PSC pursuant to its rules and regulations. In recent years, financings primarily have utilized unsecured debt and preferred securities. Additionally, with respect to the public offering of securities, the Company must file registration statements with the SEC under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the appropriate regulatory authorities, as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

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 PUHCA, most loans between affiliated companies must be approved in advance by the SEC.

The Company's current liabilities exceed current assets due to the scheduled maturity of $100 million in bank notes issued to temporarily finance costs associated with Hurricane Ivan repairs. See "Financing Activities" herein for additional information.

To meet short-term cash needs and contingencies, the Company has various internal and external sources of liquidity. At the beginning of 2005, the Company had approximately $64.8 million of cash and cash equivalents, along with $56.3 million of unused committed lines of credit with banks to meet its short-term cash needs. These bank credit arrangements will expire during 2005. The Company plans to renew these lines of credit during 2005. In addition, the Company has substantial cash flow from operating activities. 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, 2004, the Company had no commercial paper or extendible commercial notes outstanding.

Financing Activities

During 2004, the Company issued $110 million of senior notes. The issuances were used to refund $75 million of senior notes and to pay at maturity $50 million of senior notes due August 15, 2004. In addition, on October 27, 2004, the Company issued $100 million of bank notes due October 28, 2005. This issuance was used to temporarily finance costs associated with Hurricane Ivan repairs. See FUTURE EARNINGS POTENTIAL – "Storm Damage Cost Recovery" herein for additional information.

Composite financing rates for long-term debt have decreased from 5.34 percent in 2002, to 4.60 percent in 2003, and 4.18 percent in 2004.

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- or Baa3, or below. Generally, collateral may be provided for by a Southern Company guaranty, letter of credit, or cash. These contracts are primarily for physical electricity purchases and sales. At December 31, 2004, the maximum potential collateral requirements at a BBB- or Baa3 rating were approximately $5 million. The maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $10 million. The Company is also party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price and interest rate risk management activities. At December 31, 2004, the Company had no material exposure related to these agreements.

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 risk management practices. Company policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including but not limited to market valuation, value at risk, stress testing, and sensitivity analysis.

The weighted average interest rate on $144.6 million variable long-term debt that has not been hedged at January 1, 2005 was 1.97 percent. If the Company sustained a 100 basis point change in interest rates for all variable rate long-term debt, the change would affect annualized interest expense by approximately $1.4 million at January 1, 2005. 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.

The changes in fair value of energy-related derivative contracts and year-end valuations were as follows at December 31:

	Changes in Fair Value	
	2004	2003
	(in thousands)	
Contracts beginning of year	**$2,503**	$2,336
Contracts realized or settled	**(8,409)**	(5,098)
New contracts at inception	**-**	-
Changes in valuation techniques	**-**	-
Current period changes (a)	**6,223**	5,265
Contracts end of year	**$ 317**	$2,503

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

	Source of 2004 Year-End Valuation Prices		
	Total	Maturity	
	Fair Value	2005	2006-2007
	(in thousands)		
Actively quoted	$310	$(17)	$327
External sources	7	7	-
Models and other methods	-	-	-
Contracts end of Year	$317	$(10)	$327

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 statements of income as incurred. At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in thousands)
Regulatory liabilities, net	$309
Other comprehensive income	-
Net income	8
Total fair value	$317

Unrealized gains (losses) recognized in income were not material in any year presented. 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. See Notes 1 and 6 to the financial statements under "Financial Instruments" for additional information.

Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $154 million in 2005, $112 million in 2006, and $103 million in 2007. These amounts include $40 million and $4 million in 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 Florida PSC authorized the Company to recover the costs related to these environmental projects through the ECRC. The construction program also includes $15 million in 2005, $9 million in 2006, and $23 million in 2007 for other environmental expenditures. 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 2007. 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 postretirement 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, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

Contractual Obligations	2005	2006-2007	2008-2009	After 2009	Total
			(in thousands)		
Long-term debt[(a)] --					
Principal	$100,000	$ 37,075	$ -	$ 594,721	$ 731,796
Interest	32,169	57,359	55,100	567,003	711,631
Preferred stock dividends[(b)]	217	434	434	-	1,085
Operating leases	2,481	4,844	4,136	6,238	17,699
Purchase commitments[(c)] --					
Capital[(d)]	153,630	215,340	-	-	368,970
Coal	196,159	228,610	-	-	424,769
Natural gas[(e)]	95,604	129,151	37,772	240,269	502,796
Purchased power	311	-	-	-	311
Long-term service agreements	5,925	13,623	15,009	46,677	81,234
Postretirement benefit trusts[(f)]	70	140	-	-	210
Total	$586,566	$686,576	$112,451	$1,454,908	$2,840,501

(a) All amounts are reflected based on final maturity dates. The Company plans to 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, 2005, 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 $230 million, $211 million, and $200 million, respectively.

(d) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2004, 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 Exchange future prices at December 31, 2004.

(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 and postretirement plans, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from the Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Statements

The Company's 2004 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the Company's retail sales growth, environmental regulations and expenditures, storm damage cost recovery, the Company's projections for postretirement benefit trust contributions, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, 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 actions against the Company;
- the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;
- variations in demand for electricity and gas, including those relating to weather, the general economy and population and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- 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 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 effect on the Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the Company from time to time with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Gulf Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Revenues:			
Retail sales	**$736,870**	$699,174	$665,836
Sales for resale --			
Non-affiliates	**73,537**	76,767	77,171
Affiliates	**110,264**	63,268	40,391
Other revenues	**39,460**	38,488	37,069
Total operating revenues	**960,131**	877,697	820,467
Operating Expenses:			
Fuel	**367,155**	316,503	273,860
Purchased power --			
Non-affiliates	**30,720**	17,137	23,797
Affiliates	**35,177**	33,020	39,201
Other operations	**160,635**	140,166	124,654
Maintenance	**69,077**	70,534	75,421
Depreciation and amortization	**82,799**	82,322	77,014
Taxes other than income taxes	**69,856**	66,115	61,033
Total operating expenses	**815,419**	725,797	674,980
Operating Income	**144,712**	151,900	145,487
Other Income and (Expense):			
Allowance for equity funds used during construction	**1,855**	712	2,980
Interest income	**1,224**	888	572
Interest expense, net of amounts capitalized	**(31,482)**	(31,069)	(31,452)
Interest expense to affiliate trusts	**(3,443)**	-	-
Distributions on mandatorily redeemable preferred securities	**(1,113)**	(7,085)	(8,524)
Other income (expense), net	**(3,618)**	(5,242)	(4,666)
Total other income and (expense)	**(36,577)**	(41,796)	(41,090)
Earnings Before Income Taxes	**108,135**	110,104	104,397
Income taxes	**39,695**	40,877	37,144
Net Income	**68,440**	69,227	67,253
Dividends on Preferred Stock	**217**	217	217
Net Income After Dividends on Preferred Stock	**$ 68,223**	$ 69,010	$ 67,036

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003, and 2002

Gulf Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Activities:			
Net income	**$ 68,440**	$ 69,227	$ 67,253
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization	**88,772**	87,949	82,230
Deferred income taxes	**46,255**	2,303	9,619
Pension, postretirement, and other employee benefits	**(895)**	(717)	(8,170)
Tax benefit of stock options	**3,063**	1,768	1,043
Hedge settlements		(3,266)	
Other, net	**10,101**	6,828	5,756
Changes in certain current assets and liabilities --			
Receivables, net	**1,741**	8,223	(25,954)
Fossil fuel stock	**2,355**	1,837	10,464
Materials and supplies	**(831)**	(1,091)	(5,982)
Other current assets	**(29,622)**	12,207	(14,178)
Accounts payable	**(51,876)**	(1,208)	20,235
Accrued taxes	**629**	(549)	1,117
Accrued compensation	**1,946**	104	(1,067)
Other current liabilities	**3,111**	7,576	(6,470)
Net cash provided from operating activities	**143,189**	191,191	135,896
Investing Activities:			
Gross property additions	**(161,205)**	(99,284)	(106,624)
Cost of removal net of salvage	**(10,259)**	(7,881)	(7,978)
Other	**36,391**	(4,440)	(9,745)
Net cash used for investing activities	**(135,073)**	(111,605)	(124,347)
Financing Activities:			
Increase (decrease) in notes payable, net	**12,334**	9,187	(58,831)
Proceeds --			
Pollution control bonds	**-**	61,625	55,000
Senior notes	**110,000**	225,000	45,000
Other long-term debt	**100,000**	-	-
Mandatorily redeemable preferred securities	**-**	-	40,000
Capital contributions from parent company	**29,481**	13,315	42,766
Redemptions --			
Pollution control bonds		(61,625)	(55,000)
Senior notes	**(125,000)**	(151,757)	(454)
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	**(70,000)**	(70,200)	(65,500)
Other	**(2,433)**	(10,644)	(3,279)
Net cash provided from (used for) financing activities	**54,165**	(90,316)	(515)
Net Change in Cash and Cash Equivalents	**62,281**	(10,730)	11,034
Cash and Cash Equivalents at Beginning of Period	**2,548**	13,278	2,244
Cash and Cash Equivalents at End of Period	**$ 64,829**	$ 2,548	$ 13,278
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $819, $314, and $1,392 capitalized, respectively)	**$28,796**	$37,468	$39,604
Income taxes (net of refunds)	**24,130**	23,777	34,048

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS

At December 31, 2004 and 2003

Gulf Power Company 2004 Annual Report

Assets	2004	2003
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 64,829**	$ 2,548
Receivables --		
Customer accounts receivable	**44,255**	44,001
Unbilled revenues	**35,889**	31,548
Under recovered regulatory clause revenues	**9,283**	21,812
Other accounts and notes receivable	**7,177**	6,179
Affiliated companies	**16,218**	9,826
Accumulated provision for uncollectible accounts	**(2,144)**	(947)
Fossil fuel stock, at average cost	**32,999**	35,354
Vacation pay	**5,446**	5,254
Materials and supplies, at average cost	**36,761**	35,930
Prepaid income taxes	**34,812**	4
Prepaid expenses	**3,563**	6,310
Other	**8,732**	4,981
Total current assets	**297,820**	202,800
Property, Plant, and Equipment:		
In service	**2,367,189**	2,306,959
Less accumulated provision for depreciation	**844,617**	847,519
	1,522,572	1,459,440
Construction work in progress	**74,004**	49,438
Total property, plant, and equipment	**1,596,576**	1,508,878
Other Property and Investments	**6,425**	13,339
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**17,566**	18,263
Prepaid pension costs	**45,384**	42,014
Unamortized debt issuance expense	**6,615**	6,877
Unamortized loss on reacquired debt	**19,197**	19,389
Other regulatory assets	**107,994**	19,058
Other	**13,086**	8,435
Total deferred charges and other assets	**209,842**	114,036
Total Assets	**$2,110,663**	$1,839,053

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS

At December 31, 2004 and 2003

Gulf Power Company 2004 Annual Report

Liabilities and Stockholder's Equity	**2004**	2003
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$100,000**	$ 50,000
Notes payable	**50,000**	37,666
Accounts payable --		
Affiliated	**35,359**	26,945
Other	**77,452**	21,952
Customer deposits	**18,470**	18,271
Accrued taxes --		
Income taxes	**1,927**	6,405
Other	**9,250**	8,621
Accrued interest	**7,665**	8,077
Accrued vacation pay	**5,446**	5,254
Accrued compensation	**16,989**	13,456
Other	**12,988**	9,694
Total current liabilities	**335,546**	206,341
Long-term Debt (See accompanying statements)	**550,989**	515,827
Long-term Debt Payable to Affiliated Trusts (See accompanying statements)	**72,166**	-
Mandatorily Redeemable Preferred Securities (See accompanying statements)	**-**	70,000
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**229,909**	175,685
Deferred credits related to income taxes	**23,354**	26,545
Accumulated deferred investment tax credits	**18,489**	20,451
Employee benefit obligations	**54,869**	52,395
Other cost of removal obligations	**155,831**	151,229
Miscellaneous regulatory liabilities	**2,048**	27,903
Other	**71,192**	27,083
Total deferred credits and other liabilities	**555,692**	481,291
Total Liabilities	**1,514,393**	1,273,459
Preferred Stock (See accompanying statements)	**4,098**	4,236
Common Stockholder's Equity (See accompanying statements)	**592,172**	561,358
Total Liabilities and Stockholder's Equity	**$2,110,663**	$1,839,053
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION
At December 31, 2004 and 2003
Gulf Power Company 2004 Annual Report

	2004	2003	2004	2003
	(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 --				
7.05% due August 15, 2004		50,000		
Variable rate (2.36% at 1/1/05) due October 8, 2005	**100,000**			
4.35% to 6.10% due 2013-2044	**335,000**	300,000		
Total long-term notes payable	**435,000**	350,000		
Other long-term debt --				
Pollution control revenue bonds --				
Collateralized: 5.25% due April 1, 2006	**12,075**	12,075		
Non-collateralized:				
4.80% due September 1, 2028	**13,000**	13,000		
Variable rates (1.90% to 2.27% at 1/1/05) due 2022-2037	**144,555**	144,555		
Total other long-term debt	**169,630**	169,630		
Unamortized debt premium (discount), net	**(8,641)**	(8,803)		
Total long-term debt (annual interest requirement -- $27.6 million)	**650,989**	565,827		
Less amount due within one year	**100,000**	50,000		
Long-term debt excluding amount due within one year	**550,989**	515,827	**45.2%**	44.7%
Long-term Debt Payable to Affiliated Trusts:				
7.375% due 2041	**30,928**			
5.60% through 2007 due 2042*	**41,238**			
Total long-term debt payable to affiliated trusts (annual interest requirement -- $4.6 million)	**72,166**	-	**5.9**	0.0
Mandatorily Redeemable Preferred Securities:				
$25 liquidation value -- 7.375% due 2041	**-**	30,000		
$1,000 liquidation value -- 5.60% through 2007 due 2042*	**-**	40,000		
Total mandatorily redeemable preferred securities	**-**	70,000	**0.0**	6.1
Cumulative Preferred Stock:				
$100 par value				
4.64%	**1,150**	1,250		
5.16%	**1,329**	1,357		
5.44%	**1,619**	1,629		
Total cumulative preferred stock (annual dividend requirement -- $0.2 million)	**4,098**	4,236	**0.3**	0.4
Common Stockholder's Equity:				
Common stock, without par value --				
Authorized and outstanding - 992,717 shares in 2004 and 2003	**38,060**	38,060		
Paid-in capital	**397,396**	364,864		
Retained earnings	**159,581**	161,208		
Accumulated other comprehensive income (loss)	**(2,865)**	(2,774)		
Total common stockholder's equity	**592,172**	561,358	**48.6**	48.8
Total Capitalization	**$1,219,425**	$1,151,421	**100.0%**	100.0%

*The fixed rate thereafter is 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, 2004, 2003, and 2002

Gulf Power Company 2004 Annual Report

	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total
			(in thousands)		
Balance at December 31, 2001	$38,060	$305,972	$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	349,781	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**	**364,864**	**161,208**	**(2,774)**	**561,358**
Net income after dividends on preferred stock		**-**	**68,223**	**-**	**68,223**
Capital contributions from parent company		**32,544**		**-**	**32,544**
Other comprehensive income (loss)				**(91)**	**(91)**
Cash dividends on common stock			**(70,000)**		**(70,000)**
Other	**-**	(12)	**150**	**-**	**138**
Balance at December 31, 2004	**$38,060**	**$397,396**	**$159,581**	**$(2,865)**	**$592,172**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Gulf Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Net income after dividends on preferred stock	**$68,223**	$69,010	$67,036
Other comprehensive income (loss):			
Changes in additional minimum pension liability, net of tax of $(184), $(84) and $(461), respectively	**(292)**	(134)	(734)
Change in fair value of marketable securities, net of tax of $35	**56**		
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 $91 and $63	**145**	100	-
Total other comprehensive income (loss)	**(91)**	(2,040)	(734)
Comprehensive Income	**$68,132**	$66,970	$66,302

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Gulf Power Company (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 (SouthernLINC Wireless), 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 the subsidiary companies. SouthernLINC Wireless 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 various other energy-related businesses. 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, as amended (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 (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.

The equity method is used for subsidiaries in which the Company has significant influence but does not control and for variable interest entities where the Company is not the primary beneficiary. 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, $55 million, and $49 million during 2004, 2003, and 2002, 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 $6.8 million, $4.9 million, and $4.5 million and Mississippi Power $17.8 million, $17.7 million, and $16.6 million in 2004, 2003, and 2002, respectively, for its proportionate share of related expenses. See Note 4 and Note 7 under "Operating Leases" for additional information. Also, see Note 5 for information on certain deferred tax liabilities due to affiliates.

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

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 for differences between the actual recoverable costs and amounts billed in current regulated 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.

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:

	2004	2003	Note
	(in thousands)		
Asset retirement obligations	**$ 1,453**	$ 1,019	(a)
Other cost of removal obligations	**(155,831)**	(151,229)	(a)
Deferred income tax charges	**17,566**	18,263	(a)
Loss on reacquired debt	**19,197**	19,389	(b)
Vacation pay	**5,446**	5,254	(c)
Deferred income tax credits	**(23,354)**	(26,545)	(a)
Accumulated provision for property damage	**48,284**	(26,244)	(d)
Environmental remediation	**59,364**	12,878	(f)
Fuel-hedging liabilities, net	**(309)**	(2,501)	(e)
Other assets	**5,656**	8,198	(d)
Other liabilities	**(1,967)**	(3,177)	(d)
Total	**$(24,495)**	$(144,695)	

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 Florida PSC.

(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.

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 currently reflected in rates.

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 life of the related property.

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 2004, 3.8 percent in 2003, and 3.9 percent in 2002. 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

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 present value of the ultimate cost 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. Although 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 received accounting guidance from the Florida PSC allowing such treatment. Accordingly, the accumulated removal costs for other obligations previously accrued will continue to be reflected on the balance sheets 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 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 statements of income allowed removal costs in accordance with its regulatory treatment. Any differences 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:

	2004	2003
	(in thousands)	
Balance beginning of year	**$4,271**	$ -
Liabilities incurred	-	3,998
Liabilities settled		-
Accretion	**316**	273
Cash flow revisions	**1,202**	-
Balance end of year	**$5,789**	$4,271

Allowance for Funds Used During Construction (AFUDC)

In accordance with regulatory treatment, the Company records AFUDC on certain 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 2004, 2003, and 2002, the average AFUDC rates were 7.48 percent, 7.48 percent, and 7.35 percent, respectively. AFUDC, net of taxes, as a percentage of net income after dividends on preferred stock was 3.46 percent, 1.31 percent, and 5.72 percent, respectively, for 2004, 2003, and 2002.

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 as incurred or performed. The cost of replacements of property -- 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 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 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 of Southern Company's common stock 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.

The pro forma impact of fair-value accounting for options granted on earnings is as follows:

Net income (in thousands)	As Reported	Pro Forma
2004	**$68,223**	**$67,587**
2003	$69,010	$68,336
2002	$67,036	$66,327

The estimated fair values of stock options granted in 2004, 2003, and 2002 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:

	2004	2003	2002
Interest rate	**3.1%**	2.7%	2.8%
Average expected life of stock options (in years)	**5.0**	4.3	4.3
Expected volatility of common stock	**19.6%**	23.6%	26.3%
Expected annual dividends on common stock	**$1.40**	$1.37	$1.34
Weighted average fair value of stock options granted	**$3.29**	$3.59	$3.37

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, 2004	**$723,155**	**$729,821**
At December 31, 2003	565,827	572,899
Preferred Securities		
At December 31, 2004	**$ -**	**$**
At December 31, 2003	70,000	73,376

The fair values were based on either closing market price or closing price of comparable instruments. See "Variable Interest Entities" herein and Note 6 under "Mandatorily Redeemable Preferred Securities/ Long-Term Debt Payable to Affiliated Trusts" for additional information.

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 value of qualifying cash flow hedges and marketable securities, 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 accrues for the uninsured costs of injuries and damages by charges to income amounting to $1.6 million annually. The Florida PSC has also given the Company the flexibility to increase its annual accrual above $1.6 million to the extent the balance in the accumulated provision does not exceed $2 million. The cost of settling claims is charged to the provision. The accumulated provision of $1.7 million and $0.1 million at December 31, 2004 and 2003, respectively, is included in other current liabilities in the balance sheets. See Note 3 under "Personal Injury Litigation" for additional information. In addition to the accumulated provision, at December 31, 2004, the Company had a liability with a corresponding regulatory asset of $4.8 million for estimated liabilities related to outstanding claims and suits.

Provision for Property Damage

The Company accrues for the cost of repairing damages from major storms and other uninsured property damages, including damages to transmission and distribution lines and the cost of uninsured damages to its generation facilities and other property. The cost of such damages is charged to the accrual. The Florida PSC 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 Florida PSC also authorized the Company to make additional accruals above the $3.5 million at the Company's discretion. The Company accrued total expenses of $18.5 million in 2004, $10.6 million in 2003, and $3.5 million in 2002. At December 31, 2004, the accumulated provision for property damage was $(48.3) million and is included in miscellaneous regulatory assets in the balance sheets. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information.

Environmental Cost Recovery

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 may also incur substantial costs to clean up properties. The Company received authority from the Florida PSC to recover approved environmental compliance costs through the ECRC. The Florida PSC reviews costs and adjusts rates up or down annually. See Note 3 under "Environmental Remediation" for information on additional environmental remediation accruals in 2004.

Variable Interest Entities

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of Interpretation No. 46R had no impact on the net income of the Company. However, as a result of the adoption, the Company deconsolidated certain wholly-owned trusts established to issue preferred securities since the Company is not the primary beneficiary of the trusts. Therefore, the investments in these trusts are reflected as Other Investments for the Company. The related loans from the trusts are reflected as Long-term Debt Payable to Affiliated Trusts on the balance sheets. This treatment resulted in an increase of $2.2 million in both total assets and total liabilities as of March 31, 2004.

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 of 1974, as amended (ERISA), requirements. No contributions to the plan are expected for the year ending December 31, 2005. 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 Florida PSC and the FERC. For the year ended December 31, 2005, postretirement trust contributions are expected to total approximately $70,000.

The measurement date for plan assets and obligations is September 30 of each year.

Pension Plans

The accumulated benefit obligation for the pension plans was $204 million in 2004 and $186 million in 2003. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

	Projected Benefit Obligations	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$206,486**	$184,987
Service cost	**5,915**	5,225
Interest cost	**12,136**	11,733
Benefits paid	**(9,499)**	(8,785)
Actuarial (gain)/loss and employee transfers, net	**13,207**	13,326
Plan Amendments	**169**	-
Balance at end of year	**$228,414**	$206,486

	Plan Assets	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$236,345**	$211,166
Actual return on plan assets	**23,152**	33,672
Employer Contributions	**550**	491
Benefits paid	**(9,499)**	(8,785)
Employee transfers	**(310)**	(199)
Balance at end of year	**$250,238**	$236,345

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal 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	**2004**	2003
Domestic equity	37%	**36%**	37%
International equity	20	**20**	20
Fixed income	26	**26**	24
Real estate	10	**10**	11
Private equity	7	**8**	8
Total	100%	**100%**	100%

The reconciliations of the funded status with the accrued pension costs recognized in the balance sheets were as follows:

	Accrued Pension Costs	
	2004	2003
	(in thousands)	
Funded status	**$21,824**	$29,859
Unrecognized transition amount	**(721)**	(1,441)
Unrecognized prior service cost	**12,434**	13,471
Unrecognized net (gain) loss	**7,511**	(3,985)
Prepaid pension asset, net	**$41,048**	$37,904

The prepaid pension asset, net is reflected in the balance sheets in the following line items:

	2004	2003
	(in thousands)	
Prepaid pension asset	**$45,384**	$42,014
Employee benefit obligations	**(7,316)**	(6,434)
Other Property and Investments - Other	**1,091**	911
Accumulated other comprehensive income	**1,889**	1,413
Prepaid pension asset, net	**$41,048**	$37,904

Components of the pension plans' net periodic cost were as follows:

	2004	2003	2002
	(in thousands)		
Service cost	**$ 5,915**	$ 5,225	$ 4,910
Interest cost	**12,136**	11,733	12,394
Expected return on plan assets	**(20,689)**	(20,564)	(20,431)
Recognized net gain	**(317)**	(1,819)	(2,746)
Net amortization	**486**	486	298
Net pension income	**$ (2,469)**	$ (4,939)	$ (5,575)

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2004, estimated benefit payments were as follows:

	Benefit Payments
	(in thousands)
2005	$ 9,709
2006	10,026
2007	10,316
2008	10,655
2009	11,063
2010 to 2014	$65,742

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	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$72,903**	$63,675
Service cost	**1,275**	1,128
Interest cost	**4,080**	4,059
Benefits paid	**(2,447)**	(2,332)
Actuarial (gain)/loss	**(6,625)**	6,373
Balance at end of year	**$69,186**	$72,903

	Plan Assets	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$12,642**	$10,893
Actual return on plan assets	**1,594**	1,616
Employer contributions	**2,507**	2,465
Benefits paid	**(2,447)**	(2,332)
Balance at end of year	**$14,296**	$12,642

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal 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	**2004**	2003
Domestic equity	35%	**34%**	35%
International equity	19	**19**	19
Fixed income	30	**30**	29
Real estate	9	**10**	10
Private equity	7	**7**	7
Total	100%	**100%**	100%

The accrued postretirement costs recognized in the balance sheets were as follows:

	2004	2003
	(in thousands)	
Funded status	**$(54,891)**	$(60,261)
Unrecognized transition obligation	**2,944**	3,301
Unrecognized prior service cost	**4,657**	5,003
Unrecognized net loss	**8,074**	15,313
Fourth quarter contributions	**829**	195
Accrued liability recognized in the balance sheets	**$(38,387)**	$(36,449)

Components of the postretirement plans' net periodic cost were as follows:

	2004	2003	2002
	(in thousands)		
Service cost	**$ 1,275**	$ 1,128	$ 948
Interest cost	**4,081**	4,058	3,991
Expected return on plan assets	**(1,220)**	(1,139)	(1,100)
Transition obligation	**355**	356	356
Prior service cost	**346**	346	346
Recognized net (gain)/loss	**241**	113	(19)
Net postretirement cost	**$ 5,078**	$ 4,862	$ 4,522

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plan. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $0.5 million and is expected to have a similar impact on future years. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $8.0 million. However, the ultimate impact on future periods is subject to federal regulations governing the subsidy created in the Medicare Act which are being finalized.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on the assumptions used to measure the accumulated benefit obligation for the postretirement plan. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	Benefit Payments	Subsidy Receipts	Total
	(in thousands)		
2005	$ 2,787	$ -	$ 2,787
2006	3,085	(367)	2,718
2007	3,343	(399)	2,944
2008	3,664	(441)	3,223
2009	4,003	(499)	3,504
2010 to 2014	$ 25,277	$(3,175)	$ 22,102

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:

	2004	2003	2002
Discount	**5.75%**	6.00%	6.50%
Annual salary increase	**3.50%**	3.75%	4.00%
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 11 percent for 2004, decreasing gradually to 5 percent through the year 2012, 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, 2004 as follows:

	1 Percent Increase	1 Percent Decrease
	(in thousands)	
Benefit obligation	$ 4,877	$3,883
Service and interest costs	$ 353	$ 310

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 2004, 2003, and 2002, 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 and Georgia Power, alleging violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws at five coal-fired generating facilities in Alabama and Georgia. The EPA concurrently issued to each of 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.

The U.S. District Court in Georgia subsequently granted Alabama Power's motion to dismiss and denied the EPA's motion to add the Company and Mississippi Power for lack of jurisdiction in Georgia. In March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant and to add allegations regarding two additional generating facilities owned by Alabama Power. 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 civil complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA has not refiled against the Company or Mississippi Power.

The actions against Alabama Power, Georgia Power, and Savannah Electric were effectively stayed in the spring of 2001 during the appeal of a similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the cases pending against Alabama Power, Georgia Power and Savannah Electric. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the case. In June 2004, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the court's active docket. At this time, no party to the case against Georgia Power and Savannah Electric has sought to reopen that case, which remains administratively closed in the District Court for the Northern District of Georgia.

Since the inception of the NSR proceedings against Alabama Power, Georgia 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. District courts addressing these cases have, to date, issued opinions that reached conflicting conclusions.

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 maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must be adopted by the individual states within the Company's service territory in order to apply to the Company's facilities. The effect of these final regulations, related legal challenges and potential state rulemaking cannot be determined at this time.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. Subsidiaries of Tenaska, Inc., as counterparties to three previously executed interconnection agreements with other subsidiaries of Southern Company, have filed complaints at the FERC requesting that the FERC modify the agreements and that Southern Company refund amounts previously paid for interconnection facilities, with interest. The Company has received similar requests from other entities totaling $6.6 million. Southern Company has opposed such relief and these matters are still outstanding. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to nonaffiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found them and others to be "pivotal suppliers" in their retail service territories and ordered the implementation of several mitigation measures. Southern Company sought rehearing of the FERC order, and the FERC delayed the implementation of certain mitigation measures. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory.

Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, Southern Company submitted additional information on February 15, 2005 related to generation dominance in its retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

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 was the subject of an appeal to Florida's First District Court of Appeal. In May 2004, the court affirmed the result of the jury's verdict without submitting a written opinion, thereby preempting the Company's right to appeal the case to the Florida Supreme Court. Therefore, in June 2004 the Company paid the judgment amount and accrued interest. As a result of insurance coverage, there was no 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. The plaintiffs' lawsuits claim that defendants may not use, or sublease to third parties, some or all of the fiber optic communications lines on the rights of way that cross the plaintiffs' properties, and that such actions exceed the easements or other property rights held by defendants. The plaintiffs assert claims for, among other things, trespass and unjust enrichment, and seek compensatory and punitive damages and injunctive relief.

In November 2003, the Second Circuit Court in Gadsden County, Florida, ruled in favor of the plaintiffs on their motion for partial summary judgment concerning liability in one such lawsuit brought by landowners regarding the installation and use of fiber optic cable over the Company's rights of way located on the landowners' property. Subsequently, the plaintiffs sought to amend their complaint and asked the court to enter a final declaratory judgment and to enter an order enjoining the Company from allowing expanded general telecommunications use of the fiber optic cables that are the subject of this litigation. On January 6, 2005, the trial judge entered an order granting in part the plaintiffs' motion to amend their Complaint and denying the requested declaratory and injunctive relief at this time. The question of damages with respect to this action 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 it in pending and future right of way litigation. The defendants believe that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of the underlying landowner litigation discussed above. On January 12, 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

Retail Regulatory Matters

In May 2002, the Florida PSC 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.

On February 2, 2005, the Citizens of the State of Florida through the Office of Public Counsel, the Florida Industrial Power Users Group, and the Company filed a Stipulation and Settlement with the Florida PSC to resolve all matters regarding the effects of Hurricane Ivan on the Company's reserve for property damage (Stipulation).

Under the terms of the Stipulation, the Company will recover the retail portion of $51.7 million of Hurricane Ivan storm damage costs, plus interest and revenue taxes, through a monthly surcharge applied to retail customer bills for a 24-month period. For purposes of the Stipulation, such recovery amount excludes $44.8 million from the amount to be recovered, including $26.4 million in capital that will be included in retail rate base, and a $15 million discretionary accrual made by the Company in 2004 pursuant to the agreement between the parties reached in the Stipulation.

In the event that the Florida Legislature enacts legislation that allows for the securitization of storm recovery financing under terms of a financing order that provides for the establishment of storm recovery property through a surcharge, the Stipulation provides that the Company may request an order from the Florida PSC under such legislation to securitize the retail portion of the agreed $51.7 million plus interest and revenue taxes, as well as additional amounts not to exceed $27.8 million plus interest and revenue taxes.

Except under circumstances provided for within the Stipulation, the Company has agreed that it will not seek any additional increase in its base rates and charges to become effective on or before March 1, 2007.

The Stipulation is subject to the approval of the Florida PSC, which is expected to rule on the Stipulation at its next meeting in March 2005. The ultimate outcome of this matter cannot now be determined.

Environmental Remediation

The Florida Legislature adopted legislation for an ECRC, which allows an electric utility 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 also allows 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 EPA. During 2004, 2003, and 2002, the Company recorded ECRC revenues of $14.7 million, $10.7 million, and $10.8 million, respectively.

At December 31, 2004, the Company's liability for the estimated costs of environmental remediation projects for known sites was $59.4 million. In September 2004, the Company increased its liability by approximately $47 million. This increase relates to new regulations and more stringent site closure criteria by the FDEP for impacts to soil and groundwater from herbicide applications at Company substations. Because FDEP approval is required prior to the issuance of site closure, a timeframe for the completion of the remediation projects cannot be determined. These projects have been approved by the Florida PSC for recovery through the ECRC. Therefore, the Company recorded $1.4 million in current assets and current liabilities and $58.0 million in deferred assets and deferred liabilities representing the future recoverability of these costs.

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 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.

4. JOINT OWNERSHIP AGREEMENTS

The Company and Mississippi Power jointly own Plant Daniel Units 1 and 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, 2004, 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	$190,005[(1)]	$ 239,308
Accumulated Depreciation	$ 84,394	$ 128,422
Construction Work in Progress	$ 205	$ 537
Ownership	25%	50%

(1) Includes net plant acquisition adjustment of $4.3 million.

5. INCOME TAXES

Southern Company and its subsidiaries file a consolidated federal income tax return and a combined State of Georgia income tax return. Under a joint consolidated income tax allocation agreement, as required by the PUHCA, each subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more expense than would be paid if they filed a separate income tax return. In accordance with Internal Revenue Service regulations, each company is jointly and severally liable for the tax liability.

In 2004, in order to avoid the loss of certain federal income tax credits related to the production of synthetic fuel, Southern Company chose to defer certain deductions otherwise available to the subsidiaries. The cash flow benefit associated with the utilization of the tax credits was allocated to the subsidiary that otherwise would have claimed the available deductions on a separate company basis without the deferral. This allocation concurrently reduced the tax benefit of the credits allocated to those subsidiaries that generated the credits. As the deferred expenses are deducted, the benefit of the tax credits will be repaid to the subsidiaries that generated the tax credits. The Company has recorded $6.8 million payable to these subsidiaries in "Accumulated Deferred Income Taxes" on the balance sheets.

