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GULF POWER
A SOUTHERN COMPANY

March 30, 2010

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COMMISSION
CLERK

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Ms. Cole:

Re: Docket No. 080633-EI, Order Number PSC-08-0767-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, 2010, and four copies of the exhibits are enclosed with this letter for filing in the above referenced docket.

Sincerely,

Terry A. Davis

ck

COM ____
APA ____
ECR 2
GCL 1
RAD ____
SSC ____
ADM ____
OPC ____
CLK ____

Enclosures

cc: Melissa Caen, Southern Company Services
J. A. Stone, Beggs & Lane

DOCUMENT NUMBER-DATE
02358 APR-1 0
FPSC-COMMISSION CLERK

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.: 080633-EI Filed: March 30, 2010

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-08-0767-FOF-EI entered in Docket No. 080633-EI on November 19, 2008, hereby reports for the fiscal year ending December 31, 2009:

A. 1. After negotiated arrangements authorized by Gulf Power Company (the "Company"), Goldman, Sachs & Co. (the "Underwriter') entered into an agreement on March 1, 2009, with Escambia County, Florida ("Issuer"), for the purchase of $65,000,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (the "bonds"), (Gulf Power Company Project) First Series 2009, due April 1, 2039. In consideration of such purchase, the Company paid to the Underwriter a fee of $243,750 for underwriting compensation. The bonds will bear interest at a long-term interest rate per annum of 1.75%, payable semi-annually, for a period beginning on the date of original issuance and ending April 20, 2010. Thereafter, subject to satisfaction of certain conditions in the Indenture, the interest rate on the bonds can be remarketed in successive long-term interest rates, daily rate, weekly rate, a commercial paper rate, or an index rate. The bonds were offered as fully registered bonds without coupons and in authorized denominations of $5,000 and were registered in the name of

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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.: 080633-EI Filed: March 30, 2010

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-08-0767-FOF-EI entered in Docket No. 080633-EI on November 19, 2008, hereby reports for the fiscal year ending December 31, 2009:

A. 1. After negotiated arrangements authorized by Gulf Power Company (the "Company"), Goldman, Sachs & Co. (the "Underwriter') entered into an agreement on March 1, 2009, with Escambia County, Florida ("Issuer"), for the purchase of $65,000,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (the "bonds"), (Gulf Power Company Project) First Series 2009, due April 1, 2039. In consideration of such purchase, the Company paid to the Underwriter a fee of $243,750 for underwriting compensation. The bonds will bear interest at a long-term interest rate per annum of 1.75%, payable semi-annually, for a period beginning on the date of original issuance and ending April 20, 2010. Thereafter, subject to satisfaction of certain conditions in the Indenture, the interest rate on the bonds can be remarketed in successive long-term interest rates, daily rate, weekly rate, a commercial paper rate, or an index rate. The bonds were offered as fully registered bonds without coupons and in authorized denominations of $5,000 and were registered in the name of

Cede & Co., as nominee of the Depository Trust Company ("DTC"). DTC acts as securities depository for the bonds. Purchases were made in book-entry form through DTC participants and no physical delivery of bonds was made to purchasers. On March 31, 2009, the Trustee (The Bank of New York Mellon Trust Company, N.A.) delivered such bonds to the account of the Representative at the DTC on behalf of the underwriter against payment thereof of $65,000,000 consisting of the purchase price equal to 100% of the aggregate principal amount of the bonds

2. The First Series 2009 Bonds were deposited in the construction fund created under the Indenture ("the Construction fund"), to be used to pay or reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the bonds. The Project is located at the Crist Steam Electric Generating Plant in Escambia County, Florida (the "Plant").

3. On March 31, 2009, the proceeds of the sale of the Bonds were deposited with The Bank of New York Mellon Trust Company, N.A., as Trustee, under the Trust Indenture dated March 1, 2009, between Escambia County, Florida and the Bank of New York Mellon Trust Company, N.A.

4. Escambia County, Florida loaned to the Company the proceeds of the bonds pursuant to a Loan Agreement dated as of March 1, 2009 from Escambia County, Florida and the Company. In order to evidence the loan from the Issuer, and to provide for its repayment, the Company issued a non-negotiable promissory note dated March 31, 2009 between the Company to Issuer pursuant to the Loan Agreement.

5. Goldman, Sachs & Co., and the Company entered into a Remarketing Agreement dated March 1, 2009, pursuant to which, Goldman, Sachs & Co. will perform the duties as remarketing agent relating to the establishment of a continuous remarketing program of the interest rate on the bonds.

B. 1. After negotiated arrangements authorized by Gulf Power Company (the "Company"), Goldman, Sachs & Co. (the "Underwriter') entered into an agreement on March 1, 2009, with Escambia County, Florida ("Issuer"), for the purchase of $65,400,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (the "bonds"), (Gulf Power Company Project) Second Series 2009, due April 1, 2039. In consideration of such purchase, the Company paid to the Underwriters a fee of $245,250 for underwriting compensation. The bonds will bear interest at a daily rate, payable on the fifth business day of each month. The interest rate determination method may be converted at the option of the Company, to satisfaction of certain conditions in the Indenture, from the daily rate to a weekly rate, a commercial paper rate, an index rate, or a long-term interest rate. The bonds were offered as fully registered bonds without coupons and in authorized denominations of $100,000 and were registered in the name of Cede & Co., as nominee of the Depository Trust Company ("DTC"). DTC acts as securities depository for the bonds. Purchases were made in book-entry form through DTC participants and no physical delivery of bonds was made to purchasers. On March 31, 2009, the Trustee (The Bank of New York Mellon Trust Company, N.A.) delivered such bonds to the account of the Representative at the DTC on behalf of the underwriter against payment thereof of $65,400,000 consisting of the purchase price equal to 100% of the aggregate principal amount of the bonds

2. The Second Series 2009 Bonds were deposited in the construction fund created under the Indenture ("the Construction fund"), to be used to pay or reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the bonds. The Project is located at the Crist Steam Electric Generating Plant in Escambia County, Florida (the "Plant").

3. On March 31, 2009, the proceeds of the sale of the Bonds were deposited with The Bank of New York Mellon Trust Company, N.A., as Trustee, under the Trust Indenture dated March 1, 2009, between Escambia County, Florida and the Bank of New York Mellon Trust Company, N.A.

4. Escambia County, Florida loaned to the Company the proceeds of the bonds pursuant to a Loan Agreement dated as of March 1, 2009 between Escambia County, Florida and the Company. In order to evidence the loan from the Issuer, and to provide for its repayment, the Company issued a non-negotiable promissory note dated March 31, 2009 from the Company to Issuer pursuant to the Loan Agreement.

5. Goldman, Sachs & Co., and the Company entered into a Remarketing Agreement dated March 1, 2009, pursuant to which, Goldman, Sachs & Co. will perform the duties as remarketing agent relating to the establishment of a continuous remarketing program of the interest rate on the bonds.

C. 1. After negotiated arrangements, on June 22, 2009, Gulf Power Company (the "Company") entered into an Underwriting Agreement with Morgan Stanley & Co. Incorporated (the "Underwriter"), for the purchase of an aggregate of $125,000,000 (denominations and multiples of $1,000 each) principal amount of Series 2009A Floating Rate Senior Notes (the "Notes") due June 28, 2010. On June 23, 2009, the Company entered into Underwriting Agreement with Morgan Stanley & Co. Incorporated, for the purchase of an aggregate of $15,000,000 (denominations and multiples of $1,000 each) principal amount of the same Series 2009A Floating Rate Senior Notes due June 28, 2010. The outstanding aggregate principal amount of debt securities of this Series 2009A Senior Notes will be $140,000,000. 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 June 26, 2009, the

Company delivered the notes to the Underwriter. On June 26, 2009, the Company received $139,720,000 representing payment in full of the purchase price less $280,000 underwriting discount of the underwriters for their services.

2. The proceeds from the sale of the Series 2009A Floating Rate Senior Notes were used by the Company to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including the Company's continuous construction program.
3. Floating Interest Rate is based on three-month LIBOR rate, plus 0.10%, reset and paid quarterly until maturity, commencing September 29, 2009.
4. The Bank of New York Mellon (the "Calculation Agent") and the Company entered into a Calculation Agent Agreement dated June 15, 2009, pursuant to which, The Bank of New York Mellon will perform the duties as calculation remarketing agent relating to the daily interest rate on the bonds.
5. The notes are direct, unsecured and unsubordinated obligations of the Company ranking equally with all other existing and future unsecured and unsubordinated obligations of the Company.

D. At the end of 2009, the Company had $220 million of lines of credit with banks subject to renewal each year. The Company borrows primarily through a commercial paper program that has the liquidity support of committed bank credit arrangements. The Company may also borrow through various other arrangements with banks. As of December 31, 2009, the Company had short-term debt through the commercial paper program in the amount of $88.9 million.

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:

E. Exhibits for $65,000,000 Escambia County First Series 2009 Solid Waste Disposal Revenue Bonds:

1. Trust Indenture dated March 1, 2009, between Escambia County, Florida and The Bank of New York Mellon Trust Company, N.A. as Trustee.
2. Loan Agreement dated March 1, 2009, between Escambia County, Florida and Gulf Power Company.
3. Promissory Note dated March 31, 2009 between Gulf Power Company and Escambia County, Florida.
4. Remarketing Agreement dated as of March 1, 2009 between Gulf Power Company and Goldman, Sachs & Co.
5. Letter of Representation dated as of March 26, 2009 from Gulf Power Company to Escambia County Commissioners and Goldman, Sachs & Co.
6. Purchase Contract dated March 26, 2009 between Goldman, Sachs & Co., as underwriters and Escambia County, Florida, as issuers.
7. Copy of the Official Statement dated March 26, 2009.
8. Opinion dated March 31, 2009 of Beggs & Lane, general counsel for the Company
9. Opinion dated March 31, 2009 of Troutman Sanders, LLP, counsel for the Company.
10. Opinion dated March 31, 2009 of Balch & Bingham, bond counsel.
11. Opinion dated March 31, 2009 of Lott & Associates, P.L., counsel to the issuer.
12. Form 8-K dated March 31, 2009, filed with the Securities and Exchange Commission.
13. Description of Underwriter.
14. Report of Expenses.

F. Exhibits for $65,400,000 Escambia County Second Series 2009 Solid Waste Disposal Revenue Bonds:

1. Trust Indenture dated March 1, 2009, between Escambia County, Florida and The Bank of New York Mellon Trust Company, N.A. as Trustee.
2. Loan Agreement dated March 1, 2009, between Escambia County, Florida and Gulf Power Company.
3. Promissory Note dated March 31, 2009 between Gulf Power Company and Escambia County, Florida.
4. Remarketing Agreement dated as of March 1, 2009 between Gulf Power Company and Goldman, Sachs & Co.
5. Letter of Representation dated as of March 26, 2009 from Gulf Power Company to Escambia County Commissioners and Goldman, Sachs & Co.
6. Purchase Contract dated March 26, 2009 between Goldman, Sachs & Co., as underwriters and Escambia County, Florida, as issuers.
7. Copy of the Official Statement dated March 26, 2009.
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11. Opinion dated March 31, 2009 of Lott & Associates, P.L., counsel to the issuer.
12. Form 8-K dated March 31, 2009, filed with the Securities and Exchange Commission.
13. Description of Underwriter.
14. Report of Expenses.

G. Exhibits for $125,000,000 and $15,000,000 Series 2009A Floating Rate Senior Notes:

1. Underwriting Agreements dated June 22 and June 23, 2009, between Gulf Power Company and Morgan Stanley & Co. Incorporated.
2. Fifteenth Supplemental Indenture, dated June 26, 2009, to the Note Indenture, between Gulf Power Company and The Bank of New York Mellon, Trustee.

3. Prospectus supplements dated June 22, 2009 and June 23, 2009.
4. Opinion dated June 26, 2009 of Beggs & Lane, general counsel for the Company.
5. Opinion dated June 26, 2009 of Troutman Sanders LLP, counsel for the Company.
6. Opinion dated June 26, 2009 of Dewey & LeBoeuf LLP, counsel for the underwriter.
7. Form 8-K dated March 31, 2009, filed with the Securities and Exchange Commission
8. Form S-3 Registration Statement Nos. 333-149664, as filed with the Securities Exchange Commission on March 12, 2008 under the Securities Act of 1933.
9. Description of Underwriters.
10. Report of Expenses.

H. Exhibits Common For all Issues:

1. 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission, File No. 0-2429. On page II-268 of the 10-K is shown the Pro Forma Capitalization and Pretax Interest Coverage Statements. On page II-272 of the 10-K is shown the debt interest and preferred/preference stock dividend requirements.

Respectfully submitted,

Terry A. Davis

Terry A. Davis
Assistant Secretary and Assistant Treasurer

Dated March 30, 2010

ESCAMBIA COUNTY, FLORIDA

to

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,

as Trustee

TRUST INDENTURE

Dated as of March 1, 2009

Relating to

$65,000,000
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project),
First Series 2009

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Exhibit A - Form of Bond

TRUST INDENTURE

THIS TRUST INDENTURE made and entered into as of March 1, 2009, by and between ESCAMBIA COUNTY, FLORIDA, a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, Florida Statutes, as amended (the "Act"), and a political subdivision of the State of Florida (the "Issuer"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States, with a designated corporate trust office located in Atlanta, Georgia, as trustee (the "Trustee").

RECITALS

A. In furtherance of its statutory purposes, the Issuer has entered into a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), with Gulf Power Company, a Florida corporation (the "Company"), providing for the undertaking by the Issuer to loan amounts to the Company in order to finance or refinance the acquisition, construction, installation and equipping of the Company's interest in certain solid waste disposal facilities, or portions thereof, at the Plant (as hereinafter defined).

B. The Agreement provides that, for the purposes therein set forth, the Issuer will issue and sell its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 in the aggregate principal amount of $65,000,000 (the "Bonds"); the Issuer will loan the proceeds of the Bonds to the Company; and to evidence the Loan (as hereinafter defined), the Company, will execute and deliver, concurrently with the issuance of the Bonds, the Note (as hereinafter defined).

C. The execution and delivery of this Indenture (as hereinafter defined) and the Agreement and the issuance and sale of the Bonds have been in all respects duly and validly authorized by resolutions duly adopted by the Issuer.

D. The Company has agreed to make payments on the Note to the Issuer in amounts sufficient to pay the principal, purchase price, premium, if any, and interest on the Bonds.

E. All acts, conditions and things required by the Constitution and laws of the State of Florida to happen, exist and be performed precedent to and in the execution and delivery of this Indenture and the Agreement have happened, exist and have been performed as so required, in order to make this Indenture a valid and binding trust indenture for the security of the Bonds in accordance with its terms and in order to make the Agreement a valid and binding loan agreement in accordance with its terms.

F. The Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof.

Accordingly, the Issuer and the Trustee agree as follows for the benefit of each other and for the benefit of the holders of the Bonds issued pursuant to this Indenture.

GRANTING CLAUSE

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and the purchase and acceptance of the Bonds by the holders thereof, and also for and in consideration of the sum of One Dollar ($1.00) to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all Bonds at any time issued and outstanding hereunder and the interest and the premiums, if any, payable upon redemption or mandatory tender thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein or herein contained; the Issuer has executed and delivered this Indenture, and will cause the Company to deliver to the Trustee the Note; the Issuer does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, (i) all rights, title and interest of the Issuer in, to and under the Note and all payments, if any, made and to be made thereunder and (ii) all moneys and investments held from time to time in the Bond Fund or the Construction Fund (except for moneys deposited with or paid to the Trustee for the redemption of Bonds or the payment of Bonds, including Bonds which are deemed to be paid within the meaning of Section 7.01), subject to the provisions of this Indenture permitting the same to be applied as provided herein (collectively, the "Trust Estate"), as security for the payment of all outstanding Bonds and the interest and the premium, if any, thereon and does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all other rights, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder (except for Unassigned Rights, as hereinafter defined) as security for the satisfaction of any other obligation assumed by it in connection with all outstanding Bonds at any time issued hereunder;

TO HAVE AND TO HOLD the same unto the Trustee and its successors in trust forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, for the equal and proportionate benefit and security of all and singular present and future holders of the Bonds issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns shall pay or cause to be paid the principal of, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds, and shall perform all the covenants and conditions required of it by this Indenture, and shall pay or cause to be paid to the Trustee and any additional paying agents all sums of money due or to become due to them in accordance with

the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby granted shall terminate and the Trustee shall release this Indenture and shall execute such documents to evidence such termination and release as may be reasonably required by the Issuer or the Company; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds from time to time issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of subject to the terms of this Indenture, and the Issuer agrees with the Trustee and with the respective owners, from time to time, of said Bonds, or part thereof, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. For all purposes of this Indenture, unless the context requires otherwise, words or terms defined in the preamble and recitals of this Indenture shall have the meanings specified therein, and the following terms shall have the following meanings:

"*Act*" means the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended, and other applicable provisions of law.

"Additional Redemption Notice" is defined in Section 3.04(b).

"Additional Tender Notice" is defined in Section 3.07(c).

"*Beneficial Owner*" means the purchaser of a beneficial interest in the Bonds when the Bonds are held by the Securities Depository in the Book-Entry System, and otherwise means a Bondholder.

"Bond Fund" means the trust fund created pursuant to Section 4.04 of this Indenture.

"*Bondholder*" or "*holder*" means the registered owner of any Bond.

"*Bonds*" means the Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 issued by the Issuer hereunder in the aggregate principal amount of $65,000,000.

"*Book-Entry System*" means the system maintained by the Securities Depository described in Section 5.01.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Atlanta, Georgia or the city in which the principal corporate trust office of the Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange or the Federal Reserve System is closed.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations promulgated thereunder as the same may be applicable to the Bonds.

"*Commercial Paper Mode*" means each period of time, comprised of Commercial Paper Periods, during which Commercial Paper Rates are in effect.

"*Commercial Paper Period*" means, with respect to any Bond, each period set under Section 2.02(a)(3).

"*Commercial Paper Rate*" means an interest rate on each Bond set under Section 2.02(a)(3).

"*Company*" means Gulf Power Company, a Florida corporation, and its successors and assigns, and any surviving, resulting or transferee entity as provided in Section 4.3 of the Agreement.

"*Construction Fund*" means the trust fund created pursuant to Section 4.08.

"*Conversion Notice*" is defined in Section 2.02(b)(1).

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

"*Cost of Construction*" shall have the meaning assigned to it in the Agreement.

"*Daily Rate*" means an interest rate on the Bonds set under Section 2.02(a)(l).

"*Daily Rate Period*" means any period defined in Section 2.02(a)(1).

"*Determination Method*" is defined in Section 2.02(a).

"*Electronic Means*" means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"*Event of Default*" is defined in Section 8.01.

"*Favorable Opinion of Tax Counsel*" means an Opinion of Tax Counsel addressed to the Issuer and to the Trustee to the effect that the action proposed to be taken is permitted by the

laws of the State and by this Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

"FINRA" is defined in Section 9.15.

"*Government Obligations*" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States, or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

"*Indenture*" means this Trust Indenture, as it may be amended or supplemented from time to time in accordance with its terms.

"Index" means the SIFMA Index or LIBOR Index, as applicable.

"Index Adjustment Date" is defined in Section 2.02(a)(5)(i).

"Index Period" means any period of time established by the Company pursuant to Section 2.02(b)(1) during which the Bonds bear interest at the Index Rate.

"Index Rate" means an interest rate on the Bonds set under 2.02(a)(5).

"Index Rate Determination Date" means (i) if the applicable Index is the LIBOR Index, the second London Business Day immediately preceding the first day of the relevant Index Period or, if the applicable Index is the SIFMA Index, the Business Day immediately preceding the first day of the relevant Index Period; and (ii) the second London Business Day or the Business Day, as the case may be, preceding each Thursday during the relevant Index Period thereafter.

"Initial Long-Term Interest Rate" is defined in Section 2.02.

"Initial Long-Term Interest Rate Period" means the Long-Term Interest Rate Period for the Bonds beginning on the date of issuance of the Bonds and ending on April 20, 2010, with the Bonds being subject to mandatory tender on April 21, 2010.

"*Interest Payment Date*" is defined in the form of the Bonds appearing in Exhibit A attached hereto.

"*Interest Period*" is defined in the form of the Bonds appearing in Exhibit A attached hereto.

"*LIBOR Index*" for any Index Rate Determination Date will be the Reported Rate for deposits in U.S. dollars having an index maturity of one month for a period commencing on the

second London Business Day immediately following the Index Rate Determination Date, in amounts of not less than $1,000,000, at approximately 11:00 a.m., London time on the Index Rate Determination Date.

"*LIBOR Percentage*" is defined in Section 2.02(a)(5)(i).

"*London Business Day*" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date, are expected to be transacted, in the London interbank market.

"*Long-Term Interest Rate*" means an interest rate on the Bonds set under Section 2.02(a)(4).

"*Long-Term Interest Rate Period*" means any period as defined in Section 2.02(a)(4).

"*Maturity Date*" means the stated maturity for the Bonds as set forth in Section 2.01.

"*Maximum Interest Rate*" means 15% per annum on the date hereof and, to the extent the maximum rate permitted by applicable law shall become less than 15% per annum, then the maximum rate permitted by applicable law.

"*Note*" means the non-negotiable promissory note executed and delivered by the Company in the form attached as Exhibit A to the Agreement concurrently with the issuance of the Bonds in a like principal amount bearing interest at the rate or rates borne by the Bonds.

"*Opinion of Counsel*" means a written opinion of counsel selected by the Company who is acceptable to the Issuer and the Trustee. Such counsel may be an employee of or counsel to the Issuer, the Trustee or the Company.

"*Opinion of Tax Counsel*" means an Opinion of Counsel by counsel of nationally recognized standing in matters relating to the exclusion of interest from gross income on obligations issued by or on behalf of states and their political subdivisions.

The term "*outstanding*" when used with reference to Bonds, or "*Bonds outstanding*" means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except the following:

a. Bonds canceled or purchased by or delivered to the Trustee for cancellation.

b. Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including interest accrued to the due date, of which sufficient moneys are held by the Trustee.

c. Bonds deemed paid by Section 7.01.

d. Bonds in lieu of which others have been authenticated under Section 2.05 (relating to registration and exchange of Bonds) or Section 2.06 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds).

Bonds purchased pursuant to tenders and not delivered to the Trustee for payment are not outstanding, but there will be outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as provided in the second paragraph of Section 2.06.

"*Participant*" means one of the entities which deposit securities, directly or indirectly, in the Book-Entry System.

"*Person*" means any individual, firm, corporation, partnership, limited liability company, limited partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or other legal entity or government or any agency or political subdivision thereof, as well as natural persons.

"*Plant*" means the James F. Crist Generating Plant owned and operated by the Company and located in Escambia County, Florida.

"*Principal*," when used with reference to any Bonds, includes any premium payable on those Bonds.

"*Project*" has the meaning assigned to such term in the Agreement.

"*Record Date*" is defined in the form of the Bonds appearing as Exhibit A attached hereto.

"*Remarketing Agent*" means the Person appointed as Remarketing Agent pursuant to Section 9.15, and its successors under this Indenture.

"*Reported Rate*" means the rate that appears on Reuters Page LIBOR01 or a successor reporter of such rates selected by the Remarketing Agent and acceptable to the Company.

"*Responsible Officer*" when used with respect to the Trustee means any vice president, assistant vice president or other officer of the Trustee within the corporate trust office specified in Section 12.01(b) (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the corporate trust office specified in Section 12.01(b) because of such person's knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Indenture.

"*Reuters Page LIBOR01*" means the display designated as "LIBOR01" on Reuters 3000 Xtra (or any successor service) (or such other page as may replace Page LIBOR01 on Reuters 3000 Xtra or any successor service).

"*Securities Depository*" means The Depository Trust Company, New York, New York or its nominee, and its successors and assigns, or any successor appointed under Section 5.01.

"*SIFMA Index*" means, as of any date, the rate calculated according to The Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index composed of weekly, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or any successor thereto, or as otherwise designated by The Securities Industry and Financial Markets Association.

"*SIFMA Margin*" is defined in Section 2.02(a)(5)(i).

"*Spread*" is defined in Section 2.02(a)(5)(i).

"*State*" means the State of Florida.

"*Tax Certificate and Agreement*" means the Tax Certificate and Agreement dated March 31, 2009, executed and delivered by the Issuer and the Company in connection with the issuance of the Bonds.

"*Trust Estate*" is defined in the Granting Clause of this Indenture.

"*Trustee*" means the entity identified as such in the heading of this Indenture and its successors under this Indenture.

"*Unassigned Rights*" means the rights of the Issuer under Section 4.2, Section 5.3 and the second paragraph of Section 3.2 of the Agreement.

"*Weekly Index Period*" means, while the Bonds bear interest at an Index Rate, each weekly period beginning on a Thursday and ending on a Wednesday.

"*Weekly Rate*" means an interest rate on the Bonds set under Section 2.02(a)(2).

"*Weekly Rate Period*" means any period defined in Section 2.02(a)(2).

Section 1.02. Rules of Construction. Unless the context otherwise requires,

(a) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

(b) references to Articles and Sections are to the Articles and Sections of this Indenture, and

(c) the singular form of any word, including the terms defined in Section 1.1, includes the plural, and vice versa, and a word of any gender includes all genders.

(d) The use herein of a pronoun of any gender shall include correlative words of the other genders.

(e) The words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

(f) The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

(g) References to, or agreements or undertakings herein by, the Issuer and the Company or the Issuer or the Company shall not constitute any joint obligation of the Issuer and the Company, but, insofar as each of the Issuer or the Company is concerned, shall be deemed to be a separate, several and individual reference, undertaking or agreement of such Person. Nothing herein shall be deemed to create any joint undertaking, agreement or liability between the Issuer, the Company or any other Person.

(h) The term "hereafter" means after, and the term "heretofore" means before, the date of execution of this Indenture.

(i) All approvals, consents and acceptances required to be given or made by any Person or party hereunder shall be at the reasonable discretion of the party whose approval, consent or acceptance is required except to the extent otherwise specified herein.

(j) For purposes hereof, the Issuer or the Trustee, as applicable, shall not be deemed to have knowledge of any fact or the occurrence of any event unless and until the Issuer or the Trustee, as applicable, has written notice thereof or actual knowledge thereof.

(k) Whenever the Issuer is named or referred to, it shall be deemed to include its successors and assigns whether so expressed or not. All of the covenants, stipulations, obligations and agreements by or on behalf of, and other provisions for the benefit of, the Issuer contained in this Indenture shall bind and inure to the benefit of such successors and assigns and shall bind and inure to the benefit of any officer, board, commission, issuer, agency or instrumentality to whom or to which there shall be transferred by or in accordance with law any right, power or duty of the Issuer, or of its successors or assigns, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements or other provisions hereof.

(l) Whenever the word "includes" or "including" is used, such word means "includes or including, without limitation."

ARTICLE II

THE BONDS

Section 2.01. Issuance of Bonds; Form; Dating. The Bonds shall be designated "Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009." The total principal amount of Bonds that may be outstanding shall not exceed $65,000,000. The Bonds shall be substantially in the form of Exhibit A attached hereto, which is part of this Indenture, in the denominations provided for in the Bonds. The Bonds may have notations, legends or endorsements required by law or usage.

All Bonds will be dated the date of original issuance and delivery, will bear interest from that date and shall mature, subject to prior redemption or mandatory tender, on April 1, 2039. Bonds will be numbered as determined by the Trustee.

Upon the execution and delivery of this Indenture, the Issuer will execute and deliver to the Trustee and the Trustee will authenticate the Bonds and deliver them to the purchaser or purchasers as directed by the Issuer.

Section 2.02. Interest on the Bonds. Interest on the Bonds will be payable as provided in the Bonds and in this Section. Interest on the Bonds will initially be payable at a Long-Term Interest Rate of 1.75% (the "Initial Long-Term Interest Rate") for the Initial Long-Term Interest Rate Period. The Determination Method may be changed by the Company as described in paragraph (b) below. The methods of determining the various interest rates are as provided in paragraph (a) below.

(a) *Interest Rate Determination Methods.* Except with respect to the Initial Long-Term Interest Rate Period, in accordance with the notification requirements described herein, the Company shall determine the applicable interest rate determination method (each a "Determination Method") on the Bonds. The interest rate on the Bonds shall be determined by one of the following Determination Methods; provided, however, that while there exists an Event of Default under this Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

(1) *Daily Rate.* When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 11:00 a.m., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

(2) *Weekly Rate.* When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 p.m., New York City time, on the last Business Day before the commencement of a period during which the Bonds bear interest at a Weekly Rate and on each Tuesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Tuesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the rate is set at their principal amount (without regard to accrued interest). Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Wednesday after the Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new Determination Method for the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Tuesday (a "Weekly Rate Period").

(3) *Commercial Paper Rate.* During a Commercial Paper Mode, each Bond will bear interest during the Commercial Paper Period for such Bond at the Commercial Paper Rate for such Bond. Different Commercial Paper Periods may apply to different Bonds at any time and from time to time. Except as otherwise described in this subparagraph (3), the Commercial Paper Period and Commercial Paper Rate for each Bond will be determined by the Remarketing Agent no later than 12:15 p.m., New York City time, on the first day of each Commercial Paper Period.

(i) *Determination of Commercial Paper Periods.* Subject to Section 2.02(b)(2)(vii), each Commercial Paper Period will be a period of at least one day and not more than 270 days, determined by the Remarketing Agent to be the period which, together with all other Commercial Paper Periods for all Bonds then outstanding, will, in the judgment of the Remarketing Agent, result in the lowest overall interest expense on the Bonds over the next 270 days. Each Commercial Paper Period will end on either the day before a Business Day or on the day before the Maturity Date for such Bond. However, any Bond purchased on behalf of the Company and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Commercial Paper Period for that Bond will have a Commercial Paper Period of one day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than one day ending on a day before a Business Day.

In determining the number of days in each Commercial Paper Period, the Remarketing Agent shall take into account the following factors: (I) existing short-term tax-exempt market rates and indices of such short-term rates, (II) the existing market supply and demand for short-term tax-exempt securities, (III) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds, (IV) general economic conditions, (V) industry,

economic and financial conditions that may affect or be relevant to the Bonds, (VI) the number of days in other Commercial Paper Periods applicable to the Bonds and (VII) such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant.

(ii) *Determination of Commercial Paper Rates.* The Commercial Paper Rate for each Commercial Paper Period for each Bond shall be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell such Bond on the date and at the time of such determination at its principal amount (without regard to accrued interest).