At December 31, 2004, the tax-related regulatory assets to be recovered from customers were $17.6 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, 2004, the tax-related regulatory liabilities to be credited to customers were $23.4 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:

	2004	2003	2002
	(in thousands)		
Total provision for income taxes:			
Federal--			
Current	**$(4,255)**	$33,871	$24,474
Deferred	**39,373**	1,702	7,936
	35,118	35,573	32,410
State--			
Current	**(2,305)**	4,703	3,051
Deferred	**6,882**	601	1,683
	4,577	5,304	4,734
Total	**$39,695**	$40,877	$37,144

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:

	2004	2003
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	**$218,137**	$200,129
Other	**53,092**	27,669
Total	**271,229**	227,798
Deferred tax assets:		
Federal effect of state deferred taxes	**11,930**	9,568
Pension & postretirement benefits	**14,608**	11,793
Other	**12,855**	24,347
Total	**39,393**	45,708
Net deferred tax liabilities	**231,836**	182,090
Less prepaid (accrued) income taxes, net	**(1,927)**	(6,405)
Accumulated deferred income taxes in the balance sheets	**$229,909**	$175,685

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 and amortization in the statements of income. Credits amortized in this manner amounted to $2.0 million in 2004, $1.8 million in 2003, and $1.8 million in 2002. At December 31, 2004, 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:

	2004	2003	2002
Federal statutory rate	**35%**	35%	35%
State income tax, net of federal deduction	**3**	3	3
Non-deductible book depreciation	**1**	1	1
Difference in prior years' deferred and current tax rate	**(1)**	(1)	(2)
Other, net	**(1)**	(1)	(1)
Effective income tax rate	**37%**	37%	36%

6. FINANCING

Mandatorily Redeemable Preferred Securities/ Long-Term Debt Payable to Affiliated Trusts

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 and are reflected on the balance sheets as Long-term Debt Payable to Affiliated 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 trusts' payment obligations with respect to these securities. At December 31, 2004, these securities were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities.

Pollution Control Bonds

Pollution control obligations represent loans to the Company from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control facilities. The Company is required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. With respect to $12.1 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 loan agreements. No principal or interest on these first mortgage bonds is payable unless and until a default occurs on the loan agreements.

Long-Term Debt Due Within One Year

At December 31, 2004, 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 improvement 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 2009 applicable to long-term debt are as follows: $100.0 million in 2005; $37.1 million in 2006; and zero in 2007, 2008, and 2009.

Common Stock 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, 2004, 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. In addition, the Company has granted a second lien on its property at Plant Daniel in connection with the issuance of two series of pollution control bonds.

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 satisfy obligations of Southern Company or any of its subsidiaries.

Bank Credit Arrangements

At the beginning of 2005, the Company had $56.3 million of lines of credit with banks subject to renewal each year, all of which remained unused. The $56.3 million in committed lines of credit provide liquidity support for the Company's commercial paper program and for $4.0 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 lim the level of indebtedness to capitalization to 65 percent, as defined in the arrangements. For purposes of these definitions, debt excludes the long-term debt payable to affiliated trusts. At December 31, 2004, the Company was in compliance with these debt limit covenants.

In addition, certain credit arrangements contain cross default provisions to other indebtedness that would trigger an event of default 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 borrows through a commercial paper program that has the liquidity support of committed bank credit arrangements and through an extendible commercial note program. At December 31, 2004, the Company had no commercial paper or extendible commercial notes outstanding. At December 31, 2003, the Company had $37.7 million in commercial paper outstanding. These amounts are included in the notes payable on the balance sheets. During 2004, the peak amount outstanding for commercial paper was $47.6 million and the average amount outstanding was $10.7 million. The average annual interest rate on commercial paper was 1.23 percent.

In addition, the Company has bid-loan facilities with four major money center banks that total $50 million, with none committed at December 31, 2004.

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 Florida PSC. The Company enters into hedges of forward electricity sales. There was no material ineffectiveness recorded in earnings in 2004 and 2003.

At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in thousands)
Regulatory liabilities, net	$309
Other comprehensive income	-
Net income	8
Total fair value	$317

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 has energy-related hedges in place up to and including 2007.

The Company also 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 for any year presented.

During 2004, the Company did not enter into any interest rate derivatives. 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, maturing in 2013. 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 and 2003, approximately $0.3 million and $0.2 million, respectively, of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2005, 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 $154 million in 2005, $112 million in 2006, and $103 million in 2007. 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 generation 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. At December 31, 2004, significant purchase commitments were outstanding in connection with the construction program.

Included in the amounts above, the Company has budgeted $40 million and $4 million in 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 Florida PSC authorized the Company to recover the costs related to these environmental projects through the ECRC. The construction program also includes $15 million in 2005, $9 million in 2006, and $23 million in 2007 for other environmental expenditures. Construction of new transmission and distribution facilities and other capital improvements, including those needed to meet environmental standards for the Company's existing generation, transmission, and distribution facilities, are ongoing.

Long-Term Service Agreement

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. 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 payments to GE under this agreement for facilities owned are currently estimated at $81.2 million over the remaining life of the agreement. 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 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 Exchange future prices at December 31, 2004. Total estimated minimum long-term obligations at December 31. 2004 were as follows:

Year	Purchased Power	Natural Gas	Coal
		(in thousands)	
2005	$311	$ 95,604	$196,159
2006	-	78,425	151,970
2007	-	50,726	76,640
2008	-	18,886	-
2009	-	18,886	-
2010 and thereafter	-	240,269	
Total commitments	$311	$502,796	$424,769

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 operating lease agreements with various terms and expiration dates. Total operating lease expenses were $2.0 million, $2.2 million, and $2.1 million for 2004, 2003, and 2002, respectively.

At December 31, 2004, estimated minimum rental commitments for noncancelable operating leases were as follows:

Year	Rail Cars	Other	Total
		(in thousands)	
2005	$ 2,422	$59	$ 2,481
2006	2,422	-	2,422
2007	2,422	-	2,422
2008	2,068	-	2,068
2009	2,068	-	2,068
2010 and thereafter	6,238	-	6,238
Total minimum payments	$17,640	$59	$17,699

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 was 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. In 2004, the Company and Mississippi Power entered into a three year operating lease agreement for the use of 120 aluminum railcars. There is no purchase option associated with this lease.

The Company, as a joint owner of Plant Daniel Units 1 and 2, is responsible for one-half of the lease costs. 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 each of 2004, 2003, and 2002.

8. 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, 2004, 258 current and former employees of the Company participated in the stock option plan. The maximum number of shares of Southern Company 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 stock option plan. Activity from 2002 to 2004 for the options granted to the Company's employees under the stock option plan is summarized below:

	Shares Subject To Option	Average Option Price Per Share
Balance at December 31, 2001	1,031,944	$17.57
Options granted	322,431	25.26
Options canceled	(1,999)	21.14
Options exercised	(126,178)	14.77
Balance at December 31, 2002	1,226,198	19.88
Options granted	274,245	27.98
Options canceled	(3,082)	19.26
Options exercised	(192,189)	17.01
Balance at December 31, 2003	**1,305,172**	**22.00**
Options granted	**256,363**	**29.50**
Options canceled	**(438)**	**28.47**
Options exercised	**(386,413)**	**18.76**
Balance at December 31, 2004	**1,174,684**	**$24.70**
Options exercisable:		
At December 31, 2002	632,015	
At December 31, 2003	839,618	
At December 31, 2004	**715,570**	

The following table summarizes information about options outstanding at December 31, 2004:

	Dollar Price Range of Options		
	13-20	20-26	26-32
Outstanding:			
Shares	261,102	405,017	508,565
Average remaining life (in years)	5.6	6.8	8.6
Average exercise price	$17.47	$24.32	$28.72
Exercisable:			
Shares	261,102	339,871	114,597
Average exercise price	$17.47	$24.14	$27.99

9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2004 and 2003 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
	(in thousands)		
March 2004	**$214,919**	**$35,803**	**$16,839**
June 2004	**241,170**	**39,824**	**19,002**
September 2004	**269,386**	**59,628**	**31,900**
December 2004	**234,656**	**9,457**	**482**
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

The Company's business is influenced by seasonal weather conditions and the timing of rate changes, among other factors.

SELECTED FINANCIAL AND OPERATING DATA 2000-2004

Gulf Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands)	**$960,131**	$877,697	$820,467	$725,203	$714,319
Net Income after Dividends on Preferred Stock (in thousands)	**$68,223**	$69,010	$67,036	$58,307	$51,843
Cash Dividends on Common Stock (in thousands)	**$70,000**	$70,200	$65,500	$53,275	$59,000
Return on Average Common Equity (percent)	**11.83**	12.42	12.72	12.51	12.20
Total Assets (in thousands)	**$2,110,663**	$1,839,053	$1,816,889	$1,713,436	$1,448,977
Gross Property Additions (in thousands)	**$161,205**	$99,284	$106,624	$274,668	$95,807
Capitalization (in thousands):					
Common stock equity	**$ 592,172**	$561,358	$549,505	$504,894	$427,378
Preferred stock	**4,098**	4,236	4,236	4,236	4,236
Mandatorily redeemable preferred securities	**-**	70,000	115,000	115,000	85,000
Long-term debt payable to affiliated trusts	**72,166**	-	-	-	-
Long-term debt	**550,989**	515,827	452,040	467,784	365,993
Total (excluding amounts due within one year)	**$1,219,425**	$1,151,421	$1,120,781	$1,091,914	$882,607
Capitalization Ratios (percent):					
Common stock equity	**48.6**	48.8	49.0	46.2	48.4
Preferred stock	**0.3**	0.4	0.4	0.4	0.5
Mandatorily redeemable preferred securities	**-**	6.1	10.3	10.5	9.6
Long-term debt payable to affiliated trusts	**5.9**	-		-	
Long-term debt	**45.2**	44.7	40.3	42.9	41.5
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+	A+	AA-
Preferred Stock -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	a2
Standard and Poor's	**BBB+**	BBB+	BBB+	BBB+	BBB+
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+
Customers (year-end):					
Residential	**343,151**	341,935	333,757	327,128	321,731
Commercial	**51,865**	51,169	49,411	48,654	47,666
Industrial	**285**	285	281	270	280
Other	**473**	473	474	468	442
Total	**395,774**	393,862	383,923	376,520	370,119
Employees (year-end):	**1,336**	1,337	1,339	1,309	1,327

SELECTED FINANCIAL AND OPERATING DATA 2000-2004 (continued)
Gulf Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands):					
Residential	**$ 401,382**	$381,464	$365,693	$313,165	$302,210
Commercial	**232,928**	218,928	207,960	188,759	177,047
Industrial	**99,420**	95,702	89,385	81,719	74,095
Other	**3,140**	3,080	2,798	948	(4,712)
Total retail	**736,870**	699,174	665,836	584,591	548,640
Sales for resale - non-affiliates	**73,537**	76,767	77,171	82,252	66,890
Sales for resale - affiliates	**110,264**	63,268	40,391	27,256	66,995
Total revenues from sales of electricity	**920,671**	839,209	783,398	694,099	682,525
Other revenues	**39,460**	38,488	37,069	31,104	31,794
Total	**$960,131**	$877,697	$820,467	$725,203	$714,319
Kilowatt-Hour Sales (in thousands):					
Residential	**5,215,332**	5,101,099	5,143,802	4,716,404	4,790,038
Commercial	**3,695,471**	3,614,255	3,552,931	3,417,427	3,379,449
Industrial	**2,113,027**	2,146,956	2,053,668	2,018,206	1,924,749
Other	**22,579**	22,479	21,496	21,208	18,730
Total retail	**11,046,409**	10,884,789	10,771,897	10,173,245	10,112,966
Sales for resale - non-affiliates	**2,256,942**	2,504,211	2,156,741	2,093,203	1,705,486
Sales for resale - affiliates	**3,124,788**	2,438,874	1,720,240	962,892	1,916,526
Total	**16,428,139**	15,827,874	14,648,878	13,229,340	13,734,978
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**7.70**	7.48	7.11	6.64	6.31
Commercial	**6.30**	6.06	5.85	5.52	5.24
Industrial	**4.71**	4.46	4.35	4.05	3.85
Total retail	**6.67**	6.42	6.18	5.75	5.43
Sales for resale	**3.42**	2.83	3.03	3.58	3.70
Total sales	**5.60**	5.30	5.35	5.25	4.97
Residential Average Annual Kilowatt-Hour Use Per Customer	**15,096**	15,064	15,510	14,497	14,992
Residential Average Annual Revenue Per Customer	**$1,162**	$1,126	$1,100	$963	$946
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**2,712**	2,786	2,809	2,188	2,188
Maximum Peak-Hour Demand (megawatts):					
Winter	**2,061**	2,494	2,182	2,106	2,154
Summer	**2,421**	2,269	2,454	2,223	2,285
Annual Load Factor (percent)	**57.1**	54.6	55.3	57.5	55.4
Plant Availability Fossil-Steam (percent):	**92.4**	90.7	90.6	90.1	85.2
Source of Energy Supply (percent):					
Coal	**77.9**	78.7	69.8	81.2	87.8
Gas	**14.4**	11.9	15.5	1.0	1.6
Purchased power -					
From non-affiliates	**4.5**	3.2	4.6	6.5	7.6
From affiliates	**3.2**	6.2	10.1	11.3	3.0
Total	**100.0**	100.0	100.0	100.0	100.0

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MISSISSIPPI POWER COMPANY

FINANCIAL SECTION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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-241 to II-265) present fairly, in all material respects, the financial position of Mississippi Power Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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
February 28, 2005

OVERVIEW

Business Activities

Mississippi Power Company (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.

Many 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 stringent environmental standards. In 2004, the Company completed a major retail rate proceeding that should help provide future earnings stability. Appropriately balancing environmental expenditures with reasonable retail rates will continue to challenge the Company for the foreseeable future.

Key Performance Indicators

The Company strives to maximize shareholder value while providing low-cost, reliable energy to more than 190,000 customers in southeast Mississippi. In recognition that the Company's long-term financial success is dependent upon how well it satisfies its customers' needs, the Company's retail base rate mechanism, the Performance Evaluation Plan (PEP), includes performance indicators that directly tie customer service indicators to the Company's allowed return. PEP measures the Company's performance on a 10 point scale as a weighted average of results in three areas: average customer price, as compared to prices of other regional utilities (weighted at 40%); service reliability, measured in outage minutes per customer (40%); and customer satisfaction, measured in surveys of residential customers (20%). The Company's PEP performance score in 2004 was 8.9 out of 10, resulting in an 89 basis point increase to the Company's retail allowed return on investment for 2005. See Note 3 to the financial statements under "Retail Regulatory Matters" for more information on PEP.

In addition to the PEP performance indicators, the Company focuses on other performance measures, including broader measures of customer satisfaction, return on equity (ROE), and peak season equivalent forced outage rate (Peak Season EFOR). ROE is the performance standard used by both the investment community and many regulatory agencies. Peak Season EFOR is a key element in the Company's price performance. It measures plant availability and efficient generation fleet operations during the months when generation needs are greatest.

Key Performance Indicator	2004 Target Performance	2004 Actual Performance
Customer Satisfaction	Top quartile in national and regional surveys	Top quartile
Peak Season EFOR	2.58%	1.05%
ROE	13.80%	14.24%

The Company's performance in 2004 reflects the focus that management places on all of these indicators, as well as the commitment shown by the Company's employees in achieving or exceeding management's expectations.

Earnings

The Company's net income after dividends on preferred stock was $76.8 million in 2004 compared to $73.5 million in 2003. The increase in 2004 resulted from increased retail base revenue and higher non-territorial energy sales. Retail base revenues grew over $3 million as a result of improving economic conditions in the service area. The increase in sales for resale to non-affiliates resulted from the additional Plant Daniel capacity available following the 2003 termination of a contract with a subsidiary of Dynegy, Inc. (Dynegy). The 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 the Dynegy contract, the income effect of which was offset by a $60 million expense related to the establishment of a regulatory liability in connection with an accounting order issued by the Mississippi PSC. See Note 3 to the financial statements under "Retail Regulatory Matters" 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 retail and wholesale rate increases in late 2001 and early 2002, respectively, and lower interest expense.

RESULTS OF OPERATIONS

A condensed statement of income is as follows:

	Amount	Increase (Decrease) From Prior Year		
	2004	**2004**	2003	2002
	(in thousands)			
Operating revenues	**$910,326**	**$40,402**	$45,759	$28,100
Fuel	**320,997**	**91,746**	(53,142)	4,447
Purchased power	**106,763**	**13,566**	41,864	(43,911)
Other operation and maintenance	**241,363**	**(58,755)**	68,105	41,015
Depreciation and amortization	**39,390**	**(16,310)**	(1,938)	3,561
Taxes other than income taxes	**55,572**	**1,581**	(1,527)	10,552
Total operating expenses	**764,085**	**31,828**	53,362	15,664
Operating income	**146,241**	**8,574**	(7,603)	12,436
Total other income and (expense)	**(14,942)**	**1,898**	7,525	2,008
Less -- Income taxes	**50,666**	**5,351**	(564)	5,346
Net income	**80,633**	**5,121**	486	9,098
Dividends on preferred stock	**3,832**	**1,819**	-	(28)
Net income after dividends on preferred stock	**$ 76,801**	**$ 3,302**	$ 486	$9,126

Revenues

Details of the Company's operating revenues in 2004 and the prior two years are as follows:

	Amount		
	2004	2003	2002
	(in thousands)		
Retail -- prior year	**$516,301**	$536,827	$489,153
Change in --			
Base rates	**-**	-	38,143
Sales growth	**2,530**	1,175	566
Weather	**1,025**	(1,542)	3,533
Fuel cost recovery and other	**64,457**	(20,159)	5,432
Retail -- current year	**584,313**	516,301	536,827
Sales for resale --			
Non-affiliates	**265,863**	249,986	224,275
Affiliates	**44,371**	26,723	46,314
Total sales for resale	**310,234**	276,709	270,589
Contract termination	**-**	62,111	
Other electric operating revenues	**15,779**	14,803	16,749
Total electric operating revenues	**$910,326**	$869,924	$824,165
Percent change	**4.6%**	5.6%	3.5%

Total retail revenues for 2004 increased 13.2 percent when compared to 2003. While higher fuel costs accounted for 92 percent of this increase, sales growth, particularly in industrial customers, also contributed to the increase. Industrial sales in 2004 grew over the prior year for the first time since 2000 as most of the Company's industrial customers recovered from the recent economic downturn. Total retail revenues for 2003 decreased approximately 3.8 percent when compared to 2002 as a result of decreased fuel revenues and, to a 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 "Retail Regulatory Matters" for additional information.

Fuel revenues generally represent the direct recovery of fuel expenses including purchased power. Therefore, changes in recoverable fuel expenses are offset with corresponding changes in fuel revenues and have no effect on net income. The fuel cost recovery and other revenues increased in 2004 when compared to 2003 as a result of an increase in fuel expenses due to consistently higher fuel prices and a slight increase in retail rates that became effective in 2004. During 2003, the fuel cost recovery and other revenues decreased $20 million compared to 2002 due to lower generation and fewer fuel purchases as a result of milder than normal weather in 2003.

Sales for resale to non-affiliates are influenced by the non-affiliate utilities' own customer demand, plant availability, and fuel costs. Included in sales for resale to non-affiliates are revenues from rural electric cooperative associations and municipalities located in southeastern Mississippi. As compared to the prior year, sales to these utilities increased 3.3 percent in 2004, remained relatively flat in 2003, and increased 8.0 percent in 2002, with the related revenues increasing 12.4 percent, 1.6 percent, and 19.8 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 2004 by $14.4 million, or 5.7 percent. This increase primarily resulted from a $32.7 million increase in related energy revenues, of which approximately $6 million was associated with increased kilowatt-hour sales and $26.7 million was associated with higher prices due to increased fuel cost in 2004. The increase was offset by an $18.3 million decrease in related capacity revenues as a result of the termination of the contract with Dynegy in 2003. 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, primarily as the result of a new power sales contract that began in June 2001, as well as colder winter months during 2002.

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 are made in accordance with the affiliated company interchange agreement, as approved by the Federal Energy Regulatory Commission (FERC). These sales do not have a significant impact on earnings since the energy is generally sold at marginal cost.

Kilowatt-hour (KWH) sales for 2004 and percent change by year were as follows:

	KWH 2004	Percent Change 2004	2003	2002
	(in millions)			
Residential	**2,297**	1.9%	(1.9)%	6.3%
Commercial	**2,970**	1.9	0.4	2.1
Industrial	**4,235**	3.0	(1.2)	(2.7)
Other	**40**	1.0	-	-
Total retail	**9,542**	2.4	(0.9)	0.1
Sales for Resale				
Non-Affiliated	**6,028**	2.6	9.2	7.4
Affiliated	**1,054**	48.6	(55.3)	(46.3)
Total	**16,624**	4.5	(2.8)	(5.3)

Total retail kilowatt-hour sales increased in 2004 when compared to 2003. The increase is the result of higher sales to all retail classes, particularly the industrial class, due to the effects of economic recovery in the area. 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. Industrial sales decreased in 2003 due to lower kilowatt-hour sales and decreased fuel costs. Industrial sales fell 2.7 percent in 2002 due to an economic downturn in the Company's service area.

The Company anticipates modest growth over the next five years due to a recovery from the national and regional economic downturn and some growth in the gaming and tourism industry. Retail sales are expected to grow at an annual average rate of approximately 1.9 percent through 2009, with increases expected in the local, state, and federal government sectors, as well as increases in shipbuilding, oil and gas production and refining, and tourism-related industries.

Expenses

In 2004, total operating expenses increased 4.3 percent to $764 million when compared to 2003. The increase is the result of increased fuel expense, as a result of increased generation and higher fuel prices. Total operating expenses were $732 million in 2003, which reflects an increase of 7.9 percent over 2002. The increase in 2003 is primarily due to $60 million in Plant Daniel capacity expense recorded in connection with an accounting order from the Mississippi PSC. See Note 3 to the financial statements under "Retail Regulatory Matters" 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 increased maintenance expense resulting from planned outages at Plant Watson and Plant Daniel as well as a full year of rental expense for Plant Daniel Units 3 and 4 and a slight increase in fuel expense.

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, the average cost of fuel per net kilowatt-hour generated, and the average cost of purchased power were as follows:

	2004	2003	2002
Total generation (millions of kilowatt-hours)	**14,058**	12,850	15,079
Sources of generation (percent) --			
Coal	**69**	74	57
Gas	**31**	26	43
Average cost of fuel per net kilowatt-hour generated (cents) --	**2.47**	1.95	2.03
Average cost of purchased power per kilowatt-hour (cents) --	**3.28**	2.51	2.60

Fuel expense increased $92 million in 2004 as compared to 2003. Approximately $25 million of the increase was associated with increased generation and approximately $67 million of the increase was due to higher coal and gas prices. Fuel expense for 2003 decreased $53 million due to decreased generation and lower average cost of fuel. Fuel expense for 2002 increased $4 million due to a fuel hedging loss, which was approved for recovery through the fuel cost recovery clause authorized by the Mississippi PSC.

A significant upward trend in the cost of coal and natural gas has emerged since 2003, and volatility in these markets is expected to continue. Increased coal prices have been influenced by a worldwide increase in demand as a result of rapid economic growth in China as well as by increases in mining costs. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, result in an immediate market response; however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas. Fuel expenses generally do not affect net income since they are offset by fuel revenues under the Company's fuel cost recovery clause.

Purchased power expense increased $13.6 million, or 14.6 percent, in 2004 when compared to 2003. The increase is the result of an increase in purchases from non-affiliates. These purchases were needed to meet increased load and offset higher priced self-generation resulting from increased fuel costs. In 2003, purchased power expense increased $41.9 million, or 81.6 percent. The increase was primarily due to an increase in purchased power expense from affiliate companies. Those purchases were more economical than self generation due to the increased cost of natural gas in 2003. In 2002, purchased power expense decreased $43.9 million 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. Energy purchases vary from year to year depending on demand and the availability and cost of the Company's generating resources. These expenses do not have a significant impact on earnings since the energy purchases are generally offset by energy revenues through the Company's fuel cost recovery clause.

Other operation expense decreased $65.7 million, or 28.6 percent, in 2004 and increased $71.7 million, or 45.3 percent, in 2003 due to approximately $11 million incurred in 2003 to restructure the lease agreement for the combined cycle generating units at Plant Daniel and $60 million in expense recorded in 2003 in connection with the recognition of a regulatory liability following an accounting order from the Mississippi PSC related to Plant Daniel capacity expense. See FINANCIAL CONDITION AND LIQUIDITY—"Off-Balance Sheet Financing Arrangements" and Notes 3 and 7 to the financial statements under "Retail Regulatory Matters" and "Operating Leases – Plant Daniel Combined Cycle

Generating Units," respectively, for additional information. In 2002, other operation expense increased $23.5 million, or 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.

Maintenance expense increased $7.0 million, or 9.9 percent, in 2004 as a result of higher operating hours at Plant Daniel and increased distribution line maintenance during 2004. Maintenance expense decreased $3.6 million, or 4.9 percent, in 2003 primarily resulting from a decrease of approximately 50 percent in operating hours at Plant Daniel Units 3 and 4. See Note 7 to the financial statements under "Long-Term Service Agreements" for further information. In 2002, maintenance expense increased $17.5 million, or 31.2 percent, primarily due to scheduled maintenance performed at Plant Watson and Plant Daniel.

Depreciation and amortization expense decreased $16.3 million in 2004 as compared to 2003 primarily due to $16.5 million of amortization related to a regulatory liability recorded in 2003 in connection with the Mississippi PSC's accounting order on the Plant Daniel Capacity. See Note 3 under "Retail Regulatory Matters" for additional information. In 2003, depreciation and amortization expense decreased $1.9 million compared to 2002 primarily due the amortization related to the Company's Environmental Compliance Overview Plan (ECO Plan) approved by the Mississippi PSC. In 2002, depreciation and amortization expense increased $3.6 million due to increased plant in service and due to amortization of the Company's regulatory asset related to the ECO Plan. See Note 3 to the financial statements under "Environmental Compliance Overview Plan" for further information.

In 2004, taxes other than income taxes increased 2.9 percent due to additional municipal franchise taxes, which are directly related to the increase in retail revenues. 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 an increase in property taxes related to Plant Daniel Units 3 and 4 and increased municipal franchise taxes. The decrease in total other income and expense is due to interest on long-term debt decreasing in all years presented 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 based on the recovery of historical costs. In addition, the income tax laws are 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 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 Southeastern United States. Prices for electricity relating to jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power are set by the FERC. Prices for electricity provided by the Company to retail customers are set by the Mississippi PSC under cost-based regulatory principles. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on earned ROE. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements for additional information about these and other regulatory matters.

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 that affect the challenges and risks of the Company's business of selling electricity. 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 more stringent 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.

Since 2001, 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).

Environmental Matters

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 and Georgia Power. The complaint alleged violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws at five coal-fired generating facilities in Alabama and Georgia. 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 EPA concurrently issued to the retail operating companies notices of violations relating to ten generating facilities, which included 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 the Company, Gulf Power, 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.

The Company believes that it has complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must be adopted by the individual states in the Company's service territory in order to apply to the Company's facilities. The effect of these final regulations, related legal challenges, and potential state rulemakings cannot be determined at this time.

Carbon Dioxide Litigation

On July 21, 2004, attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. Plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. Southern Company and the other defendants have filed motions to dismiss both lawsuits. Southern Company intends to vigorously defend against these claims. While the outcome of these matters cannot be determined at this time, an adverse judgment in either of these actions could result in substantial capital expenditures.

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 involves significant capital and operating costs, a major portion of which is expected to be recovered through the Company's ECO Plan. 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 capital expenditures discussed under FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein. There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the 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 and resulted in total construction expenditures of approximately $65 million through 2000.

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 and included development of an eight-hour ozone standard, as opposed to the previous one-hour ozone standard. 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. On April 30, 2004, the EPA published its eight-hour ozone nonattainment designations and a portion of the rules implementing the new eight-hour ozone standard. Areas within the Company's service area have not been designated as nonattainment under the eight-hour ozone standard.

In January 2004, the EPA issued a proposed Clean Air Interstate Rule (CAIR) 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 in 2005. If finalized, the rule could modify or supplant other state requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard, as well as other air quality regulations. 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.

The Company has developed and maintains an environmental compliance strategy for the installation of additional control technologies and the purchase of emission allowances to assure continued compliance with current sulfur dioxide and nitrogen oxide emission regulations. Additional expenses associated with these regulations are anticipated to be incurred each year to maintain current and future compliance. Because the Company's compliance strategy is impacted by factors such as changes to existing environmental laws and regulations, increases in the cost of emissions allowances, and any changes in the Company's fuel mix, future environmental compliance costs 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 and to implement emission reduction requirements that make progress toward remedying current visibility impairment in certain natural areas. 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 implementation plans in 2008 that contain emission reduction strategies for implementing BART and for achieving sufficient progress toward the Clean Air Act's visibility improvement goal. In response to litigation, the EPA proposed revised rules in May 2004, which it plans to finalize in April 2005. The impact of these regulations will depend on the promulgation of final rules and implementation of those rules by the states and, therefore, it is not possible to determine the effect of these rules on the Company at this time.

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 March 2005, and compliance could be required as early as 2008. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants including the Bush Administration's Clear Skies Act, have been re-proposed in 2005. The Clear Skies Act is expected to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury and to supplement the proposed CAIR and mercury regulatory programs. Other proposals to limit emissions of carbon dioxide have also been introduced. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

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. In July 2004, the EPA published final rules that 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 and the actual limits established by the regulatory agencies.

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 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.

Global Climate Issues

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 constraints on the emissions of greenhouse gases for a group of industrialized countries. The Bush Administration has not supported U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and, in 2002, announced a goal to reduce the greenhouse gas intensity of the U.S. – the ratio of greenhouse gas emissions to the value of U.S. economic output -- by 18 percent by 2012. A year later, the Department of Energy (DOE) announced the Climate VISION program to support this goal. Energy-intensive industries, including electricity generation are the initial focus of this program. Southern Company is leading the development of a voluntary electric utility sector climate change initiative in partnership with the government. The utility sector has pledged to reduce its greenhouse gas emissions rate by 3 to 5 percent over the next decade and, on December 13, 2004, signed a memorandum of understanding with the DOE initiating this program under Climate VISION. Because efforts under this voluntary program are just beginning, the impact of this program on the Company cannot be determined at this time.

Environmental Remediation Reserves

The Company must comply with environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Company may incur substantial costs to remediate properties. The Company conducts studies to determine the extent of any required remediation and has recognized in its financial statements the costs to remediate 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 received authority from the Mississippi PSC to recover approved environmental compliance costs through specific retail rate clauses. Within limits approved by the Mississippi PSC, these rates are adjusted annually. See Note 3 to the financial statements under "Environmental Remediation" for additional information.

FERC and Mississippi PSC Matters

Transmission

In December 1999, the FERC issued its final rule on Regional Transmission Organizations (RTOs). Since that time, there have been a number of additional proceedings at the FERC designed to encourage further voluntary formation of RTOs or to mandate their formation. However, at the current time, there are no active proceedings that would require Southern Company to participate in an RTO. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection, as well as an inquiry into, among other things, market power by vertically integrated utilities. See "Generation Interconnection Agreements" and "Market-Based Rate Authority" herein for additional information. The final outcome of these proceedings cannot now be determined. However, Southern Company's financial condition, results of operations, and cash flows could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. The impact of Order 2003 and its subsequent rehearings on the Company cannot be determined at this time.

Market-Based Rate Authority

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices. 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, its retail operating companies and Southern Power and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied SCS's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except its retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within the Southern Company retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in the Southern Company retail service territory. Any new market-based rate transactions in its retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Retail Rate Filing

In May 2004, the Mississippi PSC approved the Company's request to reclassify 266 megawatts of Plant Daniel Units 3 and 4 capacity to jurisdictional cost of service effective January 1, 2004 and authorized the Company to include the related costs and revenue credits in jurisdictional rate base, cost of service, and revenue requirement calculations for purposes of retail rate recovery. The Company is amortizing the regulatory liability established pursuant to the Mississippi PSC's interim December 2003 order, as approved in the May 2004 order, to earnings as follows: $16.5 million in 2004, $25.1 million in 2005, $13.0 million in 2006, and $5.7 million in 2007, resulting in reductions of costs in each of those years.

Other Matters

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. The Company is currently assessing the impact of the Jobs Act, including this deduction, as well as the related regulatory treatment, on its taxable income. However, the Company currently does not expect the Jobs Act to have a material impact on its financial statements.

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 $.6 million, $1.7 million, and $2.5 million in 2004, 2003, and 2002, respectively. Future pension income is dependent on several factors including trust earnings and changes to the pension plan. The decline in pension income is expected to continue, resulting in pension expense in 2005. Postretirement benefit costs for the Company were $4.5 million, $4 million, and $3.7 million in 2004, 2003, and 2002, respectively, and are expected to continue to trend upward. A portion of pension 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.

The Company is involved in various other 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. Southern Company 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

The Company is subject to retail regulation by the Mississippi 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, which requires the financial statements to reflect the effects of rate 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 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, 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 legislative, 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 herein 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.

Unbilled Revenues

Revenues related to the sale of electricity are recorded when electricity is delivered to customers. However, the determination of kilowatt-hour (KWH) sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, power delivery volume, and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company's results of operations.

Plant Daniel Operating Lease

As discussed in Note 7 to the financial statements under "Operating Leases – Plant Daniel Combined Cycle Generating Units," the Company leases a 1,064 megawatt natural gas combined cycle facility at Plant

Daniel (Facility) from 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 in the 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 was 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. 46R, "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 $37 million annually, rather than annual lease expense of approximately $29 million.

New Accounting Standards

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of FASB Interpretation No. 46R had no impact on the Company's net income. However, as a result of the adoption, the Company deconsolidated a certain wholly-owned trust established to issue preferred securities since the Company does not meet the definition of primary beneficiary established by FASB Interpretation No. 46R. See Note 1 to the financial statements under "Variable Interest Entities" for additional information.

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $.5 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $8 million. However, the ultimate impact on future periods is subject to final interpretation of the federal regulations which were published on January 21, 2005. See Note 2 to the financial statements under "Postretirement Benefits" for additional information.

FASB Statement No. 123R, "Share-Based Payment," was issued in December 2004. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. For the Company, this statement is effective beginning on July 1, 2005. Although the compensation expense required under the revised statement differs slightly, the impacts on the financial statements are expected to be similar to the pro forma disclosures included in Note 1 to the financial statements under "Stock Options."