(4) *Long-Term Interest Rate.* The Remarketing Agent will set a Long-Term Interest Rate on a date not less than three days before the beginning of any period (a "Long-Term Interest Rate Period") in which interest on any of the Bonds will be payable at a Long-Term Interest Rate. The last day on which such Long-Term Interest Rate shall cease to accrue for such Long-Term Interest Rate Period shall be determined by the Company in accordance with Section 2.02(b)(1). Each Long-Term Interest Rate will be the minimum rate necessary (as determined by the Remarketing Agent with respect to any Long-Term Interest Rate Period based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds for delivery on the effective date of the Long-Term Interest Rate at their principal amount (without regard to accrued interest).

(5) *Index Rate.* During an Index Period, the Bonds will bear interest at the Index Rate to be determined as follows:

(i) On the first day of the applicable Index Period and on the first Index Rate Determination Date following each six month anniversary of such day until the end of the Index Period (each, an "Index Adjustment Date"), the Remarketing Agent shall (A) depending on the Index, determine the minimum percentage of the LIBOR Index (the "LIBOR Percentage") or the minimum number of basis points above or below the SIFMA Index (the "SIFMA Margin;" the SIFMA Margin and the LIBOR Percentage are hereinafter sometimes referred to as the "Spread"), as applicable, that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if such Bonds were being sold on such date, and (B) notify the Trustee and the Company in writing of the applicable Spread for such six month period.

(ii) On each Index Rate Determination Date, (A) the Remarketing Agent shall, no later than 11:00 a.m., New York City time, on such date, notify the Trustee in writing, depending on the applicable Index, of the LIBOR Index or the SIFMA Index to apply for the next succeeding Weekly Index Period. The applicable Index as determined by the Remarketing Agent, adjusted by the applicable Spread, will be the interest rate to be borne by the Bonds from the first Thursday after such date through the following Wednesday; provided that, if the applicable Index Rate Determination Date is a day following the Thursday in any week, the Index Rate so determined will be in effect from the next preceding Thursday through the following Wednesday.

(iii) Promptly upon the determination of the Index Rate by the Remarketing Agent, the Remarketing Agent will notify the Company and the Trustee in writing of the Index Rate for the applicable period. The Index Rate determined by the Remarketing Agent, absent manifest error, shall be binding and conclusive upon the Beneficial Owners, the Bondholders, the Company and the Trustee.

(iv) If the following circumstances exist on any Index Rate Determination Date, the Index Rate shall be determined as follows:

(A) In the event that the applicable Index on such Index Rate Determination Date is the SIFMA Index and the SIFMA Index has not been published or set, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of LIBOR Index that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(B) In the event that the applicable Index on such Index Rate Determination Date is LIBOR Index and no Reported Rate appears on Reuters Page LIBOR01 as of approximately 11:00 a.m., London time, on an Index Rate Determination Date, the Index Rate for the succeeding Weekly Index Period shall be based on the Reported Rate for the preceding week; provided, however, that if no Reported Rate appears in Reuters Page LIBOR01 for two consecutive weeks, the Index Rate shall be determined by the Remarketing Agent and shall be the minimum percentage of the then current rate of interest on four-week Treasury Bills that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds

known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(C) In the event that neither Index is available, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of a referenced Treasury security selected by the Remarketing Agent that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(v) The foregoing notwithstanding, if the commencement of an Index Period does not coincide with the commencement of the first succeeding Weekly Index Period, the interest rate to be borne by the Bonds from the date of the commencement of the Index Period until the commencement of the first succeeding Weekly Index Period shall be a rate determined by the Remarketing Agent prior to the commencement of such Index Period, and such rate shall be the rate that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(6) *Failure of Remarketing Agent to Announce Interest Rates or Spread on the Bonds*. If the appropriate interest rate, Spread or Commercial Paper Period is not or cannot be determined for any reason, or if, 30 days before the end of a Long-Term Interest Rate Period, the Company has not provided for the next Interest Period, the Determination Method for the Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the SIFMA Index plus the SIFMA Margin or, if the SIFMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate as provided to the Trustee in writing by the Remarketing Agent, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period, if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(5) shall be effective instead of this clause (6). The Trustee shall promptly notify the Bondholders of any such automatic change as set forth in Section 3.07(b) and the Bonds shall be subject to mandatory tender as described under "Mandatory Tender

Upon a Change in the Determination Method" as provided in paragraph 7 of the form of the Bonds.

While Bonds are in a Commercial Paper Mode, during any transition period caused by an automatic conversion of such Bonds to a Weekly Rate in accordance with this clause (6), Bonds bearing interest at a Weekly Rate and Bonds bearing interest at a Commercial Paper Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods for the Bonds.

(b) (1) *Initial Interest Rate Determination Method; Change in Interest Rate Determination Method.* The Bonds will bear interest for the Initial Long-Term Interest Rate Period at the Initial Long-Term Interest Rate. During the Initial Long-Term Interest Rate Period, the Company may not adjust the Determination Method and the Bonds shall be subject to mandatory tender for purchase on April 21, 2010. On or after April 21, 2010, the Company may change the Determination Method from time to time by notifying the Issuer, the Trustee and the Remarketing Agent, in writing. Such notice (a "Conversion Notice") shall contain (a) the effective date of such change; and (b) the proposed Determination Method; provided, however, that if the change is to an Index Period, such notice shall also specify the applicable Index for the Index Period and the length of such Index Period. The Long-Term Interest Rate Period shall be the same duration for all of the Bonds. The last day of any Long-Term Interest Rate Period must be either the day before the Maturity Date for the Bonds or a day which next precedes a Business Day and shall be at least 365 days after the effective date. The notice must be accompanied by a Favorable Opinion of Tax Counsel. At any time at least seven calendar days prior to the effective date specified in the Conversion Notice, the Company may deliver to the Issuer, the Trustee and the Remarketing Agent an amended Conversion Notice to specify a different proposed Determination Method; provided, however, that the effective date specified in the original Conversion Notice shall not change and such amended Conversion Notice must be accompanied by a Favorable Opinion of Tax Counsel. If the Company's notice complies with this paragraph, and if the Company shall deliver to the Trustee and the Issuer a confirming Favorable Opinion of Tax Counsel on the effective date as specified in the notice, the interest rate on the Bonds will be determined on the basis of the new rate on the effective date specified in the notice until there is another change as provided in this Section. If the change is to a Long-Term Interest Rate Determination Method and no Long-Term Interest Rate has been set by the date three days before the proposed effective date of such change, the Company may cancel the change by notifying the Issuer, the Trustee and the Remarketing Agent, in writing.

If the Company wishes to designate successive Long-Term Interest Rate Periods without specifying the effective dates and last days as described in the preceding paragraph for the second or any subsequent Long-Term Interest Rate Periods, it may do so by following the same procedure as for a change in the Determination Method as provided in the foregoing paragraph.

When one Long-Term Interest Rate Period follows another, all provisions of this Indenture applying to a change in the Determination Method will apply, except the Company will not be required to deliver a Favorable Opinion of Tax Counsel if (i) the Company has previously designated a series of successive Long-Term Interest Rate Periods which, together with the

current Long-Term Interest Rate Period, are substantially equal in length, (ii) a Favorable Opinion of Tax Counsel was delivered before the first such Long-Term Interest Rate Period in that series which applies to each such successive Long-Term Interest Rate Period and (iii) no other change in the security for the Bonds or in this Indenture or the terms of the Bonds is made which is effective as of, or agreed to in connection with, the effective date of such subsequent Long-Term Interest Rate Period.

In the event there is a failed conversion of the Bonds for any reason, the Determination Method for the Bonds shall be automatically converted to the Weekly Rate and the Bonds shall continue to be subject to mandatory tender as described under "Mandatory Tender Upon a Change in the Determination Method" as provided in paragraph 7 of the form of the Bonds.

(2) *Limitations.* Any change in the Determination Method pursuant to paragraph (1) above must comply with the following:

(i) the effective date of a change (or each effective date in the case of a change from a Commercial Paper Mode) shall be a Business Day which is at least 15 days (30 days if a Long-Term Interest Rate is then in effect and the effective date is before the day after the last day of a Long-Term Interest Rate Period) after receipt by the Trustee of the Conversion Notice;

(ii) if a Long-Term Interest Rate is then in effect, the effective date of any change must be either the day after the last day of the then current Long-Term Interest Rate Period or, except as described in clause (iii) below, a day on which the Bonds would otherwise be subject to redemption under the paragraph "Optional Redemption During Long-Term Interest Rate Period" in paragraph 9 of the form of the Bonds if the change did not occur;

(iii) if the Company has previously designated successive Long-Term Interest Rate Periods, the effective date of each new Long-Term Interest Rate Period must be the day after the last day on which the Long-Term Interest Rate for the previous Long-Term Interest Rate Period ceases to accrue;

(iv) if a Commercial Paper Mode is then in effect, the effective date of any change must be either the day after the last day of the Commercial Paper Mode or, as to any Bond, the day after the last day of the Commercial Paper Period then in effect (or to be in effect) with respect to that Bond;

(v) if any Bonds have been called for redemption and the redemption has not yet occurred, the effective date of the change cannot be before such redemption date;

(vi) if a Long-Term Interest Rate or a Daily Rate is then in effect, the effective date of any change cannot occur during the period after a Record Date and to, but not including, the related Interest Payment Date;

(vii) if a Commercial Paper Mode is then in effect, the Remarketing Agent shall determine Commercial Paper Periods of such duration that will, in the judgment of the Remarketing Agent, best promote an orderly transition on the effective date. After the receipt by the Trustee of the Conversion Notice, the day after the last day of each Commercial Paper Period shall be, with respect to such Bond, not later than the effective date of the change. The Remarketing Agent shall promptly give written notice of each such last date and each such effective date with respect to each Bond to the Issuer, the Company and the Trustee;

(viii) if an Index Rate is then in effect, the effective date of any change must be the day after the last day of the Index Period then in effect; and

(ix) any change in the Index applicable to Bonds in an Index Rate Determination Method shall be deemed to be a change in the Determination Method for purposes of this Indenture.

During any such transition period, Bonds bearing interest at a Commercial Paper Rate shall be governed by the provisions of this Indenture applicable to a Commercial Paper Mode and Bonds bearing interest at a Daily Rate, Weekly Rate, Long-Term Interest Rate or Index Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods.

(c) *Calculation of Interest.* The Remarketing Agent shall provide the Trustee and the Company with notice in writing or by Electronic Means by 12:30 p.m., New York City time,

(1) on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month,

(2) on each day on which a Weekly Rate becomes effective, of the Weekly Rate,

(3) on the first day of each Commercial Paper Period, of the length thereof and the Commercial Paper Rate, and, if there is more than one Commercial Paper Rate then in effect, of the related applicable principal amounts,

(4) on the first Business Day of a Long-Term Interest Rate Period, of the Long-Term Interest Rate or Long-Term Interest Rates set for that period,

(5) on each Index Adjustment Date, the Spread,

(6) on each Index Rate Determination Date during an Index Period, depending on the applicable Index, the LIBOR Index or SIFMA Index for such date, and

(7) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date.

Using the rates supplied by this notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent will inform the Trustee and the Company orally of any interest rate so set. The Trustee will confirm the effective interest rate in writing (including by Electronic Means) to any Bondholder who requests it in writing (including by Electronic Means).

The setting of the rates by the Remarketing Agent, the determination of Commercial Paper Periods by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in this Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

(d) *Change in Rate Determination Method; Opinions of Counsel.* Notwithstanding any provision of this Section 2.02, no change shall be made in the Determination Method at the direction of the Company pursuant to Section 2.02(b)(1) if the Company shall fail to deliver a Favorable Opinion of Tax Counsel and confirmation thereof if required under Section 2.02(b)(1). If the Trustee shall have sent any notice to the Bondholders regarding a change in rate pursuant to Section 3.07(b), then in the event of such failure to deliver such opinion or confirmation, the Trustee shall promptly notify all Bondholders of such failure and that the method of determining interest on such Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the SIFMA Index plus the SIFMA Margin or, if the SIFMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(5) shall be effective instead of this Subsection (d).

Section 2.03. Execution and Authentication. The Bonds shall be signed on behalf of the Issuer with the manual or facsimile signature of its Chairman or Vice Chairman and attested by the manual or facsimile signature of its Clerk or Deputy Clerk, and the seal of the Issuer shall be impressed or imprinted on the Bonds by facsimile or otherwise. All authorized facsimile signatures shall have the same effect as if manually signed. If an officer of the Issuer whose signature is on a Bond no longer holds that office at the time the Trustee authenticates the Bond, the Bond shall nevertheless be valid. Also, if a person signing a Bond is the proper officer on the actual date of execution, the Bond shall be valid even if that person is not the proper officer on the nominal date of action.

A Bond shall not be valid for any purpose under this Indenture until the Trustee manually signs the certificate of authentication on the Bond. Such signature shall be conclusive evidence that the Bond has been authenticated under this Indenture.

As a precondition to the initial authentication and delivery of the Bonds, the Trustee shall receive a request and authorization to the Trustee from the Issuer, signed by the Chairman or Vice Chairman of the Issuer, to authenticate and deliver the Bonds to the persons and in the manner therein described.

Section 2.04. Bond Register. Bonds must be presented at the corporate trust office of the Trustee in Atlanta, Georgia, for registration of transfer, exchange and, except as otherwise provided herein, payment. The Trustee shall keep a register of Bonds and of their registration of transfer and exchange, which register shall be open to inspection by the Issuer and the Company during normal business hours.

Section 2.05. Registration and Exchange of Bonds; Persons Treated as Owners. Bonds may be registered as transferred only on the register maintained by the Trustee. Upon surrender for registration of transfer of any Bond to the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the holder or the holder's attorney duly authorized in writing, the Trustee will authenticate a new Bond or Bonds of the same maturity, in an equal total principal amount and registered in the name of the transferee.

Bonds may be exchanged for an equal total principal amount of Bonds of the same maturity but of different authorized denominations. The Trustee will authenticate and deliver Bonds that the Bondholder making the exchange is entitled to receive, bearing numbers not then outstanding.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or to exchange any Bond called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

The registered owner of a Bond shall be treated as the absolute owner of the Bond for all purposes, and payment of principal, interest, premium, if any, or purchase price shall be made only to or upon the written order of the Bondholder or the Bondholder's legal representative, notwithstanding any notice, actual or constructive, to the contrary.

The Trustee will require the payment by a Bondholder requesting exchange or registration of transfer of any tax or other governmental charge required to be paid in respect of the exchange or registration of transfer, but will not impose any other charge on the Bondholder.

Section 2.06. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds. If any Bond is mutilated, lost, stolen or destroyed, the Trustee will authenticate a new Bond of the same denomination with similar terms if any mutilated Bond shall first be surrendered to the Trustee, and if, in the case of any lost, stolen or destroyed Bond, there shall first be furnished to the Issuer, the Trustee and the Company evidence of such loss, theft or destruction, together with an indemnity satisfactory to them. If the Bond has matured or becomes subject to redemption or tender, instead of issuing a replacement Bond, the Trustee may with the written consent of the Company pay the Bond or the Company may purchase the Bond without requiring surrender of

the Bond and make such requirements as the Trustee deems fit for its protection, including a lost instrument bond. The Issuer and the Trustee may charge the Bondholder their reasonable fees, costs and expenses for actions taken pursuant to this Section, including reasonable attorney's fees, costs and expenses, if any.