See FUTURE EARNINGS POTENTIAL – "Other Matters" herein for information regarding the adoption of new tax legislation. In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004, which requires that the generation deduction be accounted for as a special tax deduction rather than as a tax rate reduction. The Company is currently assessing the Jobs Act and this pronouncement, as well as the related regulatory treatment, but currently does not expect a material impact on the Company's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition continued to be strong at December 31, 2004. Net cash flow from operating activities totaled $119 million, $183 million, and $193 million for 2004, 2003, and 2002, respectively. The $64 million decrease for 2004 was primarily due to additional cash received in 2003 related to the termination of the Dynegy contract.

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.

Other significant balance sheet changes from 2003 to 2004 include $78.6 million in property, plant, and equipment additions, $80 million decrease in long-term securities due within one year, $40 million increase in long-term debt, $16.5 million reduction in deferred credit associated with Plant Daniel capacity regulatory liabilities. See "Financing Activities" herein and the statements of cash flows for additional information.

The Company's ratio of common equity to total capitalization, excluding long-term debt due within one year, decreased from 66.4 percent in 2003 to 63.7 percent at December 31, 2004.

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. In recent years, financings primarily have utilized unsecured debt and preferred securities. However, the type and timing of any future financings—if needed—will depend on market conditions and regulatory approval.

The issuance of securities by the Company is subject to regulatory approval by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA). Additionally, with respect to the public offering of securities, the Company must file registration statements with the SEC under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the SEC, as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

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 PUHCA, most loans between affiliated companies must be approved in advance by the SEC.

To meet short-term cash needs and contingencies, the Company has various internal and external sources of liquidity. At the beginning of 2005, the Company had approximately $6.9 million of cash and cash equivalents and $100.5 million of unused credit arrangements with banks. 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, 2004, the Company had no outstanding commercial paper or extendible commercial notes.

Financing Activities

During 2004, the Company continued a program to retire higher-cost securities and replace them with lower-cost capital. See the statements of cash flows for further details.

In March 2004, the Company issued $40 million of Series F Floating Rate Senior Notes due March 9, 2009. The proceeds from this sale, along with other monies of the Company, were used to repay at maturity $80 million aggregate principal amount of the Company's Series D Floating Rate Senior Notes due March 12, 2004.

In April 2004, the Company issued 1,200,000 Depositary Shares ($30 million aggregate stated capital), each representing one-fourth of a share of 5.25% Series Preferred Stock, cumulative, par value $100 per share. The proceeds from this sale were primarily used to redeem various issues of higher cost preferred stock and the remainder was used for general corporate purposes.

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 – Plant Daniel Combined Cycle Generating Plant." 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. The Company does not consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease. Accordingly, the lease is not reflected in the 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 arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. The Company is party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price risk management activities. At December 31, 2004, the Company's exposure related to these agreements was not material.

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 and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques that include, but are not limited to, market valuation and sensitivity analysis.

The Company does not currently hedge interest rate risk. The weighted average interest rate on variable long-term debt at January 1, 2005 was 2.27 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 $1.2 million at January 1, 2005. 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. At January 1, 2005, exposure from these activities was not material to the Company's financial statements.

In addition, at the instruction of the Mississippi PSC, the Company has implemented a fuel-hedging program. At December 31, 2004, exposure from these activities was not material to the Company's financial statements.

The change in fair value of energy contracts and year-end valuations are as follows:

	Change in Fair Value	
	2004	2003
	(in thousands)	
Contracts beginning of year	**$ 2,470**	$12,864
Contracts realized or settled	**(9,181)**	(17,210)
Current period changes (a)	**7,600**	6,816
Contracts end of year	**$ 889**	$ 2,470

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

Source of Year-End Valuation Prices	Total	Maturity	
	Fair Value	Year 1	2-3 Years
	(in thousands)		
Actively quoted	$ 1,046	$ 564	$ 482
External sources	(157)	(157)	-
Models and other methods	-	-	-
Contracts end of year	$ 889	$ 407	$ 482

These contracts are related primarily 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 energy cost management clause.

Gains and losses on forward contracts for the sale of electricity that do not represent hedges are recognized in the statements of income as incurred. For the years ended December 31, 2004, 2003, and 2002, these amounts were not material.

At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in thousands)
Regulatory liabilities, net	**$ 1,361**
Other comprehensive income	**(481)**
Net income	**9**
Total fair value	**$ 889**

Unrealized pre-tax gains and losses recognized in income were not material for any year presented. 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. See Notes 1 and 6 to the financial statements under "Financial Instruments" for additional information.

Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $88 million for 2005, $95 million for 2006, and $90 million for 2007. Environmental expenditures included in these amounts are $6.3 million, $15.6 million, and $16.2 million for 2005, 2006, and 2007, 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 related to obligations associated with scheduled maturities of long-term debt and preferred securities, as well as the related interest, preferred stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, and 7 to the financial statements for additional information.

Contractual Obligations

	2005	2006-2007	2008-2009	After 2009	Total
			(in thousands)		
Long-term debt and preferred securities [(a)] --					
Principal	$ -	$ -	$ 40,000	$238,777	$ 278,777
Interest	12,514	25,028	25,028	267,616	330,186
Preferred stock dividends [(b)]	1,733	3,466	3,466	-	8,665
Operating leases	31,353	62,386	61,255	62,926	217,920
Purchase commitments [(c)]					
Capital [(d)]	87,754	185,591	-	-	273,345
[illegible]	~~250,420~~	~~99,184~~			~~349,604~~
Natural Gas [(e)]	109,676	126,434	11,876	48,207	296,193
Long-term service agreements	12,953	24,849	23,219	103,808	164,829
Post retirement benefit trust [(f)]	260	520	-	-	780
Total	$506,663	$ 527,458	$164,844	$721,334	$1,920,299

(a) All amounts are reflected based on final maturity dates. The Company plans to 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, 2005, 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 $241 million, $300 million, and $232 million, respectively.

(d) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2004, 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 Exchange future prices at December 31, 2004.

(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 and postretirement plans, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from the Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Statements

The Company's 2004 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, retail sales growth, environmental regulations and expenditures, the Company's projections for postretirement benefit trust contributions and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by 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;
- variations in demand for electricity and gas, including those relating to weather, the general economy and population, and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- 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 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 effect on the Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the Company's credit ratings;
- the ability of the Company to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the Company from time to time with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

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STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Mississippi Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Revenues:			
Retail sales	**$584,313**	$516,301	$536,827
Sales for resale --			
Non-affiliates	**265,863**	249,986	224,275
Affiliates	**44,371**	26,723	46,314
Contract termination	**-**	62,111	
Other revenues	**15,779**	14,803	16,749
Total operating revenues	**910,326**	869,924	824,165
Operating Expenses:			
Fuel	**320,997**	229,251	282,393
Purchased power --			
Non-affiliates	**33,528**	18,523	18,550
Affiliates	**73,235**	74,674	32,783
Other operations --			
Plant Daniel capacity	**-**	60,300	-
Other	**164,362**	169,775	158,354
Maintenance	**77,001**	70,043	73,659
Depreciation and amortization	**39,390**	55,700	57,638
Taxes other than income taxes	**55,572**	53,991	55,518
Total operating expenses	**764,085**	732,257	678,895
Operating Income	**146,241**	137,667	145,270
Other Income and (Expense):			
Interest income	**777**	617	655
Interest expense	**(11,776)**	(14,369)	(18,650)
Interest expense to affiliate trust	**(1,948)**	-	-
Distributions on mandatorily redeemable preferred securities	**(630)**	(2,520)	(3,016)
Other income (expense), net	**(1,365)**	(568)	(3,354)
Total other income and (expense)	**(14,942)**	(16,840)	(24,365)
Earnings Before Income Taxes	**131,299**	120,827	120,905
Income taxes	**50,666**	45,315	45,879
Net Income	**80,633**	75,512	75,026
Dividends on Preferred Stock	**3,832**	2,013	2,013
Net Income After Dividends on Preferred Stock	**$ 76,801**	$ 73,499	$ 73,013

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003, and 2002
Mississippi Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Activities:			
Net income	**$ 80,633**	$ 75,512	$ 75,026
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization	**60,260**	60,226	61,930
Deferred income taxes and investment tax credits, net	**44,424**	(7,632)	(3,404)
Plant Daniel capacity	**(16,508)**	60,300	-
Pension, postretirement, and other employee benefits	**(1,084)**	(1,014)	730
Tax benefit of stock options	**1,532**	2,323	1,826
Other, net	**(1,700)**	1,402	2,017
Changes in certain current assets and liabilities --			
Receivables, net	**(26,373)**	21,043	6,120
Fossil fuel stock	**5,528**	2,070	4,186
Materials and supplies	**(3,768)**	(1,607)	1,160
Other current assets	**1,401**	1,169	(13,346)
Accounts payable	**(5,555)**	(20,602)	18,487
Accrued taxes	**151**	(8,976)	3,160
Accrued compensation	**82**	(2,568)	5,570
Over recovered regulatory clause revenues	**(25,761)**	694	22,384
Other current liabilities	**6,052**	3,264	6,816
Net cash provided from operating activities	**119,314**	185,604	192,662
Investing Activities:			
Gross property additions	**(70,063)**	(69,345)	(67,460)
Cost of removal net of salvage	**(3,189)**	(5,811)	(9,987)
Other	**(2,826)**	(4,203)	(3,471)
Net cash used for investing activities	**(76,078)**	(79,359)	(80,918)
Financing Activities:			
Decrease in notes payable, net	**-**	-	(15,973)
Proceeds --			
Pollution control bonds	**-**	-	42,625
Senior notes	**40,000**	90,000	80,000
Mandatorily redeemable preferred securities	**-**	-	35,000
Preferred stock	**30,000**	-	-
Capital contributions from parent company	**1,791**	4,912	16,198
Redemptions --			
First mortgage bonds	**-**	(33,350)	(650)
Pollution control bonds	**-**	(850)	(42,645)
Senior notes	**(80,000)**	(86,628)	(80,550)
Mandatorily redeemable preferred securities	**-**	-	(35,000)
Preferred stock	**(28,388)**	-	-
Payment of preferred stock dividends	**(1,829)**	(2,013)	(2,013)
Payment of common stock dividends	**(66,200)**	(66,000)	(63,500)
Other	**(785)**	(5,891)	(1,491)
Net cash used for financing activities	**(105,411)**	(99,820)	(67,999)
Net Change in Cash and Cash Equivalents	**(62,175)**	6,425	43,745
Cash and Cash Equivalents at Beginning of Period	**69,120**	62,695	18,950
Cash and Cash Equivalents at End of Period	**$ 6,945**	$ 69,120	$ 62,695
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest	**$12,084**	$17,334	$17,743
Income taxes (net of refunds)	**6,654**	60,618	50,240

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Mississippi Power Company 2004 Annual Report

Assets	**2004**	2003
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 6,945**	$ 69,120
Receivables --		
Customer accounts receivable	**32,978**	30,514
Unbilled revenues	**20,803**	19,278
Under recovered regulatory clause revenues	**32,499**	14,607
Other accounts and notes receivable	**8,881**	8,088
Affiliated companies	**15,769**	12,160
~~Accumulated provision for uncollectible accounts~~	**~~(774)~~**	~~(897)~~
Fossil fuel stock, at average cost	**19,704**	25,233
Vacation pay	**6,125**	5,766
Materials and supplies, at average cost	**27,438**	23,670
Assets from risk management activities	**4,471**	2,672
Prepaid income taxes	**5,814**	27,415
Prepaid expenses	**3,423**	4,518
Other	**3.193**	766
Total current assets	**187,269**	242,910
Property, Plant, and Equipment:		
In service	**1,882,542**	1,841,667
Less accumulated provision for depreciation	**697,862**	679,939
	1,184,680	1,161,728
Construction work in progress	**27.961**	25.844
Total property, plant, and equipment	**1,212,641**	1,187,572
Other Property and Investments	**7,272**	4,404
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**10,668**	11,358
Prepaid pension costs	**19,158**	18,167
Unamortized debt issuance expense	**6,955**	6,993
Unamortized loss on reacquired debt	**9,437**	10,201
Prepaid rent	**12,874**	14,758
Other	**12,839**	14,811
Total deferred charges and other assets	**71,931**	76,288
Total Assets	**$1,479,113**	$1,511,174

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Mississippi Power Company 2004 Annual Report

Liabilities and Stockholder's Equity	2004	2003
	(in thousands)	
Current Liabilities:		
Securities due within one year	$ -	$ 80,000
Accounts payable --		
Affiliated	**19,568**	21,259
Other	**52,688**	44,494
Customer deposits	**9,053**	11,863
Accrued taxes --		
Income taxes	**396**	1,696
Other	**44,285**	42,834
Accrued interest	**1,731**	1,669
Accrued vacation pay	**6,125**	5,766
Accrued compensation	**23,913**	23,832
Regulatory clauses over recovery	**5,356**	31,118
Plant Daniel capacity	**25,125**	-
Other	**18,196**	14,394
Total current liabilities	**206,436**	278,925
Long-term Debt (See accompanying statements)	**242,498**	202,488
Long-term Debt Payable to Affiliated Trust (See accompanying statements)	**36,082**	-
Mandatorily Redeemable Preferred Securities (See accompanying statements)	-	35,000
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**167,345**	142,088
Deferred credits related to income taxes	**20,261**	22,327
Accumulated deferred investment tax credits	**18,654**	19,841
Employee benefit obligations	**57,275**	54,830
Plant Daniel lease guarantee obligation, at fair value	**10,990**	14,758
Plant Daniel capacity	**18,667**	60,300
Other cost of removal obligations	**76,228**	73,378
Miscellaneous regulatory liabilities	**9,522**	7,595
Other	**36,538**	35,346
Total deferred credits and other liabilities	**415,480**	430,463
Total Liabilities	**900,496**	946,876
Preferred Stock (See accompanying statements)	**32,780**	31,809
Common Stockholder's Equity (See accompanying statements)	**545,837**	532,489
Total Liabilities and Stockholder's Equity	**$1,479,113**	$1,511,174
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION

At December 31, 2004 and 2003

Mississippi Power Company 2004 Annual Report

	2004	2003	2004	2003
	(in thousands)		*(percent of total)*	
Long-Term Debt:				
First mortgage bonds -- 6.875% due 2025	**$ 30,000**	$ 30,000		
Long-term notes payable --				
5.625% due May 1, 2033	**90,000**	90,000		
Adjustable rates (2.76% at 1/1/05) due 2009	**40,000**	80,000		
Total long-term notes payable	**130,000**	170,000		
Other long-term debt --				
Pollution control revenue bonds -- non-collateralized:				
Variable rates (1.85% to 2.25% at 1/1/05)				
due 2020-2028	**82,695**	82,695		
Unamortized debt premium (discount), net	**(197)**	(207)		
Total long-term debt (annual interest requirement -- $9.9 million)	**242,498**	282,488		
Less amount due within one year	**-**	80,000		
Long-term debt excluding amount due within one year	**242,498**	202,488	**28.3%**	25.2%
Long-term Debt Payable to Affiliated Trust:				
7.20% due 2041 (annual interest requirement -- $2.6 million)	**36,082**	-	**4.2**	0.0
Mandatorily Redeemable Preferred Securities:				
$25 liquidation value -- 7.20% due 2041	**-**	35,000	**0.0**	4.4
Cumulative Preferred Stock:				
$100 par value				
4.40% to 7.00% (annual dividend requirement -- $1.7 million)	**32,780**	31,809	**3.8**	4.0
Common Stockholder's Equity:				
Common stock, without par value --				
Authorized - 1,130,000 shares				
Outstanding - 1,121,000 shares in 2004 and 2003	**37,691**	37,691		
Paid-in capital	**295,837**	292,841		
Retained earnings	**215,893**	203,419		
Accumulated other comprehensive income (loss)	**(3,584)**	(1,462)		
Total common stockholder's equity	**545,837**	532,489	**63.7**	66.4
Total Capitalization	**$857,197**	$801,786	**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, 2004, 2003, and 2002

Mississippi Power Company 2004 Annual Report

	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Income (loss)	Total
			(in thousands)		
Balance at December 31, 2001	$37,691	$267,582	$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	285,606	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**	**292,841**	**203,419**	**(1,462)**	**532,489**
Net income after dividends on preferred stock	**-**	**-**	**76,801**	**-**	**76,801**
Capital contributions from parent company	**-**	**3,323**	**-**	**-**	**3,323**
Other comprehensive income (loss)	**-**	**-**	**-**	**(2,122)**	**(2,122)**
Cash dividends on common stock	**-**	**-**	**(66,200)**	**-**	**(66,200)**
Other	**-**	**(327)**	**1,873**	**-**	**1,546**
Balance at December 31, 2004	**$37,691**	**$295,837**	**$215,893**	**$(3,584)**	**$545,837**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Mississippi Power Company 2004 Annual Report

	2004	2003	2002
Net income after dividends on preferred stock	**$76,801**	$73,499	$73,013
Other comprehensive income (loss):			
Change in additional minimum pension liability, net of tax of $(1,131), $(123) and $(783), respectively	**(1,825)**	(198)	(1,264)
Change in fair value of marketable securities, net of tax of $49	**80**	-	-
Changes in fair value of qualifying hedges, net of tax of $(184)	**(297)**		
Less: Reclassification adjustment for amounts included in net income, net of tax of $(49)	**(80)**		-
Total other comprehensive income (loss)	**(2,122)**	(198)	(1,264)
Comprehensive Income	**$74,679**	$73,301	$71,749

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mississippi Power Company (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 (SouthernLINC Wireless), 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, the Company, and Savannah Electric - provide electric service in four Southeastern states. The Company operates as a vertically integrated utility providing service to retail customers in Southwest 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. SouthernLINC Wireless 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 various other energy related businesses. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

The equity method is used for subsidiaries which are variable interest entities and for which the Company is not the primary beneficiary. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935, as amended (PUHCA). Both Southern Company and its subsidiaries, including the Company, are subject to the regulatory provisions of PUHCA. The Company is also subject to regulation by the FERC and the Mississippi Public Service Commission (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.

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 transactions. Costs for these services amounted to $45.3 million, $46.1 million, and $43.8 million during 2004, 2003, and 2002, 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 $7.2 million, $6.6 million, and $6.4 million in 2004, 2003, and 2002, 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 $17.8 million, $17.7 million, and $16.6 million in 2004, 2003, and 2002, respectively. See Notes 4 and 5 for additional information on certain deferred tax liabilities payable to affiliates.

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

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 the actual recoverable costs and amounts billed in current regulated rates.

The Company has a diversified base of customers. For the year ended December 31, 2004 and December 31, 2002, no single customer or industry accounted for 10 percent or more of revenue. However, 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. For all periods presented, uncollectible accounts continued to average less than 1 percent of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense includes the cost of purchased emission allowances as they are used.

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:

	2004	2003	Note
	(in thousands)		
Deferred income tax charges	**$ 11,358**	$ 12,125	(a)
Property tax	**11,199**	12,210	(b)
Vacation pay	**6,125**	5,766	(c)
Loss on reacquired debt	**9,437**	10,201	(d)
Loss on redeemed preferred stock	**1,086**	-	(e)
Fuel-hedging asset	**2,666**	-	(f)
Asset retirement obligations	**1,398**	689	(a)
Property damage reserve	**(5,034)**	(6,796)	(g)
Deferred income tax credits	**(21,789)**	(22,719)	(a)
Other cost of removal obligations	**(76,228)**	(73,378)	(a)
Plant Daniel capacity	**(43,792)**	(60,300)	(h)
Fuel-hedging liabilities	**(4,027)**	(4,164)	(f)
Other liabilities	**(142)**	(330)	(g)
Total	**$(107,743)**	$(126,696)	

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 fifty years. Asset retirement and removal liabilities will be settled and trued up following completion of the related activities.
(b) Recovered through the ad valorem tax adjustment clause over a 12-month period beginning in April of the following year.
(c) Recorded as earned by employees and recovered as paid, generally within one year.
(d) Recovered over the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to fifty years.
(e) Amortized over a period beginning in 2004 that is not to exceed seven years.
(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, costs are recovered through the Energy Cost Management clause (ECM).
(g) Recorded and recovered or amortized as approved by the Mississippi PSC.
(h) Amortized over a four-year period ending in 2007.

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 currently 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 each of 2004, 2003, and 2002. 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 depreciation provision. 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.

In December 2003, the Mississippi PSC issued an interim accounting order directing the Company to expense and record a regulatory liability of $60.3 million while it considered the Company's request to include 266 megawatts of Plant Daniel Units 3 and 4 generating capacity in jurisdictional cost of service. In May 2004, the Mississippi PSC approved the Company's request effective January 1, 2004 and ordered the Company to amortize the regulatory liability previously established to earnings as follows: $16.5 million in 2004, $25.1 million in 2005, $13.0 million in 2006, and $5.7 million in 2007.

Asset Retirement Obligations and Other Costs of Removal

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 present value of the ultimate cost 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. Although 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 received accounting guidance from the Mississippi PSC allowing such treatment. Accordingly, the accumulated removal costs for other obligations previously accrued will continue to be reflected on the balance sheets as a regulatory liability. 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, 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 statements of income 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:

	2004	2003
	(in millions)	
Balance, beginning of year	$ 2.5	$ -
Liabilities incurred	-	2.4
Liabilities settled	-	-
Accretion	0.2	0.1
Cash flow revisions	2.8	-
Balance, end of year	$ 5.5	$ 2.5

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 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 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.

Environmental Cost Recovery

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 may also incur substantial costs to clean up properties. The Company has authority from the Mississippi PSC to recover approved environmental compliance costs through retail rates.

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 or used.

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 currently 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 of Southern Company's common stock 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.

The pro forma impact of fair-value accounting for options granted on earnings is as follows:

Net Income	As Reported	Pro Forma
	(in thousands)	
2004	**$76,801**	**$76,033**
2003	$73,499	$72,680
2002	$73,013	$72,186

The estimated fair values of stock options granted in 2004, 2003, and 2002 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:

	2004	2003	2002
Interest rate	**3.1%**	2.7%	2.8%
Average expected life of stock options (in years)	**5.0**	4.3	4.3
Expected volatility of common stock	**19.6%**	23.6%	26.3%
Expected annual dividends on common stock	**$1.40**	$1.37	$1.34
Weighted average fair value of stock options granted	**$3.29**	$3.59	$3.37

Financial Instruments

The Company uses derivative financial instruments to limit exposure to 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 Mississippi PSC has approved the Company's request to implement an Energy Cost Management clause (ECM) which, 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 has been approved by the Federal Energy Regulatory Commission (FERC).

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 did not equal the fair value at December 31 were as follows:

	Carrying Amount	Fair Value
	(in thousands)	
Long-term debt:		
At December 31, 2004	**$278,580**	**$282,884**
At December 31, 2003	$282,488	$286,250
Preferred securities:		
At December 31, 2004	**$ -**	**$**
At December 31, 2003	$ 35,000	$ 37,170

The fair values were based on either closing market price or closing price of comparable instruments. See "Variable Interest Entities" herein and Note 6 under "Mandatorily Redeemable Preferred Securities/Long-Term Debt Payable to Affiliated Trust" for further information.

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 the Mississippi PSC and the FERC, the Company accrues for the cost of such damage through an annual expense accrual credited to a regulatory liability account. The cost of repairing actual damage resulting from such events that individually exceed $50,000 is charged to the reserve. The annual accruals may range from $1.5 million to $4.6 million with a maximum reserve totaling $23 million. The Company accrued $4.6 million in 2004, $2.5 million in 2003, and $1.8 million in 2002. As of December 31, 2004, the accumulated provision amounted to $5 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, changes in the fair value of qualifying cash flow hedges and marketable securities and changes in additional minimum pension liability, less income taxes, and reclassifications for amounts included in net income.

Variable Interest Entities

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. The adoption of Interpretation No. 46R had no impact on the net income of the Company. However, as a result of the adoption, the Company deconsolidated a wholly-owned trust established to issue preferred securities since the Company is not the primary beneficiary of the trust. Therefore, the investments in this trust are reflected as Other Investments and the related loan from the trust are reflected as Long-term Debt Payable to Affiliated Trust on the balance sheets. This treatment resulted in a $1 million increase in both total assets and total liabilities as of December 31, 2004.

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 of 1974, as amended (ERISA), requirements. No contributions to the plan are expected for the year ending December 31, 2005. The Company also provides certain non-qualified benefit plans for a selected group of management and highly compensated employees. 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. In addition, trusts are funded to the extent required by the Mississippi PSC and the FERC. For the year ending December 31, 2005, postretirement trust contributions are expected to total approximately $260,000.

The measurement date for plan assets and obligations is September 30 of each year.

Pension Plans

The accumulated benefit obligation for the pension plans was $211 million and $188 million for 2004 and 2003, 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	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$207,689**	$186,443
Service cost	**6,153**	5,607
Interest cost	**12,249**	11,964
Benefits paid	**(10,564)**	(9,317)
Actuarial loss and employee transfers	**16,342**	12,992
Amendments	**789**	-
Balance at end of year	**$232,658**	$207,689

	Plan Assets 2004	2003
	(in thousands)	
Balance at beginning of year	**$210,285**	$188,839
Actual return on plan assets	**20,419**	30,024
Benefits paid	**(8,985)**	(8,512)
Employee transfers	**824**	(66)
Balance at end of year	**$222,543**	$210,285

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal 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.

	Target	Plan Assets 2004	2003
Domestic equity	37%	**36%**	37%
International equity	20	**20**	20
Fixed income	26	**26**	24
Real estate	10	**10**	11
Private equity	7	**8**	8
Total	100%	**100%**	100%

The reconciliations of the funded status with the accrued pension costs recognized in the balance sheets were as follows:

	2004	2003
	(in thousands)	
Funded status	**$(10,115)**	$ 2,596
Unrecognized transition obligation	**(1,090)**	(1,635)
Unrecognized prior service cost	**14,423**	15,004
Unrecognized net gain (loss)	**8,315**	(5,507)
Prepaid pension asset, net	**$ 11,533**	$10,458

The prepaid asset, net is reflected in the balance sheets in the following line items:

	2004	2003
	(in thousands)	
Prepaid pension asset	**$19,158**	$18,167
Employee benefit obligations	**(15,394)**	(11,839)
Other property and investment-other	**2,445**	1,762
Accumulated other comprehensive income	**5,324**	2,368
Prepaid pension, net	**$11,533**	$10,458

Components of the pension plans' net periodic cost were as follows:

	2004	2003	2002
	(in thousands)		
Service cost	**$ 6,153**	$ 5,607	$ 5,259
Interest cost	**12,249**	11,965	12,674
Expected return on plan assets	**(18,325)**	(18,329)	(18,380)
Recognized net gain (loss)	**865**	(1,847)	(2,654)
Net amortization	**(361)**	862	650
Net pension income (expense)	**$ 581**	$(1,742)	$ (2,451)

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2004, estimated benefit payments were as follows:

	2004
	(in thousands)
2005	$10,216
2006	10,372
2007	10,483
2008	10,645
2009	11,108
2010 to 2014	$65,913

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	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$72,186**	$61,168
Service cost	**1,330**	1,149
Interest cost	**4,015**	3,897
Benefits paid	**(3,364)**	(2,813)
Actuarial (gain) loss	**1,268**	8,785
Plan amendments	**-**	-
Balance at end of year	**$75,435**	$72,186

	Plan Assets	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$18,185**	$16,078
Actual return on plan assets	**1,868**	1,979
Employer contributions	**3,494**	2,941
Benefits paid	**(3,364)**	(2,813)
Balance at end of year	**$20,183**	$18,185

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal 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	**2004**	2003
Domestic equity	27%	**27%**	27%
International equity	15	**15**	15
Fixed income	45	**45**	45
Real estate	8	**8**	8
Private equity	5	**5**	5
Total	100%	**100%**	100%

The accrued postretirement costs recognized in the balance sheets were as follows:

	Accrued Costs	
	2004	2003
	(in thousands)	
Funded status	**$(55,253)**	$(54,001)
Unrecognized transition obligation	**2,889**	3,235
Unrecognized prior service cost	**1,504**	1,610
Unrecognized net gain	**19,211**	18,503
Fourth quarter contributions	**779**	926
Accrued liability recognized in the Balance Sheets	**$(30,870)**	$(29,727)

Components of the postretirement plans' net periodic cost were as follows:

	Net Periodic Costs		
	2004	2003	2002
	(in thousands)		
Service cost	**$1,330**	$1,149	$ 959
Interest cost	**4,015**	3,898	3,781
Expected return on plan assets	**(1,716)**	(1,598)	(1,514)
Transition obligation	**346**	346	346
Prior service cost	**106**	106	106
Recognized net loss	**408**	116	-
Net postretirement cost	**$4,489**	$4,017	$3,678

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plan. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $.5 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $8 million. However, the ultimate impact on future periods is subject to federal regulations governing the subsidy created in the Medicare Act which are being finalized.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the accumulated benefit obligation for the postretirement plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	Benefit Payments	Subsidy Receipts	Total
	(in thousands)		
2005	$ 3,264	$ -	$ 3,264
2006	3,588	(422)	3,166
2007	3,937	(465)	3,472
2008	4,170	(503)	3,667
2009	4,561	(547)	4,014
2010 to 2014	$27,802	$(3,371)	$24,431

The weighted average rates assumed in the actuarial calculations for both the pension and postretirement benefits plans were as follows:

	2004	2003	2002
Discount	**5.75%**	6.00%	6.50%
Annual salary increase	**3.50**	3.75	4.00
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 11.0 percent for 2004, decreasing gradually to 5.0 percent through the year 2012, 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, 2004 as follows:

	1 Percent	
	Increase	Decrease
	(in thousands)	
Benefit obligation	**$6,456**	**$5,109**
Service and interest costs	**340**	**299**

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 2004, 2003, and 2002 were $2.8 million, $2.7 million, and $2.6 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 and Georgia Power alleging violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws at five coal-fired generating facilities. The EPA concurrently issued to each of the retail operating companies notices of violation relating to 10 generating facilities, which included 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.

The U.S. District Court for the Northern District of Georgia subsequently granted Alabama Power's motion to dismiss and denied the EPA's motion to add the Company and Gulf Power for lack of jurisdiction in Georgia. In

March 2001, the court granted the EPA's motion to add Savannah Electric as a defendant. 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 civil complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA has not refiled against Gulf Power or the Company.

The actions against Alabama Power, Georgia Power, and Savannah Electric were effectively stayed in the spring of 2001 during the appeal of a similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the cases pending against Alabama Power, Georgia Power, and Savannah Electric. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the case. In June 2004, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the court's active docket. At this time, no party to the case against Georgia Power and Savannah Electric has sought to reopen that case, which remains administratively closed in the U.S. District Court for the Northern District of Georgia.

Since the inception of the NSR proceedings against Alabama Power, Georgia 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. District courts addressing these cases have, to date, issued opinions that reached conflicting conclusions.

The Company believes that it complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. In any event, the final regulations must be adopted by the individual states in the Company's service territory to apply to the Company's facilities. The effect of these final regulations, related legal challenges, and potential state rulemakings cannot be determined at this time.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has obtained FERC approval to sell power to nonaffiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC which included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except its retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within the Southern Company retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, Southern Company submitted additional information on February 15, 2005 related to generation dominance in the Southern Company retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Right of Way Litigation

Southern Company and certain of its subsidiaries, including the Company, Georgia Power, Gulf Power, and Southern Telecom, have been named as defendants in numerous lawsuits brought by landowners since 2001. The plaintiffs' lawsuits claim that defendants may not use, or sublease to third parties, some or all of the fiber optic communications lines on the rights of way that cross the plaintiffs' properties and that such actions exceed the easements or other property rights held by defendants. The Company has entered into an agreement with approximately one-third of the plaintiffs in the actions pending against the Company to clarify the Company's easement rights in the State of Mississippi. This agreement has been approved by the Circuit Court of Harrison County, Mississippi (First Judicial District) and dismissals of the related cases are in progress. The remaining plaintiffs assert claims for, among other things, trespass and unjust enrichment, and seek compensatory and punitive damages and injunctive relief. Management of the Company believes that the Company 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 Alabama Power, Georgia Power, Gulf Power, the Company, Savannah Electric, and Southern Telecom, 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 it in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of the underlying landowner litigation discussed above. On January 12, 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

Retail Regulatory Matters

The Company's retail base rates are set under Performance Evaluation Plan (PEP), a rate plan approved by the Mississippi PSC. 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: price, customer satisfaction, and service reliability.

In May 2004, the Mississippi PSC approved the Company's request to modify certain portions of its PEP and to reclassify, to jurisdictional cost of service the 266 megawatts of Plant Daniel Units 3 and 4 capacity, effective January 1, 2004. The Mississippi PSC authorized the Company to include the related costs and revenue credits in jurisdictional rate base, cost of service, and revenue requirement calculations for purposes of retail rate recovery. The Company is amortizing the regulatory liability established pursuant to the Mississippi PSC's interim December 2003 accounting order, as approved in the May 2004 order, to earnings as follows: $16.5 million in 2004, $25.1 million in 2005, $13.0 million in 2006, and $5.7 million in 2007, resulting in increases to earnings in each of those years.

In addition, the Mississippi PSC also approved the Company's requested changes to PEP, including the use of a forward-looking test year, with appropriate oversight; annual, rather than semi-annual, filings; and certain changes to the performance indicator mechanisms. Rate changes will be limited to four percent of retail revenues annually under the revised PEP. The Mississippi PSC will review all aspects of PEP in 2007. PEP will remain in effect until the Mississippi PSC modifies, suspends, or terminates the plan. In December 2004, the Company filed its PEP for the projected 2005 test period. The results from the 2005 filing did not necessitate any change in rates.

Environmental Compliance Overview Plan

The Company's Environmental Compliance Overview (ECO) Plan establishes procedures to facilitate the Mississippi PSC's overview of the Company's environmental strategy and provides for recovery of costs (including cost 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 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. In accordance with the Mississippi PSC order, the Company recovers such costs under the ECO Plan as they are incurred. The Company's 2004 ECO Plan filing was approved, as filed, by the Mississippi PSC on March 15, 2004, and resulted in a slight decrease in rates effective April 2004.