If a Bond is tendered for purchase as provided in Article III, or if the holder of a Bond gives irrevocable instructions to the Remarketing Agent for purchase, and in each case funds are deposited with the Trustee sufficient for the purchase, the Trustee upon written request of the Company or the Remarketing Agent will authenticate a new Bond in the same maturity and in the same denomination registered as the Company or the Remarketing Agent may direct and deliver it to the Company or upon the Company's order, whether or not the Bond purchased is ever delivered, and the undelivered Bonds shall be canceled on the books of the Trustee, whether or not said undelivered Bonds have been delivered to the Trustee. From and after the purchase date, interest on such Bond shall cease to be payable to the prior holder thereof, such holder shall cease to be entitled to the benefits or security of this Indenture and shall have recourse solely to the funds held by the Trustee for the purchase of such Bond, and the Trustee shall not register any further transfer of such Bond by such prior holder. All funds held by the Trustee for the purchase of undelivered Bonds shall be held uninvested.

Section 2.07. Cancellation of Bonds. Whenever a Bond is delivered to the Trustee for cancellation (upon payment, redemption, tender or otherwise), or for registration of transfer, exchange or replacement pursuant to Section 2.05 or Section 2.06, the Trustee will promptly cancel and dispose of the Bond in accordance with the Trustee's policy of disposal. The Trustee may, but shall not be required to, destroy canceled Bonds.

Section 2.08. Temporary Bonds. Until definitive Bonds are ready for delivery, the Issuer may execute and the Trustee will authenticate temporary Bonds substantially in the form of the definitive Bonds, with appropriate variations. The Issuer will, without unreasonable delay, prepare and the Trustee will authenticate definitive Bonds in exchange for the temporary Bonds. Such exchange shall be made by the Trustee without charge to the Bondholders. For so long as the Securities Depository shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise holding beneficial ownership of the Bonds is to receive, hold or deliver any definitive or temporary Bond certificate.

ARTICLE III

REDEMPTION, MANDATORY TENDER AND REMARKETING

Section 3.01. Notices to Trustee. If the Company wishes that any Bonds be redeemed pursuant to any optional redemption provision in the Bonds, the Company will notify the Trustee in writing of the applicable provision, the redemption date, the principal amount of the Bonds to be redeemed and other necessary particulars in accordance with Section 4.7 of the Agreement.

Section 3.02. Redemption Dates. The redemption date of Bonds to be redeemed pursuant to any optional redemption provision in the Bonds will be a date permitted by the Bonds and specified by the Company in the notice delivered pursuant to Section 4.7 of the Agreement. The redemption date for mandatory redemptions will be as specified in the Bonds to be redeemed or determined by the Trustee consistently with the provisions of the Bonds.

Section 3.03. Selection of Bonds to Be Redeemed. Except as provided in the Bonds, if fewer than all the Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate in its sole and absolute discretion, except that the Trustee will first select any Bonds owned by the Company or any of its nominees or held by the Trustee for the account of the Company or any of its nominees. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination. Provisions of this Indenture that apply to Bonds called for redemption also apply to portions of Bonds called for redemption.

Section 3.04. Redemption Notices.

(a) *Official Notice of Redemption.* The Trustee will give notice of each redemption as provided in the Bonds and will at the same time give a copy of the notice to the Remarketing Agent. The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds under "Optional Redemption During Long-Term Interest Rate Period," "Extraordinary Optional Redemption" or "Optional Redemption During Daily or Weekly Rate Period" in paragraph 9 of the form of the Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Failure to give any required notice of redemption as to any particular Bonds or any defect therein will not affect the validity of the call for redemption of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective

when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(b) *Additional Notice of Redemption.* In addition to the redemption notice required above, further notice (the "Additional Redemption Notice") shall be given by the Trustee as set out below. No defect in the Additional Redemption Notice nor any failure to give all or any portion of the Additional Redemption Notice shall in any manner defeat the effectiveness of a call for redemption if notice is given as prescribed in paragraph (a) above.

(1) Each Additional Redemption Notice shall contain the information required in paragraph (a) above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of the Bonds as originally issued; (iii) the Determination Method for, or the rate of interest borne by, each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(2) Each Additional Redemption Notice shall be sent at least 30 days before the redemption date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depository now being The Depository Trust Company of New York, New York) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

The information required in any redemption notice (including an Additional Redemption Notice) pursuant to this Section and the information required in any notice of tender (including an Additional Tender Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Redemption" in paragraph 9 of the form of the Bonds.

Section 3.05. Payment of Bonds Called for Redemption. Upon surrender to the Trustee, Bonds called for redemption shall be paid as provided in this Article at the redemption price (including premium, if any) stated in the notice, plus interest accrued to the redemption date, or at a purchase price as provided in the form of Bond, except that interest payable on Bonds bearing interest at a Daily Rate will be paid on the fifth Business Day following the redemption date. Bonds called for redemption and purchased pursuant to a tender before the redemption date will not be redeemed but will be dealt with as provided below in this Article. Upon the payment of the redemption price of the Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 3.06. Bonds Redeemed in Part. Subject to Article V, upon surrender of a Bond redeemed in part, the Trustee will authenticate for the holder a new Bond or Bonds in

authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered.

Section 3.07. Mandatory Tender.

(a) *Mandatory Tender of Bonds.* The Bonds are subject to mandatory tender for purchase as provided in paragraph 7 of the form of the Bonds.

(b) *Notice to Bondholders of Change in Interest Rate Determination Method.* When a change in the Determination Method is to be made, or upon commencement of a new Long-Term Interest Rate Period or a new Index Period immediately after a prior Index Period, the Trustee will, upon written notice from the Company pursuant to Section 2.02(b), notify the affected Bondholders by first class mail at least 15 days before the effective date of the change or the commencement of a new Long-Term Interest Rate Period or Index Period, except that (i) such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period and (ii) no notice shall be given with respect to a tender under "Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode" in paragraph 7 of the form of the Bonds. The notice shall be effective when sent and shall state:

(1) the purchase date (and, if the Bonds provide that accrued interest will not be paid on the purchase date, the date it will be paid);

(2) the purchase price;

(3) that the Bonds to be tendered must be surrendered to collect the purchase price;

(4) the address at which or the manner in which the Bonds must be surrendered;

(5) that interest on the Bonds to be tendered ceases to accrue on the purchase date;

(6) that the interest rate determination method will be changed;

(7) the proposed effective date of the new rate; and

(8) that a mandatory tender will result on the effective date of the change as provided in the Bonds and that, in the case of a failed conversion, the interest rate determination method will automatically be converted to a Weekly Rate, and the Bonds will continue to be subject to mandatory tender on such proposed effective date.

Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or

defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(c) *Additional Notice of Tender.* In addition to the tender notice required above, further notice (the "Additional Tender Notice") shall be given by the Trustee as set out below. No defect in the Additional Tender Notice nor any failure to give all or any portion of the Additional Tender Notice shall in any manner defeat the effectiveness of a tender notice if notice is given as prescribed in paragraph (b) above.

(1) Each Additional Tender Notice shall contain the information required in paragraph (c) above for an official notice of tender plus (i) the CUSIP numbers of all Bonds being tendered; (ii) the date of the Bonds as originally issued; (iii) the maturity date of each Bond being purchased; and (iv) any other descriptive information needed to identify accurately the Bonds being purchased.

(2) Each Additional Tender Notice shall be sent at least 30 days before the purchase date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depository now being The Depository Trust Company of New York, New York) and to one or more national information services that disseminate notices of purchase of obligations such as the Bonds.

The information required in any tender notice (including an Additional Tender Notice) pursuant to this Section and the information required in any redemption notice (including an Additional Redemption Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Tender" in paragraph 7 of the form of the Bonds.

Section 3.08. Disposition of Purchased Bonds. (a) *Bonds to be Remarketed.* Bonds purchased pursuant to tenders as provided in the form of Bonds or as provided in Section 3.07 will be offered for sale by the Remarketing Agent as provided in this Section except as follows:

(1) Bonds required to be tendered as described under "Mandatory Tender Upon a Change in the Determination Method" in paragraph 7 of the form of Bond, which are tendered between the date notice of mandatory tender is given and the mandatory tender date, may be remarketed before the mandatory tender date only if the buyer receives a copy of the mandatory tender notice from the Remarketing Agent; and

(2) Bonds will not be offered for sale under this Section during the continuance of an Event of Default under Section 8.01(a), (b), (c) or (d). Bonds will be offered for sale under this Section 3.08 during an event which with the passage of time or the giving of notice or both may become an Event of Default only in the sole discretion of the Remarketing Agent.

(b) *Remarketing Effort.* Except to the extent the Company directs the Remarketing Agent not to do so, the Remarketing Agent will offer for sale and use reasonable efforts to sell all Bonds to be sold as provided in paragraph (a) above and, when directed by the Company, any Bonds held by the Company. The sale price of each Bond must be equal to the principal amount of each Bond plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all the Bonds. The Remarketing Agent may buy as principal any Bonds to be offered under this Section 3.08.

(c) *Notices in Respect of Tenders.* When the Trustee receives a notice from a Bondholder (or a Beneficial Owner through its direct Participant) as specified in paragraph 6 of the form of the Bond for the Bondholder (or a Beneficial Owner through its direct Participant) that Bonds are being tendered, the Trustee will promptly notify the Remarketing Agent and the Company in writing or by Electronic Means of the receipt of such notice, but in no event later than the following times:

(i) when the Bonds bear interest at a Daily Rate, no later than 11:15 a.m., New York City time, on the same Business Day; and

(ii) when the Bonds bear interest at a Weekly Rate, no later than 11:15 a.m., New York City time, on the Business Day next succeeding receipt of such notice.

(d) *Delivery of Remarketed Bonds.*

(i) Except when a Book-Entry System of registration is in effect, the Trustee shall hold all Bonds delivered pursuant to this Section 3.08 in trust for the benefit of the owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders, and thereafter, if such Bonds are remarketed, shall deliver replacement Bonds, prepared by the Trustee in accordance with the directions of the Remarketing Agent and authenticated by the Trustee, for any Bonds purchased in accordance with the written directions of the Remarketing Agent, to the Remarketing Agent for delivery to the purchasers thereof.

(ii) The Remarketing Agent shall advise the Trustee and the Company in writing or by facsimile transmission of (A) the principal amount of Bonds which have been remarketed, and (B) the denominations and registration instructions (including taxpayer identification numbers), in each case, in accordance with the following schedule (all times of which are New York City time):

CURRENT METHOD OF INTEREST RATE DETERMINATION OR, IN CONNECTION WITH A CHANGE IN SUCH METHOD, THE NEW METHOD OF INTEREST RATE DETERMINATION	TIME BY WHICH INFORMATION TO BE FURNISHED TO TRUSTEE
Commercial Paper Period	12:15 p.m. on the purchase date
Daily Rate Period	12:15 p.m. on the purchase date
Weekly Rate Period	12:15 p.m. on the purchase date
Long-Term Interest Rate Period	12:15 p.m. on the purchase date
Index Period	12:15 p.m. on the purchase date

(iii) The terms of any sale by the Remarketing Agent shall provide for the authorization of the payment of the purchase price by the Remarketing Agent to the Trustee in exchange for Bonds registered in the name of the new Bondholder which shall be delivered by the Trustee to the Remarketing Agent at or before 2:00 p.m., New York City time, on the purchase date if the purchase price has been received from the Remarketing Agent by the time set forth in Section 3.08(e) on the purchase date.

(e) *Delivery of Proceeds of Sale.* The Remarketing Agent shall deliver directly to the Trustee an amount equal to the principal amount thereof plus accrued interest, if any, of the Bonds which the Remarketing Agent has advised the Trustee have been remarketed pursuant to Section 3.08(d)(ii) no later than 12:30 p.m., New York City time, on the purchase date.

ARTICLE IV

APPLICATION OF PROCEEDS AND PAYMENT OF BONDS

Section 4.01. Application of Proceeds. The Issuer will cause the proceeds of the initial sale of the Bonds to be deposited with the Trustee, and the Trustee shall deposit such proceeds into the Construction Fund.

Section 4.02. Payment of Bonds. The Trustee will make payments of principal of, premium, if any, and interest on the Bonds from moneys available to the Trustee under this Indenture for that purpose. The Trustee will pay the purchase price of tendered Bonds *first* from the proceeds of the remarketing of Bonds under Section 3.08 and *second* from other moneys available to the Trustee for that purpose.

All moneys received as proceeds of remarketing the Bonds under Section 3.08 shall be held segregated by the Trustee in a separate and segregated trust account. To the extent that the payment of principal or interest on the Bonds is made from moneys as described in this Section, such payment shall also satisfy and discharge any payment obligation of the Company under the Note and the Trustee shall promptly notify the Company in writing if such payment requirement has not been satisfied. If any Bond is redeemed prior to maturity or if the Company surrenders any Bond to the Trustee for cancellation, the Trustee shall cancel such Bond.

Section 4.03. Investments of Moneys. The Trustee will invest and reinvest moneys held by the Trustee as directed in writing by the Company to the extent permitted by law, in:

(a) Government Obligations;

(b) Bonds and notes of the Federal Land Bank;

(c) Obligations of the Federal Intermediate Credit Bank;

(d) Obligations of the Federal Bank for Cooperatives;

(e) Bonds and notes of Federal Home Loan Banks;

(f) Negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations;

(g) Investments made in or through the Trustee's cash sweep accounts or other short-term investments funds, the assets of which consist of investments described in clause (a) above; or

(h) Other investments then permitted by law.

The Trustee may make investments permitted by this Article through its own bond department or the bond department of any bank or trust company under common control with the Trustee and may charge its ordinary and customary fees for such trades, including cash sweep account fees. Investments will be made so as to mature or be subject to redemption at the option of the holder on or before the date or dates that the Trustee anticipates that moneys from the investments will be required. The Trustee, when authorized by the Company, may trade with itself in the purchase and sale of securities for such investment. Investments will be registered in the name of the Trustee and held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash held by the Trustee is insufficient. The Trustee shall not be liable for any loss from such investments to the extent directed by the Company and to the extent such directions have been complied with by the Trustee.

The Trustee may conclusively rely upon the Company's written instructions as to both the suitability and legality of the directed investments. Ratings of permitted investments shall be determined at the time of purchase of such permitted investments and without regard to ratings subcategories. The Trustee shall have no responsibility to monitor the ratings of permitted investments after the initial purchase of such permitted investments.

Although the Issuer and the Company each recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Issuer and the Company hereby agree that confirmations of permitted investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered.

Section 4.04. Creation of Bond Fund. There is hereby created and established with the Trustee a separate and segregated trust fund to be designated "Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project) First Series 2009 Bond Fund". Moneys deposited therein shall be used to pay the principal of and premium, if any, and interest on the Bonds as provided in this Indenture.

Section 4.05. Payments into the Bond Fund. There shall be deposited into the Bond Fund, as and when received, (i) all payments of the amounts owed by the Company under the first paragraph of Section 3.2 of the Agreement; and (ii) all other moneys received by the Trustee under and pursuant to any of the provisions of the Agreement or the Note which are required, or which are accompanied by directions from the Company that such moneys are, to be paid into the Bond Fund. The Trustee is authorized to receive at any time payments or prepayments from the Company pursuant to the Agreement and the Note for deposit in the Bond Fund. The Trustee is authorized to transfer money from the Construction Fund to the Bond Fund at the written direction of the Company. Any money or investments in the Construction Fund shall be transferred to the Bond Fund without any direction from the Company upon acceleration of the Bonds as provided in Section 8.02.

Section 4.06. Use of Moneys in the Bond Fund. Except as provided in this Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on the Bonds. Upon receipt of a written notice from the Company pursuant to Section 4.7 of the Agreement and, in the case of a purchase of Bonds, upon the deposit of cash or Government Obligations in the Bond Fund sufficient, together with other amounts available therefor in the Bond Fund, to make the purchase of Bonds, the Issuer and the Trustee covenant and agree to take and cause to be taken the necessary steps to redeem or purchase such principal amount of Bonds as specified by the Company in such written notice; provided, however, that any available moneys in the Bond Fund may be used on direction of the Company to redeem a part of the Bonds outstanding and then redeemable or to purchase Bonds for cancellation so long as the Company is not in default with respect to any payments required pursuant to Section 3.2 of the Agreement and to the extent said moneys are in excess of the amount required for payment of the Bonds theretofore matured or called for redemption and interest accrued and payable in respect of outstanding Bonds.

Section 4.07. Custody of the Bond Fund. The Bond Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer hereby authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of and premium, if any, and interest on the Bonds as the same become due and payable and to make said funds so withdrawn available to the paying agents hereunder at their principal office, for the purpose of paying said principal and premium, if any, and interest, which authorization and direction the Trustee hereby accepts.

Section 4.08. Creation of Construction Fund. There is hereby created and established with the Trustee a separate and segregated trust fund to be designated "Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 Construction Fund", which shall be expended in accordance with the provisions of this Article IV.

Section 4.09. Payments into the Construction Fund. The proceeds of the sale of the Bonds by the Issuer shall be deposited into the Construction Fund, together with all investment proceeds received from investment of moneys in the Construction Fund.

Section 4.10. Disbursements from the Construction Fund. The Trustee is hereby authorized and directed to make payments from the Construction Fund to pay the Cost of Construction, or to reimburse the Company for any Cost of Construction paid by the Company before or after execution of the Agreement and delivery of the Bonds, and the Trustee shall be relieved of all liability with respect to making payments from the Construction Fund in accordance with this Section 4.10. The Trustee shall make each disbursement from the Construction Fund upon receipt of a written requisition by the Company, upon which the Trustee may conclusively rely, stating with respect to each disbursement to be made: (i) the requisition number, (ii) the name and address of the Person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation or portion thereof which is to be paid has been properly incurred, is a proper charge against the Construction Fund and has not been the basis of any previous withdrawal from the Construction Fund or the proceeds of any other obligations the interest on which is exempt from federal income taxation. The Trustee is also authorized to transfer money from the Construction Fund to the Bond Fund at the written direction of the Company without the need for any requisition. The Trustee shall transfer the money and investments in the Construction Fund to the Bond Fund without any requisition or direction in the event that the Bonds shall be accelerated pursuant to Section 8.02.

The Trustee shall keep and maintain adequate records pertaining to the Construction Fund and all disbursements therefrom; and, after the Project has been completed and a certificate of payment of all costs has been filed with the Trustee as provided in Section 4.11, the Trustee shall file an accounting thereof with the Issuer and the Company.

Section 4.11. Completion of the Project. The completion of the Project and payment of all Cost of Construction shall be evidenced by the filing with the Trustee of the certificate required by the provisions of Section 2.3 of the Agreement. All moneys in the Construction Fund (including moneys earned thereon by investment thereof) remaining after the Completion Date and payment, or provision for payment, in full of the Cost of Construction shall be used by the Trustee at the written direction of the Company (i) if the Bonds are then subject to redemption or will be subject to redemption within 90 days of the date the Project was placed in service, to redeem outstanding Bonds at the earliest possible redemption date within such 90-day period in accordance with Treasury Regulation Section 1.142-2(c), as amended, supplemented or replaced from time to time, (ii) if such Bonds are not subject to redemption within such 90-day period, to establish a defeasance escrow in accordance with Treasury Regulation Section 1.142-2(c), as amended, supplemented or replaced from time to time, or (iii) for any other purpose which, in the

opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee, is permissible under then applicable laws of the State and will not under the Code cause the interest on the Bonds to be included in gross income for federal income tax purposes; provided that amounts approved by the Company shall be retained by the Trustee in the Construction Fund for payment of any Cost of Construction not then due and payable or which is in dispute, and any balance remaining of such retained funds after full payment of Cost of Construction shall be held and applied, or used as directed by the Company, in the manner specified in this Section 4.11.

Until used for one or more of the foregoing purposes, such moneys shall be transferred to and held in a separate account in either the Construction Fund or the Bond Fund, as appropriate, and the Company shall not direct the Trustee to invest such moneys so as to provide a yield on such moneys (computed from the date the Project was placed in service) greater than the yield on the Bonds, all as such terms are defined and used in Section 148 of the Code; provided that such yield restriction shall not apply if the Trustee is furnished with an opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee to the effect that, under applicable statutes and regulations, the lack of a yield restriction on such moneys or a restriction at a higher yield or differently-computed yield will not result in the interest on the Bonds becoming includable in gross income for federal income tax purposes.

Section 4.12. Non-presentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof, if funds sufficient to pay such Bond shall have been deposited in the Bond Fund or otherwise made available to the Trustee through deposit therein as provided in Section 4.05, all liability of the Issuer to the holder thereof for the payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds within a separate account in the Bond Fund, subject to the provisions of Section 4.15, without liability for interest thereon, for the benefit of the holder of such Bond, which shall thereafter (subject to the provisions of Section 4.15) be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Bond.

Section 4.13. Moneys to Be Held in Trust. All moneys required to be deposited with or paid to the Trustee for the account of the Bond Fund or the Construction Fund under any provision of this Indenture shall be held by the Trustee in trust, and except for moneys deposited with or paid to the Trustee for the redemption of Bonds or the payment of Bonds, including Bonds which are deemed to be paid within the meaning of Section 7.01, shall, while held by the Trustee, constitute part of the trust estate and be subject to the security interest created hereby.

Section 4.14. Repayment to the Company from the Bond Fund. Any amounts remaining in the Bond Fund (other than moneys, if any, set aside as provided herein), after payment in full of the Bonds (or provision for payment thereof having been made in accordance with this Indenture), the fees, costs and expenses of the Trustee (including reasonable attorney's fees, costs and expenses, if any) and any additional paying agent and all other amounts required to be paid hereunder shall be repaid to the Company as provided in Section 6.10 of the Agreement.

Section 4.15. Moneys Held in Trust; Unclaimed Funds. Money received by the Remarketing Agent or the Trustee from the sale of a Bond under Section 3.08 or for the purchase of a Bond will be held segregated from other funds of the Remarketing Agent or the Trustee in trust for the benefit of the person from whom such Bond was purchased or the person delivering such purchase money, as the case may be, and will not be invested. The Trustee shall promptly, but in no event later than 30 days of their original deposit, apply moneys received from the Company in accordance with this Indenture and as directed in writing by the Company.

Notwithstanding the provisions of the immediately preceding paragraph, any moneys which shall be set aside by the Trustee or deposited by the Trustee with the paying agents and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

ARTICLE V

BOOK-ENTRY SYSTEM

Section 5.01. Book-Entry System. The Bonds shall be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company as the initial Securities Depository and registered owner of such Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository, or a custodian thereof, for the Bonds. The Beneficial Owners will not receive physical delivery of Bond certificates except as provided herein. For so long as the Securities Depository shall continue to serve as securities depository for such Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of such Bonds is to receive, hold or deliver any Bond certificate. The Issuer, the Company and the Trustee will recognize the Securities Depository or its nominee as the Bondholder of such Bonds for all purposes, including payment, notices and voting.

The Issuer and the Trustee covenant and agree, so long as The Depository Trust Company shall continue to serve as Securities Depository for the Bonds, to meet the requirements of The Depository Trust Company with respect to required notices and other provisions of the Letter of Representations among The Depository Trust Company, the Issuer, the Trustee, the Company and the Remarketing Agent, executed with respect to the Bonds.

The Issuer, the Trustee, the Company and the Remarketing Agent may conclusively rely upon (i) a certificate of the Securities Depository as to the identity of the Participants in the

Book-Entry System and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of Bonds beneficially owned by, the Beneficial Owners.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or registering the transfer of the book-entry to produce the same effect. Any provision hereof permitting or requiring delivery of Bonds shall, while the Bonds are in a Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable law.

The Trustee and the Issuer, at the written direction and expense of the Company and with the consent of the Remarketing Agent, may from time to time appoint a successor Securities Depository and enter into an agreement with such successor Securities Depository to establish procedures with respect to the Bonds consistent with current industry practice. Any successor Securities Depository shall be a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934, as amended.

Neither the Issuer, the Company, the Trustee nor the Remarketing Agent will have any responsibility or obligation to any Securities Depository, any Participants in the Book-Entry System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Participant.

Bond certificates are required to be delivered to and registered in the name of the Beneficial Owner, under the following circumstances:

(a) The Securities Depository determines to discontinue providing its service with respect to the Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days' notice to the Issuer, the Company, the Remarketing Agent and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines not to continue the Book-Entry System through a Securities Depository.

The Trustee is hereby authorized to make such changes to the form of Bond attached hereto as Exhibit A which are necessary or appropriate to reflect whether the Book-Entry System is not in effect, that a successor Securities Depository has been appointed or that an additional or co-paying agent or tender agent has been designated pursuant to Section 12.03.

If at any time, the Securities Depository ceases to hold the Bonds, all references herein to the Securities Depository shall be of no further force or effect.

ARTICLE VI

COVENANTS

Section 6.01. Payment of Bonds. The Issuer will promptly pay the principal of, premium, if any, and interest on, and other amounts due with respect to, the Bonds on the dates and in the manner provided in the Bonds, but only from the amounts assigned to and held by the Trustee under this Indenture. Neither the State, nor any political subdivision thereof (including Escambia County) shall be obligated to pay the principal of the Bonds, or the premium, if any, or interest thereon or other costs incidental thereto, the same being payable solely from the revenues and receipts hereinabove referred to.

The Bonds do not pledge the faith, credit or taxing power of the State or any political subdivision thereof, including the Issuer, but shall be limited and special obligations payable solely from the proceeds derived by the Issuer under the Agreement and the Note, and neither the Issuer nor the State, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of and premium, if any, and interest on the Bonds or to make any other payments provided for hereunder or under the Agreement or the Note for the Bonds, or (ii) pay the same from any funds of the Issuer other than those derived by the Issuer under the Agreement or the Note, and such Bonds shall not constitute a lien upon any property owned by or situated within the territorial limits of the Issuer except the proceeds derived under the Agreement and the Note.

Section 6.02. Performance of Covenants; Issuer. Subject to the provisions of Section 6.08, Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to accept, assign and pledge the Note and the Agreement and the amounts payable under the Note and to pledge the amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part necessary for the issuance of the Bonds and the execution and delivery of this Indenture and the Agreement has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof.

Section 6.03. Recording and Filing; Further Assurances. The Issuer will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the better assuring, assigning and confirming to the Trustee the amounts assigned under this Indenture for the payment of the Bonds. The Issuer further covenants that it will not create or suffer to be created any lien, encumbrance or charge upon its interest in the Note or the Agreement, if any, except the lien of this Indenture.

Section 6.04. Tax Covenants. The Issuer covenants and agrees that it will comply with the terms and conditions on its part contained in the Tax Certificate and Agreement. The Issuer further covenants that it shall not knowingly take any action which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code and the proposed, temporary or final regulations thereunder as such may be applicable to the Bonds or the proceeds derived from the sale of the Bonds or any other moneys; provided, however, that no action taken by the Issuer pursuant to and in accordance with the terms of the Agreement or this Indenture shall give rise in any manner whatsoever to any claim against or liability of the Issuer under this Indenture; and provided further, that any such claims or liabilities shall in all events be subject to the indemnification provisions of the Agreement.

Notwithstanding any provision of this Indenture to the contrary, the Trustee shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code, or any successor statute or any regulation, ruling or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in nonpurpose obligations having a yield higher than the yield on the Bonds, and the Trustee shall not be liable or responsible for monitoring the compliance by the Issuer or the Company with any of the requirements of Section 148 of the Code or any applicable regulation, ruling or other judicial or administrative interpretation thereof; it being acknowledged and agreed that the sole obligation of the Trustee with respect to the investment of monies held under any fund or account created hereunder shall be to invest such monies in accordance with Section 4.03 in each case pursuant to the written instructions received by the Trustee in accordance with Section 4.03.

Section 6.05. Rights Under Agreement. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is hereby made to the same for a detailed statement of said covenants and obligations of the Company thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement for and on behalf of the Bondholders, whether or not the Issuer is in default hereunder.

Section 6.06. Designation of Additional Paying Agents. The Issuer may cause, with the consent of the Company, the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of additional paying agents and for providing for the payment of such of the Bonds as shall be presented when due at the designated corporate trust office of the Trustee, or its successor in trust hereunder, or at the designated office of said additional paying agents. All such funds held by said additional paying agents shall be held by each of them in trust and shall constitute a part of the trust estate and shall be subject to the security interest created hereby.

Section 6.07. Existence of Issuer. The Issuer covenants that it will at all times maintain its legal existence and will duly procure any necessary renewals and extensions thereof; will use its

best efforts to maintain, preserve and renew all the rights, powers, privileges and franchises owned by it; and will comply with all valid acts, rules, regulations and orders of any legislative, executive, judicial or administrative body applicable to the Project.

Section 6.08. Immunities and Limitations of Responsibility of Issuer.

Notwithstanding any other provision of this Indenture or the Agreement:

(a) (i) the Issuer shall have no obligation to take action under this Indenture, the Bonds, the Agreement or such other instruments or documents, unless the Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances reasonably satisfactory to it of payment of or reimbursement for any expenses (including attorneys' fees) in such action, and (ii) any judgment rendered against the Issuer for breach of its obligations hereunder or under the Bonds, the Agreement or such instruments or documents, shall be payable solely from the revenues derived by the Issuer hereunder or under the Agreement or the Note, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom.

(b) The Issuer shall not be required to incur any expense with respect to the Project or the Bonds unless requested to do so by the Company, in which event the Company hereby agrees to reimburse the full amount of such expense to the Issuer, and the Issuer may require payment to it of such amount as a prerequisite to its incurring any such expense.

(c) The Issuer may rely conclusively on any communication or other document furnished to it hereunder and reasonably believed by it to be genuine. The Issuer shall not be liable for any action (a) taken by it in good faith and reasonably believed by it to be within its discretion or powers hereunder, or (b) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers hereunder, or (c) taken by it pursuant to any direction or instruction by which it is governed hereunder, or (d) omitted to be taken by it by reason of the lack of any direction or instruction required hereby for such action; nor shall it be responsible for the consequences of any error of judgment reasonably made by it. The Issuer shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any person, except its own officers and employees and agents. When any consent or other action by it is called for hereby, it may defer such action pending receipt of such evidence (if any) as it may reasonably require in support thereof. No permissive right or power to act which the Issuer may have shall be construed as a requirement to act; and no delay in the exercise of a right or power shall affect its subsequent exercise of the right or power.