Environmental Remediation

In 2003, the Texas Commission on Environmental Quality (TCEQ) designated the Company as a potentially responsible party at a site in Texas. The site was owned by an electric transformer company that handled the Company's transformers as well as those of many other entities. 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 investigate and remediate the site. Amounts expensed during 2003 and 2004 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. The remediation expenses incurred by the

Company are expected to be recovered through the Company's ECO Plan.

4. JOINT OWNERSHIP AGREEMENTS

The Company and Alabama Power own, as tenants in common, Units 1 and 2 with a total capacity of 500 megawatts 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 with a total capacity of 1,000 megawatts at Plant Daniel, which is located in Mississippi and operated by the Company.

At December 31, 2004, the Company's percentage ownership and investment in these jointly owned facilities were as follows:

Generating Plant	Percent Ownership	Company's Gross Investment	Accumulated Depreciation
		(in thousands)	
Greene County			
Units 1 and 2	40%	$73,397	$38,396
Daniel			
Units 1 and 2	50%	$251,702	$123,934

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 allocation agreement, as required by the PUHCA, each subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more expense than would be paid if they filed a separate income tax return. In accordance with Internal Revenue Service regulations, each company is jointly and severally liable for the tax liability.

In 2004, in order to avoid the loss of certain federal income tax credits related to the production of synthetic fuel, Southern Company chose to defer certain deductions otherwise available to the subsidiaries. The cash flow benefit associated with the utilization of the tax credits was allocated to the subsidiary that otherwise would have claimed the available deductions on a separate company basis without the deferral. This allocation concurrently reduced the tax benefit of the credits allocated to those subsidiaries that generated the credits. As the deferred expenses are deducted, the benefit of the tax credits will be repaid to the subsidiaries that generated the tax credits. The Company has recorded $3.6 million payable to these subsidiaries in "Accumulated Deferred Income Taxes" on the balance sheets.

At December 31, 2004, the tax-related regulatory assets and liabilities were $11.4 million and $21.8 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 current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are shown below:

	2004	2003	2002
	(in thousands)		
Total provision for income taxes:			
F			
	$ 3,700	$46,116	$42,603
Deferred	**40,350**	(6,166)	(3,122)
	44,050	39,950	39,481
State --			
Current	**2,542**	7,761	6,680
Deferred	**4,074**	(2,396)	(282)
	6,616	5,365	6,398
Total	**$50,666**	$45,315	$45,879

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:

	2004	2003
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	**$183,692**	$168,373
Basis differences	**7,014**	7,487
Other	**63,414**	46,689
Total	**254,120**	222,549
Deferred tax assets:		
Other property basis differences	**14,095**	15,067
Pension and other benefits	**12,198**	10,722
Property insurance	**3,928**	2,599
Unbilled fuel	**5,953**	5,593
Other	**53,886**	68,257
Total	**90,060**	102,238
Total deferred tax liabilities, net	**164,060**	120,311
Portion included in prepaid (accrued) income taxes, net	**3,285**	21,777
Accumulated deferred income taxes in the balance sheets	**$167,345**	$142,088

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 $1.2 million in each year presented. At December 31, 2004, 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:

	2004	2003	2002
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**3.3**	2.9	3.4
Non-deductible book depreciation	**0.4**	0.4	0.5
Other	**(0.1)**	(0.8)	(1.0)
Effective income tax rate	**38.6%**	37.5%	37.9%

6. FINANCING

Mandatorily Redeemable Preferred Securities/ Long-Term Debt Payable to Affiliated Trust

The Company has formed a 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 and are reflected on the balance sheets as Long-term Debt Payable to Affiliated 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, 2004, preferred securities of $35 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for the trust and the related securities.

Pollution Control Bonds

Pollution control obligations represent loans to the Company from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control facilities. The Company is required to make payments sufficient for authorities to meet principal and interest requirements of such bonds. The amount of tax-exempt pollution control revenue bonds outstanding at December 31, 2004 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:

	2004	2003
	(in thousands)	
Bond improvement fund requirement	$ **300**	$ 300
Less: Portion to be satisfied by certifying property additions	**300**	300
Cash sinking fund requirement	-	-
Current portion of other long-term debt	-	80,000
Pollution control bond cash sinking fund requirements		
Total	$ -	$80,000

The first mortgage bond improvement fund requirement is one percent of each outstanding series authenticated under the mortgage 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, reacquiring bonds, or by pledging additional property equal to 1 and 2/3 times such requirement.

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 satisfy obligations of Southern Company or any of its subsidiaries.

Bank Credit Arrangements

At the beginning of 2005, the Company had total committed credit agreements with banks for approximately $100.5 million, all of which were unused. These credit arrangements expire in 2005. The Company expects to renew its credit facilities, as needed, prior to expiration. 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 $100.5 million in unused credit arrangements provides required liquidity support to the Company's borrowings through a commercial paper program. At December 31, 2004, the Company had no outstanding commercial paper or extendible commercial notes. During 2004, the peak amount outstanding for commercial paper was $59.9 million and the average amount outstanding was $21.5 million. The average annual interest rate on commercial paper was 1.30 percent in 2004. The credit arrangements also provide support to the Company's variable daily rate tax-exempt pollution control bonds.

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 Mississippi PSC. The Company enters into hedges of forward electricity sales. There was no material ineffectiveness recorded in earnings in 2004 and 2003.

At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in thousands)
Regulatory liabilities, net	$ **1,361**
Other comprehensive income	**(481)**
Net income	**9**
Total fair value	$ **889**

The fair value gains or losses for cash flow hedges are recorded as regulatory assets and liabilities if they are recoverable through the regulatory clauses, otherwise they are recorded in other comprehensive income, and are recognized in earnings at the same time the hedged items affect earnings. For the year 2005, approximately $0.5 million of pre-tax losses are expected to be reclassified from other comprehensive income to fuel expense. The Company has energy-related hedges in place up to and including 2007.

Common Stock Dividend Restrictions

The Company's first mortgage bond indenture and the corporate charter contain various common stock dividend restrictions. At December 31, 2004, 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 $88 million in 2005, $95 million in 2006, and $90 million in 2007. 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 generation 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. At December 31, 2004, 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 leased 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 $9 million, $6 million, and $11 million for 2004, 2003, and 2002, respectively, which is included in maintenance expense in the statements of income. Remaining payments to GE under this agreement are currently estimated to total $160 million over the next 13 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 $4.9 million over the remaining term of the agreement, which is approximately two 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 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. Coal commitments include forward contract purchases for carbon dioxide emission allowances. 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 Exchange future prices at December 31, 2004. Total estimated minimum long-term obligations at December 31, 2004 were as follows:

Year	Natural Gas	Coal
	(in thousands)	
2005	$109,676	$250,420
2006	78,730	71,768
2007	47,704	27,416
2008	5,938	-
2009	5,938	-
2010 and there after	48,207	-
Total commitments	$296.193	$349.604

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. In 2004, the Company entered into a three-year operating lease agreement for the use of 120 aluminum railcars. All 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 ECM, was $1.9 million annually in 2004, 2003, and 2002. The Company's annual lease payments for 2005 through 2009 will average approximately $2.3 million and after 2009, lease payments total in aggregate approximately $6.2 million.

Plant Daniel Combined Cycle Generating Units

In May 2001, the Company began the initial 10-year term of the lease agreement 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 Mississippi PSC. 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 Matters" for a description of PEP, the Company's 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. The Company is not required to consolidate the leased assets and related liabilities, and the lease with Juniper is considered an operating lease. 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. A liability of approximately $13 million for the fair market value of this residual value guarantee is included in the balance sheets. In 2003, approximately $11 million in lease termination costs and were included in other operation expense. Lease expenses were $27 million, $26 million, and $26 million in 2004, 2003, and 2002, respectively.

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, 2004, are as follows:

Year	Lease Payments
	(in thousands)
2005	$ 28,931
2006	28,824
2007	28,718
2008	28,616
2009	28,504
2010 and thereafter	56,688
Total commitments	$200,281

8. STOCK OPTION PLAN

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. As of December 31, 2004, 266 current and former employees of the Company participated in the stock option plan. The maximum number of shares of Southern Company 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 stock option plan. Activity from 2002 to 2004 for the options granted to the Company's employees under the stock option plan is summarized below:

	Shares Subject To Option	Average Option Price Per Share
Balance at December 31, 2001	1,322,666	$17.54
Options granted	375,553	25.26
Options canceled	(4,248)	23.52
Options exercised	(209,962)	14.83
Balance at December 31, 2002	1,484,009	19.86
Options granted	336,450	27.98
Options canceled	(2,882)	24.64
Options exercised	(269,753)	16.35
Balance at December 31, 2003	1,547,824	22.23
Options granted	309,043	29.50
Options canceled	(1,395)	19.87
Options exercised	(260,061)	17.00
Balance at December 31, 2004	**1,595,411**	**$24.49**

Options exercisable:		
At December 31, 2002	625,585	
At December 31, 2003	794,374	
At December 31, 2004	1,019,627	

The following table summarizes information about options outstanding at December 31, 2004:

	Dollar Price Range of Options		
	13-20	20-26	26-32
Outstanding:			
Shares (in thousands)	360,368	595,638	639,405
Average remaining life (in years)	5.6	6.8	8.6
Average exercise price	$17.70	$24.07	$28.71
Exercisable:			
Shares (in thousands)	360,368	497,176	162,083
Average exercise price	$17.70	$23.84	$28.18

9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2004 and 2003 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends On Preferred Stock
		(in thousands)	
March 2004	**$209,728**	**$31,600**	**$17,319**
June 2004	**232,785**	**43,290**	**21,891**
September 2004	**258,564**	**61,744**	**35,581**
December 2004	**209,249**	**9,607**	**2,010**
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)

The Company's business is influenced by seasonal weather conditions. During the second quarter of 2003, the Company recorded $62 million of contract termination revenues, as a result of the termination of a contract with a subsidiary of Dynegy. During the fourth quarter of 2003, the Company recorded a $60 million expense related to the establishment of a regulatory liability in connection with an accounting order issued by the Mississippi PSC. See Note 3 under "Retail Regulatory Matters" for additional information.

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SELECTED FINANCIAL AND OPERATING DATA 2000-2004
Mississippi Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands)	**$910,326**	$869,924	$824,165	$796,065	$687,602
Net Income after Dividends on Preferred Stock (in thousands)	**$76,801**	$73,499	$73,013	$63,887	$54,972
Cash Dividends on Common Stock (in thousands)	**$66,200**	$66,000	$63,500	$50,200	$54,700
Return on Average Common Equity (percent)	**14.24**	13.99	14.46	14.25	13.80
Total Assets (in thousands)	**$1,479,113**	$1,511,174	$1,482,040	$1,411,050	$1,341,470
Gross Property Additions (in thousands)	**$70,063**	$69,345	$67,460	$61,193	$81,211
Capitalization (in thousands):					
Common stock equity	**$545,837**	$532,489	$517,953	$491,680	$404,898
Preferred stock	**32,780**	31,809	31,809	31,809	31,809
Mandatorily redeemable preferred securities	**-**	35,000	35,000	35,000	35,000
Long-term debt payable to affiliated trust	**36,082**	-	-	-	-
Long-term debt	**242,498**	202,488	243,715	233,753	370,511
Total (excluding amounts due within one year)	**$857,197**	$801,786	$828,477	$792,242	$842,218
Capitalization Ratios (percent):					
Common stock equity	**63.7**	66.4	62.5	62.1	48.1
Preferred stock	**3.8**	4.0	3.8	4.0	3.8
Mandatorily redeemable preferred securities	**-**	4.4	4.2	4.4	4.2
Long-term debt payable to affiliated trust	**4.2**	-	-	-	-
Long-term debt	**28.3**	25.2	29.5	29.5	43.9
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+	A+
Fitch	**AA**	AA-	AA-	AA-	AA-
Preferred Stock -					
Moody's	**A3**	A3	A3	A3	a1
Standard and Poor's	**BBB+**	BBB+	BBB+	BBB+	BBB+
Fitch	**A+**	A	A	A	A
Unsecured Long-Term Debt -					
Moody's	**A1**	A1	A1	A1	
Standard and Poor's	**A**	A	A	A	
Fitch	**AA-**	A+	A+	A+	
Customers (year-end):					
Residential	**160,189**	159,582	158,873	158,852	158,253
Commercial	**33,646**	33,135	32,713	32,538	32,372
Industrial	**522**	520	489	498	517
Other	**183**	171	171	173	206
Total	**194,540**	193,408	192,246	192,061	191,348
Employees (year-end):	**1,283**	1,290	1,301	1,316	1,319

SELECTED FINANCIAL AND OPERATING DATA 2000-2004 (continued)
Mississippi Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands):					
Residential	**$199,242**	$180,978	$186,522	$164,716	$170,729
Commercial	**199,127**	175,416	181,224	163,253	163,552
Industrial	**180,516**	154,825	164,042	156,525	159,705
Other	**5,428**	5,082	5,039	4,659	4,565
Total retail	**584,313**	516,301	536,827	489,153	498,551
Sales for resale - non-affiliates	**265,863**	249,986	224,275	204,623	145,931
Sales for resale - affiliates	**44,371**	26,723	46,314	85,652	27,915
Total revenues from sales of electricity	**894,547**	793,010	807,416	779,428	672,397
Other revenues	**15,779**	76,914	16,749	16,637	15,205
Total	**$910,326**	$869,924	$824,165	$796,065	$687,602
Kilowatt-Hour Sales (in thousands):					
Residential	**2,297,110**	2,255,445	2,300,017	2,162,623	2,286,143
Commercial	**2,969,829**	2,914,133	2,902,291	2,840,840	2,883,197
Industrial	**4,235,290**	4,111,199	4,161,902	4,275,781	4,376,171
Other	**40,229**	39,890	39,635	41,009	41,153
Total retail	**9,542,458**	9,320,667	9,403,845	9,320,253	9,586,664
Sales for resale - non-affiliates	**6,027,666**	5,874,724	5,380,145	5,011,212	3,674,621
Sales for resale - affiliates	**1,053,471**	709,065	1,586,968	2,952,455	452,611
Total	**16,623,595**	15,904,456	16,370,958	17,283,920	13,713,896
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**8.67**	8.02	8.11	7.62	7.47
Commercial	**6.70**	6.02	6.24	5.75	5.67
Industrial	**4.26**	3.77	3.94	3.66	3.65
Total retail	**6.12**	5.54	5.71	5.25	5.20
Sales for resale	**4.38**	4.20	3.88	3.64	4.21
Total sales	**5.38**	4.99	4.93	4.51	4.90
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,357**	14,161	14,453	13,634	14,445
Residential Average Annual Revenue Per Customer	**$1,245**	$1,136	$1,172	$1,038	$1,079
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**3,156**	3,156	3,156	3,156	2,086
Maximum Peak-Hour Demand (megawatts):					
Winter	**2,173**	2,458	2,311	2,249	2,305
Summer	**2,427**	2,330	2,492	2,466	2,593
Annual Load Factor (percent)	**62.4**	60.5	61.8	60.7	59.3
Plant Availability Fossil-Steam (percent):	**91.4**	92.6	91.7	92.8	92.6
Source of Energy Supply (percent):					
Coal	**55.7**	57.7	50.8	52.0	67.8
Oil and gas	**25.5**	19.9	37.7	35.9	13.5
Purchased power -					
From non-affiliates	**6.4**	3.5	3.1	3.1	7.7
From affiliates	**12.4**	18.9	8.4	9.0	11.0
Total	**100.0**	100.0	100.0	100.0	100.0

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SAVANNAH ELECTRIC AND POWER COMPANY

FINANCIAL SECTION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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-287 to II-311) present fairly, in all material respects, the financial position of Savannah Electric and Power Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, the 2003 and 2002 financial statements have been restated.

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
February 28, 2005

OVERVIEW

Business Activities

Savannah Electric and Power Company (the Company) operates as a vertically integrated utility providing electricity to retail customers within its traditional service area of southeastern Georgia.

Many 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 more stringent environmental standards. In 2004, the Company filed a retail rate case and completed a retail fuel cost recovery rate case. These regulatory actions were initiated to help enable the recovery of substantial capital investments in generating plant, to facilitate the continued reliability of the transmission and distribution network, and to allow for the recovery of increasing fuel costs. The Georgia Public Service Commission (PSC) is expected to rule on the Company's base rate increase request in May 2005.

Restatement

See Note 9 to the financial statements for information regarding the Company's restatement of its financial statements for the years ended December 31, 2003 and 2002 and for the quarters ended March 31, June 30, and September 30, 2004 and 2003, as well quarterly financial information for the quarter ended December 31, 2003. The restatement also affects periods prior to 2002. These restatements were a result of errors in the Company's estimates of unbilled revenues in these periods. All amounts herein reflect the effects of these restatements. For further information on the estimates of unbilled revenues, also see ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Unbilled Revenues" herein.

Key Performance Indicators

In striving to maximize shareholder value while providing low-cost energy to more than 143,000 customers, the Company focuses on several key indicators. These indicators include customer satisfaction, peak season equivalent forced outage rate (Peak Season EFOR), and return on equity (ROE). The Company's financial success is directly tied to the satisfaction of its customers. Key elements of ensuring customer satisfaction include outstanding service, high reliability and competitive prices. Management uses nationally recognized independent customer satisfaction surveys and reliability indicators to evaluate the Company's results. Peak Season EFOR is an indicator of plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. ROE is a performance standard used by both the investment community and many regulatory agencies. The Company's 2004 results compared to its targets for each of these indicators are reflected in the following chart.

Key Performance Indicator	2004 Target Performance	2004 Actual Performance
Customer Satisfaction	Top quartile in national and regional surveys	**Top quartile**
Peak Season EFOR	3.64% or less	**2.29%**
ROE	12.4%	**11.7%**

Management focuses on these indicators and employees are committed to achieving or exceeding management's expectations. The financial performance achieved in 2004 was adversely affected by the purchase of the Plant McIntosh Combined Cycle Units 10 and 11 construction project and a related cost disallowance by the Georgia PSC. See Note 3 under "Plant McIntosh Construction Project" for additional information.

Earnings

The Company's net income after preferred stock dividends for 2004 totaled $24.2 million, representing an increase of $0.8 million, or 3.3 percent, from the prior year. Higher operating revenues were somewhat offset by higher operating expenses and higher interest expenses. Earnings were $23.5 million in 2003, reflecting an increase of $2.1 million, or 10.0 percent, from the prior year. Higher operating revenues, lower depreciation and amortization expenses, and lower interest expenses were somewhat offset by higher operating expenses and income taxes. In 2002, earnings were $21.3 million, representing a decrease of $0.2 million, or 0.8 percent, from the prior year.

RESULTS OF OPERATIONS

A condensed income statement is as follows:

	Amount	Increase (Decrease) from Prior Year		
	2004	**2004**	2003	2002
	(in thousands)			
Operating revenues	**$356,960**	**$41,843**	$18,111	$14,080
Fuel	**55,721**	**413**	353	4,159
Purchased power	**125,674**	**36,169**	13,901	2,518
Other operation and maintenance	**85,965**	**2,344**	2,603	10,525
Depreciation and amortization	**21,252**	**753**	(2,205)	(3,247)
Taxes other than income taxes	**15,245**	**580**	208	473
Total operating expenses	**303,857**	**40,259**	14,860	14,428
Operating income	**53,103**	**1,584**	3,251	(348)
Total other income and (expense)	**(12,993)**	**(451)**	2,959	247
Income taxes	**14,378**	**(1,140)**	4,070	75
Net income	**25,732**	**2,273**	2,140	(176)
Dividends on preferred stock	**1,500**	**1,500**		
Net income after dividends on preferred stock	**$ 24,232**	**$ 773**	$ 2,140	$ (176)

Revenues

Details of operating revenues are as follows:

	Amount		
	2004	2003	2002
	(in thousands)		
Retail - prior year	**$298,807**	$283,225	$268,246
Change in --			
Base rates	**-**	2,799	5,101
Sales growth	**9,497**	2,084	7,109
Weather	**10**	(263)	2,397
Fuel cost recovery and other	**33,452**	10,962	372
Retail – current year	**341,766**	298,807	283,225
Sales for resale --			
Non-affiliates	**5,035**	5,653	6,354
Affiliates	**6,130**	6,499	4,075
Total sales for resale	**11,165**	12,152	10,429
Other operating revenues	**4,029**	4,158	3,352
Total operating revenues	**$356,960**	$315,117	$297,006
Percent change	**13.3%**	6.1%	5.0%

Total operating revenues for 2004 were $357.0 million, reflecting a 13.3 percent increase when compared to 2003. Retail revenues increased 14.4 percent, or $43.0 million, in 2004, increased 5.5 percent, or $15.6 million, in 2003, and increased 5.6 percent, or $15.0 million, in 2002. Retail base rates increased in 2003 and 2002 reflecting the Georgia PSC decision effective June 2002.

On November 30, 2004, the Company filed a traditional one-year rate case with the Georgia PSC requesting a $23.2 million, or 6.7 percent, increase in retail revenues, effective January 1, 2005. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information on the Company's 2002 rate order and 2004 retail rate case filing.

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. The Georgia PSC approved a Fuel Cost Recovery (FCR) rate increase that became effective in November 2004. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information on the Company's rate orders.

Revenues from sales to non-affiliated utilities are primarily energy related. These sales decreased 10.9 percent in 2004, decreased 11.0 percent in 2003, and decreased 28.5 percent in 2002 primarily due to fluctuations in off-system sale transactions that were generally offset by corresponding purchase transactions. 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 affiliated sales are made in accordance with the affiliate company interchange agreement, as approved by the Federal Energy Regulatory Commission (FERC). 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 2004 and the percent change by year were as follows:

	KWH	Percent Change		
	2004	2004	2003	2002
	(in millions)			
Residential	**1,899**	**8.3%**	(0.1)%	6.5%
Commercial	**1,540**	**5.4**	0.4	5.4
Industrial	**841**	**(2.4)**	8.8	0.9
Other	**142**	**4.1**	(0.5)	3.5
Total retail	**4,422**	**5.0**	1.8	4.9
Sales for resale --				
Non-affiliates	**131**	**(19.2)**	7.7	35.7
Affiliates	**143**	**(22.9)**	47.1	43.4
Total	**4,696**	**3.0%**	3.3%	6.6%

In 2004, residential and commercial energy sales increased from the prior year primarily due to continued customer growth. Industrial sales were lower because of lower usage by several industrial customers due to cogeneration and cutbacks in production.

In 2003, residential 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 customer classes benefited from continued customer growth. In 2002, residential and commercial energy sales increased from the prior year reflecting the positive impact of weather and continued customer growth. Industrial sales increased, reflecting customer growth, and were somewhat offset by a general economic slowdown.

Energy sales to retail customers are projected to increase at a compound average growth rate of 2.2 percent during the period 2005 through 2009.

Expenses

Fuel and Purchased Power 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 generation 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:

	2004	2003	2002
Total generation (millions of KWHs)	**2,135**	2,325	2,249
Sources of generation (percent) --			
Coal	**96**	94	91
Oil	**1**	2	1
Gas	**3**	4	8
Average cost of fuel per net KWH generated (cents)	**2.61**	2.38	2.44
Total purchased power (millions of KWHs)	**2,829**	2,581	2,379
Average cost of purchased power per net KWH (cents)	**4.44**	3.47	3.18

Fuel expense increased 0.7 percent due to a 9.7 percent increase in the average cost of fuel per net KWH generated that more than offset an 8.2 percent decrease in generation in 2004. The average cost of fuel per net KWH generated increased for coal and oil and decreased for gas in 2004. In 2003, fuel expense increased 0.6 percent due to a slight increase in generation offset somewhat by a lower cost of coal. In 2002, fuel expense increased 8.2 percent due to increased gas usage and a higher cost of coal.

Purchased power expense increased $36.2 million, or 40.4 percent, in 2004 due to increased energy demands and higher energy costs. In 2003, purchased power expense increased $13.9 million, or 18.4 percent, due to increased energy demands and a purchased power agreement (PPA) 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 PPA discussed above. 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.

A significant upward trend in the cost of coal and natural gas has emerged since 2003, and volatility in these markets is expected to continue. Increased coal prices have been influenced by a worldwide increase in demand as a result of rapid economic growth in China as well as by increases in mining costs. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, result in an immediate market response, however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas. Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the Company's fuel cost recovery provisions.

Other Operating Expenses

Other operation and maintenance expenses increased $2.3 million, or 2.8 percent, in 2004 as a result of a $2.8 million increase in administrative and general expenses primarily relating to accounting and auditing services and employee benefits expense, and a $0.6 million increase in distribution expenses partially offset by a decrease of $1.4 million in maintenance expense due to a scheduled turbine maintenance outage at Plant Kraft in 2003.

In 2003, other operation and maintenance expenses increased $2.6 million, or 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 $10.5 million, or 14.9 percent. Increased other operation expense reflected 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 $5.4 million 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.

In 2004, depreciation and amortization increased $0.8 million, or 3.7 percent, due to an increase in depreciable property. Depreciation and amortization decreased $2.2 million, or 9.7 percent, in 2003 and $3.2 million, or 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 Georgia PSC rate order. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information.

Non-Operating Expenses

Interest expense and preferred dividends increased $4.0 million, or 41.3 percent, in 2004 primarily related to an increase in senior notes and preferred stock outstanding. These increases were partially offset by a decrease in distributions on mandatorily redeemable preferred securities due to the retirement of $40 million of mandatorily redeemable preferred securities. Interest expense decreased $2.0 million, or 17.4 percent, in 2003 primarily as a result of a lower principal amount of debt outstanding during the year. In 2002, interest expense decreased $0.9 million, or 7.3 percent. Lower interest rates in 2003 and 2002 contributed to lower expenses in those years. See FINANCIAL CONDITION AND

LIQUIDITY – "Financing Activities" herein for additional information.

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 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 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 Georgia PSC 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 FERC. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on ROE. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements for additional information about these and other regulatory matters.

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 that affect the opportunities, challenges, and risks of the Company's primary 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 more stringent 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.

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).

Environmental Matters

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 and Georgia Power. 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 and related state laws with respect to 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 were effectively stayed in the spring of 2001 pending the appeal of a similar NSR action against the Tennessee Valley Authority before the U.S. Court of Appeals for the Eleventh Circuit. In June 2004, following the final resolution of the appeal, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the court's active docket. At this time, no party to the case against Georgia Power and the Company has sought to reopen that case, which remains administratively closed in the U.S. District Court for the Northern District of Georgia. See Note 3 to the financial statements under "New Source Review Actions" for additional information.

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 maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the court of appeals pending its review of the rules. In any event, the final regulations must also be adopted by the State of Georgia in order to apply to the Company's facilities. The effect of these final regulations, related legal challenges, and potential state rulemakings cannot be determined at this time.

Carbon Dioxide Litigation

On July 21, 2004, attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed a complaint in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. A nearly identical complaint was filed by three environmental groups in the same court. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. Plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. Southern Company and the other defendants have filed motions to dismiss both lawsuits. Southern Company intends to vigorously defend against these claims. While the outcome of these matters cannot be determined at this time, an adverse judgment in either of these actions could result in ~~substantial capital expenditures.~~

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 involves 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 discussed under FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein. There is no assurance, however, that all such costs will, in fact, be recovered.

Compliance with the 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 and resulted in total construction expenditures of approximately $2 million through 2000.

To help 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 could be applied in Georgia. In April 2004, the EPA published final regional nitrogen oxide reduction rules applicable to Georgia, specifying a May 1, 2007 compliance date. However, in October 2004, the EPA announced that it would stay implementation of the rule as it relates to Georgia, while it initiates rulemakings to address issues raised in a petition for reconsideration filed by a coalition of Georgia industries. The impact of the nitrogen oxide reduction rules on the Company will depend on the outcome of the petition for reconsideration and/or any subsequent development and approval of Georgia's state implementation plan and cannot be determined at this time.

In January 2004, the EPA issued a proposed Clean Air Interstate Rule (CAIR) 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 in 2005. If finalized, the rule could modify or supplant other state requirements for attainment of the fine particulate matter standard and the eight-hour ozone standard, as well as other air quality regulations. 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.

The Company has developed and maintains an environmental compliance strategy for the installation of additional control technologies and the purchase of emission allowances to assure continued compliance with current sulfur dioxide and nitrogen oxide emission regulations. Additional expenses associated with these regulations are anticipated to be incurred each year to maintain current and future compliance. Because the Company's compliance strategy is impacted by factors such as changes to existing environmental laws and regulations, increases in the costs of emissions allowances, and any changes in the Company's fuel mix, future environmental compliance costs 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 and to implement emission reduction requirements that make progress toward remedying current visibility impairment in certain natural areas. The Company has two plants that could be subject to these rules. The EPA's Regional Haze program calls for states to submit implementation plans in 2008 that contain emission reduction strategies for implementing BART and for achieving sufficient progress toward the Clean Air Act's visibility improvement goal. In response to litigation, the EPA proposed revised rules in May 2004, which it plans to finalize in April 2005. The impact of these regulations will depend on the promulgation of final rules and implementation of those rules by the states and, therefore, it is not possible to determine the effect of these rules on the Company at this time.

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 March 2005, and compliance could be required as early as 2008. Because the regulations have not been finalized, the impact on the Company cannot be determined at this time.

Major bills to amend the Clean Air Act to impose more stringent emissions limitations on power plants, including the Bush Administration's Clear Skies Act, have been re-proposed in 2005. The Clear Skies Act is expected to further limit power plant emissions of sulfur dioxide, nitrogen oxides, and mercury and to supplement the proposed CAIR and mercury regulatory programs. Other proposals to limit emissions of carbon dioxide have also been introduced. The cost impacts of such legislation would depend upon the specific requirements enacted and cannot be determined at this time.

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. In July 2004, the EPA published final rules that 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 and actual limits established by the regulatory agencies.

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, 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.

Global Climate Issues

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 constraints on the emissions of greenhouse gases for a group of industrialized countries. The Bush Administration has not supported U.S. ratification of the Kyoto Protocol or other mandatory carbon dioxide reduction legislation and, in 2002, announced a goal to reduce the greenhouse gas intensity of the U.S. -- the ratio of greenhouse gas emissions to the value of U.S. economic output -- by 18 percent by 2012. A year later, the Department of Energy (DOE) announced the Climate VISION program to support this goal. Energy-intensive industries, including electricity generation are the initial focus of this program. Southern Company is leading the development of a voluntary electric utility sector climate change initiative in partnership with the government. The utility sector has pledged to reduce its greenhouse gas emissions rate by 3 to 5 percent over the next decade and, on December 13, 2004, signed a memorandum of understanding with the DOE initiating this program under Climate VISION. Because efforts under this voluntary program are just beginning, the impact of this program on the Company cannot be determined at this time.

Environmental Remediation Reserves

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.

FERC and Georgia PSC Matters

Transmission

In December 1999, the FERC issued its final rule on Regional Transmission Organizations (RTOs). Since that time, there have been a number of additional proceedings at the FERC designed to encourage further voluntary formation of RTOs or to mandate their formation. However, at the current time, there are no active proceedings that would require the Company to participate in an RTO. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection, as well as an inquiry into, among other things, market power by vertically integrated utilities. See "Generation Interconnection Agreements" and "Market-Based Rate Authority" below for additional information. The final outcome of these proceedings cannot now be determined. However, the Company's financial condition, results of operations and cash flows could be adversely affected by future changes in the federal regulatory or operational structure of transmission .

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to non-affiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, th FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, on February 15, 2005, Southern Company submitted additional information related to generation dominance in the Southern Company retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding.

Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Retail Rate Case Filing

On November 30, 2004, the Company filed a traditional one-year rate case with the Georgia PSC requesting a $23.2 million, or 6.7 percent, increase in retail revenues, effective January 1, 2005. The requested increase is based on a future test year ending December 31, 2005 and a proposed retail return on common equity of 12.5 percent. As an alternative, the Company has also included in its request a three-year rate plan that is based on the same test year and proposed retail return on common equity. The Company expects the Georgia PSC to issue a final order in this matter during May 2005. The final outcome of this matter cannot now be determined.

The increase in retail revenues is being requested to cover the Company's investment in the new Plant McIntosh Combined Cycle Units 10 and 11; increasing operating and maintenance expenses; and continued investment in generation, transmission, and distribution facilities to support growth and ensure reliability. The increase also includes recognition on an annual basis of the $3.8 million of Plant Wansley purchased power expenses which were excluded by the Georgia PSC in the Company's last rate case and subsequently were subject to deferral through a Georgia PSC accounting order issued in December 2002.

Under the terms of that order, two-thirds of any earnings of the Company in a calendar year above a 12 percent return on common equity are 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 provided 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 2004, the Company had amortized all of the deferred purchased power costs. For additional information, see Note 3 to the financial statements under "Retail Regulatory Matters."

Plant McIntosh Construction Project

In December 2002 after a competitive bidding process, the Georgia PSC certified PPAs between Southern Power and Georgia Power and the Company for capacity from Plant McIntosh Combined Cycle Units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, the Company and Georgia Power in May 2004 requested the Georgia PSC to direct them to acquire the Plant McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined.

As directed by the Georgia PSC order, Georgia Power and the Company in June 2004 filed an application to amend the resource certificate granted by the Georgia PSC in 2002. In connection with the Georgia Power 2004 retail rate case, the Georgia PSC approved the transfer of the Plant McIntosh construction project, at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance. The Company owns 16.129 percent of the project; thus, this disallowance amounted to approximately $3 million and reduced the Company's 2004 net income by approximately $1.5 million. The Georgia PSC also certified a total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. The Georgia PSC will determine the rate treatment of Plant McIntosh in connection with its decision on the Company's 2004 retail rate case filing in May 2005. See Note 3 under "Plant McIntosh Construction Project."

Retail Fuel Cost Recovery

On October 25, 2004, the Georgia PSC approved the Company's request for a fuel cost recovery rate increase with no significant modifications. The approved fuel rate increase also includes the recovery of approximately $3.5 million in costs associated with a coal transloader to be amortized over a 21-month period. The transloader allows foreign coal to be off-loaded from ships at the Company's Plant Kraft dock and then transferred by rail to Plant McIntosh. The new rates became effective in November 2004. See Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for further information.

Income Tax Matters

American Jobs Creation Act of 2004

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. The Company is currently assessing the impact of the Jobs Act, including this deduction, as well as the related regulatory treatment, on its taxable income. However, the Company currently does not expect the Jobs Act to have a material impact on its financial statements.

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 $5.3 million, $4.3 million, and $4.4 million pre-tax in 2004, 2003, and 2002, respectively. Future pension costs are dependent on several factors including trust earnings and changes to the pension plans and are expected to continue to increase. Postretirement benefit costs for the Company were approximately $2.8 million in 2004, $2.7 million in 2003, and $2.6 million in 2002 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.

Effective September 30, 2004, the Company retired Units 4 and 5 at Plant Riverside. The remaining units at the plant will be retired on May 31, 2005. These retirements will have no material impact on the Company's financial statements.

The Company is involved in various other 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. Southern Company 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

The Company is subject to retail regulation by the Georgia 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, which requires the financial statements to reflect the effects of rate 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 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, 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 legislative, 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 herein 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.

Unbilled Revenues

Revenues related to the sale of electricity are recorded when electricity is delivered to customers. However, the determination of kilowatt-hour sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total kilowatt-hour territorial supply, total kilowatt-hour billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, and power delivery volume and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected. See Note 9 to the financial statements for information on the restatement of the Company's financial statements which resulted from errors in the calculations of unbilled revenues.

New Accounting Standards

On March 31, 2004, the Company prospectively adopted FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," which requires the primary beneficiary of a variable interest entity to consolidate the related assets and liabilities. In January 2004, the Company redeemed all $40 million of its outstanding mandatorily redeemable preferred securities; thus the adoption of Interpretation No. 46R did not have any impact on the Company's financial statements.

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $0.2 million and is expected to have a similar impact on future years. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $3.5 million. However, the ultimate impact on future periods is subject to final interpretation of the federal regulations which were published on January 21, 2005. See Note 2 to the financial statements under "Postretirement Benefits" for additional information.

FASB Statement No. 123R, Share-Based Payment was issued in December 2004. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. For the Company, this statement is effective beginning on July 1, 2005. Although the compensation expense required under the revised statement differs slightly, the impacts on the Company's financial statements are expected to be similar to the pro forma disclosures included in Note 1 to the financial statements under "Stock Options".

See FUTURE EARNINGS POTENTIAL – "Income Tax Matters -- American Jobs Creation Act of 2004" herein for information regarding the adoption of new tax legislation. In December 2004, the FASB issued FSP 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004, which requires that the generation deduction be accounted for as a special tax deduction rather than as a tax rate reduction. The Company is currently assessing the Jobs Act and this pronouncement, as well as the related regulatory treatment, but currently does not expect a material impact on the Company's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

As of December 31, 2004, the Company's capital structure consisted of 45.2 percent common stockholder's equity, 8.6 percent preferred stock, and 46.2 percent long-term debt, excluding amounts due within one year.

The principal change in the Company's financial condition in 2004 was the addition of $126.1 million to utility plant, the majority of which was related to the purchase of the Plant McIntosh Combined Cycle Units 10 and 11 construction project. The funds needed for gross property additions are currently provided from operating activities, the issuance of securities, capital contributions from Southern Company, and short-term debt. Net cash flow from operating activities decreased in 2004 primarily as a result of higher fuel costs. Those costs are recoverable in future periods and are reflected in the balance sheets as under recovered regulatory clause revenues. 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, external funding came from the issuance of debt, preferred securities, and capital contributions from Southern Company. 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. The issuance of securities by the Company is subject to regulatory approval by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA), and, generally, the Georgia PSC. Additionally, with respect to the public offering of securities, the Company must file registration statements with the SEC under the Securities Act of 1933 (the 1933 Act). The amounts of securities authorized by the appropriate regulatory authorities, as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

At the beginning of 2005, the Company had $80 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. Of this amount, $70 million will expire at various times in 2005 and $10 million will expire in 2007. The Company expects to renew, as needed, its credit arrangements prior to expiration. The Company also has adequate cash flow from operating activities and access to the capital markets to meet liquidity needs. 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, 2004, the Company had outstanding $12.6 million in commercial paper and $8.0 million in 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, 2004, the amount of variable rate obligations outstanding requiring liquidity support was $7.2 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 PUHCA, most loans between affiliated companies must be approved in advance by the SEC.

Financing Activities

Maturities and redemptions of long-term debt and mandatorily redeemable preferred securities were $70.0 million in 2004, $39.4 million in 2003, and $53.6 million in 2002.

In January 2004, the Company redeemed its $40 million Savannah Electric Capital Trust I 6.85% Trust Preferred Securities. The Company issued, in June 2004, $45 million of 6.00% Series Preferred Stock. In December 2004, the Company issued $35 million of Series G 5.75% Senior Notes maturing in 2044. The Company received $31 million in May 2004 and $15 million in December 2004 in capital contributions from Southern Company. The Company used the proceeds from the preferred stock and senior notes sales and capital contributions to repay a portion of its outstanding short-term indebtedness and to finance the purchase of the Plant McIntosh Combined Cycle construction project.

Subsequent to December 31, 2004, the Company entered into a cash flow hedge with a notional amount of $30 million, a fixed rate of 4.69 percent, and a final maturity of 2016 for an anticipated security issuance in 2006.

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. The Company is party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price risk management activities. At December 31, 2004, the Company's exposure related to these agreements was not material.

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 risk management practices. Company policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including but not limited to market valuation, value at risk, stress testing, and sensitivity analysis.

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 January 1, 2005 was 2.31 percent. If the Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, at January 1, 2005, the change would not materially affect annualized interest expense. The Company continues to evaluate its options related to these securities, and may or may not enter into additional hedging transactions in 2005. 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 Georgia PSC. 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 $2.4 million for 2002, $1.1 million for 2003, and $2.7 million for 2004 and will be $5.1 million for 2005. The program has operated within the defined hedging position limits set for each year.

The changes in fair value of energy related derivative contracts and year-end valuations were as follows at December 31:

	Changes in Fair Value	
	2004	2003
	(in thousands)	
Contracts beginning of year	**$ 463**	$ 626
Contracts realized or settled	**(1,811)**	(1,798)
New contracts at inception	**-**	-
Changes in valuation techniques	**-**	-
Current period changes (a)	**2,822**	1,635
Contracts end of year	**$1,474**	$ 463

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

Source of 2004 Year-End Valuation Prices	Total	Maturity	
	Fair Value	Year 1	2-3 Years
	(in thousands)		
Actively quoted	**$1,293**	**$1,051**	**$242**
External sources	**181**	**181**	**-**
Models and other methods	**-**		
Contracts end of year	**$1,474**	**$1,232**	**$242**

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. These amounts were not material in any year presented. At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in thousands)
Regulatory liabilities, net	**$1,471**
Other comprehensive income	**-**
Net income	**3**
Total fair value	**$1,474**

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. See Notes 1 and 6 to the financial statements under "Financial Instruments" for additional information.

Capital Requirements and Contractual Obligations

The Company's construction program is currently estimated to be $52.4 million in 2005, $39.2 million in 2006, and $33.7 million in 2007. Environmental expenditures included in these amounts are $1.4 million, $1.2 million, and $0.2 million for 2005, 2006, and 2007, 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. The Company has new generating capacity scheduled to be placed in service in June 2005. 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 Georgia PSC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, preferred stock dividends, leases, and other purchase commitments are as follows: See Notes 1, 6, and 7 to the financial statements for additional information.

Contractual Obligations

	2005	2006-2007	2008-2009	After 2009	Total
			(in thousands)		
Long-term debt[a] --					
Principal	$ 1,010	$ 21,884	$ 46,758	$169,127	$ 238,779
Interest	13,196	24,897	20,425	147,502	206,020
Preferred stock dividends[b]	2,700	5,400	5,400	-	13,500
Operating leases	846	1,618	1,401	3,608	7,473
Purchase commitments[c] --					
Capital[d]	52,412	72,985	-	-	125,397
Coal	50,301	6,771	-	-	57,072
Natural gas[e]	26,296	42,140	63,785	285,322	417,543
Purchased power	13,262	26,554	26,602	-	66,418
Long-term service agreements	872	3,115	3,712	27,315	35,014
Postretirement benefit trusts[f]	1,190	2,500	-	-	3,690
Total	$162,085	$207,864	$168,083	$632,874	$1,170,906

(a) All amounts are reflected based on final maturity dates. The Company plans to 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, 2005, 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 $86.0 million, $83.6 million, and $81.0 million, respectively.

(d) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2004, significant purchase commitments were outstanding in connection with the construction program.

(e) 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 Exchange future prices at December 31, 2004.

(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 and postretirement plans, including estimated benefit payments. Certain benefit payments will be made through the related trusts. Other benefit payments will be made from the Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Information

The Company's 2004 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales growth, environmental regulations and expenditures, completion of construction projects, estimated construction and other expenditures, and the Company's projections for 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 similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry 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;
- variations in demand for electricity and gas, including those relating to weather, the general economy and population and business growth (and declines);
- 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 the impact of pending and future rate cases and negotiations;
- 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 terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and 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;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents similar to the August 2003 power outage in the Northeast;
- 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.

The Company expressly disclaims any obligation to update any forward-looking statements.

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STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Savannah Electric and Power Company 2004 Annual Report

	2004	2003 As Restated (Note 9)	2002 As Restated (Note 9)
		(in thousands)	
Operating Revenues:			
Retail sales	**$341,766**	$298,807	$283,225
Sales for resale --			
Non-affiliates	**5,035**	5,653	6,354
Affiliates	**6,130**	6,499	4,075
Other revenues	**4,029**	4,158	3,352
Total operating revenues	**356,960**	315,117	297,006
Operating Expenses:			
Fuel	**55,721**	55,308	54,955
Purchased power --			
Non-affiliates	**11,413**	5,713	6,368
Affiliates	**114,261**	83,792	69,236
Other operations	**61,134**	56,823	55,756
Maintenance	**24,831**	26,798	25,262
Depreciation and amortization	**21,252**	20,499	22,704
Taxes other than income taxes	**15,245**	14,665	14,457
Total operating expenses	**303,857**	263,598	248,738
Operating Income	**53,103**	51,519	48,268
Other Income and (Expense):			
Interest income	**208**	290	147
Interest expense, net of amounts capitalized	**(12,047)**	(9,590)	(11,608)
Distributions on mandatorily redeemable preferred securities	**(109)**	(2,740)	(2,740)
Other income (expense), net	**(1,045)**	(502)	(1,300)
Total other income and (expense)	**(12,993)**	(12,542)	(15,501)
Earnings Before Income Taxes	**40,110**	38,977	32,767
Income taxes	**14,378**	15,518	11,448
Net Income	**25,732**	23,459	21,319
Dividends on Preferred Stock	**1,500**	-	-
Net Income After Dividends on Preferred Stock	**$ 24,232**	$ 23,459	$ 21,319

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003, and 2002

Savannah Electric and Power Company 2004 Annual Report

	2004	2003 As Restated (Note 9)	2002 As Restated (Note 9)
		(in thousands)	
Operating Activities:			
Net income	**$ 25,732**	$ 23,459	$ 21,319
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization	**23,710**	22,587	24,653
Deferred income taxes and investment tax credits, net	**13,441**	793	(6,227)
Allowance for equity funds used during construction	**(2,379)**	(193)	-
Pension, postretirement, and other employee benefits	**6,114**	6,215	6,133
Tax benefit of stock options	**861**	884	1,451
Other, net	**(7,226)**	4,208	(10,559)
Changes in certain current assets and liabilities --			
Receivables, net	**(26,371)**	127	10,511
Fossil fuel stock	**(1,938)**	(323)	1,522
Materials and supplies	**(842)**	516	3,383
Other current assets	**(5,324)**	4,615	(7,591)
Accounts payable	**5,035**	3,713	7,352
Accrued taxes	**3,352**	(1,131)	509
Accrued compensation	**(40)**	(819)	444
Other current liabilities	**(911)**	(4,492)	5,733
Net cash provided from operating activities	**33,214**	60,159	58,633
Investing Activities:			
Gross property additions	**(51,301)**	(40,242)	(32,481)
Purchase of property from affiliates	**(74,832)**	-	-
Other	**931**	895	(1,331)
Net cash used for investing activities	**(125,202)**	(39,347)	(33,812)
Financing Activities:			
Increase (decrease) in notes payable, net	**20,567**	(2,897)	(29,263)
Proceeds --			
Pollution control bonds	**-**	13,870	-
Senior notes	**35,000**	60,000	55,000
Other long-term debt	**10,376**	-	25,616
Preferred stock	**45,000**	-	-
Capital contributions from parent company	**47,255**	6,757	2,499
Redemptions --			
First mortgage bonds	**-**	-	(23,558)
Pollution control bonds	**-**	(13,870)	-
Senior notes	**-**	(20,000)	(30,000)
Other long-term debt	**(30,000)**	(5,541)	-
Mandatorily redeemable preferred securities	**(40,000)**	-	-
Payment of preferred stock dividends	**(825)**	-	-
Payment of common stock dividends	**(23,200)**	(23,000)	(22,700)
Other	**(1,266)**	(2,166)	(828)
Net cash provided from (used for) financing activities	**62,907**	13,153	(23,234)
Net Change in Cash and Cash Equivalents	**(29,081)**	33,965	1,587
Cash and Cash Equivalents at Beginning of Period	**37,943**	3,978	2,391
Cash and Cash Equivalents at End of Period	**$ 8,862**	$ 37,943	$ 3,978
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $1,471, $220, and $165 capitalized, respectively)	**$10,080**	$11,334	$13,353
Income taxes (net of refunds)	**4,581**	8,439	23,478

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Savannah Electric and Power Company 2004 Annual Report

Assets	2004	2003 As Restated (Note 9)
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 8,862**	$ 37,943
Receivables --		
Customer accounts receivable	**22,875**	19,674
Unbilled revenues	**6,681**	6,064
Under recovered regulatory clause revenues	**23,800**	
~~Other accounts and notes receivable~~	~~**1,608**~~	~~1,313~~
Affiliated companies	**3,392**	4,872
Accumulated provision for uncollectible accounts	**(878)**	(817)
Fossil fuel stock, at average cost	**10,590**	8,652
Materials and supplies, at average cost	**9,913**	9,070
Prepaid income taxes	**21,615**	25,981
Prepaid expenses	**1,415**	1,377
Other	**2,174**	623
Total current assets	**112,047**	114,752
Property, Plant, and Equipment:		
In service	**945,359**	912,504
Less accumulated provision for depreciation	**408,415**	402,394
	536,944	510,110
Construction work in progress	**91,275**	14,121
Total property, plant, and equipment	**628,219**	524,231
Other property and investments	**3,925**	3,769
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**10,588**	9,611
Cash surrender value of life insurance for deferred compensation plans	**25,335**	23,866
Unamortized debt issuance expense	**5,303**	5,652
Unamortized loss on reacquired debt	**7,935**	7,488
Other regulatory assets	**16,107**	13,245
Other	**3,132**	3,645
Total deferred charges and other assets	**68,400**	63,507
Total Assets	**$812,591**	$706,259

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Savannah Electric and Power Company 2004 Annual Report

Liabilities and Stockholder's Equity	2004	2003 As Restated (Note 9)
	(in thousands)	
Current Liabilities:		
Securities due within one year	$ 1,010	$ 40,910
Notes payable	20,567	-
Accounts payable --		
Affiliated	17,379	13,797
Other	16,166	13,147
Customer deposits	6,973	6,922
Accrued taxes --		
Income taxes	148	713
Other	5,390	1,473
Accrued interest	3,050	2,802
Accrued vacation pay	2,661	2,530
Accrued compensation	5,612	5,652
Other	5,248	5,107
Total current liabilities	84,204	93,053
Long-term Debt (See accompanying statements)	237,769	222,493
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	90,079	83,852
Deferred credits related to income taxes	8,738	9,804
Accumulated deferred investment tax credits	7,961	8,625
Employee benefit obligations	46,580	39,833
Other cost of removal obligations	41,890	36,843
Miscellaneous regulatory liabilities	12,631	12,932
Other	6,645	15,735
Total deferred credits and other liabilities	214,524	207,624
Total Liabilities	536,497	523,170
Preferred Stock (See accompanying statements)	43,938	-
Common Stockholder's Equity (See accompanying statements)	232,156	183,089
Total Liabilities and Stockholder's Equity	$812,591	$706,259
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION
At December 31, 2004 and 2003
Savannah Electric and Power Company 2004 Annual Report

	2004	2003 As Restated (Note 9)	2004	2003 As Restated (Note 9)
		(in thousands)		*(percent of total)*
Long-Term Debt:				
First mortgage bonds -- 6.9% due May 1, 2006	**$ 20,000**	$ 20,000		
Long-term notes payable --				
6.55% due May 15, 2008	**45,000**	45,000		
4.90% to 5.75% due 2013 through 2044	**150,000**	115,000		
Adjustable rates due September 6, 2005	**-**	20,000		
Total long-term notes payable	**195,000**	180,000		
Other long-term debt --				
Non-collateralized pollution control revenue bonds --				
Variable rates (2.20% to 2.65% at 1/1/05)				
due 2016-2038	**17,955**	17,955		
Capitalized lease obligations	**5,824**	5,448		
Total long-term debt (annual interest				
requirement -- $13.2 million)	**238,779**	223,403		
Less amount due within one year	**1,010**	910		
Long-term debt excluding amount due within one year	**237,769**	222,493	**46.2%**	54.9%
Mandatorily Redeemable Preferred Securities:				
$25 liquidation value -- 6.85% due 2028		40,000		
Less amount due within one year		40,000		
Mandatorily redeemable preferred securities				
excluding amount due within one year	**-**	-	**0.0**	0.0
Non-Cumulative Preferred Stock:				
$25 par value -- 6.00%				
(annual dividend requirement -- $2.7 million)	**43,938**	-	**8.6**	0.0
Common Stockholder's Equity:				
Common stock, par value $5 per share --	**54,223**	54,223		
Authorized - 16,000,000 shares				
Outstanding - 10,844,635 shares in 2004 and 2003				
Paid-in capital	**72,533**	24,417		
Retained earnings	**107,685**	106,653		
Accumulated other comprehensive income (loss)	**(2,285)**	(2,204)		
Total common stockholder's equity	**232,156**	183,089	**45.2**	45.1
Total Capitalization	**$513,863**	$405,582	**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, 2004, 2003, and 2002

Savannah Electric and Power Company 2004 Annual Report

	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Income (loss)	Total
			(in thousands)		
Balance at December 31, 2001 -- ***As Restated (See note 9)***	$54,223	$12,826	$107,575	$ -	$174,624
Net income *(As restated - see note 9)*	-	-	21,319	-	21,319
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 -- ***As Restated (See note 9)***	54,223	16,776	106,194	(1,244)	175,949
Net income *(As restated - see note 9)*	-	-	23,459	-	23,459
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 -- ***As Restated (See note 9)***	**54,223**	**24,417**	**106,653**	**(2,204)**	**183,089**
Net income after dividends on preferred stock	**-**		**24,232**	**-**	**24,232**
Capital contributions from parent company	**-**	**48,116**		**-**	**48,116**
Other comprehensive income (loss)	**-**			**(81)**	**(81)**
Cash dividends on common stock	**-**	**-**	**(23,200)**	**-**	**(23,200)**
Balance at December 31, 2004	**$54,223**	**$72,533**	**$107,685**	**$(2,285)**	**$232,156**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Savannah Electric and Power Company 2004 Annual Report

	2004	2003 As Restated (Note 9)	2002 As Restated (Note 9)
		(in thousands)	
Net income after dividends on preferred stock	**$24,232**	$23,459	$21,319
Other comprehensive income (loss):			
Change in additional minimum pension liability, net of tax of $(253), $(336) and $(785), respectively	**(401)**	(533)	(1,244)
Changes in fair value of qualifying hedges, net of tax of $161 and $(284), respectively	**255**	(450)	-
Less: Reclassification adjustment for amounts included in net income, net of tax of $41 and $15, respectively	**65**	23	
Total other comprehensive income (loss)	**(81)**	(960)	(1,244)
Comprehensive Income	**$24,151**	$22,499	$20,075

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 (SouthernLINC Wireless), 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 the subsidiary companies. SouthernLINC Wireless 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 various other energy-related businesses. 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, as amended (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 (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 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 $17.4 million, $16.3 million, and $15.6 million during 2004, 2003, and 2002, 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 (PPA) 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 2004 amounted to $31.5 million. At December 31, 2004, approximately $1.2 million in prepaid capacity expense related to this PPA was recorded in other deferred charges and other assets in the balance sheets.

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 $3.3 million in 2004, $3.6 million in 2003, and $1.8 million in 2002. See Note 4 under for additional information.

The Company and Georgia Power acquired, in 2004, the Plant McIntosh Combined Cycle Units 10 and 11 construction project. The units, scheduled to begin operation in June 2005, will be jointly owned by the Company and Georgia Power. See Note 3 under "Plant McIntosh Construction Project" and Notes 4 and 5 for additional information.

Also, see Note 5 for information on certain deferred tax liabilities due to affiliates.

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

Revenues are recognized as services are rendered. Unbilled revenues are accrued at the end of each fiscal period. 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 the actual recoverable costs and amounts billed 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.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense generally includes the cost of purchased emission allowances as they are used.

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:

	2004	2003	Note
	(in thousands)		
Asset retirement obligations	**$ 3,868**	$ 3,265	(a)
Deferred income tax charges	**10,588**	9,611	(a)
Loss on reacquired debt	**7,935**	7,488	(b)
Deferred McIntosh maintenance costs	**8,599**	9,818	(c)
Coal transloader	**3,077**	-	(d)
Wansley accounting order	**-**	162	(e)
Fuel-hedging	**563**		(f)
Other cost of removal obligations	**(41,890)**	(36,843)	(a)
Fuel-hedging	**(2,034)**	(462)	(f)
Deferred income tax credits	**(8,738)**	(9,804)	(a)
Storm damage reserves	**(8,341)**	(7,103)	(e)
Accelerated cost recovery	**(1,256)**	(4,269)	(g)
Property damages reserves	**(1,000)**	(1,098)	(h)
Injuries and damages reserves	**(123)**	(91)	(h)
Total	**$(28,752)**	$(29,326)	

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) Amortized over 21 months ending in July 2006 as approved by the Georgia PSC.
(e) Recorded and recovered or amortized as approved by the Georgia PSC. See "Storm Damage Reserve" herein and Note 3 under "Retail Regulatory Matters."
(f) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed three years. Upon final settlement, costs are recovered through the fuel cost recovery clauses.
(g) Amortized over three-year period ending in May 2005.
(h) 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 currently reflected in rates.

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 life of the related property.

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 percent to 5 percent of construction expenditures depending upon the county in which the new facility is located. The Company's policy is to recognize these credits when the tax return is filed. Manufacturer's tax credits recorded on the Company's books were \$0.2 million in 2004, \$0.1 million in 2003, and \$0.3 million in 2002.

Depreciation and Amortization

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 2.8 percent in 2004, 2.9 percent in 2003, and 2.9 percent in 2002. 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, the Company recorded accelerated depreciation of \$1.0 million, in accordance with a 1998 Georgia PSC accounting order. In the 2002 rate order, the Georgia PSC 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 2004, 2003, and 2002, the Company amortized \$3.0 million, \$3.0 million, and \$1.8 million, respectively. See Note 3 under "Retail Regulatory Matters – 2002 Retail Rate Case Orders" for additional information.

Asset Retirement Obligations and Other Costs of Removal

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 costs 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. Although 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 received guidance from the Georgia PSC allowing such treatment. Accordingly, the accumulated removal costs for other obligations previously accrued will continue to be reflected on the balance sheets as a regulatory liability. 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 statements of income 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:

	2004	2003
	(in thousands)	
Balance beginning of year	**$4,220**	$ -
Liabilities incurred	**-**	4,020
Liabilities settled	**(598)**	(11)
Accretion	**248**	211
Balance end of year	**$3,870**	$4,220

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 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. The average rates used by the Company to calculate AFUDC were 6.11 percent in 2004, 4.22 percent in 2003, and 2.82 percent in 2002. AFUDC as a percent of net income was 13.5 percent in 2004, 1.4 percent in 2003, and 0.5 percent in 2002.

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 rate order, the Company is deferring the costs of certain significant inspection 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. See Note 3 under "Plant McIntosh Construction Project" for information on a regulatory disallowance by the Georgia PSC in December 2004.

Storm Damage Reserve

The Company maintains a storm damage reserve for property damage to cover the cost of uninsured damages from major storms to transmission and distribution lines and other property. Under the 2002 rate order, the Company's annual storm damage accrual level was set at $1.5 million.

Environmental Cost Recovery

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 may also incur substantial costs to clean up properties. The Company currently recovers environmental costs through its base rates.

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 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 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 of Southern Company stock 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.

The pro forma impact of fair-value accounting for options granted is as follows:

Net Income after Preferred Stock Dividends (in thousands)	As Reported	Pro Forma
2004	**$24,232**	**$23,940**
2003 As Restated (Note 9)	$23,459	$23,143
2002 As Restated (Note 9)	$21,319	$20,994

The estimated fair values of stock options granted in 2004, 2003, and 2002 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:

	2004	2003	2002
Interest rate	**3.1%**	2.7%	2.8%
Average expected life of stock options (in years)	**5.0**	4.3	4.3
Expected volatility of common stock	**19.6%**	23.6%	26.3%
Expected annual dividends on common stock	**$1.40**	$1.37	$1.34
Weighted average fair value of stock options granted	**$3.29**	$3.59	$3.37

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 Georgia PSC. 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 $2.4 million for 2002, $1.1 million for 2003, and $2.7 million for 2004 and will be $5.1 million for 2005. 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, 2004	**$233**	**$235**
At December 31, 2003	$218	$220

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, changes in the fair value of qualifying cash flow hedges and marketable securities, and changes in additional minimum pension liability, net of income taxes.

2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed pension plan covering substantially all employees. The plan is funded in accordance with the Employee Retirement Income Security Act of 1974, as amended (ERISA), requirements. No contributions to the plan are expected for the year ending December 31, 2005. 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 Georgia PSC and the FERC. For the year ended December 31, 2005, postretirement trust contributions are expected to total approximately $1.2 million.

The measurement date for plan assets and obligations is September 30 for each year.

Pension Plans

The accumulated benefit obligation for the pension plans was $95.5 million in 2004 and $87.2 million in 2003. Changes during the year in the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows:

	Projected Benefit Obligations	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$94,789**	$85,262
Service cost	**2,478**	2,175
Interest cost	**5,551**	5,409
Benefits paid	**(4,575)**	(4,425)
Actuarial loss and employee transfers	**5,162**	6,137
Amendments	**159**	231
Balance at end of year	**$103,564**	$94,789

	Plan Assets	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$47,490**	$44,092
Actual return on plan assets	**3,939**	6,829
Benefits paid	**(4,060)**	(3,909)
Employee transfers	**1,187**	478
Balance at end of year	**$48,556**	$47,490

Pension plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal 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	**2004**	2003
Domestic equity	37%	**36%**	37%
International equity	20	**20**	20
Fixed income	26	**26**	24
Real estate	10	**10**	11
Private equity	7	**8**	8
Total	100%	**100%**	100%

The reconciliation of the funded status with the

were as follows:

	2004	2003
	(in thousands)	
Funded status	**$(55,008)**	$(47,299)
Unrecognized prior service cost	**6,664**	7,258
Unrecognized net loss	**26,929**	23,379
Accrued liability recognized in the balance sheets	**$(21,415)**	$(16,662)

The accrued pension liability is reflected in the balance sheets in the following line items:

	2004	2003
	(in thousands)	
Employee benefit obligations	**$(26,601)**	$(21,212)
Other property and investments other	**1,634**	1,652
Accumulated other comprehensive income	**3,552**	2,898
Accrued liability recognized in the balance sheets	**$(21,415)**	$(16,662)

The amount of accumulated other comprehensive income recognized in the balance sheets relates to the minimum pension liability for non-qualified pension benefit obligations. There is no additional minimum pension liability related to the Company's tax-qualified pension benefit obligations because they are part of Southern Company's plan, which is fully funded at December 31, 2004.

Components of the pension plans' net periodic cost were as follows:

	2004	2003	2002
	(in thousands)		
Service cost	**$2,479**	$2,175	$2,204
Interest cost	**5,551**	5,409	5,811
Expected return on plan assets	**(4,047)**	(4,186)	(4,311)
Recognized net loss	**532**	152	54
Net amortization	**753**	740	672
Net pension cost	**$5,268**	$4,290	$4,430

Future benefit payments reflect expected future ~~service and are estimated based on assumptions used to~~ measure the projected benefit obligation for the pension plans. At December 31, 2004, estimated benefit payments were as follows:

	(in thousands)
2005	$ 4,876
2006	4,979
2007	5,161
2008	5,304
2009	5,561
2010 to 2014	$32,800

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	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$37,249**	$32,702
Service cost	**546**	493
Interest cost	**2,094**	2,082
Benefits paid	**(1,459)**	(1,319)
Actuarial loss (gain) and amendments	**535**	3,291
Balance at end of year	**$38,965**	$37,249

	Plan Assets	
	2004	2003
	(in thousands)	
Balance at beginning of year	**$11,275**	$7,994
Actual return on plan assets	**1,329**	1,481
Employer contributions	**2,209**	3,119
Benefits paid	**(1,459)**	(1,319)
Balance at end of year	**$13,354**	$11,275

Postretirement benefits plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal 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	**2004**	2003
Domestic equity	52%	**51%**	51%
International equity	10	**14**	14
Fixed income	33	**30**	30
Real estate	3	**3**	3
Private equity	2	**2**	2
Total	100%	**100%**	100%

The accrued postretirement costs recognized in the balance sheets were as follows:

	2004	2003
	(in thousands)	
Funded status	**$(25,611)**	$(25,974)
Unrecognized transition obligation	**3,950**	4,444
Unamortized prior service cost	**1,651**	4,167
Unrecognized net loss	**10,986**	8,886
Fourth quarter contributions	**1,261**	1,063
Accrued liability recognized in the Balance Sheets	**$ (7,763)**	$ (7,414)

Components of the postretirement plans' net periodic cost were as follows:

	2004	2003	2002
		(in thousands)	
Service cost	**$ 546**	$ 493	$ 431
Interest cost	**2,094**	2,082	2,065
Expected return on plan assets	**(845)**	(732)	(627)
Recognized net loss	**205**	91	-
Net amortization	**756**	756	756
Net postretirement cost	**$2,756**	$2,690	$2,625

In the third quarter 2004, the Company prospectively adopted FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act). The Medicare Act provides a 28 percent prescription drug subsidy for Medicare eligible retirees. FSP 106-2 requires recognition of the impacts of the Medicare Act in the accumulated postretirement benefit obligation (APBO) and future cost of service for postretirement medical plans. The effect of the subsidy reduced the Company's expenses for the six months ended December 31, 2004 by approximately $0.2 million and is expected to have a similar impact on future expenses. The subsidy's impact on the postretirement medical plan APBO was a reduction of approximately $3.5 million.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the accumulated benefit obligation for the postretirement plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Act as follows:

	Benefit Payments	Subsidy Receipts	Total
		(in thousands)	
2005	$ 1,568	$ -	$ 1,568
2006	1,738	(175)	1,563
2007	1,890	(192)	1,698
2008	2,090	(214)	1,876
2009	2,314	(240)	2,074
2010 to 2014	$14,473	$(1,520)	$12,953

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:

	2004	2003	2002
Discount	**5.75%**	6.00%	6.50%
Annual salary increase	**3.50**	3.75	4.00
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 11.00 percent for 2004, decreasing gradually to 5.00 percent through the year 2012, 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, 2004 as follows:

	1 Percent Increase	1 Percent Decrease
	(in thousands)	
Benefit obligation	**$3,235**	**$2,408**
Service and interest costs	**151**	**136**

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 2004, 2003, and 2002 were $1.1 million, $1.1 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 and Georgia Power, alleging violations of the New Source Review (NSR) provisions of the Clean Air Act and related state laws at five coal-fired generating facilities. The EPA concurrently issued a notice of violation to the Company's Plant Kraft. In early 2000, the EPA filed a motion to amend its complaint to add the Company as a defendant

The U.S. District Court for the Northern District of Georgia subsequently granted Alabama Power's motion to dismiss and denied the EPA's motion to add Gulf Power and Mississippi Power for lack of jurisdiction in Georgia. In March 2001, the court granted the EPA's motion to add the Company as a defendant. 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 civil complaints allege violations with respect to eight coal-fired generating facilities in Alabama and Georgia, and they request penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA has not refiled against Gulf Power or Mississippi Power.

The actions against Alabama Power, Georgia Power, and the Company were effectively stayed in the spring of 2001 during the appeal of a similar NSR enforcement action against the Tennessee Valley Authority (TVA) before the U.S. Court of Appeals for the Eleventh Circuit. In June 2003, the Court of Appeals issued its ruling in the TVA case, dismissing the appeal for reasons unrelated to the issues in the cases pending against Alabama Power, Georgia Power, and the Company. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the case. In June 2004, the U.S. District Court for the Northern District of Alabama lifted the stay in the action against Alabama Power, placing the case back onto the court's active docket. At this time, no party to the case against Georgia Power and the Company has sought to reopen that case, which remains administratively closed in the U.S. District Court for the Northern District of Georgia.

Since the inception of the NSR proceedings against Alabama Power, Georgia 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. District courts addressing these cases have, to date, issued opinions that reached conflicting conclusions.

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 maximum civil penalties of $25,000 to $32,500 per day, per violation at each generating unit, depending on the date of the alleged violation. 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.

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 (RMRR) exclusion. A coalition of states and environmental organizations has filed petitions for review of these revisions with the U.S. Court of Appeals for the District of Columbia Circuit. The October 2003 RMRR rules have been stayed by the Court of Appeals pending its review of the rules. 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, related legal challenges and potential state rulemakings cannot be determined at this time.

Generation Interconnection Agreements

In July 2003, the FERC issued its final rule on the standardization of generation interconnection agreements and procedures (Order 2003). Order 2003 shifts much of the financial burden of new transmission investment from the generator to the transmission provider. The FERC has indicated that Order 2003, which was effective January 20, 2004, is to be applied prospectively to interconnection agreements. The impact of Order 2003 and its subsequent rehearings on the Company and the final results of these matters cannot be determined at this time.

Market-Based Rate Authority

~~The Company has authorization from the FERC to sell~~ power to non-affiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by this order, Southern Company submitted additional information on February 15, 2005 related to generation dominance in the Southern Company retail service territory. Any new market based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales in the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

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, 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 it in pending and future right of way litigation. The Company believes that the plaintiff's claims are without merit. In the fall of 2004, the trial court stayed the case until resolution of an underlying landowner litigation involving Southern Company and certain of its subsidiaries. On January 12, 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this case could result in a substantial judgment; however, the final outcome of this matter cannot now be determined.