(d) No recourse shall be had for the payment of the principal of, or premium, if any, purchase price or interest on, any of the Bonds or for any claim based thereon or upon any obligation, provision, covenant or agreement contained in this Indenture or any other document to which the Issuer is a party, against any past, present or future officer, official, employee or agent of the Issuer, or any officer, official, employee or agent of any successor to the Issuer, as such, either directly or through the Issuer or any successor to the Issuer, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise,

and all such liability of any such officer, official, employee or agent as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of any of the Bonds. Neither the officers of the Issuer nor any Person executing the Bonds shall be personally liable on the Bonds by reason of the issuance thereof.

(e) No failure of the Issuer to comply with any term, condition, covenant or agreement herein shall subject the Issuer, its incorporators, members, directors, officers, employees, agents and counsel to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the Agreement or revenues therefrom that have been pledged to payment of the Bonds or proceeds of the Bonds. Nothing herein shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein; provided, that no costs, expenses or other monetary relief shall be recoverable from the Issuer or its members, trustees, officers, directors, employees, agents and counsel, except as may be payable from the Agreement or revenues therefrom that have been pledged to payment of the Bonds or the proceeds of the Bonds.

(f) The Issuer shall be entitled to advice of counsel concerning all matters under this Indenture and its duties under this Indenture and the transactions contemplated hereby. The Issuer may in all cases pay such reasonable compensation to such attorneys, agents and receivers and shall be entitled to reimbursement from the Company for all such compensation paid. The Issuer may act upon the opinion or advice of counsel, accountants or such other professionals as the Issuer deems necessary and selected by it in the exercise of reasonable care. The Issuer shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

Section 6.09. Issuer Protected.

(a) The Issuer shall not be responsible for insuring the Project or collecting any insurance moneys, or for validity of the execution by any other party of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(b) Any action taken by the Issuer pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefor or in place thereof.

(c) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Issuer shall be entitled to rely upon a certificate signed by the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Issuer has been notified as provided in Section 9.01(f), or of which by said subsection it is deemed to have notice, the Issuer shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient,

but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same.

ARTICLE VII

DISCHARGE OF INDENTURE

Section 7.01. Bonds Deemed Paid; Discharge of Indenture. Any Bond will be deemed paid for all purposes of this Indenture when (a) payment of the principal of and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate, and which, when Bonds bear interest at a Long-Term Interest Rate, shall be calculated at such Long-Term Interest Rate), on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further reinvestment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable costs and expenses of the Trustee (including reasonable attorney's fees, costs and expenses) pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of this Indenture or be an obligation of the Issuer, and shall be payable solely from the moneys or Government Obligations under (a)(2) above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in Article II.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) of the first paragraph of this Section 7.01, the purchase price of tendered Bonds shall be paid from the sale of Bonds under Section 3.08. If payment of such purchase price is not made from the sale of Bonds pursuant to Section 3.08, payment shall be made from funds (or Government Obligations) on deposit pursuant to this Section without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and canceled.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee a Favorable Opinion of Tax Counsel to the effect that (a) the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Code and (b) all of the conditions precedent to the defeasance of the Bonds have been complied with, and (2) (a) notice of redemption of the Bond is given in accordance with Article III or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with Article III, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under this

Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity date of the Bond.

When all outstanding Bonds are deemed paid under the foregoing provisions of this Section, the Trustee will upon written request of the Issuer acknowledge the discharge of the lien of this Indenture; provided, however, that the obligations relating to the tender for purchase as provided in the Bonds, the obligations under Section 6.04 and the obligations under Article II in respect of the registration of transfer, exchange, registration, discharge from registration and replacement of Bonds shall survive the discharge of the lien of this Indenture.

Section 7.02. Application of Trust Money. The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to the preceding Section and shall apply the deposited money and the money from the Government Obligations in accordance with this Indenture only to the payment of principal of, premium, if any, and interest on the Bonds and to the payment of the purchase price of tendered Bonds.

Section 7.03. Repayment to Company. The Trustee shall promptly pay to the Company upon request any excess money or securities held by the Trustee at any time under this Article and any money held by the Trustee under any provision of this Indenture for the payment of principal or interest or for the purchase of Bonds that remains unclaimed for six years.

ARTICLE VIII

DEFAULTS AND REMEDIES

Section 8.01. Events of Default. An "Event of Default" is any of the following:

(a) Default in the payment of any interest on any Bond when due and as the same shall become due and payable, which default continues for five days;

(b) Default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption or by declaration or otherwise;

(c) Default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; or

(d) An event of default has occurred and is continuing under the Agreement.

Section 8.02. Acceleration. Upon the occurrence of an Event of Default, the Trustee may, and upon receipt of the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, declare the principal of all Bonds then outstanding and the interest accrued

thereon immediately due and payable; and such principal and interest shall thereupon become and be immediately due and payable.

If after the principal of the Bonds and the accrued interest thereon have been so declared to be due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable otherwise than by acceleration and all other sums payable under this Indenture, under the Agreement or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the Issuer, and the Issuer also performs all other things in respect of which it may have been in default hereunder and pays the reasonable fees, charges, costs and expenses of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee's reasonable attorneys' fees, costs and expenses, then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of Bonds issued hereunder; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. The Trustee shall forward a copy of any such annulment notice pursuant to this paragraph to the Issuer and the Company.

Section 8.03. Other Remedies. If an Event of Default occurs and is continuing, subject to Section 8.06, the Trustee, before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable, may, and upon receipt of the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, pursue any available remedy, including appointment of a receiver, by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Note, this Indenture or the Agreement.

The Trustee, as the assignee of all the right, title and interest of the Issuer in and to the Agreement and the Note, may enforce each and every right granted to the Issuer under the Agreement and the Note. In exercising such rights and the rights given the Trustee under this Article VIII, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 9.01(a), would best serve the interests of the Bondholders.

Section 8.04. Legal Proceeding by Trustee. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon receipt of the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, and receipt of indemnity to its satisfaction shall, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Issuer to enforce any rights under the Agreement and the Note and to require the Issuer to carry out any other provisions of this Indenture for the benefit of the Bondholder and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of this Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 8.05. Appointment of Receivers. Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

Section 8.06. Waiver of Past Defaults. The holders of a majority in principal amount of the Bonds then outstanding by written notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

Section 8.07. Control by Majority. The holders of a majority in principal amount of the Bonds then outstanding may, in writing, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee, upon advice of counsel, may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 9.01, that the Trustee determines is unduly prejudicial to the rights of other Bondholders, or would involve the Trustee in personal liability.

Section 8.08. Limitation on Suits. A Bondholder may not pursue any remedy with respect to this Indenture or the Bonds unless (a) the holder gives the Trustee written notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy,

(c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability, cost or expense (including reasonable attorney's fees, costs and expenses) and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the holders of all Bonds then outstanding. Nothing in this Indenture contained shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of and premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner in the Bonds expressed.

A Bondholder may not use this Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Section 8.09. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the holder.

Section 8.10. Collection Suit by Trustee. If an Event of Default under Section 8.01(a), (b) or (c) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount remaining unpaid.

Section 8.11. Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the holders in any election of a trustee in bankruptcy or other person performing similar functions. In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Section 8.12. Priorities. All monies received by the Trustee pursuant to any right given or action taken under the provisions of this Article VIII shall be deposited in the Bond Fund and all monies (except monies held in separate accounts by the Trustee pursuant to Section 4.15 in the Bond Fund) shall be applied as follows:

FIRST: To the Trustee for amounts to which it is entitled under Section 9.02.

SECOND: To Bondholders for amounts due and unpaid on the Bonds for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal and interest, respectively.

THIRD: To the Company.

The Trustee may fix a payment date for any payment to the Bondholders.

Section 8.13. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs and expenses, including reasonable attorneys' fees, costs and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a holder pursuant to Section 8.07 or a suit by holders of more than 10% in principal amount of the Bonds then outstanding.

ARTICLE IX

TRUSTEE AND REMARKETING AGENT

Section 9.01. Acceptance of the Trusts. The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform such trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of any Event of Default and after the curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances in the enforcement of a corporate indenture.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees selected by it with reasonable care and the Trustee shall not be responsible for the conduct of such attorneys, agents, receivers or employees, if selected with reasonable care, and shall be entitled to advice of counsel concerning all matters relating to the trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may

be the attorney or attorneys for the Issuer or the Company), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds), or for the recording or re-recording, filing or re-filing of this Indenture, or any other instrument required by this Indenture to secure the Bonds, or for insuring the Project or collecting any insurance moneys, or for validity of the execution by the Issuer of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(d) The Trustee shall not be accountable for the use or application of any Bonds authenticated or delivered hereunder or the proceeds thereof. The Trustee may become the owner of Bonds secured hereby with the same rights which it would have if not the Trustee. To the extent permitted by law, the Trustee may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee may conclusively rely upon and shall be fully protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to conclusively rely upon a certificate signed by the Issuer or the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section 9.01, or of which by said subsection it is deemed to have notice, the Trustee shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Clerk or Deputy Clerk of the Issuer under the Issuer's seal to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and it shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV, unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer or by the holders of at least 25% in aggregate principal amount of Bonds then outstanding; and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no default except as aforesaid.

(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right fully to inspect any and all parts of the Project, including all books, papers and records of the Issuer pertaining to the Project and the Bonds and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee, which the Trustee in its discretion may deem desirable for the purpose of establishing the right of the Issuer to the authentication of any Bonds, the withdrawal of any cash or the taking of any other action by the Trustee.

(l) Before taking any action referred to in Section 8.02, 8.03, 8.04, 8.05, 8.08, 8.09 or 9.04, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all costs and expenses (including reasonable attorney's fees, costs and expenses) to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default by reason of any action so taken.

(m) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be mutually agreed upon.

(n) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(o) Notwithstanding the effective date of this Indenture or anything to the contrary in this Indenture, the Trustee shall have no liability or responsibility for any act or event relating to this Indenture which occurs prior to the date the Trustee formally executes this Indenture and commences acting as Trustee hereunder.

(p) The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, except for any information provided by the Trustee, and shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

(q) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligation under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; hurricanes or other storms; wars; terrorism; similar military disturbances; sabotage; epidemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Trustee shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

(r) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture and/or the Agreement sent by the Issuer or the Company, as the case may be, by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Issuer and the Company, respectively, shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such instructions, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Issuer or the Company, as applicable, elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer and the Company, as applicable, agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section **9.02. Fees, Charges and Expenses of Trustee.** The Trustee shall be entitled to payment and reimbursement for reasonable fees, costs and expenses for its services rendered hereunder and all advances, counsel fees, costs and expenses and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon an Event of Default, but only upon an Event of Default, the Trustee shall have a first lien, with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges, costs and expenses incurred by it.

Section 9.03. Notice to Bondholders if an Event of Default Occurs. If an Event of Default occurs of which the Trustee is by Section 9.01(h) required to take notice or if notice of an Event of Default be given as in Section 9.01(h) provided, then the Trustee shall promptly give written notice thereof by registered or certified mail to each owner of Bonds then outstanding.

Section 9.04. Intervention by Trustee. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the owners of the Bonds, the Trustee may intervene on behalf of the Bondholders and shall do so if requested in writing by the owners of at least 25% of the aggregate principal amount of Bonds then outstanding. The rights and obligations of the Trustee under this Section 9.04 are subject to the approval of a court of competent jurisdiction.

Section 9.05. Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee hereunder and vested with all of the title to the trust estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 9.06. Resignation by Trustee. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving thirty days' written notice to the Issuer and the Company, served personally or sent by registered or certified mail, and to each owner of Bonds then outstanding, sent by registered or certified mail, and such resignation shall take effect at the end of such thirty days, or upon the earlier appointment of a successor Trustee pursuant to Section 9.08.

Section 9.07. Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to (a) the Trustee, the Issuer and the Company, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding, or (b) the Trustee and the owners of the Bonds then outstanding, and signed by the Issuer and the Company.

Section 9.08. Appointment of Successor Trustee. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or

otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor shall be appointed by the Issuer at the direction of the Company. The Issuer shall cause notice of such appointment to be given in the same manner as the giving of notices of redemption as set forth in Section 3.04. If the Issuer fails to make such appointment promptly, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding. Every such successor Trustee appointed pursuant to the provisions of this Section 9.08 shall be a trust company or bank in good standing having a reported capital, surplus and undivided profits of not less than $25,000,000, if there be such an institution willing, qualified and able to accept the trusts upon reasonable and customary terms.

Section 9.09. Concerning Any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all of the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article IX, shall be filed and/or recorded by the successor Trustee in each recording office where this Indenture shall have been filed and/or recorded and the successor Trustee shall bear the cost thereof.

Section 9.10. Successor Trustee as Bond Registrar, Custodian of Bond Fund and Construction Fund and Paying Agent. In the event of a change of Trustee, the Trustee which has resigned or been removed shall cease to be bond registrar, custodian of the Bond Fund and the Construction Fund and a paying agent for principal of and premium, if any, and interest on the Bonds, and the successor Trustee shall become such bond registrar, custodian and a paying agent.

Section 9.11. Trustee and Issuer Required to Accept Directions and Actions of Company. Whenever, after a reasonable request by the Company, the Issuer shall fail, refuse or neglect to give any direction to the Trustee or to require the Trustee to take any action which the Issuer is required to have the Trustee take pursuant to the provisions of the Agreement or this Indenture, the Company as agent of the Issuer may give any such direction to the Trustee or require the Trustee to take any such action, and the Trustee is hereby irrevocably empowered and directed to accept such direction from the Company as sufficient for all purposes of this Indenture. The Company shall have the right as agent of the Issuer to cause the Trustee to comply with any of the Trustee's obligations under this Indenture to the same extent that the Issuer is empowered so to do.

Certain actions or failures to act by the Issuer under this Indenture may create or result in an Event of Default under this Indenture and the Company, as agent of the Issuer, may to the extent permitted by law, perform any and all acts or take such action as may be necessary for and on behalf of the Issuer to prevent or correct said Event of Default and the Trustee shall take or accept such performance by the Company as performance by the Issuer in such event.

The Issuer hereby makes, constitutes and appoints the Company irrevocably as its agent to give all directions, do all things and perform all acts provided, and to the extent so provided, by this Section 9.11.

Section 9.12. No Transfer of Note Held by the Trustee; Exception. Except as required to effect an assignment to a successor Trustee, the Trustee shall not sell, assign or transfer the Note and the Trustee is authorized to enter into an agreement with the Company to such effect.

Section 9.13. Filing of Certain Continuation Statements. Notwithstanding anything to the contrary contained herein, the Trustee shall not be responsible for any initial filings of any financing statements or the information contained therein (including the exhibits thereto), the perfection of any such security interests, or the accuracy or sufficiency of any description of collateral in such initial filings or for filing any modifications or amendments to the initial filings required by any amendments to Article 9 of the Uniform Commercial Code. In addition, unless the Trustee shall have been notified in writing by the Issuer that any such initial filing or description of collateral was or has become defective, the Trustee shall be fully protected in (i) conclusively relying on such initial filing and descriptions in filing any financing or continuation statements or modifications thereto and (ii) filing any continuation statements in the same filing offices as the initial filings were made. The Trustee shall cause to be filed a continuation statement with respect to each Uniform Commercial Code financing statement relating to the Bonds which was filed at the time of the issuance thereof, in such manner and in such places as the initial filings were made, provided that a copy of the filed original financing statement is timely delivered to the Trustee. The Company shall be responsible for the reasonable costs and expenses incurred by the Trustee in the preparation and filing of all continuation statements hereunder, including reasonable attorney's fees, costs and expenses. The Issuer shall sign and deliver to the Trustee or its designee such continuation statements as may be requested of it from time to time by the Trustee. Upon the filing of any such continuation statements the Trustee shall immediately notify the Issuer and the Company that the same has been accomplished.