Retail Regulatory Matters

Fuel Cost Recovery

On October 25, 2004, the Georgia PSC approved the Company's request for a fuel cost recovery rate increase. The approved increase will allow for the recovery of approximately $161 million in fuel costs, which includes an estimate of future fuel costs over the next 12 months and recovery of the existing under recovered fuel balance, over the next 24 months. The approved fuel rate increase also includes the recovery of approximately $3.5 million in costs associated with a coal transloader to be amortized over a 21-month period, which the Georgia PSC had denied in June 2004. The transloader allows foreign coal to be off-loaded from ships at the Company's Plant Kraft dock and then transferred by rail to Plant McIntosh. The new rates became effective in November 2004. At December 31, 2004, the Company had $23.8 million included in under recovered regulatory clause revenues on the balance sheet.

2004 Retail Rate Case Filing

On November 30, 2004, the Company filed a traditional one-year rate case with the Georgia PSC requesting a $23.2 million, or 6.7 percent, increase in retail revenues, effective January 1, 2005. The requested increase is based on a future test year ending December 31, 2005 and a proposed retail return on common equity of 12.5 percent. As an alternative, the Company has also included in its request a three-year rate plan that is based on the same test year and proposed retail return on common equity.

The increase in retail revenues is being requested to cover the Company's investment in the new Plant McIntosh Combined Cycle Units 10 and 11; increasing operating and maintenance expenses; and continued investment in generation, transmission, and distribution facilities to support growth and ensure reliability. The increase also includes recognition on an annual basis of the $3.8 million of Plant Wansley purchased power expenses which were excluded by the Georgia PSC from the Company's last rate case and subsequently were subject to deferral through a Georgia PSC accounting order issued in December 2002.

The Company expects the Georgia PSC to issue a final order in this matter during May 2005. The final outcome of this matter cannot now be determined.

2002 Retail Rate Case Orders

In May 2002, the Georgia PSC approved a $7.8 million base rate increase and an authorized return on equity of 12 percent as a result of the Company's request to recover significant new expenses related to the Plant Wansley PPA which began in June 2002, as well as other operation and maintenance expense changes. In December 2002, at the Company's request, the Georgia PSC 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 Georgia PSC 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 also 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 2004, the Company had amortized all of the deferred purchased power costs.

Under the 2002 rate order, the Georgia PSC also ordered the Company to amortize approximately $9 million of accelerated depreciation and amortization previously recorded equally over three years as a credit to expense beginning June 1, 2002.

Plant McIntosh Construction Project

In December 2002, after a competitive bidding process, the Georgia PSC certified PPAs between Southern Power and Georgia Power and the Company for capacity from Plant McIntosh Combined Cycle Units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, the Company and Georgia Power in May 2004 requested the Georgia PSC to direct them to acquire the Plant McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined.

As directed by the Georgia PSC order, Georgia Power and the Company in June 2004 filed an application to amend the resource certificate granted by the Georgia PSC in 2002. In connection with the Georgia Power 2004 retail rate case, the Georgia PSC approved the transfer of the Plant McIntosh construction project, at a total fair market value of approximately $385 million. This value reflects an approximate $16 million disallowance. Savannah Electric owns 16.129 percent of the project; thus, this disallowance amounted to approximately $3 million and reduced the Company's net income by approximately $1.5 million. The Georgia PSC also certified a total completion cost of $547 million for the project. The amount of the disallowance will be adjusted accordingly based on the actual completion cost of the project. The Georgia PSC will determine the rate treatment of Plant McIntosh in connection with its decision on the Company's 2004 retail rate case filing discussed above. The final 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, totaling 160 megawatts of capacity, are owned by the Company, and six units, totaling 480 megawatts of capacity, are owned by Georgia Power.

The Company's amount of investment in Plant McIntosh combustion turbines and related accumulated depreciation at December 31, 2004 were $52 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.

In addition, the Company and Georgia Power acquired the Plant McIntosh Combined Cycle Units 10 and 11 construction project in 2004. The units, which will have a total capacity of 1,240 megawatts, scheduled to begin operation in June 2005, will be jointly owned by the Company and Georgia Power. The Company's investment in Plant McIntosh Units 10 and 11 at December 31, 2004 was $78.4 million.

5. INCOME TAXES

Southern Company and its subsidiaries file a consolidated federal income tax return and a combined State of Georgia income tax return. Under a joint consolidated income tax allocation agreement, as required by the PUHCA, each subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more expense than would be paid if they filed a separate tax return. In accordance with Internal Revenue Service regulations, each company is jointly and severally liable for the tax liability.

In 2004, in order to avoid the loss of certain federal income tax credits related to the production of synthetic fuel, Southern Company chose to defer certain deductions otherwise available to the subsidiaries. The cash flow benefit associated with the utilization of the tax credits was allocated to the subsidiary that otherwise would have claimed the available deductions on a separate company basis without the deferral. This allocation concurrently reduced the tax benefit of the credits allocated to those subsidiaries that generated the credits. As the deferred expenses are deducted, the benefit of the tax credits will be repaid to the subsidiaries that generated the tax credits. The Company has recorded $1.5 million payable to these subsidiaries in "Accumulated Deferred Income Taxes" on the accompanying December 31, 2004 balance sheet.

The transfer of the Plant McIntosh construction project from Southern Power to the Company resulted in a deferred gain to Southern Power for federal income tax purposes. The Company will reimburse Southern Power for $1.0 million of this deferred tax liability as it is reflected in Southern Power's future taxable income. The payable to Southern Power is included in Other Deferred Credits on the Company's balance sheet at December 31, 2004.

At December 31, 2004, tax-related regulatory assets and liabilities were $10.6 million and $8.7 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:

	2004	2003	2002
	(in thousands)		
Total provision for income taxes			
Federal --			
Currently payable	**$ 246**	$12,074	$16,248
Deferred	**12,171**	1,299	(5,660)
	12,417	13,373	10,588
State --			
Currently payable	**691**	2,791	1,428
Deferred	**1,270**	(646)	(568)
	1,961	2,145	860
Total	**$14,378**	$15,518	$11,448

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:

	2004	2003
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	**$94,124**	$88,332
Property basis differences	**(845)**	(1,640)
Other	**13,539**	2,696
Total	**106,818**	89,388
Deferred tax assets:		
Pension and other benefits	**17,353**	15,671
Other	**15,703**	14,284
Total	**33,056**	29,955
Total deferred tax liabilities, net	**73,762**	59,433
Portion included in current assets, net	**16,317**	24,419
Accumulated deferred income taxes in the Balance Sheets	**$90,079**	$83,852

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 2004, 2003, and 2002. At December 31, 2004, 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:

	2004	2003	2002
Federal statutory tax rate	35%	35%	35%
State income tax, net of Federal income tax benefit	3	4	2
Other	(2)	1	(2)
Effective income tax rate	36%	40%	35%

6. FINANCING

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:

	2004	2003
	(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	1,010	910
Total	$1,010	$40,910

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 certifying property additions in 2003 and 2004. The 2005 requirement will be satisfied by certifying property additions. Sinking fund requirements and/or maturities through 2009 applicable to long-term debt are as follows: $1.0 million in 2005; $21.0 million in 2006; $0.9 million in 2007; $46.0 million in 2008; and $0.8 million in 2009.

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 2005, credit arrangements with banks totaled $80 million, of which $70 million expires at various times in 2005 and the remaining $10 million expires in 2007. Of the facilities that expire in 2005, $40 million contain two-year term out provisions and the $10 million facility that expires in 2007 contains a three-year term out provision. 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, $10 million was borrowed under the agreement in May 2004, and the full $30 million was repaid in December 2004.

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 one-eighth 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 arrangements. 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 $30 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, 2004, the Company had $12.6 million in commercial paper and $8.0 million in extendible commercial notes outstanding. During 2004, the peak amount of commercial paper outstanding was $29.1 million and the average amount outstanding was $8.4 million. The average annual interest rate on commercial paper was 1.51 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, 2004, the amount of variable rate obligations outstanding requiring liquidity support was $7.2 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 direction of the Georgia PSC. The Company also enters into hedges of forward electricity sales. There was no material ineffectiveness recorded in earnings in 2004 and 2003.

At December 31, 2004, the fair value of derivative energy contracts was reflected in the financial statements as follows:

	Amounts
	(in thousands)
Regulatory liabilities, net	**$1,471**
Other comprehensive income	**-**
Net income	**3**
Total fair value	**$1,474**

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 has energy-related hedges in place up to and including 2007.

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, 2004, the Company had $14.0 million notional amount of interest rate swaps outstanding with net fair value gains of $0.1 million as follows:

Cash Flow Hedges

Maturity	Weighted Average Fixed Rate Paid	Notional Amount	Fair Value Gain/ (Loss)
		(in millions)	
2007	2.50%*	$14.0	$0.1

*Swap settles against the Bond Market Association floating rate 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. For 2004, approximately $0.1 million of pre-tax losses were reclassified from other comprehensive income to interest expense. For 2003, the amount reclassified was not material. For 2005, pre-tax losses of approximately $0.1 million are expected to be reclassified from other comprehensive income to interest expense. The Company has interest-related hedges in place up to and including 2007, and additionally has losses that are being amortized up to and including 2014.

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, 2004, 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 $52.4 million in 2005, $39.2 million in 2006, and $33.7 million in 2007. 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. Units 10 and 11 at Plant McIntosh, being constructed and to be owned jointly with Georgia Power, are scheduled to be placed in service in June 2005. 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, 2004, significant purchase commitments were outstanding in connection with the construction program.

Long-Term Service Agreement

The Company and Georgia Power have entered into a Long-Term Service Agreement (LTSA) with General Electric (GE) for the purpose of securing maintenance support for the combustion turbines at the Plant McIntosh combined cycle facility. 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 this LTSA is 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 by the Company to GE under this agreement are currently estimated at $35 million over the remaining life of the agreement, which may range up to 30 years. However, the LTSA contains various cancellation provisions at the option of the Company and Georgia Power.

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. Coal commitments include forward contract purchases for nitrogen oxide and sulfur dioxide emission allowances. 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 time of delivery. Amounts included in the chart below represent estimates based on New York Mercantile Exchange future prices at December 31, 2004.

Total estimated minimum long-term obligations at December 31, 2004 were as follows:

Year	Natural Gas	Coal
	(in thousands)	
2005	$ 26,296	$50,301
2006	26,485	6,771
2007	15,655	-
2008	32,974	-
2009	30,811	-
2010 and thereafter	285,322	-
Total commitments	$417,543	$57,072

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, 2004 were as follows:

Year	Commitments
	(in thousands)
2005	$13,262
2006	13,271
2007	13,283
2008	13,295
2009	13,307
2010 and thereafter	-
Total commitments	$66,418

Operating Leases

The Company has rental agreements with various terms and expiration dates. Rental expenses totaled $0.9 million for 2004, $0.9 million for 2003, and $0.6 million for 2002. Of these amounts, $0.8 million in 2004, $0.8 million in 2003, and $0.5 million in 2002 related to railcar leases and coal dozers and were recoverable through the Company's fuel cost recovery clause.

At December 31, 2004, estimated future minimum lease payments for noncancelable operating leases were as follows:

Year	Railcars	Other	Total
		(in thousands)	
2005	$ 429	$ 417	$ 846
2006	429	381	810
2007	429	379	808
2008	429	324	753
2009	429	219	648
2010 and thereafter	3,608	-	3,608
Total minimum payments	$5,753	$1,720	$7,473

8. STOCK OPTION PLAN

Southern Company provides non-qualified stock options to a large segment of the Company's employees ranging from line management to executives. As of December 31, 2004, 93 current and former employees of the Company participated in the stock option plan. The maximum number of shares of Southern Company 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 stock option plan. Activity from 2002 to 2004 for the options granted to the Company's employees under the stock option plan is summarized below.

	Shares Subject To Option	Average Option Price Per Share
Balance at December 31, 2001	584,677	$17.12
Options granted	144,060	25.26
Options canceled	(948)	17.52
Options exercised	(177,515)	14.29
Balance at December 31, 2002	550,274	20.16
Options granted	125,397	27.98
Options canceled	(8,410)	25.60
Options exercised	(137,580)	17.46
Balance at December 31, 2003	**529,681**	**22.62**
Options granted	**118,209**	**29.50**
Options canceled	**(3,708)**	**28.21**
Options exercised	**(90,899)**	**18.12**
Balance at December 31, 2004	**553,283**	**$24.80**
Options exercisable:		
At December 31, 2002		210,436
At December 31, 2003		251,576
At December 31, 2004		**318,250**

The following table summarizes information about options outstanding at December 31, 2004:

	Dollar Price Range of Options		
	13-20	20-26	26-32
Outstanding:			
Shares (in thousands)	**110**	**209**	**234**
Average remaining life (in years)	**5.7**	**6.8**	**8.6**
Average exercise price	**$17.77**	**$24.09**	**$28.73**
Exercisable:			
Shares (in thousands)	**110**	**168**	**40**
Average exercise price	**$17.77**	**$23.80**	**$28.00**

9. RESTATEMENT

These financial statements have been restated to reflect adjustments to the Company's financial information previously reported on Form 10-K for the years ended December 31, 2003 and 2002. The restatement also affects periods prior to 2002. The restatements arose as a result of errors in the Company's estimates of unbilled revenues in these prior periods. Unbilled revenues represent an estimate of the kilowatt-hour (KWH) sales of electricity delivered to customers, but not yet billed. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, total electricity lost in delivery (line losses), and customer usage. These components are affected by a number of factors including weather, generation patterns, power delivery volume, and other operational constraints.

The errors in the Company's estimates were identified through comparisons of the Company's unbilled revenue account balance at December 31, 2004 to the billed KWH sales recorded in January 2005 made in connection with the Company's 2004 audit. The Company analyzed the unbilled revenue calculations for the years 1999 through 2004 to determine the timing and source of the errors, which primarily related to the estimates of line losses. For years through 2002, line losses were understated and total unbilled revenues were overstated. However, in 2003, the Company revised its methodology of estimating line losses, which had the effect of overstating the line losses, and, thus, understating total unbilled revenues during 2003. Since the Company's calculation of unbilled revenues utilized a net change methodology, the cumulative effect of each of these errors was carried forward. The effect of these errors increased (reduced) the Company's earnings before income taxes by $1.1 million ($0.7 million after tax) and ($2.5) million (($1.6) million after tax) for the years ended December 31, 2003 and 2002, respectively. The cumulative impact related to years prior to 2002 was a decrease in retained earnings of $2.3 million at January 1, 2002.

Management and the Company's external auditors discussed these adjustments with the Audit Committee of Southern Company's Board of Directors on February 24, 2005. The restated financial statements have been prepared by management and reflect all related adjustments known to management. Management has also revised its process of estimating unbilled revenues to utilize a gross change methodology that reverses each period's estimate in total in the following period.

These restatement adjustments affect the Company's previously issued statements of income, comprehensive income, and common stockholder's equity for the years ended December 31, 2003 and 2002 and the Company's balance sheet at December 31, 2003.

A summary of the effects of these restatement adjustments is as follows (in thousands of dollars):

	Years Ended			
	December 31, 2003		December 31, 2002	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Retail sales revenues	$297,745	$298,807	$285,771	$283,225
Total operating revenues	314,055	315,117	299,552	297,006
Operating income	50,457	51,519	50,814	48,268
Earnings before income taxes	37,915	38,977	35,313	32,767
Income taxes	15,108	15,518	12,433	11,448
Net income	22,807	23,459	22,880	21,319
Comprehensive income	$ 21,847	$ 22,499	$ 21,636	$ 20,075

	At December 31, 2003	
	As Originally Reported	As Restated
Unbilled revenues receivable	$ 11,288	$ 6,064
Prepaid income taxes	24,419	25,981
Total current assets	118,415	114,752
Total assets	709,921	706,259
Accrued income taxes	1,172	713
Total current liabilities	93,512	93,053
Total liabilities	523,629	523,170
Retained earnings	109,856	106,653
Total common stockholder's equity	186,292	183,089
Total capitalization	408,785	405,582
Total liabilities and stockholder's equity	$709,921	$706,259

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2004 and 2003 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income after Preferred Stock Dividends
		(in thousands)	
March 2004 (1)	**$72,321**	**$ 8,032**	**$ 2,833**
June 2004 (1)	**91,149**	**13,971**	**6,784**
September 2004 (1)	**107,889**	**24,816**	**13,416**
December 2004	**85,601**	**6,284**	**1,199**
March 2003 (1)	$68,765	$ 8,906	$ 3,442
June 2003 (1)	78,748	14,040	6,605
September 2003 (1)	100,030	26,499	14,939
December 2003 (1)	67,574	2,074	(1,527)

The Company's business is influenced by seasonal weather conditions and a seasonal rate structure, among other factors.

(1) The restatement adjustments described in Note 9 also affected the Company's previously issued statements of income for the quarters ended March 31, June 30, and September 30, 2004 and 2003 and December 31, 2003. A summary of the effects of those restatements adjustments is as follows (in thousands of dollars):

	Three Months Ended				Six Months Ended	
	March 31, 2004		June 30, 2004		June 30, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated	As Originally Reported	As Restated
Retail sales revenues	$68,023	$67,509	$88,437	$87,516	$156,460	$155,025
Total operating revenues	72,835	72,321	92,070	91,149	164,905	163,470
Operating income	8,546	8,032	14,892	13,971	23,438	22,003
Earnings before income taxes	4,946	4,433	11,830	10,908	16,776	15,341
Income taxes	1,798	1,600	4,331	3,974	6,129	5,574
Net income	3,148	2,833	7,499	6,934	10,647	9,767
Net income after dividends on preferred stock	3,148	2,833	7,349	6,784	10,497	9,617
Comprehensive income	3,139	2,824	7,390	6,825	10,529	9,649

	Three Months Ended		Nine Months Ended	
	September 30, 2004		September 30, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Retail sales revenues	$102,312	$104,822	$258,772	$259,847
Total operating revenues	105,379	107,889	270,284	271,359
Operating income	22,306	24,816	45,744	46,819
Earnings before income taxes	19,813	22,323	36,589	37,664
Income taxes	7,262	8,232	13,391	13,806
Net income	12,551	14,091	23,198	23,858
Net income after dividends on preferred stock	11,876	13,416	22,373	23,033
Comprehensive income	11.902	13,442	22,431	23,091

	Three Months Ended				Six Months Ended	
	March 31, 2003		June 30, 2003		June 30, 2003	
	As Originally Reported	As Restated	As Originally Reported	As Restated	As Originally Reported	As Restated
Retail sales revenues	$63,546	$63,437	$75,468	$75,973	$139,014	$139,410
Total operating revenues	68,874	68,765	78,243	78,748	147,117	147,513
Operating income	9,015	8,906	13,535	14,040	22,550	22,946
Earnings before income taxes	5,500	5,391	10,016	10,520	15,516	15,911
Income taxes	1,991	1,949	3,720	3,915	5,711	5,864
Net income	3,509	3,442	6,296	6,605	9,805	10,047
Net income after dividends on preferred stock	3,509	3,442	6,296	6,605	9,805	10,047
Comprehensive income	3,509	3,442	6,296	6,605	9,805	10,047

	Three Months Ended		Nine Months Ended	
	September 30, 2003		September 30, 2003	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Retail sales revenues	$95,364	$ 96,279	$234,378	$235,689
Total operating revenues	99,115	100,030	246,232	247,543
Operating income	25,584	26,499	48,134	49,445
Earnings before income taxes	23,305	24,220	38,821	40,131
Income taxes	8,927	9,281	14,638	15,145
Net income	14,378	14,939	24,183	24,986
Net income after dividends on preferred stock	14,378	14,939	24,183	24,986
Comprehensive income	13,658	14,219	23,463	24,266

	Three Months Ended	
	December 31, 2003	
	As Originally Reported	As Restated
Operating revenues	$67,823	$67,574
Operating income	2,323	2,074
Net income	(1,376)	(1,527)

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SELECTED FINANCIAL AND OPERATING DATA 2000-2004

Savannah Electric and Power Company 2004 Annual Report

	2004	2003		2002		2001		2000	
Operating Revenues (in thousands)	**$356,960**	$315,117	(1)	$297,006	(1)	$282,926	(1)	$292,903	(1
Net Income after Dividends on Preferred Stock (in thousands)	**$24,232**	$23,459	(1)	$21,319	(1)	$21,495	(1)	$21,243	(1
Cash Dividends on Common Stock (in thousands)	**$23,200**	$23,000		$22,700		$21,700		$24,300	
Return on Average Common Equity (percent)	**11.67**	13.07	(1)	12.16	(1)	12.36	(1)	12.20	(1
Total Assets (in thousands)	**$812,591**	$706,259	(1)	$644,923	(1)	$617,282	(1)	$612,529	(1
Gross Property Additions (in thousands)	**$126,133**	$40,242		$32,481		$31,296		$27,290	
Capitalization (in thousands):									
Common stock equity	**$232,156**	$183,089	(1)	$175,949	(1)	$174,624	(1)	$173,268	(1
Preferred stock	**43,938**	-		-		-		-	
Mandatorily redeemable preferred securities	**-**	-		40,000		40,000		40,000	
Long-term debt	**237,769**	222,493		168,052		160,709		116,902	
Total (excluding amounts due within one year)	**$513,863**	$405,582		$384,001		$375,333		$330,170	
Capitalization Ratios (percent):									
Common stock equity	**45.2**	45.1	(1)	45.8	(1)	46.5	(1)	52.5	(1
Preferred stock	**8.6**	-		-		-		-	
Mandatorily redeemable preferred securities	**-**	-		10.4		10.7		12.1	
Long-term debt	**46.2**	54.9		43.8		42.8		35.4	
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+	
Preferred Stock -									
Moody's	**Baa1**	Baa1		Baa1		Baa1		a2	
Standard and Poor's	**BBB+**	BBB+		BBB+		BBB+		BBB+	
Unsecured Long-Term Debt -									
Moody's	**A2**	A2		A2		A2		-	
Standard and Poor's	**A**	A		A		A		-	
Customers (year-end):									
Residential	**124,789**	122,128		120,131		117,199		115,646	
Commercial	**17,964**	17,102		16,512		16,121		15,727	
Industrial	**89**	90		81		76		75	
Other	**533**	506		494		474		444	
Total	**143,375**	139,826		137,218		133,870		131,892	
Employees (year-end):	**563**	549		550		550		554	

(1) As Restated -- See Note 9 to the Financial Statements.

SELECTED FINANCIAL AND OPERATING DATA 2000-2004 (continued)

Savannah Electric and Power Company 2004 Annual Report

	2004	2003	2002	2001	2000
Operating Revenues (in thousands):					
Residential	**$164,889**	$143,461 (1)	$137,767 (1)	$123,394 (1)	$128,288 (1)
Commercial	**120,907**	106,433 (1)	103,293 (1)	100,484 (1)	101,196 (1)
Industrial	**44,600**	38,767 (1)	32,434 (1)	34,852 (1)	40,269 (1)
Other	**11,370**	10,146 (1)	9,731 (1)	9,516 (1)	10,054 (1)
Total retail	**341,766**	298,807 (1)	283,225 (1)	268,246 (1)	279,807 (1)
Sales for resale - non-affiliates	**5,035**	5,653	6,354	8,884	4,748
Sales for resale - affiliates	**6,130**	6,499	4,075	3,205	4,974
Total revenues from sales of electricity	**352,931**	310,959 (1)	293,654 (1)	280,335 (1)	289,529 (1)
Other revenues	**4,029**	4,158	3,352	2,591	3,374
Total	**$356,960**	$315,117 (1)	$297,006 (1)	$282,926 (1)	$292,903 (1)
Kilowatt-Hour Sales (in thousands):					
Residential	**1,899,462**	1,753,885 (1)	1,755,967 (1)	1,648,102 (1)	1,640,292 (1)
Commercial	**1,539,536**	1,461,191 (1)	1,454,674 (1)	1,379,583 (1)	1,346,416 (1)
Industrial	**840,572**	860,840 (1)	791,422 (1)	784,688 (1)	785,894 (1)
Other	**142,732**	137,158 (1)	137,913 (1)	133,210 (1)	133,534 (1)
Total retail	**4,422,302**	4,213,074 (1)	4,139,976 (1)	3,945,583 (1)	3,906,136 (1)
Sales for resale - non-affiliates	**131,259**	162,469	150,795	111,145	77,481
Sales for resale - affiliates	**142,871**	185,202	125,882	87,799	88,646
Total	**4,696,432**	4,560,745 (1)	4,416,653 (1)	4,144,527 (1)	4,072,263 (1)
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**8.68**	8.18 (1)	7.85 (1)	7.49 (1)	7.82 (1)
Commercial	**7.85**	7.28 (1)	7.10 (1)	7.28 (1)	7.52 (1)
Industrial	**5.31**	4.50 (1)	4.10 (1)	4.44 (1)	5.12 (1)
Total retail	**7.73**	7.09 (1)	6.84 (1)	6.80 (1)	7.16 (1)
Sales for resale	**4.07**	3.50	3.77	6.08	5.85
Total sales	**7.51**	6.82 (1)	6.65 (1)	6.76 (1)	7.11 (1)
Residential Average Annual Kilowatt-Hour Use Per Customer	**15,388**	14,493 (1)	14,771 (1)	14,150 (1)	14,324 (1)
Residential Average Annual Revenue Per Customer	**$1,336**	$1,185 (1)	$1,159 (1)	$1,059 (1)	$1,120 (1)
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**765**	788	788	788	788
Maximum Peak-Hour Demand (megawatts):					
Winter	**805**	882	738	758	724
Summer	**949**	904	921	846	878
Annual Load Factor (percent)	**56.3**	56.8	54.5	55.9	53.4
Plant Availability Fossil-Steam (percent):	**77.1**	83.3	81.4	81.2	78.5
Source of Energy Supply (percent):					
Coal	**41.2**	44.7	44.4	50.5	51.6
Oil and gas	**1.9**	2.7	4.2	4.0	6.9
Purchased power -					
From non-affiliates	**5.4**	3.1	3.1	5.3	7.7
From affiliates	**51.5**	49.5	48.3	40.2	33.8
Total	**100.0**	100.0	100.0	100.0	100.0

(1) As Restated -- See Note 9 to the Financial Statements.

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SOUTHERN POWER COMPANY

FINANCIAL SECTION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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-330 to II-343) present fairly, in all material respects, the financial position of Southern Power Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
~~February 28, 2005~~

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

OVERVIEW

Business Activities

Southern Power Company (Company) constructs, owns and manages Southern Company's competitive generation assets and sells electricity at market-based rates in the Super-Southeast wholesale market. The Company focused on executing its regional strategy in 2004 by signing several wholesale contracts with major utilities, as well as electric cooperatives and municipal suppliers, in the Southeast. The Company's typical wholesale contract is now more than 11 years in duration, which reduces remarketing risk until the middle of the next decade. However, the Company continues to face challenges related to market power issues at the federal regulatory level, specifically the ability to charge market- based rates.

Key Performance Indicators

To evaluate operating results and to ensure the Company's ability to meet its contractual commitments to customers, the Company focuses on two key performance indicators. These indicators consist of plant availability and peak season equivalent forced outage rate (EFOR). Plant availability shows the percentage of time during the year that the Company's generating units are available to be called upon to generate (the higher the better), where as the EFOR more narrowly defines the hours during peak demand times when the Company's generating units are not available due to forced outages (the lower the better). The Company's actual performance in 2004 significantly surpassed targets in these key performance areas.

Earnings

The Company's 2004 earnings were $112 million, a $44 million decrease over 2003. The 2004 decrease is primarily attributed to a one-time $50 million gain recognized in May 2003 upon the termination of Dynegy, Inc.'s (Dynegy) obligations under power purchase agreements (PPAs). This one-time item was partially offset by the effect of a full year's operation of Plant Stanton A, which went into service in October 2003, and Plant Harris Units 1 and 2 and Plant Franklin Unit 2, which all went into service in June 2003. As of December 31, 2004, the Company had approximately 4,775 megawatts in commercial operation.

The Company's 2003 earnings were $155 million, a $101 million increase over 2002. The 2003 increase is attributed to new wholesale capacity and energy contracts, primarily PPAs relating to units placed in service during 2003 (Plant Franklin Unit 2, Plant Harris Units 1 and 2 and Plant Stanton A), and to the Dynegy PPA termination gain of $50 million.

RESULTS OF OPERATIONS

A condensed income statement is as follows:

	Amount	Increase (Decrease) From Prior Year		
	2004	**2004**	2003	2002
		(in thousands)		
Operating revenues	**$701,311**	**$19,531**	$383,012	$269,467
Fuel	**127,103**	**11,847**	17,291	94,186
Purchased power	**188,456**	**3,155**	131,638	48,937
Other operation and maintenance	**75,195**	**12,954**	33,890	21,726
Depreciation and amortization	**51,161**	**12,149**	20,693	15,028
Taxes other than income taxes	**11,273**	**4,608**	2,390	3,882
Total operating expenses	**453,188**	**44,713**	205,902	183,759
Operating income	**248,123**	**(25,182)**	177,110	85,708
Other income, net	**2,408**	**4,002**	2,988	(5,240)
Less --				
Interest expense and other, net	**66,088**	**34,380**	22,822	8,459
Income taxes	**72,935**	**(12,286)**	56,764	25,946
Cumulative effect of accounting change		**(367)**	367	
Net Income	**$111,508**	**$(43,641)**	$100,879	$ 46,063

Revenues

Operating revenues in 2004 were $701.3 million, a $19.5 million (2.9%) increase from 2003. The increase was primarily due to new PPAs with non-affiliates as result of a full year's operation of Plant Stanton A (placed in service October 2003) and PPAs with affiliates as a result of a full year's operation of Plant Harris Units 1 and 2 and Plant Franklin 2, each placed in service in June 2003.

Operating revenues in 2003 were $681.8 million, a $383.0 million (128.2%) increase from 2002. In 2003, operating revenues were positively impacted by new wholesale capacity and energy from the four units placed in service during 2003. Included in this increase was a $9.9 million increase in service and fee revenues from various electric membership cooperative (EMC) contracts.

Operating revenues in 2002 were $298.8 million, a $269.5 million (919.7%) increase from 2001. In 2002, operating revenues increased due to commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 in June 2002, PPAs with Georgia Power and Savannah Electric, requirements agreements with 11 EMCs in June 2002, and a full year of revenue related to the PPA from Plant Dahlberg which the Company acquired in August 2001.

Capacity revenues for 2004 were $322.8 million, or 46% of total revenues. Capacity revenues for 2003 were $201.6 million, or 33.4% of total revenues, excluding $80 million related to the Dynegy PPA termination. Capacity revenues for 2002 were $123.9 million, or 41.5% of total revenues. Capacity revenues are an integral component of the PPAs with both affiliate and non-affiliate customers and represent the greatest contribution to net income. Energy revenues under PPAs are generally sold at variable cost and do not have a material impact on net income.

Revenues from sales to affiliated companies that are not covered by PPAs are made in accordance with the affiliated interchange agreement, as approved by the Federal Energy Regulatory Commission (FERC), and will vary depending on demand and the availability and cost of generating resources at each company that participates in the centralized operation and dispatch of the Southern Company fleet of generating plants (Southern Pool). These transactions do not have a significant impact on earnings since the energy is generally sold at variable cost.

Expenses

The increase in fuel expense in 2004 of $11.8 million or 10.3% is primarily due to increased gas transportation expenses associated with Plant Harris Unit 2 prior to its commitment with Georgia Power. In 2004, although the volume of gas purchased decreased, fuel expense increased as a result of plants placed in service in 2003, where prior to completion, fuel expense was capitalized during unit testing. In addition, the average cost of natural gas per decatherm increased 8.3% from 2003 to 2004. The volumes of gas purchased in 2004 decreased as a result of lower generation requirements generally due to milder weather.

In 2003, fuel expense increased $17.3 million or 17.7% primarily due to the operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 for a full year, as well as the June 2003 commercial operation of Plant Franklin Unit 2 and Plant Harris Units 1 and 2. Opportunity sales made from Plant Franklin Unit 2 and Plant Harris Unit 2 prior to their commitment under affiliate PPAs also contributed to the increase in fuel expense. In addition, the average cost of natural gas per decatherm increased 24% from 2002 to 2003. The increase in fuel expense in 2002 of $94.2 million was primarily due to the June 2002 commercial operation of Plant Wansley Units 6 and 7 and Plant Franklin Unit 1 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 significant upward trend in the cost of natural gas and volatility in these markets is expected to continue. Higher natural gas prices in the United States are the result of slightly lower gas supplies despite increased drilling activity. Natural gas supply interruptions, such as those caused by the 2004 hurricanes, resulted in an immediate market response; however, the impact of this price volatility may be reduced by imports of natural gas and liquefied natural gas. Fuel expenses incurred under the Company's PPAs are generally the responsibility of the counterparties, and do not significantly affect net income. Under the PPAs, either the Company incurs the fuel expense and concurrently recovers the cost through energy revenues or the counterparty purchases the fuel directly.

Purchased power increased $3.2 million in 2004, consisting of a $15.4 million increase for non-affiliates and a $12.2 million decrease for affiliates. Purchased power from non-affiliates and affiliates increased by $26.7 million and $104.9 million, respectively, in 2003 and by $33.3 million and $15.6 million, respectively, in 2002. All year-over-year variances in total purchased power expenses were to meet the Company's contractual sales commitments. The allocation of purchased power expenses between affiliate and non-affiliate will vary depending on demand and the availability and cost of generating resources available throughout the Southern Company electric system. 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 2004, non-affiliated purchased power increased and affiliated purchased power decreased as a result of the availability of lower cost energy from contracts with Georgia EMCs and North Carolina municipalities in addition to other market sources. 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.

Other operations and maintenance, depreciation and amortization expenses and taxes other than income taxes all increased significantly during the period from 2002 through 2004. All of these year-to-year increases are a result of new generating units going into service in 2002 (Plant Wansley Units 6 and 7 and Plant Franklin Unit 1) and in 2003 (Plant Franklin Unit 2, Plant Harris Units 1 and 2, and Plant Stanton A).