Section 9.14 Duties of Remarketing Agent. Except as otherwise described herein, the Remarketing Agent will set the interest rates on the Bonds and perform the other duties provided for in Section 2.02 and will remarket the Bonds as provided in Section 3.08, subject to any provisions of a remarketing agreement or similar agreement between the Company and the Remarketing Agent. The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondholder may do to the same extent as if the Remarketing Agent were not serving as such.

Section 9.15 Eligibility of Remarketing Agent. Unless a notice of redemption with respect to the Bonds has theretofore been issued by the Trustee pursuant to Section 3.04, upon any change in the Determination Method, the Company shall appoint a Remarketing Agent in sufficient time for such Remarketing Agent to establish the interest rate for such succeeding Interest Rate Period. The Company will give prompt notice of such appointment to the Issuer and the Trustee. The initial Remarketing Agent appointed under this Indenture is Goldman, Sachs & Co. Any successor Remarketing Agent will be a bank, trust company or member of the Financial Industry Regulatory Authority, Inc. ("FINRA") organized and doing business under the laws of the United States or any state or the District of Columbia, will have a combined capital stock, surplus and undivided profits of at least $15,000,000 as shown in its most recent published annual report, will be a Participant in the Securities Depository and will be authorized by law to perform all the duties imposed upon it by this Indenture. Any Remarketing Agent shall be rated at least Baa3/P-3 or otherwise qualified by Moody's Investors Service, Inc. or have an equivalent rating of another rating agency.

Section 9.16 Replacement of Remarketing Agent. The Remarketing Agent may resign by notifying the Issuer, the Trustee and the Company in writing. Such resignation will take effect on the day a successor Remarketing Agent appointed in accordance with this Section 9.16 has accepted the appointment or, if no successor has so accepted, 30 days after notice of resignation has been sent. The Company may remove the Remarketing Agent at any time by an instrument signed by the Company and filed with the Remarketing Agent, the Issuer and the Trustee at least 30 days prior to the effective date of such removal (which will not in any event occur prior to the appointment of a successor Remarketing Agent). A new Remarketing Agent may be appointed by the Company upon the resignation or removal of the Remarketing Agent. The Trustee shall promptly notify the Bondholders of any change in the Remarketing Agent.

Section 9.17. Compensation of Remarketing Agent. The Remarketing Agent will not be entitled to any compensation from the Issuer or the Trustee or to any property held under this Indenture but must make separate arrangements with the Company for compensation.

Section 9.18. Successor Trustee or Remarketing Agent. If the Trustee or the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee or Remarketing Agent, provided that such successor shall be eligible under the applicable provisions in this Article.

ARTICLE X

AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE

Section 10.01. Without Consent of Bondholders. The Issuer and the Trustee may amend or supplement this Indenture or the Bonds without notice to or consent of any Bondholder:

(a) to cure any ambiguity, inconsistency, formal defect or omission;

(b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority;

(c) to subject to this Indenture additional collateral or to add other agreements of the Issuer;

(d) to modify this Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(f) to increase or decrease the number of days specified for the giving of notices in Section 3.07 and to make corresponding changes to the period for notice of redemption of the Bonds; provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(h) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(i) to make any change (including a change in Section 4.01 to reflect any amendment to the Code or interpretations by the Internal Revenue Service of the Code) that does not materially adversely affect the rights of any Bondholder; or

(j) to make any other changes to this Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

Section 10.02. With Consent of Bondholders. If an amendment of or supplement to this Indenture or the Bonds without any consent of Bondholders is not permitted by the preceding Section, the Issuer and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the

principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the holders' rights to tender the Bonds, or any mandatory redemption of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of this Indenture on the property described in the Granting Clause of this Indenture or (h) deprive any Bondholder of the lien created by this Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to Article VII for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of that Article shall be made without the consent of the holder of each of those Bonds affected.

Section 10.03. Effect of Consents. Any consent received pursuant to Section 10.02 will bind each Bondholder delivering such consent and each subsequent holder of a Bond or portion of a Bond evidencing the same debt as the consenting holder's Bond.

Section 10.04. Notation on or Exchange of Bonds. If an amendment or supplement changes the terms of a Bond, the Trustee may require the holder to deliver it to the Trustee. The Trustee may place an appropriate notation on the Bond about the changed terms and return it to the holder. Alternatively, if the Trustee, the Issuer and the Company determine, the Issuer in exchange for the Bond will issue and the Trustee will authenticate a new Bond that reflects the changed terms.

Section 10.05. Signing by Trustee of Amendments and Supplements. The Trustee will sign any amendment or supplement to this Indenture or the Bonds authorized by this Article if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee will be entitled to receive and (subject to Section 9.01) will be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized by this Indenture.

Section 10.06. Company Consent Required. An amendment or supplement to this Indenture or the Bonds shall not become effective unless the Company delivers to the Trustee its written consent to the amendment or supplement.

Section 10.07. Notice to Bondholders. The Trustee shall cause notice of the execution of each supplement or amendment to this Indenture or the Agreement to be mailed to the Bondholders. The notice will, at the option of the Company, either (i) briefly state (in a summary prepared by the Company) the nature of the amendment or supplement and that copies of it are on file with the Trustee for inspection by Bondholders or (ii) enclose a copy of such amendment or supplement.

ARTICLE XI

AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT

Section 11.01. Without Consent of Bondholders. The Issuer may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder, if the amendment, supplement or waiver is required or permitted (a) by the provisions of the Agreement or this Indenture, (b) to cure any ambiguity, inconsistency, formal defect or omission, (c) to identify more precisely the Project, (d) in connection with any authorized amendment of or supplement to this Indenture or (e) to make any change that in the judgment of the Trustee, with the advice of counsel, does not materially adversely affect the rights of any Bondholder.

Section 11.02. With Consent of Bondholders. If an amendment of or supplement to the Agreement or the Note without any consent of Bondholders is not permitted by Section 11.01, the Issuer may enter into, and/or the Trustee may consent to (as the case may be), such amendment or supplement, or may waive compliance by the Company of any provision of the Agreement, without notice to any Bondholder but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment, supplement or waiver may result in anything described in the lettered clauses of Section 10.02.

Section 11.03. Consents by Trustee to Amendments or Supplements. The Trustee will consent to any amendment or supplement to the Agreement or the Note authorized by this Article XI if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing a consent to an amendment or supplement, the Trustee shall be entitled to receive and (subject to Section 9.01) shall be fully protected in relying on a Favorable Opinion of Tax Counsel.

ARTICLE XII

MISCELLANEOUS

Section 12.01. Notices. (a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Indenture or the Bonds must be in writing except as expressly provided otherwise in this Indenture or the Bonds.

(b) Any notice or other communication shall be sufficiently given and deemed given when delivered by hand or mailed by first-class mail, postage prepaid, addressed as follows: if to the Issuer, to the Chairman of the Board of County Commissioners, 223 Palafox Place, Pensacola, Florida 32597; if to the Trustee, to The Bank of New York Mellon Trust Company, N.A., 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338, Attention: Corporate Trust Department; if to the Company at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer,

with copies to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, N.W., Atlanta, Georgia 30308, Attention: Corporate Finance Department; and if to the Remarketing Agent, to the address specified at the time of acceptance of its duties. Any addressee may designate additional or different addresses for purposes of this Section.

Section 12.02. Bondholders' Consent. Any consent or other instrument required by this Indenture to be signed by Bondholders may be in any number of concurrent documents and may be signed by a Bondholder or by the holder's agent appointed in writing. Proof of the execution of such instrument or of the instrument appointing an agent and of the ownership of Bonds, if made in the following manner, shall be conclusive for any purposes of this Indenture with regard to any action taken by the Trustee under the instrument:

(a) The fact and date of a Person's signing an instrument may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the Person signing the writing acknowledged before the officer the execution of the writing, or by an affidavit of any witness to the signing.

(b) The fact of ownership of Bonds, the amount or amounts, numbers and other identification of such Bonds and the date of holding shall be proved by the registration books kept pursuant to this Indenture.

In determining whether the holders of the required principal amount of Bonds outstanding have taken any action under this Indenture, Bonds owned by the Company or any person controlling, controlled by or under common control with the Company shall be disregarded and deemed not to be outstanding unless all of the Bonds are so owned. In determining whether the Trustee shall be protected in relying on any such action, only Bonds which a Responsible Officer of the Trustee actually knows to be so owned shall be disregarded unless all Bonds are owned (or deemed owned) by the Company, in which case such Bonds shall be considered outstanding for purposes of the determination.

Any consent or other instrument shall be irrevocable and shall bind any subsequent owner of such Bond or any Bond delivered in substitution therefor.

Section 12.03. Appointment of Separate Paying Agent and/or Tender Agent. If, at any time, the Securities Depository ceases to hold the Bonds, with the effect that the Bonds are no longer subject to the Book-Entry System, then the Issuer and the Trustee, acting at the written request of the Company, may appoint one or more banks or trust companies to act as paying agent and/or tender agent for the Bonds hereunder. Any such paying agent or tender agent shall be a bank or trust company organized under the laws of the United States of America or any state thereof, shall have a reported capital and surplus of at least $100,000,000 and a corporate trust office located in New York, New York at which Bonds may be presented for payment or purchase and shall perform such duties and responsibilities as may be delegated to it hereunder. If such a paying agent or tender agent is appointed, then all references herein to the "Trustee" shall include such paying agent or tender agent to the extent of the duties performed by such entity.

Section 12.04. Limitation of Rights. Nothing expressed or implied in this Indenture or the Bonds shall give any person other than the Trustee, the Issuer, the Company, the Remarketing Agent and the Bondholders any right, remedy or claim under or with respect to this Indenture.

Section 12.05. Severability. If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

Section 12.06. Payments Due on Non-Business Days. If a payment date is not a Business Day at the place of payment, then payment may be made at that place on the next Business Day, and no interest shall accrue for the intervening period.

Section 12.07. Governing Law. This Indenture shall be governed exclusively by and construed in accordance with the applicable laws of the State without regard to conflict of law principles.

Section 12.08. Captions. The captions in this Indenture are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Indenture.

Section 12.09. Counterparts. This Indenture may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

IN WITNESS WHEREOF, Escambia County, Florida has caused these presents to be signed in its name and behalf by the Chairman or Vice Chairman of its Board of County Commissioners, and its official seal to be hereunto affixed and attested by its Clerk or Deputy Clerk, and to evidence its acceptance of the trusts hereby created The Bank of New York Mellon Trust Company, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

ESCAMBIA COUNTY, FLORIDA

[SEAL]

By: _____
Marie Young, Chairman of the Escambia County Board of County Commissioners

Attest:

Ernie Lee Magaha
Clerk of the Circuit Court and Comptroller

By: _____
Deputy Clerk

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

[SEAL]

By: _____

Title: _____

By: _____

Title: _____

IN WITNESS WHEREOF, Escambia County, Florida has caused these presents to be signed in its name and behalf by the Chairman or Vice Chairman of its Board of County Commissioners, and its official seal to be hereunto affixed and attested by its Clerk or Deputy Clerk, and to evidence its acceptance of the trusts hereby created The Bank of New York Mellon Trust Company, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

ESCAMBIA COUNTY, FLORIDA

[SEAL]

By: _____
Marie Young, Chairman of the Escambia
County Board of County Commissioners

Attest:

Ernie Lee Magaha
Clerk of the Circuit Court and Comptroller

By:_____
Deputy Clerk

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

[SEAL]

By: _____

Title: VICE PRESIDENT

By: _____

Title: VICE PRESIDENT

EXHIBIT A
Form of Bond

UNITED STATES OF AMERICA

STATE OF FLORIDA

No. _____ $65,000,000

ESCAMBIA COUNTY, FLORIDA
SOLID WASTE DISPOSAL REVENUE BOND
(GULF POWER COMPANY PROJECT),
FIRST SERIES 2009

MATURITY DATE	DATED DATE	CUSIP
April 1, 2039	March 31, 2009	296163 BA5

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: $65,000,000

Escambia County, Florida (the "*Issuer*"), a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, and a political subdivision of the State of Florida, for value received, hereby promises to pay, solely from the sources described in this Bond, to the Registered Owner identified above, or registered assigns, on the Maturity Date stated above (or if this Bond is called for earlier redemption as described herein, on the redemption date) the principal amount identified above and to pay interest as provided in this Bond.

1. *Indenture; Agreement.* This Bond is one of the bonds (the "*Bonds*"), limited to $65,000,000 in principal amount, issued under the Trust Indenture dated as of March 1, 2009 (the "*Indenture*") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "*Trustee*"). The terms of the Bonds include those in the Indenture and those contained herein. Bondholders are referred to the Indenture for a statement of certain of those terms. When used with reference to the Bonds, the term "principal" includes any premium payable on those Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

The Issuer has entered into a Loan Agreement dated as of March 1, 2009 (the "*Agreement*") with Gulf Power Company, a Florida corporation (the "*Company*"). Under the Agreement, the Issuer has loaned the proceeds of the Bonds to the Company (the "*Loan*"). In order to evidence the Loan and the Company's obligation to repay the same, the Company has

executed and delivered its non-negotiable promissory note (the "*Note*"). The Note provides for the repayment by the Company of the Loan, including interest thereon, in installments sufficient to pay (i) the principal of and premium, if any, and interest on the Bonds as the same shall become due and payable, (ii) the purchase price of certain tendered Bonds as required under the Indenture and (iii) the cost of operating, maintaining and repairing the Project (as hereinafter defined). The Note provides that the payments thereunder shall be paid directly to the Trustee as assignee of the Issuer. The Issuer has assigned its rights to such payments under the Agreement and the Note to the Trustee as security for the Bonds. The proceeds of the Bonds will be used to finance or refinance certain solid waste disposal facilities (the "*Project*") located at the Company's James F. Crist Generating Plant (the "*Plant*") in Escambia County, Florida.

The Indenture, the Agreement and the Note may be amended or supplemented as provided by their terms, and references to them include any amendments or supplements.

The Issuer has established a book-entry only system of registration for the Bonds (the "*Book-Entry System*"). Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner (if any) of this Bond shall be deemed to have agreed to this arrangement. If the Securities Depository (or its nominee) is the registered owner of this Bond, it shall be treated as the owner of it for all purposes.