Interest expense increased by $34.4 million in 2004 due to a lower percentage of interest costs being capitalized as projects reached completion. Plant McIntosh Units 10 and 11 were transferred to Georgia Power and Savannah Electric during 2004 and construction was suspended on Plant Franklin Unit 3, effectively ceasing all capitalized interest. For additional information see FUTURE EARNINGS POTENTIAL – "FERC Matters – Plant McIntosh Construction Project" herein and Note 2 to the Financial Statements under "Plant Franklin Unit 3 Construction Project" and "Plant McIntosh Construction Project." Interest expense in 2003 increased by $22.8 million from the amount recorded in 2002. This increase is primarily attributed to a lower amount of interest costs being capitalized as construction projects reached completion and an increase in the amount of long-term debt outstanding. Interest expense in 2002 increased $8.4 million over 2001 primarily attributed to increased debt associated with the Company's ongoing construction program.

Changes in other income, net in 2004, 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 5 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 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, especially regulatory matters, including those related to affiliate contracts, sales, creditworthiness of customers, total generating capacity available in the Southeast and the successful remarketing of capacity as current contracts expire.

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, Inc. (SCS).

Power Sales Agreements

The Company is working to maintain and expand its share of the wholesale market in the Southeastern power markets. Although there is currently an oversupply situation in the Southeast relative to generating capacity, there are still short term opportunities and requests for proposals in certain areas.

On August 12, 2004, the Company entered into two PPAs with Florida Power & Light (FP&L). Under the agreements, the Company will provide FP&L with a total of 790 megawatts of capacity annually from Plant Harris Unit 1 and Plant Franklin Unit 1 for the period from June 2010 through December 2015. Additionally, FP&L will make payments for firm gas transportation. The Florida Public Service Commission (PSC) approved these contracts on January 24, 2005; however, they are still contingent upon certain events. A similar agreement with Progress Energy Florida was signed on November 29, 2004 for 350 megawatts from Franklin Unit 1 for the period June 2010 through December 2015. Progress Energy Florida has transmission responsibility. The Progress Energy Florida PPA is contingent upon certain events including approval of the Florida PSC. The final outcome of this matter cannot be determined. These PPAs provide for fixed capacity payments and variable energy payments based on actual energy delivered.

Also in 2004, the Company executed multiple agreements expanding its relationship with an existing requirements customer. For the years 2005-2009, the Company will sell approximately 130 megawatts of additional wholesale capacity from existing resources to Flint Energies, a cooperative located in Reynolds, Georgia.

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, sales under PPAs with Georgia Power for the remaining 200 megawatts of uncontracted capacity at Plant Franklin Unit 2 and for Plant Harris Unit 2 began. Sales under PPAs for the other units became effective upon commercial operation. As a result, non-affiliate sales from uncontracted capacity has declined.

At December 31, 2004, the Company has entered into long-term power sales agreements for a portion of its generating 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
Non-Affiliated		
Stanton A	396	11/03-11/13
GA. EMC Full Requirements (1)	62-434	2002-2009
Piedmont Full Req.	135-181	2006-2010
Franklin Unit 1 (2)	540	6/10-12/15
Harris Unit 1 (3)	600	6/10-12/15

(1) Option in 2009 to convert from full requirements to fixed capacity sale
(2) FP&L and Progress Energy new PPAs
(3) FP&L new PPA

Although under some of the Company's PPAs, capacity and energy is sold to the Southern Company's five retail operating companies, the Company's generating facilities are not in the retail operating companies' regulated rate bases, and the Company is not able to seek recovery from their 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 counterparties 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 Standard & Poor's or Moody's downgrades the credit ratings of such counterparty to below investment grade or 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 costs will be recovered through capacity 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 operation and maintenance costs relating to GE equipment. See Note 6 to the financial statements under "Long-Term Service Agreements" for additional information.

FERC Matters

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to nonaffiliates at market-based prices. Southern Power 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by the FERC order, on February 15, 2005 Southern Company submitted additional information related to generation dominance in the Southern Company retail service territory. As a result of the proceeding, any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April 2004 and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales within the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Plant McIntosh Construction Project

In December 2002 after a competitive bidding process, the Georgia PSC certified PPAs between the Company and Georgia Power and Savannah Electric for capacity from Plant McIntosh Units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, Southern Power applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet the applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, in May 2004, Savannah Electric and Georgia Power requested the Georgia PSC to direct them to acquire the Plant McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million of transmission interconnection facilities. Subsequently, Southern Power filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined.

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. Because each of the Company's units are newer gas-fired generating facilities, costs associated with environmental compliance for these facilities have been less significant than for similarly situated coal-fired generating facilities or older gas-fired generating facilities. 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, however, increase the cost of siting and operating any type of future electric generating facility. The impact of such statutes and regulations on the Company as a result of generating facilities that may be acquired or constructed in the future cannot be predicted at this time.

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, and regulation of other environmental media. Among the various environmental matters being planned or considered for regulation by the federal Environmental Protection Agency and/or relevant state agencies are: additional regulation of areas designated as non-attainment for ozone and particulate matter under applicable federal air quality standards (including areas in Georgia and Alabama where the Company has facilities); the reduction of nitrogen oxide and particulate matter emissions to reduce regional haze and visibility impairment in sensitive areas; reductions in sulfur dioxide and nitrogen oxide emissions to reduce interstate transport of such pollutants; the reduction of so-called "greenhouse gases" (such as carbon dioxide) to address concerns over global climate change; hazardous waste disposal requirements and requirements for cooling water intake structures. The impact of any new standards or requirements will depend on the development and/or implementation of applicable regulations, and cannot be determined 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. Major bills to amend the Clean Air Act to impose more stringent emissions limitations have also been 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 environmental and health concerns could also significantly affect the Company and many areas of its operations. While all of the Company's PPAs generally contain provisions that permit charging the counterparty with some of the new costs incurred as a result of changes in environmental laws and regulations, the full impact of any such regulatory or legislative changes cannot be determined at this time.

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.

Construction Projects

In October 2004, a partnership between Southern Company and the Orlando Utilities Commission (OUC) was selected by the U.S. Department of Energy (DOE) to build and operate a 285 megawatt coal-gasification facility. The facility will be located at OUC's Stanton Energy Center near Orlando, Florida, site of the existing gas-fired 630 megawatt Plant Stanton A, which is co-owned by the Company, OUC, and others. The Company will own the Southern Company portion of the project. The project will demonstrate a coal gasification technology that has been under development, in partnership with the DOE, by Southern Company. The project is scheduled to begin commercial operation in 2011, with a projected total cost of $557 million. The DOE is expected to contribute approximately $235 million of the cost.

In August 2004, the Company completed limited construction activities on Plant Franklin Unit 3 to preserve the long-term viability of the project and suspended further construction. Final completion is not anticipated until the 2008-2011 period. See Note 2 to the financial statements under "Plant Franklin Unit 3 Construction Project" for more information. The final outcome of these matters cannot now be determined.

Other Matters

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (Jobs Act) into law. The Jobs Act includes a provision that allows a generation tax deduction for utilities. The Company is currently assessing the impact of the Jobs Act on its taxable income. However, the Company currently does not expect the Jobs Act to have a material impact on its financial statements.

From time to time, the Company is involved in various other matters being litigated and regulatory matters that could affect future earnings. See Note 2 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. Southern Company 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" herein and Notes 1 and 5 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, 2004.

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, 2004, there were no unrealized gains (losses) 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 gains on such contracts totaled approximately $0.3 million for the year ended December 31, 2004.

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 2 to the financial statements under "Plant Franklin Unit 3 Construction Project" 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.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The major change in the Company's financial condition during 2004 was the sale of the Plant McIntosh Units 10 and 11 combined cycle construction project to Georgia Power and Savannah Electric at a final book cost of $415 million, including $14 million in transmission interconnection costs. See FUTURE EARNINGS POTENTIAL - "FERC Matters - Plant McIntosh Construction Project" herein for additional information. As a result of the sale, the Company repaid its note payable to Southern Company of $89 million, returned $225 million to Southern Company ($113 million from capital surplus and $112 million from retained earnings) and repaid $114 million in commercial paper borrowings. In September 2003, the Securities and Exchange Commission (SEC) had approved, under the Public Utility Holding Company Act of 1935, as amended (PUHCA), the Company's payment of dividends in an amount up to $190 million to Southern Company from capital surplus. The Company also declared and paid $95 million in additional dividends to Southern Company.

Sources of Capital

The Company may use external funds, equity capital from Southern Company or internally generated cash from operations to finance any new projects and ongoing capital requirements. The Company expects to generate external funds from the issuance of unsecured senior debt and commercial paper or utilization of credit arrangements from banks.

Currently, Southern Company provides limited credit support to the Company. See Note 5 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 PUHCA, most loans between affiliated companies must be approved in advance by the SEC.

At December 31, 2004, the Company had approximately $25.2 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, 2004, $325 million of unused committed credit arrangements with banks. These credit arrangements are 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, 2004, there was no commercial paper outstanding. See Note 5 to the financial statements under "Commercial Paper" for additional information.

The issuance of securities by the Company is subject to regulatory approval by the SEC under PUHCA. Additionally, with respect to the public offering of securities, the Company must file registration statements with the SEC under the Securities Act of 1933, as amended. The amounts of securities authorized by the SEC under the PUHCA are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

Financing Activities

During 2004, the Company issued no new long-term debt The Company repurchased $50 million of its 4.875% Senior Notes due July 15, 2015 in December 2004. See the Statements of Cash Flows and Note 5 to the financial statements under "Long-Term Debt" for additional information.

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- or Baa3, or below. Generally, collateral may be provided with a Southern Company guaranty, letter of credit or cash. These contracts are primarily for physical electricity purchases and sales. At December 31, 2004, the maximum potential collateral requirements at a BBB- or Baa3 rating were approximately $33 million. The maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $77 million. The Company is also party to certain derivative agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade. These agreements are primarily for natural gas price and interest rate risk management activities. At December 31, 2004, the Company had no material exposure related to these agreements.

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 counterparties, 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.

The fair value of changes in derivative energy contracts and year-end valuations were as follows at December 31:

	Changes in Fair Value	
	2004	2003
	(in thousands)	
Contracts beginning of year	$665	$3,864
Contracts realized or settled	(469)	(4,416)
New contracts at inception	-	-
Current period changes (a)	(187)	1,217
Contracts end of year	$ 9	$665

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

At December 31, 2004, the source of the valuation prices were as follows:

	Source of 2004 Year-End Valuation Prices		
	Total	Maturity	
	Fair Value	2005	2006-2007
		(in thousands)	
Actively quoted	$2	$2	
External sources	7	7	
Models and other methods	-	-	-
Contracts end of year	$9	$9	

Unrealized pre-tax gains and losses on electric contracts used to hedge anticipated sales, 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, 2004, the fair value of all derivative energy contracts was included in income.

Approximately $0.3 million, $(1.9) million and $(4.9) million of unrealized pre-tax gains (losses) were recognized in income in 2004, 2003, and 2002, 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 Standard & Poor's and Moody'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 5 to the financial statements under "Financial Instruments."

At December 31, 2004, 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 5 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 $57.0 million for 2005, $147.2 million for 2006, and $718.2 million for 2007. These amounts include estimates for potential plant acquisitions and/or new construction of $31.2 million for 2005, $108.2 million for 2006, and $683.3 million for 2007. Currently, there are no plants under construction. 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.

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, 5, and 6 to the financial statements for additional information.

Contractual Obligations	2005	2006-2007	2008-2009	After 2009	Total
			(in millions)		
Long-term debt[a] --					
Principal	$ 0.2	$ 1.5	$ -	$1,100.0	$1,101.7
Interest	61.6	123.1	123.1	261.3	569.1
Operating leases	0.4	0.8	0.7	9.1	11.0
Purchase commitments[b] --					
Capital[c]	57.0	865.4			922.4
Natural gas[d]	18.9	38.3	37.2	327.1	421.5
Long-term service agreements	23.4	48.9	66.9	618.0	757.2
Total	$161.5	$1,078.0	$227.9	$2,315.5	$3,782.9

(a) All amounts are reflected based on final maturity dates. The Company plans 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 $75.2 million, $62.2 million, and $28.4 million, respectively.

(c) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures.

(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 Exchange future prices at December 31, 2004.

Cautionary Statement Regarding Forward-Looking Statements

The Company's 2004 Annual Report contains forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning environmental regulations and expenditures and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "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;
- variations in the demand for electricity, including those related to weather, the general economy and population, and business growth (and declines);
- available sources and costs of fuels;
- ability to control costs;
- advances in technology;
- state and federal rate regulations;
- 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 effect on the Company's business resulting from the terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and 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;
- catastrophic events such as fires, earthquakes, explosions, flood, hurricanes or similar occurrences;
- the direct or indirect effects on the Company's business resulting from the August 2003 power outage in the Northeast;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the Company from time to time with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

STATEMENTS OF INCOME

For the Years Ended December 31, 2004, 2003, and 2002

Southern Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Revenues:			
Sales for resale --			
Non-affiliates	**$266,463**	$278,559	$114,919
Affiliates	**425,065**	312,586	183,111
Contract termination	**-**	80,000	
Other revenues	**9,783**	10,635	738
Total operating revenues	**701,311**	681,780	298,768
Operating Expenses:			
Fuel	**127,103**	115,256	97,965
Purchased power --			
Non-affiliates	**76,652**	61,234	34,499
Affiliates	**111,804**	124,067	19,164
Other operations	**58,111**	50,852	23,800
Maintenance	**17,084**	11,389	4,551
Depreciation and amortization	**51,161**	39,012	18,319
Taxes other than income taxes	**11,273**	6,665	4,275
Total operating expenses	**453,188**	408,475	202,573
Operating Income	**248,123**	273,305	96,195
Other Income and (Expense):			
Interest expense, net of amounts capitalized	**(66,088)**	**(31,708)**	**(8,886)**
Other income (expense), net	**2,408**	(1,594)	(4,582)
Total other income and (expense)	**(63,680)**	(33,302)	(13,468)
Earnings Before Income Taxes	**184,443**	240,003	82,727
Income taxes	**72,935**	85,221	28,457
Earnings Before Cumulative Effect of Accounting Change	**111,508**	154,782	54,270
Cumulative effect of accounting change--			
less income taxes of $231	**-**	367	-
Net Income	**$111,508**	$155,149	$54,270

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003, and 2002

Southern Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Operating Activities:			
Net income	**$111,508**	$155,149	$ 54,270
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization	**65,838**	47,267	18,319
Deferred income taxes and investment tax credits, net	**23,510**	22,521	2,739
Deferred revenues	**10,064**	9,997	13,071
Tax benefit of stock options	**415**	130	499
Hedge settlements	**-**	(93,298)	(16,884)
Other, net	**9,957**	(25,787)	(1,618)
Changes in certain current assets and liabilities --			
Receivables, net	**(14,009)**	(7,008)	(12,433)
Fossil fuel stock	**2,894**	5,232	(7,606)
Materials and supplies	**(1,715)**	(1,570)	(822)
Other current assets	**4,144**	(9,675)	(3,913)
Accounts payable	**(13,844)**	32,694	8,628
Accrued taxes	**32,330**	(6,939)	7,834
Accrued interest	**(1,386)**	9,299	20,713
Other current liabilities	**(306)**	236	
Net cash provided from operating activities	**229,400**	138,248	82,797
Investing Activities:			
Gross property additions	**(115,606)**	(344,362)	(824,687)
Purchase of property from affiliates	**-**	-	(389,990)
Sale of property to affiliates	**414,582**	-	-
Change in construction payables, net	**(14,349)**	(16,931)	3,229
Other	**(10,043)**	-	(669)
Net cash provided from (used for) investing activities	**274,584**	(361,293)	(1,212,117)
Financing Activities:			
Increase (decrease) in notes payable, net - affiliated	**-**	(20,488)	209,538
Increase (decrease) in notes payable, net	**(114,349)**	114,347	1,638
Proceeds --			
Senior notes	**-**	575,000	575,000
Other long-term debt	**-**	-	87,873
Capital contributions from parent company	**2,808**	5,952	278,634
Redemptions --			
Senior notes	**(50,000)**		
Other long-term debt	**-**	(379,640)	
Capital distributions to parent company	**(113,000)**	(77,000)	
Payment of common stock dividends	**(207,000)**	-	
Other	**-**	(11,802)	(7,600)
Net cash provided from (used for) financing activities	**(481,541)**	206,369	1,145,083
Net Change in Cash and Cash Equivalents	**22,443**	(16,676)	15,763
Cash and Cash Equivalents at Beginning of Period	**2,798**	19,474	3,711
Cash and Cash Equivalents at End of Period	**$25,241**	$ 2,798	$ 19,474
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $17,368, $36,736 and $35,311 capitalized, respectively)	**$52,146**	$105,765	$ 16,884
Income taxes (net of refunds)	**13,313**	77,993	25,626

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Southern Power Company 2004 Annual Report

Assets	2004	2003
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 25,241**	$ 2,798
Receivables --		
Customer accounts receivable	**12,865**	10,772
Other accounts receivable	**893**	270
Accumulated provision for uncollectible accounts	**(350)**	(350)
Affiliated companies	**25,423**	14,130
Fossil fuel stock, at average cost	**2,904**	5,798
Materials and supplies, at average cost	**9,839**	8,123
Prepaid income taxes	**4,619**	11,222
Prepaid expenses	**8,085**	2,528
Other	**112**	1,174
Total current assets	**89,631**	56,465
Property, Plant, and Equipment:		
In service	**1,821,434**	1,831,139
Less accumulated provision for depreciation	**111,200**	60,005
	1,710,234	1,771,134
Construction work in progress	**200,903**	504,097
Total property, plant, and equipment	**1,911,137**	2,275,231
Deferred Charges and Other Assets:		
Unamortized debt issuance expense	**14,078**	18,315
Accumulated deferred income taxes	**-**	21,911
Prepaid long-term service agreements	**34,800**	21,728
Other--		
Affiliated	**6,455**	12,790
Other	**10,912**	2,845
Total deferred charges and other assets	**66,245**	77,589
Total Assets	**$2,067,013**	$2,409,285

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2004 and 2003
Southern Power Company 2004 Annual Report

Liabilities and Stockholder's Equity	2004	2003
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 200**	$ 200
Notes payable	**-**	114,347
Accounts payable --		
Affiliated	**19,265**	51,442
Other	**11,024**	6,591
Accrued taxes -- Other than income	**4,104**	1,289
Accrued interest	**28,626**	30,012
Other	**83**	489
Total current liabilities	**63,302**	204,370
Long-Term Debt:		
Senior notes --		
6.25% due 2012	**575,000**	575,000
4.875% due 2015	**525,000**	575,000
Other long-term debt	**1,485**	1,685
Unamortized debt premium (discount), net	**(2,050)**	(2,573)
Long-term debt	**1,099,435**	1,149,112
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**40,212**	
Deferred capacity revenues --		
Affiliated	**39,118**	28,799
Other	**-**	256
Other --		
Affiliated	**13,333**	15,061
Other	**2**	211
Total deferred credits and other liabilities	**92,665**	44,327
Total Liabilities	**1,255,402**	1,397,809
Common Stockholder's Equity:		
Common stock, par value $0.01 per share --		
Authorized - 1,000,000 shares		
Outstanding - 1,000 shares		
Paid-in capital	**740,535**	850,312
Retained earnings	**122,134**	217,626
Accumulated other comprehensive income (loss)	**(51,058)**	(56,462)
Total common stockholder's equity	**811,611**	1,011,476
Total Liabilities and Stockholder's Equity	**$2,067,013**	$2,409,285
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, 2004, 2003, and 2002
Southern Power Company 2004 Annual Report

	Common Stock	Paid-In Capital	Retained Earnings	Other Comprehensive Income (loss)	Total
			(in thousands)		
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**
Net income	**-**	**-**	**111,508**	**-**	**111,508**
Capital distributions to parent company	**-**	**(113,000)**	**-**	**-**	**(113,000)**
Capital contributions from parent company	**-**	**3,223**	**-**	**-**	**3,223**
Other comprehensive income (loss)	**-**	**-**	**-**	**5,404**	**5,404**
Cash dividends on common stock	**-**	**-**	**(207,000)**	**-**	**(207,000)**
Balance at December 31, 2004	**$ -**	**$740,535**	**$122,134**	**$(51,058)**	**$ 811,611**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2004, 2003, and 2002
Southern Power Company 2004 Annual Report

	2004	2003	2002
		(in thousands)	
Net income	**$111,508**	$155,149	$54,270
Other comprehensive income (loss):			
Changes in fair value of qualifying hedges, net of tax of $(520), $(7,872), and $(34,030), respectively	**(920)**	(12,788)	(54,360)
Less: Reclassification adjustment for amounts included in net income, net of tax of $3,964, $1,868 and $355, respectively	**6,324**	3,429	568
Total other comprehensive income (loss)	**5,404**	(9,359)	(53,792)
Comprehensive Income	**$116,912**	$145,790	$ 478

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 Communications Services (SouthernLINC Wireless), 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. SouthernLINC Wireless 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 energy related businesses. 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 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 the Company's interest in Plant Stanton Unit A. See Note 3 for further information. All intercompany accounts and transactions have been eliminated in consolidation.

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 \$46.7 million in 2004, \$47.5 million in 2003, and \$29.5 million during 2002. Approximately \$40.3 million in 2004, \$32.8 million in 2003, and \$16.2 million in 2002, 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, 2004, 2003, and 2002, these services totaled approximately \$6.6 million, \$6.3 million, and \$5.3 million, respectively.

Effective June 2004, the Company began billing an additional 200 megawatts capacity for Franklin Unit 2 and an additional 600 megawatts of capacity for Plant Harris

Unit 2 under existing PPAs with Georgia Power. Total billings for all PPAs in force with affiliates for 2004 totaled $383.0 million, including $10.3 million in affiliated deferred capacity revenues recorded on the balance sheets at December 31, 2004. Billings under these agreements totaled $282.2 million in 2003, including $28.4 million in affiliated deferred capacity recorded on the balance sheets at December 31, 2003. For 2002, comparable billings under these agreements totaled $164 million, including $13 million of affiliated deferred capacity revenues.

The retail operating companies, the Company, 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 5 for information related to various types of financing support provided by Southern Company.

Revenues

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, 2004, Georgia Power accounted for 40.25% of revenues, with Alabama Power and Savannah Electric accounting for 8.4% and 4.5% of revenues, respectively. 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), with Alabama Power and Savannah Electric accounting for 5.5% and 5.0%, respectively. 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.

Fuel Costs

Fuel costs are expensed as the fuel is consumed.

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. Manufacturer's tax credits of $11.8 million and $5.8 million were recorded in 2003 and 2002, respectively. There were no credits recorded in 2004.

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. These lives reflect a composite of the significant components (called retirement units) that make up the plants. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its cost is charged to accumulated depreciation. For other property dispositions, the applicable cost and accumulated depreciation is removed from the accounts and a gain or loss is recognized.

Asset Retirement Obligations and Other Costs of Removal

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 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, 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.

As of December 31, 2004, 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 $17.4 million in 2004, $36.7 million in 2003, and $35.3 million in 2002 was capitalized in connection with the development and construction of power plants. The cost to replace significant items of property defined as retirement units is capitalized. The cost of maintenance, repairs and replacement of minor items of property is charged to maintenance expense as incurred.

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 $ 3.2 million at December 31, 2004 and $2.2 million at December 31, 2003.

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 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, 2004 were as follows:

	Carrying Amount	Fair Value
Long-term debt:	(in millions)	
At December 31, 2004	$1,099	$1,114
At December 31, 2003	$1,149	$1,172

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. CONTINGENCIES AND REGULATORY MATTERS

General Litigation Matters

From time to time, 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.

FERC Matters

Market-Based Rate Authority

The Company has authorization from the Federal Energy Regulatory Commission (FERC) to sell power to nonaffiliates at market-based prices. 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, the retail operating companies, and Southern Power, and found Southern Company and others to be "pivotal suppliers" in their retail service territories 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. In April 2004, the FERC issued an order that abandoned the SMA test and adopted a new interim analysis for measuring generation market power. This new interim approach requires utilities to submit a pivotal supplier screen and a wholesale market share screen. If the applicant does not pass both screens, there will be a rebuttable presumption regarding generation market power. The FERC's order also sets forth procedures for rebutting these presumptions and addresses mitigation measures for those entities that are found to have market power. In the absence of specific mitigation measures, the order includes several cost-based mitigation measures that would apply by default. The FERC also initiated a new rulemaking proceeding that, among other things, will adopt a final methodology for assessing generation market power.

In July 2004, the FERC denied Southern Company's request for rehearing, along with a number of others, and reaffirmed the interim tests that it adopted in April 2004. In August 2004, Southern Company submitted a filing to the FERC that included results showing that Southern Company passed the pivotal supplier screen for all markets and the wholesale market share screen for all markets except the Southern Company retail service territory. Southern Company also submitted other analyses to demonstrate that it lacks generation market power. On December 17, 2004, the FERC initiated a proceeding to assess Southern Company's generation dominance within its retail service territory. The ability to charge market-based rates in other markets is not at issue. As directed by the FERC order, on February 15, 2005 Southern Company submitted additional information related to generation dominance in the Southern Company retail service territory. Any new market-based rate transactions in the Southern Company retail service territory entered into after February 27, 2005 will be subject to refund to the level of the default cost-based rates, pending the outcome of the proceeding. Southern Company, along with other utilities, has also filed an appeal of the FERC's April and July 2004 orders with the U.S. Court of Appeals for the District of Columbia Circuit. The FERC has asked the court to dismiss the appeal on the grounds that it is premature.

In the event that the FERC's default mitigation measures are ultimately applied, the Company may be required to charge cost-based rates for certain wholesale sales within the Southern Company retail service territory, which may be lower than negotiated market-based rates. The final outcome of this matter will depend on the form in which the final methodology for assessing generation market power and mitigation rules may be ultimately adopted and cannot be determined at this time.

Plant Franklin Unit 3 Construction Project

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 has completed 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, 2004, the Company's investment in Unit 3 of Plant Franklin was $171.6 million. The final outcome of this matter cannot now be determined.

Plant McIntosh Construction Project

In December 2002 after a competitive bidding process, the Georgia Public Service Commission (PSC) certified power purchase agreements (PPAs) between the Company and Georgia Power and Savannah Electric for capacity from Plant McIntosh Units 10 and 11, construction of which is scheduled to be completed in June 2005. In April 2003, the Company applied for FERC approval of these PPAs. In July 2003, the FERC accepted the PPAs to become effective June 1, 2005, subject to refund, and ordered that hearings be held. Intervenors opposed the FERC's acceptance of the PPAs, alleging that they did not meet the applicable standards for market-based rates between affiliates. To ensure the timely completion of the Plant McIntosh construction project and the availability of the units in the summer of 2005 for their retail customers, in May 2004, Savannah Electric and Georgia Power requested the Georgia PSC to direct them to acquire the Plant McIntosh construction project. The Georgia PSC issued such an order and the transfer occurred on May 24, 2004 at a total cost of approximately $415 million, including $14 million in transmission interconnection facilities. Subsequently, the Company filed a request to withdraw the PPAs and to terminate the ongoing FERC proceedings. In August 2004, the FERC issued a notice accepting the request to withdraw the PPAs and permitting such request to become effective by operation of law. However, the FERC made no determination on what additional steps may need to be taken with respect to testimony provided in the proceedings. The ultimate outcome of any additional FERC action cannot now be determined.

3. JOINT OWNERSHIP AGREEMENTS

The Company, through its wholly owned subsidiary SCF, is a 65% owner of Plant Stanton A, a combined-cycle project with 630 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 whereby SCS is responsible for the operation and maintenance of Plant Stanton A. As of December 31, 2004, $155.7 million was recorded in plant in service with associated accumulated depreciation of $5.5 million. The Company's proportionate share of Plant Stanton A's operating expense is included in the corresponding operating expenses in the Statements of Income.

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 Plant Stanton A. As of December 31, 2004, the Company's current exposure under these guarantees is $32.5 million under the PPAs and the ownership agreement and $9.4 million under alternative power supply agreements.

4. INCOME TAXES

Southern Company and its subsidiaries file a consolidated federal income tax return and a combined State of Georgia income tax return. Under a joint consolidated income tax allocation agreement, as required by the PUHCA, each subsidiary's current and deferred tax expense is computed on a stand-alone basis, and no subsidiary is allocated more expense than would be paid if they filed a separate income tax return. 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:

	2004	2003	2002
	(in thousands)		
Total provision for income taxes:			
Federal:			
Current	**$40,492**	$64,090	$26,900
Deferred	**19,939**	19,354	2,338
	60,431	83,444	29,238
State:			
Current	**8,934**	10,459	4,622
Deferred	**3,570**	3,318	401
State manufacturer's Tax credits	**-**	(11,769)	(5,804)
	12,504	2,008	(781)
Total	**$72,935**	$85,452	$28,457

The Company recorded a reduction in 2003 and 2002 tax expense of approximately $11.8 million and $5.8 million, respectively, under the flow-through method of accounting for the State of Georgia manufacturer's tax credits. There were no credits recorded in 2004.

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:

	2004	2003
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	**$(101,840)**	$(44,602)
Book/tax basis difference on asset transfer	**(6,455)**	
Total	**(108,295)**	(44,602)
Deferred tax assets:		
Book/tax basis differences on asset transfers	**13,333**	15,061
Levelized capacity revenues	**16,218**	11,052
Other comprehensive loss on interest rate swaps	**35,988**	40,003
Other	**2,544**	397
Total	**68,083**	66,513
Accumulated deferred income taxes in the balance sheets	**$(40,212)**	$21,911

Deferred tax liabilities were primarily the result of property related timing differences and derivative hedging instruments. The transfer of the Plant McIntosh construction project to Georgia Power and Savannah Electric resulted in a deferred gain for federal income tax purposes. Georgia Power and Savannah Electric will reimburse the Company for the related $6.4 million deferred tax liability as it is reflected in the Company's future taxable income. These receivables from Georgia Power and Savannah Electric are included in Other Affiliated Deferred Debits on the balance sheet at December 31, 2004. See Note 2 under "FERC Matters - Plant McIntosh Construction Project" for further information.

Deferred tax assets consist primarily of timing differences related to the recognition of capacity revenues, and the tax impact related to the deferred loss on interest rate swaps reflected in Other Comprehensive Income. The transfer of Plants Dahlberg, Wansley, and Franklin to the Company from Georgia Power in 2001 also resulted in a deferred gain for federal income tax purposes. The Company will reimburse Georgia Power for the remaining balance of the related deferred tax asset of $13.3 million as it is reflected in Georgia Power's future taxable income. This payable to Georgia Power is included in Other Affiliated Deferred Credits on the balance sheet at December 31, 2004.

A reconciliation of the federal statutory tax rate to the effective income tax rate is as follows:

	2004	2003	2002
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**4.4**	3.7	3.9
Other Permanent Differences	**0.1**		
State manufacturer's tax credits, net of federal effect	**-**	(3.2)	(4.5)
Effective income tax rate	**39.5%**	35.5%	34.4%

5. FINANCING

Parent Company Transactions

Southern Company is currently authorized by the SEC under the PUHCA to fund the development of the Company 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, 2004, equity contributions from Southern Company to the Company totaled $741 million.

Southern Company has committed to fund at least 35 percent 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.

Bank Credit Arrangements

The Company has a $325 million unsecured syndicated revolving credit facility (Facility) expiring in April 2006. 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, 2004, the Company had no outstanding borrowings under the Facility. Borrowings under the Facility would bear interest at the Company's option at a rate 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 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, 2004, 2003, and 2002, the Company paid approximately $2.1 million, $2.0 million, and $1.1 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, 2004. 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 and in December 2004, the Company repurchased $50 million of these notes. In June 2002, the Company issued $575 million of 6.25% senior notes, due July 15, 2012.

Commercial Paper

The Company has the ability to borrow under a commercial paper program. During 2004, the peak amount outstanding for commercial paper was $114.5 million and the average amount outstanding was $49.6 million. The average annual interest rate on commercial paper was 1.14% in 2004. There was no commercial paper outstanding as of December 31, 2004.

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. These conditions 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, 2004, 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 associated with senior notes for losses of $16.9 million. These losses have been deferred in other comprehensive income and will be amortized to interest expense over the life of the senior notes.

For the years 2004, 2003, and 2002, approximately $10.4 million, $5.5 million, and $0.7 million, respectively, of pre-tax losses were reclassified from other comprehensive income to interest expense. During 2005, approximately $11.2 million of pre-tax losses are expected to be reclassified from other comprehensive income to interest expense. The Company has interest-related hedges in place up to and including 2013.

For the years 2004, 2003 and 2002, approximately $0.3 million, $0.2 million and $(0.2) million, respectively, of pre-tax gains (losses) were reclassified from other comprehensive income to depreciation and amortization. Additionally for the year 2004, approximately $0.2 million of pre-tax losses were reclassified to fuel expense. For 2005, approximately $0.3 million of pre-tax gains are expected to be reclassified from other comprehensive income to earnings. The Company has energy-related hedges in place through 2005. Additionally, there are deferred realized net hedging gains relating to capitalized costs and revenues during the construction of specific plants that will be reclassified from other comprehensive income to depreciation and amortization over the remaining life of the respective plants, which is approximately 33 years.

6. COMMITMENTS

Construction Program

The Company currently estimates property additions to be $57.0 million, $147.2 million and $718.2 million in 2005, 2006, and 2007, respectively. There are currently no plants actively under construction. See Note 2 under "Plant Franklin Unit 3 Construction Project" for additional information.

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 $757.2 million over the remaining term 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 Deferred Charges and Other Assets on 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 the Company, 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 Exchange future prices at December 31, 2004.

Year	Fuel Purchases (in thousands)
2005	$18,875
2006	19,257
2007	18,999
2008	18,589
2009	18,589
2010 and beyond	327,167
Total	$421,476

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, the Company 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, the Company and Southern Company GAS may be jointly and severally liable. The creditworthiness of the Company 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 the Company and Southern Company GAS as a contracting party under these agreements.

7. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2004 and 2003 is as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income
	(in millions)		
March 2004	**$175,605**	**$56,415**	**$27,185**
June 2004	**182,749**	**50,562**	**22,417**
September 2004	**188,941**	**79,260**	**37,322**
December 2004	**154,016**	**61,886**	**24,584**
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

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 2004. 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.

SELECTED FINANCIAL AND OPERATING DATA 2001-2004

Southern Power Company 2004 Annual Report

	2004	2003	2002	2001
Operating Revenues (in thousands):				
Sales for resale - non-affiliates	**$266,463**	$278,559	$114,919	$26,390
Sales for resale - affiliates	**425,065**	312,586	183,111	2,906
Total revenues from sales of electricity	**691,528**	591,145	298,030	29,296
Other revenues	**9,783**	90,635	738	5
Total	**$701,311**	$681,780	$298,768	$29,301
Net Income (in thousands)	**$111,508**	$155,149	$54,270	$8,207
Cash Dividends				
on Common Stock (in thousands)	**$207,000**	$-	$-	$-
Return on Average Common Equity (percent)	**12.23**	17.65	8.94	3.51
Total Assets (in thousands)	**$2,067,013**	$2,409,285	$2,085,976	$822,857
Gross Property Additions (in thousands)	**$115,606**	$344,362	$1,214,677	$765,511
Capitalization (in thousands):				
Common stock equity	**$811,611**	$1,011,476	**$746,604**	**$466,993**
Long-term debt	**1,099,435**	1,149,112	955,879	293,205
Total (excluding amounts due within one year)	**$1,911,046**	$2,160,588	$1,702,483	$760,198
Capitalization Ratios (percent):				
Common stock equity	**42.5**	46.8	43.9	61.4
Long-term debt	**57.5**	53.2	56.1	38.6
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0
Security Ratings:				
Unsecured Long-Term Debt -				
Moody's	**Baa1**	Baa1	Baa1	
Standard and Poor's	**BBB+**	BBB+	BBB+	-
Fitch	**BBB+**	BBB+	BBB+	
Kilowatt-Hour Sales (in thousands):				
Sales for resale - non-affiliates	**5,369,261**	6,057,053	1,240,290	164,926
Sales for resale - affiliates	**6,583,017**	5,430,973	3,607,107	69,307
Total	**11,952,278**	11,488,026	4,847,397	234,233
Average Revenue Per Kilowatt-Hour (cents):	**5.79**	5.15	6.15	12.51
Plant Nameplate Capacity				
Ratings (year-end) (megawatts)	**4,775**	4,775	2,408	800
Maximum Peak-Hour Demand (megawatts):				
Winter	**2,098**	2,077	949	
Summer	**2,740**	2,439	1,426	
Annual Load Factor (percent)	**54.4**	54.9	51.1	
Plant Availability (percent):	**97.9**	96.8	95.1	83.7
Source of Energy Supply (percent):				
Gas	**61.9**	53.4	77.4	100.0
Purchased power -				
From non-affiliates	**24.7**	30.5	5.9	-
From affiliates	**13.4**	16.1	16.7	-
Total	**100.0**	100.0	100.0	100.0

PART III

Items 10, 11, 12 (except for "Equity Compensation Plan Information" which is included herein), 13 and 14 for Southern Company are incorporated by reference in Southern Company's definitive Proxy Statement relating to the 2005 Annual Meeting of Stockholders. Specifically, reference is made to "Nominees for Election as Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" 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 2005 Annual Meetings of Shareholders. Specifically, reference is made to "Nominees for Election as Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" 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.

Items 10, 11, 12 and 13 for Southern Power are omitted pursuant to General Instruction I(2)(c) of Form 10-K.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The ages of directors and executive officers set forth below are as of December 31, 2004.

SAVANNAH ELECTRIC

Identification of directors of Savannah Electric.

Anthony R. James
President and Chief Executive Officer
Age 54
Served as Director since 5-3-01

Gus H. Bell, III (1)
Age 67
Served as Director since 7-20-99

Archie H. Davis (1)
Age 63
Served as Director since 2-18-97

Walter D. Gnann (1)
Age 69
Served as Director since 5-17-83

Robert B. Miller, III (1)
Age 59
Served as Director since 5-17-83

Arnold M. Tenenbaum (1)
Age 68
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 5, 2004) 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 54
Served as Executive Officer since 7-27-00

W. Miles Greer
Vice President
Age 61
Served as Executive Officer since 11-20-85

Kirby R. Willis
Vice President, Treasurer, Chief Financial Officer and Assistant Corporate Secretary
Age 53
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 August 5, 2004 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 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. Advisory Director of SunTrust Bank of Savannah.

Gus H. Bell, III – President and Chief Executive Officer of Hussey, Gay, Bell and DeYoung, A Bell Company (specializing in environmental, transportation, industrial, structural, architectural and civil engineering), Savannah, Georgia since 1966. Advisory Director of SunTrust Bank of Savannah.

Archie H. Davis – President Emeritus of the Savannah Bancorp, Inc. since April 2003; Director of Savannah Bancorp, Inc., Savannah, Georgia since 1990; and Director of The Savannah Bank N.A. since 1990. Previously served as President and Chief Executive Officer and Director of Savannah Bancorp, Inc., Savannah, Georgia from 1990 to 2003; Chief Executive Officer of The Savannah Bank, N.A. from 2002 to 2003; and President and Chief Executive Officer of The Savannah Bank, N.A. from 1990 to 2002.

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 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.

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.

All of Savannah Electric's directors, named executive officers and comptroller and corporate secretary, Nancy Frankenhauser, failed to file on a timely basis a Form 3 as required by Section 16(a) of the Securities Act of 1934, as amended.

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 free of charge 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 and Committee Charters

Southern Company has adopted corporate governance guidelines and committee charters. The corporate governance guidelines and the charters of Southern Company's Audit Committee, Governance Committee and Compensation and Management Succession Committee can be found on Southern Company's website located at *http://www.southerncompany.com*. The corporate governance guidelines and charters are also available free of charge in print to any shareholder upon request.

Item 11. EXECUTIVE COMPENSATION

Savannah Electric Summary Compensation Table. The following table sets forth information concerning any Chief Executive Officer and the three most highly compensated executive officers serving during 2004.

		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								
President, Chief	2004	260,755	214,741	3,403		31,435	158,804	13,881
Executive Officer,	2003	248,342	183,462	3,168		32,015	164,732	11,956
Director	2002	235,748	189,044	13,109		35,354	136,462	12,235
W. Miles Greer	2004	203,900	111,487	57		12,240	87,556	23,507
Vice President	2003	198,238	97,376	1,716		12,744	111,890	24,702
	2002	191,400	101,796	107		14,278	115,884	20,261
Kirby R. Willis								
Vice President, Chief								
Financial Officer,	2004	187,827	82,202	748		11,281	61,834	15,602
Treasurer, Assistant	2003	182,109	89,491	2,207		11,712	68,470	14,634
Corporate Secretary	2002	175,476	93,329	891		13,090	61,913	13,283
Sandra R. Miller[4]	2004	155,804	118,936	893		9,349	37,813	8,049
Vice President	2003	146,072	108,696	5,135		9,432	32,304	12,424
	2002	138,074	104,769	1,720		10,317	18,824	7,016

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 Southern Company's Omnibus Incentive Compensation Plan ("Omnibus Incentive Compensation Plan") for the four-year performance periods ended December 31, 2002, 2003 and 2004, 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, 2002, 2003 and 2004, all named executives earned a payout of $1.355, $1.385 and $1.22 per option, respectively.

3 Contributions in 2004 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	$9,099	$740	$4,042
W. Miles Greer	8,258	740	14,509
Kirby R. Willis	7,184	651	7,767
Sandra R. Miller	4,907	740	2,402

In 2003, these amounts included additional incentive compensation of $3,000 and $5,000 for Mr. Greer and Ms. Miller, respectively.

4 In October 2004, Ms. Miller became an officer of Southern Company GAS and resigned as an officer of Savannah Electric.

STOCK OPTION GRANTS IN 2004

Savannah Electric Stock Option Grants Table. The following table sets forth all stock option grants to the named executive officers during the year ending December 31, 2004.

	Individual Grants				Grant Date Value
Name	**# of Securities Underlying Options Granted [5]**	**% of Total Options Granted to Employee in Fiscal Year [6]**	**Exercise or Base Price ($/Sh) [5]**	**Expiration Date [5]**	**Grant Date Present Value[7]**
Anthony R. James	31,435	26.6	29.50	2/13/2014	$103,421
W. Miles Greer	12,240	10.4	29.50	9/1/2013	40,270
Kirby R. Willis	11,281	9.5	29.50	2/13/2014	37,114
Sandra R. Miller	9,349	7.9	29.50	2/13/2014	30,758

5 Under the terms of the Omnibus Incentive Compensation Plan, stock option grants were made on February 13, 2004 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.

6 A total of 118,209 stock options were granted in 2004 to Savannah Electric's employees.

7 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
19.65%	3.08%	4.75%	5 years

AGGREGATED STOCK OPTION EXERCISES IN 2004 AND YEAR-END OPTION VALUES

<u>Savannah Electric Aggregated Stock Option Exercises Table.</u> The following table sets forth information concerning options exercised during the year ending December 31, 2004 by the named executive officers and the value of unexercised options held by them as of December 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized ($)[9]	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options At Year-End ($)[8]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Anthony R. James	20,208	320,841	65,604	64,563	661,417	342,060
W. Miles Greer	21,260	332,714	46,272	25,495	519,778	135,624
~~Kirby R. Willis~~	~~10,034~~	~~124,796~~	~~27,232~~	~~23,452~~	~~272,475~~	~~124,683~~
Sandra R. Miller	1,679	25,737	11,918	19,076	99,759	100,856

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8 This column represents the excess of the fair market value of Southern Company's common stock of $33.52 per share, as of December 31, 2004, 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, 2004.

9 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 Company'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 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 Table on page III-3.

	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, 2004, the applicable compensation levels and years of accredited service for Savannah Electric's executive officers are presented in the following tables:

Savannah Electric

Name	**Compensation Level**	**Accredited Years of Service**
Anthony R. James	$408,954	25
W. Miles Greer[10]	272,781	28
Kirby R. Willis[11]	243,898	30
Sandra R. Miller	238,247	24

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).

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10 The number of accredited years of service includes seven years and six months and eight years credited to Mr. Greer under the Southern Company Pension Plan and the Supplemental Executive Retirement Plan, respectively.

11 The number of accredited years of service includes five years and five months granted to Mr. Willis for time served at a non-affiliated electric utility.

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 2004 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 of Savannah Electric.

Standard Arrangements. The following table presents compensation to be paid to Savannah Electric's directors 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	$12,000
Stock Retainer Fee	85 shares per quarter
Meeting Fee	$1,200 for each Board meeting attended and $1,000 for each Committee meeting attended

Other Arrangements. No director received other compensation for services as a director during the year ending December 31, 2004 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.

Savannah Electric has adopted Southern Company's Change in Control Program, which is applicable to certain of its officers, and has entered into an individual change in control agreement with its president and chief executive officer. If an executive is involuntarily terminated, other than for cause, within two years following a change in control of Savannah Electric or Southern Company, the program provides 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 of Southern Company 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 plan to provide for pro-rata payments at not less than target-level performance if a change in control occurs and the plan is not continued or replaced with comparable plans.

Mr. W. Miles Greer and Savannah Electric entered into agreements that will 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

Savannah Electric

Security Ownership of Certain Beneficial Owners. Southern Company is the beneficial owner of 100% of the outstanding common stock of Savannah Electric.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	The Southern Company 270 Peachtree Street, N.W. Atlanta, Georgia 30303	10,844,635	100%

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, 2004. 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, 2004.

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)**
Gus H. Bell, III	Southern Company Common	649	
Archie H. Davis	Southern Company Common	1,065	-
Walter D. Gnann	Southern Company Common	3,312	-
Robert B. Miller, III	Southern Company Common	1,318	-
Arnold M. Tenenbaum	Southern Company Common	1,641	
W. Miles Greer	Southern Company Common	65,518	59,359
Anthony R. James	Southern Company Common	111,388	98,539
Sandra R. Miller	Southern Company Common	23,231	21,618
Kirby R. Willis	Southern Company Common	44,634	39,260
The directors, nominees and executive officers as a group	Southern Company Common	252,756	218,776

(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 and Savannah Electric know of no arrangements which may at a subsequent date result in any change in control.

Equity Compensation Plan Information

The following table provides information as of December 31, 2004 concerning shares of Southern Company common stock authorized for issuance under Southern Company's existing non-qualified equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	34,535,283	$24.27	34,528,148 (1)
Equity compensation plans not approved by security holders	N/A	N/A	N/A

(1) Includes securities available for future issuance under the Omnibus Incentive Compensation Plan (32,583,523) and the Outside Directors Stock Plan (1,944,625).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

SAVANNAH ELECTRIC

Transactions with management and others.

Mr. Archie Davis is currently President Emeritus and a Director of Savannah Bancorp, Inc. and a Director of The Savannah Bank, N.A., Savannah, Georgia. Mr. Tenenbaum is Chairman of the Board of Directors for the holding company of First Chatham Bank. During 2004, 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.

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 2004 and 2003:

	2004	2003
Savannah Electric	*(in thousands)*	
Audit Fees (1)	$774	$250
Audit-Related Fees (2)	-	101
Tax Fees	-	-
All Other Fees	-	-
	$774	$351
Southern Power		
Audit Fees (3)	$648	$535
Audit-Related Fees (2)	-	290
Tax Fees	-	
All Other Fees	-	-
	$648	$825

(1) Includes services performed in connection with financing transactions.
(2) Includes internal control review services and accounting consultations.
(3) 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 fiscal years 2004 and 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 AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report on this Form 10-K:

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Statements for Southern Company and Subsidiary Companies is listed under Item 8 herein.

Reports of Independent Registered Public Accounting Firm 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.

(2) Financial Statement Schedules:

Reports of Independent Registered Public Accounting Firm 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-10, IV-11, IV-12, IV-13, IV-14 and IV-15.

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.

(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.

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: David M. Ratcliffe
Chairman, President and
Chief Executive Officer

By: Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: February 28, 2005

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
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:

Dorrit J. Bern	*Donald M. James*
Francis S. Blake	*Zack T. Pate*
Thomas F. Chapman	*J. Neal Purcell*
Bruce S. Gordon	*Gerald J. St. Pe'*

By: Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: February 28, 2005

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, Attorney-in-fact)

Date: February 28, 2005

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)

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

Directors:

Whit Armstrong
David J. Cooper, Sr.
R. Kent Henslee
John D. Johns
Carl E. Jones, Jr.
Patricia M. King
James K. Lowder
Wallace D. Malone, Jr.
Malcolm Portera
Robert D. Powers
David M. Ratcliffe
C. Dowd Ritter
James H. Sanford
John Cox Webb, IV
James W. Wright

By:
(Wayne Boston, Attorney-in-fact)

Date: February 28, 2005

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: Michael D. Garrett
President and Chief Executive Officer

By:
(Wayne Boston, Attorney-in-fact)

Date: February 28, 2005

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.

Michael D. Garrett
President, Chief Executive Officer and Director
(Principal Executive Officer)

C. B. Harreld
Executive Vice President, Chief Financial Officer,
Treasurer and Assistant Secretary
(Principal Financial Officer)

W. Ron Hinson
Vice President, Comptroller and Chief Accounting Officer
(Principal Accounting Officer)

Directors:

Juanita Powell Baranco
Robert L. Brown, Jr.
Ronald D. Brown
Anna R. Cablik
David M. Ratcliffe
D. Gary Thompson
Richard W. Ussery
William Jerry Vereen
E. Jenner Wood, III

By:
(Wayne Boston, Attorney-in-fact)

Date: February 28, 2005

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: February 28, 2005

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: February 28, 2005

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, Attorney-in-fact)

Date: February 28, 2005

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
Warren A. Hood, Jr.
George A. Schloegel
Philip J. Terrell
Gene Warr

By: (Wayne Boston, Attorney-in-fact)

Date: February 28, 2005

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, Attorney-in-fact)*

Date: February 28, 2005

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, Chief Financial Officer and Assistant Corporate Secretary
(Principal Financial and Accounting Officer)

Directors:

Gus H. Bell, III
Archie H. Davis
Walter D. Gnann
Robert B. Miller, III
Arnold M. Tenenbaum

By: *(Wayne Boston, Attorney-in-fact)*

Date: February 28, 2005

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, Attorney-in-fact)*

Date: *February 28, 2005*

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 *David M. Ratcliffe*
W. Dean Hudson

By: *(Wayne Boston, Attorney-in-fact)*

Date: *February 28, 2005*

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Southern Company

We have audited the consolidated financial statements of Southern Company and Subsidiary Companies (the "Company") as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, and have issued our reports thereon dated February 28, 2005 (which report on the consolidated financial statements expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003); such consolidated financial statements and reports are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedules of the Company (page S-2) listed in the accompanying index at Item 15. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statements schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Member of
Deloitte Touche Tohmatsu

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Alabama Power Company:

We have audited the financial statements of Alabama Power Company as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated February 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2004 and 2003 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. In our opinion, the 2004 and 2003 financial statement schedules, when considered in relation to the 2004 and 2003 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte + Touche LLP

Birmingham, Alabama
February 28, 2005

Member of
Deloitte Touche Tohmatsu

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

~~Georgia Power Company:~~

We have audited the financial statements of Georgia Power Company as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated February 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2004 and 2003 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. In our opinion, the 2004 and 2003 financial statement schedules, when considered in relation to the 2004 and 2003 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Member of
Deloitte Touche Tohmatsu

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Gulf Power Company:

We have audited the financial statements of Gulf Power Company as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated February 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2004 and 2003 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. In our opinion, the 2004 and 2003 financial statement schedules, when considered in relation to the 2004 and 2003 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Member of
Deloitte Touche Tohmatsu

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Mississippi Power Company:

We have audited the financial statements of Mississippi Power Company as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated February 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2004 and 2003 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. In our opinion, the 2004 and 2003 financial statement schedules, when considered in relation to the 2004 and 2003 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Member of
Deloitte Touche Tohmatsu

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Savannah Electric and Power Company:

We have audited the financial statements of Savannah Electric and Power Company as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated February 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003 and an explanatory paragraph related to the restatement described in Note 9); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2004 and 2003 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. In our opinion, the 2004 and 2003 financial statement schedules, when considered in relation to the 2004 and 2003 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Member of
Deloitte Touche Tohmatsu

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Southern Power Company:

We have audited the financial statements of Southern Power Company as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated February 28, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting principle in 2003); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the 2004 and 2003 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, the 2004 and 2003 financial statement schedules, when considered in relation to the 2004 and 2003 basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2005

Member of
Deloitte Touche Tohmatsu

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INDEX TO FINANCIAL STATEMENT SCHEDULES

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, 2004, 2003 AND 2002
(Stated in Thousands of Dollars)

		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
2004	$30,331	$58,738	$ 2	$42,971 (b)	$46,100
2003	26,648	56,376	14,901	67,594 (b)	30,331
2002	24,525	40,313	5,961 (a)	44,151 (b)	26,648

(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, 2004, 2003 AND 2002
(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					
2004	$4,756	$10,346	$-	$9,698 (Note)	$5,404
2003	4,827	13,444	-	13,515 (Note)	4,756
2002	5,237	10,804	-	11,214 (Note)	4,827

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, 2004, 2003 AND 2002
(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					
2004	$5,350	$20,461	$-	$18,711 (Note)	$7,100
2003	5,825	15,577	-	16,052 (Note)	5,350
2002	8,895	14,117	-	17,187 (Note)	5,825

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, 2004, 2003 AND 2002
(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					
2004	$947	$2,851	$-	$1,654 (Note)	$2,144
2003	889	2,122	-	2,064 (Note)	947
2002	1,342	1,620	-	2,073 (Note)	889

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, 2004, 2003 AND 2002

(Stated in Thousands of Dollars)

		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
2004	$897	$1,338	$ -	$1,461 (Note)	$774
2003	718	1,947	135	1,903 (Note)	897
2002	856	2,045	7	2,190 (Note)	718

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, 2004, 2003 AND 2002
(Stated in Thousands of Dollars)

		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
2004	$817	$ 930	$-	$869 (Note)	$878
2003	902	828	-	913 (Note)	817
2002	642	1,137	-	877 (Note)	902

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, 2004, 2003 AND 2002
(Stated in Thousands of Dollars)

		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
2004	$350	$ -	$-	$-	$350
2003	350	-	-	-	350
2002	-	350	-	-	350

EXHIBIT INDEX

The following exhibits indicated by an asterisk (*) preceding the exhibit number are filed herewith. The balance of the exhibits has 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 August 20, 2003, and as presently in effect. (Designated in Georgia Power's Form 10-Q for the quarter ended March 31, 2004, File No. 1-6468, as Exhibit 3(c)1.)

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 April 2, 2004. (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, in Mississippi Power's Form 10-K for the year ended December 31, 2000, File No. 0-6849, as Exhibit 3(e)2 and in Mississippi Power's Form 8-K dated March 3, 2004, File No. 0-6849, as Exhibit 4.6.)

(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 June 10, 2004. (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) in Savannah Electric's Form 10-K for the year ended December 31, 1998, as Exhibit 3(f)2 and in Form 8-K dated May 27, 2004, File No. 1-5072, as Exhibits 4.6 and 4.7.)

(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 - By-laws 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 Bank of New York Trust Company, N.A., as Successor 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 Bank of New York Trust Company, N.A., as Successor 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, N.A. (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, 1997, between Alabama Power and JPMorgan Chase Bank, N.A. (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) 3 - Senior Note Indenture dated as of December 1, 1997, between Alabama Power and JPMorgan Chase Bank, N.A. (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through November 16, 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, in Form 8-K dated February 10, 2004, File No. 1-3164, as Exhibit 4.2 in Form 8-K dated April 7, 2004, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated August 19, 2004, File No. 1-3164, as Exhibit 4.2 and in Form 8-K dated November 9, 2004, File No. 1-3164, as Exhibit 4.2.)

(b) 4 - 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) 5 - 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) 6 - 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) 7 - 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 June 1, 1997, between Georgia Power and JPMorgan Chase Bank, N.A. (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) 2 - Senior Note Indenture dated as of January 1, 1998, between Georgia Power and JPMorgan Chase Bank, N.A. (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through January 20, 2005. (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, in Form 8-K dated February 12, 2004, File No. 1-6468, as Exhibit 4.1, in Form 8-K dated August 11, 2004, File No. 1-6468, as Exhibits 4.1 and 4.2 and in Form 8-K dated January 13, 2005, File No. 1-6468, as Exhibit 4.1.)

(c) 3 - 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) 4 - 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) 5 - 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) 6 - 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) 7 - 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) 8 - 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, N.A. (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, N.A. (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, N.A. (formerly The Chase Manhattan Bank), as Trustee, and indentures supplemental thereto through September 22, 2004. (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, in Form 8-K dated September 5, 2003, File No. 0-2429, as Exhibit 4.1, in Form 8-K dated April 6, 2004, File No. 0-2429, as Exhibit 4.1 and in Form 8-K dated September 13, 2004, 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 March 9, 2004. (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, in Form 8-K dated April 24, 2003, File No. 001-11229, as Exhibit 4.2 and in Form 8-K dated March 3, 2004, File No. 0-6849, 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 9, 2004. (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, in Form 8-K dated December 10, 2003, File No. 1-5072, as Exhibits 4.1 and 4.2 and in Form 8-K dated December 2, 2004, File No. 1-5072, as Exhibit 4.1.)

(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 - 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) 2 - Deferred Compensation Plan for 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) 3 - 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) 4 - Southern Company Deferred Compensation Plan as amended and restated January 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)1.)

(a) 5 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)2.)

(a) 6 - 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) 7 - 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) 8 - 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) 9 - 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) 10 - Amended and Restated Change in Control Agreement between Southern Company, Southern Nuclear and William G. Hairston, III, effective June 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)7.)

(a) 11 - Employment Agreement between Southern Nuclear and William G. Hairston, III, dated December 22, 2004. (Designated in Southern Company's Form 8-K dated December 22, 2004, File No. 1-3526, as Exhibit 10.1.)

(a) 12 - Release and Restrictive Covenant Agreement between Southern Nuclear and William G. Hairston, III, dated December 22, 2004. (Designated in Southern Company's Form 8-K dated December 22, 2004, File No. 1-3526, as Exhibit 10.2.)

* (a) 13 - Amended and Restated Change in Control Agreement between Southern Company, SCS and G. Edison Holland, Jr.

(a) 14 - Amended and Restated Change in Control Agreement between Southern Company, Alabama Power and Charles D. McCrary, effective June 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)5.)

(a) 15 - Amended and Restated Change in Control Agreement between Southern Company, SCS and David M. Ratcliffe, effective June 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)3.)

(a) 16 - 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) 17 - 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) 18 - 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) 19 - 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) 20 - 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) 21 - 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) 22 - 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) 23 - Amended and Restated Change in Control Agreement between Southern Company, SCS and Thomas A. Fanning, effective June 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)4.)

(a) 24 - 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) 25 - 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.)

(a) 26 - 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) 27 - Amended and Restated Change in Control Agreement between Southern Company, Georgia Power and Michael D. Garrett, effective June 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(a)6.)

(a) 28 - Form Award Agreement setting forth terms of nonqualified stock option grants, made under the Southern Company Omnibus Incentive Compensation Plan as Amended and Restated effective May 23, 2001, to employees of The Southern Company and its subsidiaries. (Designated in Southern Company's Form 10-Q for the quarter ended September 30, 2004, File No. 1-3526, as Exhibit 10(a)1.)

* (a) 29 - Base Salaries of Named Executive Officers.

* (a) 30 - Summary of Non-Employee Director Compensation Arrangements.

Alabama Power

(b) 1 - 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.)

(b) 2 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)1 herein.

(b) 3 - Southern Company Deferred Compensation Plan as amended and restated January 1, 2004. See Exhibit 10(a)4 herein.

(b) 4 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)3 herein.

(b) 5 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)5 herein.

(b) 6 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)6 herein.

(b) 7 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)7 herein.

(b) 8 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)26 herein.

(b) 9 - 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) 10 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)16 herein.

(b) 11 - 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)20 herein.

(b) 12 - 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)21 herein.

(b) 13 - 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)22 herein.

(b) 14 - 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) 15 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)25 herein.

(b) 16 - Amended and Restated Change in Control Agreement between Southern Company, Alabama Power and Charles D. McCrary. See Exhibit 10(a)17 herein.

(b) 17 - Amended and Restated Change in Control Agreement between Southern Company, Alabama Power and C. Alan Martin, effective June 1, 2004. (Designated in Southern Company's Form 10-Q for the quarter ended June 30, 2004, File No. 1-3526, as Exhibit 10(b)4.)

(b) 18 - Form Award Agreement setting forth terms of nonqualified stock option grants, made under the Southern Company Omnibus Incentive Compensation Plan as Amended and Restated effective May 23, 2001, to employees of The Southern Company and its subsidiaries. See Exhibit 10(a)28 herein.

* (b) 19 - Base Salaries of Named Executive Officers.

* (b) 20 - Summary of Non-Employee Director Compensation Arrangements.

Georgia Power

(c) 1 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(b)1 herein.

(c) 2 - 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).)

(c) 3 - 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).)

(c) 4 - 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).)

(c) 5 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)1 herein.

(c) 6 - Southern Company Deferred Compensation Plan as amended and restated effective January 1, 2004. See Exhibit 10(a)4 herein.

(c) 7 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)3 herein.

(c) 8 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)5 herein.

(c) 9 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)6 herein.

(c) 10 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)7 herein.

(c) 11 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)26 herein.

#	(c) 12 -		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) 13 -		Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)16 herein.
#	(c) 14 -		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)20 herein.
#	(c) 15 -		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)21 herein.
#	(c) 16 -		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)22 herein.
#	(c) 17 -		Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)25 herein.
#	(c) 18 -		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.)
#	(c) 19 -		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.)
#	(c) 20 -		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.)
#	(c) 21 -		Amended and Restated Change in Control Agreement between Southern Company, Georgia Power and Michael D. Garrett. See Exhibit 10(a)27 herein.
#	(c) 22 -		Form Award Agreement setting forth terms of nonqualified stock option grants, made under the Southern Company Omnibus Incentive Compensation Plan as Amended and Restated effective May 23, 2001, to employees of The Southern Company and its subsidiaries. See Exhibit 10(a)28 herein.
#	*	(c) 23 -	Base Salaries of Named Executive Officers.

* (c) 24 - Summary of Non-Employee Director Compensation Arrangements.

Gulf Power

(d) 1 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(b)1 herein.

(d) 2 - 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).)

(d) 3 - 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).)

(d) 4 - 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).)

(d) 5 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)1 herein.

(d) 6 - Southern Company Deferred Compensation Plan as amended and restated January 1, 2004. See Exhibit 10(a)4 herein.

(d) 7 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)3 herein.

(d) 8 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)9 herein.

(d) 9 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)7 herein.

(d) 10 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)25 herein.

(d) 11 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)6 herein.

(d) 12 - 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) 13 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)16 herein.

(d) 14 - 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)20 herein.

(d) 15 - 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)21 herein.

(d) 16 - 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)22 herein.

(d) 17 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)25 herein.

(d) 18 - Form Award Agreement setting forth terms of nonqualified stock option grants, made under the Southern Company Omnibus Incentive Compensation Plan as Amended and Restated effective May 23, 2001, to employees of The Southern Company and its subsidiaries. See Exhibit 10(a)28 herein.

* (d) 19 - Base Salaries of Named Executive Officers.

* (d) 20 - Summary of Non-Employee Director Compensation Arrangements.

Mississippi Power

(e) 1 - Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(b)1 herein.

(e) 2 - 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).)

(e) 3 - Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)1 herein.

#	(e) 4 -	Southern Company Deferred Compensation Plan as amended and restated January 1, 2004. See Exhibit 10(a)4 herein.
#	(e) 5 -	The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)3 herein.
#	(e) 6 -	Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)5 herein.
#	(e) 7 -	The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)7 herein.
#	(e) 8 -	Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)26 herein.
#	(e) 9 -	The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)6 herein.
#	(e) 10 -	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) 11 -	Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)16 herein.
#	(e) 12 -	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)20 herein.
#	(e) 13 -	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)21 herein.
#	(e) 14 -	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)22 herein.
#	(e) 15 -	Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)25 herein.
#	(e) 16 -	Form Award Agreement setting forth terms of nonqualified stock option grants, made under the Southern Company Omnibus Incentive Compensation Plan as Amended and Restated effective May 23, 2001, to employees of The Southern Company and its subsidiaries. See Exhibit 10(a)28 herein.

# (e) 17 -	Separation Agreement between Mississippi Power and Don E. Mason dated July 26, 2004. (Designated in Mississippi Power's Form 10-Q for the quarter ended September 30, 2004, File No. 0-6849 as Exhibit 10(e)(2).)
# (e) 18 -	Consulting Agreement dated January 3, 2005 between the Company and Don E. Mason. (Designated in Form 8-K dated January 3, 2005, File No. 0-6849, as Exhibit 10.1.)
# * (e) 19 -	Base Salaries of Named Executive Officers.
# * (e) 20 -	Summary of Non-Employee Director Compensation Arrangements.

Savannah Electric

(f) 1 -	Interchange contract dated February 17, 2000, between Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Power and SCS. See Exhibit 10(b)1 herein.
# (f) 2 -	Southern Company Omnibus Incentive Compensation Plan, Amended and Restated effective May 23, 2001. See Exhibit 10(a)1 herein.
# (f) 3 -	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) 4 -	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) 5 -	The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)3 herein.
# (f) 6 -	1997 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) 7 -	Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)5 herein.
# (f) 8 -	The Southern Company Supplemental Benefit Plan, Amended and Restated effective May 1, 2000 and First Amendment thereto. See Exhibit 10(a)7 herein.
# (f) 9 -	Southern Company Executive Change in Control Severance Plan, Amended and Restated effective May 1, 2003. See Exhibit 10(a)26 herein.
# (f) 10 -	Southern Company Deferred Compensation Plan, as amended and restated January 1, 2004. See Exhibit 10(a)4 herein.

(f) 11 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective May 1, 2000. See Exhibit 10(a)6 herein.

(f) 12 - Southern Company Amended and Restated Change in Control Benefit Plan Determination Policy, effective May 9, 2002. See Exhibit 10(a)16 herein.

(f) 13 - 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) 14 - 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) 15 - 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)20 herein.

(f) 16 - 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)21 herein.

(f) 17 - 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)22 herein.

(f) 18 - 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.)

(f) 19 - Southern Company Senior Executive Change in Control Severance Plan effective May 1, 2003. See Exhibit 10(a)25 herein.

(f) 20 - Savannah Electric and Power Company Change in Control Plan Benefit Determination Policy, effective October 26, 2000. (Designated in Savannah Electric's Form 10-K for the year ended December 31, 2003, File No. 1-5072, as Exhibit 10(f)34.)

(f) 21 - Form Award Agreement setting forth terms of nonqualified stock option grants, made under the Southern Company Omnibus Incentive Compensation Plan as Amended and Restated effective May 23, 2001, to employees of The Southern Company and its subsidiaries. See Exhibit 10(a)28 herein.

* (f) 22 - Base Salaries of Named Executive Officers.

* (f) 23 - Summary of Non-Employee Director Compensation Arrangements.

Southern Power

(g) 1 - 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).)

(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(b)1 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. (Designated in Southern Company's Form 10-Q for the quarter ended March 31, 2003, File No. 1-3526, as Exhibit 10(a)1.)

(g) 4 - Amended and Restated Operating Agreement between Southern Power and Alabama Power effective December 1, 2002. (Designated in Southern Company's Form 10-K for the year ended December 31, 2003, File No. 1-3526, as Exhibit 10(a)61.)

(g) 5 - Amended and Restated Operating Agreement between Southern Power and Georgia Power effective December 1, 2002. (Designated in Southern Company's Form 10-K for the year ended December 31, 2003, File No. 1-3526, as Exhibit 10(a)62.)

(g) 6 - 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.)

(g) 7 - 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.)

(g) 8 - 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.)

(g) 9 - 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.)

(14) Code of Ethics

Southern Company

(a) - The Southern Company Code of Ethics. (Designated in Southern Company's Form 10-K for the year ended December 31, 2003, File No. 1-3526, as Exhibit 14(a).)

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.

Alabama Power

* (b) 1 - Consent of Deloitte & Touche LLP.

Georgia Power

* (c) 1 - Consent of Deloitte & Touche LLP.

Gulf Power

* (d) 1 - Consent of Deloitte & Touche LLP.

Mississippi Power

* (e) 1 - Consent of Deloitte & Touche LLP.

Savannah Electric

* (f) 1 - Consent of Deloitte & Touche LLP.

(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

(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.

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