2. *Source of Payments.* The principal of, premium, if any, and interest on, and any other amounts due with respect to, the Bonds are limited special obligations of the Issuer and, as provided in the Indenture, are payable solely and only from payments derived from the Agreement, the Note and any other moneys held by the Trustee under the Indenture for such purpose. The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Florida, particularly Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended, and pursuant to resolutions adopted by the Issuer on March 19, 2009, which resolutions authorize the execution and delivery of the Bonds, the Agreement and the Indenture. The Bonds and the interest thereon are limited special obligations of the Issuer and are payable solely from the revenues and other amounts derived from the Agreement and the Note and are secured as set forth in the Indenture. The Bonds and premium, if any, and interest thereon and other amounts due with respect to the Bonds shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the State of Florida or any political subdivision thereof, including the Issuer. Neither the State of Florida nor any political subdivision thereof nor the Issuer shall be obligated to pay the principal of the Bonds or premium, if any, or interest thereon or other amounts due with respect thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State of Florida or any political subdivision thereof is pledged to the payment of such amounts. Payments under the Note sufficient for the prompt payment when due of the principal of and premium, if any, and interest on the Bonds are to be paid to the Trustee by the Company for the account of the Issuer and deposited in a special trust account created by the Issuer and have been duly pledged and assigned for that purpose. In addition, substantially all other rights of the Issuer under the Agreement have also been assigned to the Trustee to secure payment of amounts due on the Bonds.

3. *Interest Rate.* Interest on this Bond will be paid at the lesser of (a) a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate as selected by the Company and as determined in accordance with the Indenture or (b) 15% per annum. Interest will initially be payable at the Initial Long-Term Interest Rate as set forth in the Indenture. The Company may change the Determination Method from time to time. A change in the Determination Method will result in mandatory tender of the Bonds (see *"Mandatory Tender for Purchase"* below). While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

When interest is payable at a Daily Rate, a Weekly Rate, a Commercial Paper Rate or an Index Rate, it will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years), and when payable at a Long-Term Interest Rate, on the basis of a 360-day year of twelve 30-day months. Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred.

4. *Interest Payment and Record Dates.* Interest will accrue on the unpaid portion of the principal of this Bond from the Dated Date stated above and thereafter from the Interest Payment Date (as hereinafter defined) (or in the case of Bonds bearing interest at the Daily Rate, from the Interest Period described below) next succeeding the date of authentication hereof to which interest has been paid or duly provided for, unless the date of authentication hereof is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication hereof, or unless no interest has been paid or duly provided for on the Bonds, in which case from the Dated Date; provided, however, that if the date of authentication is between the Record Date (as hereinafter defined) for any Interest Payment Date and such Interest Payment Date, then interest will accrue from such Interest Payment Date or, if the Company shall default in payment of the interest due on such Interest Payment Date, then from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, then from the Dated Date. In each case, interest shall accrue to, but not including, the next Interest Payment Date.

When interest is payable at the rate in the first column below, interest accrued during the period (an *"Interest Period"*) shown in the second column will be paid on the date (an *"Interest Payment Date"*) in the third column to holders of record on the date (a *"Record Date"*) in the fourth column:

RATE	INTEREST PERIOD	INTEREST PAYMENT DATE	RECORD DATE
Daily*	Calendar month	Fifth Business Day of the next month	Last Business Day of the month
Weekly*	Calendar month	First Business Day of the next month	Last Business Day before Interest Payment Date
Commercial Paper	From 1 to 270 days as determined for each Bond pursuant to the Indenture ("*Commercial Paper Period*")	Day after the last day of Commercial Paper Period	Last Business Day before Interest Payment Date
Long-Term**	Six month period or portion thereof ending the last day of March or September	April 1 and October 1	Fifteenth of the month before the Interest Payment Date (March 15 and September 15) ***

* If there shall be a change from a Daily Rate or a Weekly Rate on a day other than the first day of a calendar month, the then current Interest Period relating to such Daily Rate or Weekly Rate shall end on the day immediately preceding the date on which the new interest rate on the Bonds shall become effective, which date in the case of a change from a Weekly Rate shall be the Interest Payment Date for such Interest Period, for which the Record Date shall be the immediately preceding Business Day; but in the case of a change from a Daily Rate, the Interest Payment Date for such Interest Period shall be the fifth Business Day after the last day of such Interest Period, for which the Record Date shall be the last Business Day of such Interest Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

** If there shall be a change from a Long-Term Interest Rate on a day other than a regularly scheduled Interest Payment Date for a Long-Term Interest Rate Period, or if there shall be an early termination of such Long-Term Interest Rate Period and a new Long-Term Interest Rate shall be set, such Long-Term Interest Rate Period shall end on the day immediately preceding the date on which the new interest rate shall become effective, which date shall be the Interest Payment Date for such Long-Term Interest Rate Period, for which the Record Date shall be the last day of such Long-Term Interest Rate Period or, if sooner, the first day of such Long-Term Interest Rate Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

*** If an Interest Payment Date occurs less than 15 days after the first day of a Long-Term Interest Rate Period, the first day of such Long-Term Interest Rate Period is the Record Date for such Interest Payment Date.

RATE	INTEREST PERIOD	INTEREST PAYMENT DATE	RECORD DATE
Index	Calendar month	First Business Day of the next month	Last Business Day before Interest Payment Date

"Business Day" is defined in the Indenture. Payment of defaulted interest will be made to holders of record as of the fifth-to-last Business Day before payment.

5. *Method of Payment.* Holders must surrender Bonds to the Trustee to collect principal at maturity or upon redemption. (See "*Optional Tenders*" and "*Mandatory Tender for Purchase*" below for information regarding the payment of purchase price of tendered Bonds.) Interest on Bonds bearing interest at a Commercial Paper Rate (other than Bonds in the Book-Entry System) is payable only upon presentation of such Bonds to the Trustee. Interest on Bonds bearing interest at a Daily Rate, a Weekly Rate, an Index Rate or a Long-Term Interest Rate (other than Bonds in the Book-Entry System) will be paid to the registered holder hereof as of the Record Date by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. A holder of $1,000,000 or more in principal amount of Bonds may be paid interest at a Daily Rate, a Weekly Rate, an Index Rate, a Long-Term Interest Rate or a Commercial Paper Rate by wire or other electronic transfer in immediately available funds to an account in the continental United States if the holder makes a written request of the Trustee (in form satisfactory to the Trustee) at least two Business Days before the Record Date specifying the account address. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire or other electronic transfers payable in such money. If any payment on the Bonds is due on a non-Business Day, it will be made on the next Business Day, and no interest will accrue as a result. Interest and principal on the Bonds in the Book-Entry System will be paid in accordance with the procedures of the Securities Depository.

6. *Optional Tenders. "Tender"* means to require, or the act of requiring, the Trustee to purchase a Bond at the holder's option under the provisions of this paragraph 6 at 100% of the principal amount plus interest accrued to (but excluding) the date of purchase. During a Daily or Weekly Interest Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that Interest Period, the Trustee will pay (but only from funds available therefor as provided in the Indenture) a purchase price of principal plus interest accruing after the last day of that Interest Period. While the Bonds bear interest at a Long-Term Interest Rate, a Commercial Paper Rate or an Index Rate, the owner of a Bond does not have the option to require the Trustee to purchase its Bond.

Daily Rate Tender. When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an

irrevocable notice in writing or by Electronic Means to the Remarketing Agent, in each case prior to 11:00 a.m., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository. Any notice received by the Trustee after 11:00 a.m., New York City time, shall be deemed to have been given on the next Business Day.

When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

Weekly Rate Tender. When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice in writing or by Electronic Means to the Remarketing Agent, in each case prior to 5:00 p.m., New York City time, on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

Payment of Purchase Price. The purchase price for a tendered Bond will be paid in immediately available funds to the registered owner of the Bond by the close of business on the date of purchase. No purchase of Bonds by the Trustee shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

7. *Mandatory Tender for Purchase.* As provided below, the Bonds are subject to mandatory tender for purchase under certain circumstances. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, UNDER THE CONDITIONS DESCRIBED BELOW. All purchases will be made in funds immediately available on the purchase date and will be at a purchase price of 100% of

the principal amount of the Bonds being purchased (unless a premium is required as otherwise specified) plus interest accrued to (but excluding) the purchase date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the purchase date. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

Mandatory Tender at Beginning of a New Long-Term Interest Rate Period. When the Bonds bear interest at a Long-Term Interest Rate and a new Long-Term Interest Rate is to be determined, the Bonds will be subject to mandatory tender for purchase on the effective date of the new Long-Term Interest Rate. In the case of a change prior to the day originally established as the day after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under *"Optional Redemption During Long-Term Interest Rate Period"* below.

Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode. When Bonds bear interest at a Commercial Paper Rate, each Bond must be tendered for purchase on the Interest Payment Date for such Bond.

Mandatory Tender Upon a Change in the Determination Method. Except as provided in the Indenture, on the effective date of the change in the Determination Method (the methods being Daily, Weekly, Commercial Paper, Long-Term Interest or Index Rates), the Bonds will be subject to mandatory tender for purchase on the effective date of such change. Any such purchase shall be at a price equal to 100% of the principal amount of the Bonds, plus accrued interest, except that in the case of change prior to the day originally established as the date after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under "*Optional Redemption During Long-Term Interest Rate Period*" below.

Mandatory Tender Upon Expiration of Index Period. When a new Index Period immediately follows the expiration of a prior Index Period, the Bonds will be subject to mandatory tender for purchase on the commencement date of the new Index Period.

Notice of Tender. At least 15 days before each mandatory tender (except for tenders described under "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode*" above, for which no notice will be given and except that such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period), the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Failure to give any required notice of tender as to any particular Bonds, or any defect therein, will not affect the validity of the tender of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice. When notice of tender is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such

case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

8. *Delivery Address; Additional Delivery Requirements.* Notices in respect of tenders and Bonds tendered must be delivered to the Trustee, and notices in respect of tenders must be delivered to the Remarketing Agent, as provided in the Indenture.

All tendered Bonds must be accompanied by an instrument of transfer satisfactory to the Trustee, executed in blank by the registered owner or his duly authorized attorney, with the signature guaranteed by an eligible guarantor institution.

Limitation on Tenders. Except as provided under *"Mandatory Tender Upon a Change in the Determination Method," "Mandatory Tender Upon Expiration of Index Period," "Mandatory Tender at Beginning of a New Long-Term Interest Rate Period"* and *"Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode,"* no Bonds may be tendered while they bear interest at a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate.

Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds. The giving of notice by the registered owner of a Bond as provided in paragraph 6 or the occurrence of a mandatory tender for purchase as described in paragraph 7 constitutes the irrevocable tender for purchase of each Bond (or portion of Bond) with respect to which such notice was given, irrespective of whether such Bond was delivered as provided in this paragraph or paragraph 6 or 7. The determination of the Trustee as to whether a notice of tender has been properly sent shall be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver his Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver his Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, his Bond shall constitute an undelivered Bond as described in the Indenture and interest shall cease to accrue on his Bond as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the tender price thereof. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, TO THE TRUSTEE AFTER THE GIVING OF IRREVOCABLE NOTICE OF TENDER FOR PURCHASE AS DESCRIBED ABOVE.

9. *Redemptions.* All redemptions will be made in funds immediately available on the redemption date and will be at a redemption price of 100% of the principal amount of the Bonds being redeemed (unless a premium is required as provided below) plus interest accrued to the redemption date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the redemption date.

Optional Redemption During Long-Term Interest Rate Period. During any Long-Term Interest Rate Period, if the Long-Term Interest Rate Period is less than or equal to five years, the

Bonds will not be redeemable pursuant to this provision during the Long-Term Interest Rate Period.

If the Long-Term Interest Rate Period is greater than five years, the Bonds will not be redeemable for five years after the date on which the Bonds begin to bear interest at the Long-Term Interest Rate. After the five year no-call period, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued interest, if any.

As an alternative to and in lieu of the foregoing redemption provisions, if, with respect to any Long-Term Interest Rate Period, a Favorable Opinion of Tax Counsel is delivered to the Trustee not later than the date of the establishment of such Long-Term Interest Rate Period, such Bonds may be redeemed during such Long-Term Interest Rate Period at the option of the Company in whole or in part at any time after a no-call period, if any, established by the Remarketing Agent, at the percentages of their principal amount, plus accrued interest, as follows: the Remarketing Agent shall, given the duration of the Long-Term Interest Rate Period, determine and inform the Trustee and the Company, on a date which is no later than the establishment of the Long-Term Interest Rate, the periods during which such Bonds shall not be subject to redemption (the "*Call Protection Period*"), the premium or premiums payable upon redemption (the "*Call Premiums*"), if any, applicable to the redemption of such Bonds after the Call Protection Period, and the period or periods during which the Call Premiums shall be effective (the "*Call Premium Periods*") necessary to establish the Long-Term Interest Rate. Such Call Protection Period, Call Premiums and Call Premium Periods shall be established in accordance with optional call redemption provisions which, in the judgment of the Remarketing Agent, are generally accepted at the time of determination as the standard features for obligations such as the Bonds, given the length of the Long-Term Interest Rate Period.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole at any time prior to maturity at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, but without premium at any time, upon receipt by the Trustee and the Issuer of a written notice from the Company stating that the Company has determined that:

(i) Any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation of either, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(ii) Changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(iii) The Project or the Plant has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

If the Issuer shall have received such notice by the Company, the Issuer, upon request of the Company, shall give written notice to the Trustee directing the Trustee to take all action necessary to redeem the outstanding Bonds in whole and on a date specified in such notice,

which date shall be not less than 45 nor more than 90 days from the date the notice is received by the Trustee.

Optional Redemption During Daily or Weekly Rate Period. When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company on any Business Day.

Optional Redemption During Index Rate Periods. During any Index Rate Period, the Bonds are not subject to optional redemption.

Notice of Redemption. At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail, postage prepaid, to each Bondholder with Bonds to be redeemed at such holder's registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice. When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

10. *Denominations; Transfer; Exchange.* The Bonds may be issued in registered form without coupons in denominations as follows: (1) when interest is payable at a Daily, Weekly or Commercial Paper Rate, $100,000 or any integral multiple thereof; (2) when interest is payable at a Long-Term Interest Rate, $5,000 and integral multiples thereof; and (3) when interest is payable at an Index Rate, $100,000 and integral multiples of $5,000 thereafter. A holder may register the transfer of or exchange Bonds in accordance with the Indenture. The Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or exchange any Bond which has been called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

11. *Persons Deemed Owners.* The registered holder of this Bond shall be treated as the owner of it for all purposes.

12. *Funds in Trust; Unclaimed Funds.* All moneys which the Trustee shall have withdrawn from the account of the Company or shall have received from any other source and set aside, or deposited with the paying agents, for the purpose of paying any of the Bonds, either at the maturity thereof or upon call for redemption or tender, shall be held in trust for the respective holders of such Bonds. But any moneys which shall be so set aside or deposited by the Trustee and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive

the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

13. *Discharge Before Redemption, Tender or Maturity.* If the Company at any time deposits with the Trustee money or Government Obligations as described in the Indenture sufficient to pay at redemption, tender or maturity principal of and interest and premium, if any, on the outstanding Bonds, and if the Company also pays or provides for the payment of all other sums then payable by the Company under the Agreement or the Indenture, the lien of the Indenture will be discharged. After discharge, Bondholders must look only to the deposited money and securities for payment except as otherwise specifically provided in the Indenture.

14. *Amendment, Supplement, Waiver.* Subject to certain exceptions, the Indenture, the Agreement or the Bonds may be amended or supplemented, and any past default or compliance with any provision may be waived, with the consent of the holders of a majority in principal amount of the Bonds then outstanding. Any such consent shall be irrevocable and shall bind any subsequent owner of this Bond or any Bond delivered in substitution for this Bond. Without the consent of any Bondholder, the Issuer may amend or supplement the Indenture, the Agreement or the Bonds as described in the Indenture, among other things, to cure any ambiguity, omission, defect or inconsistency, to provide for uncertificated Bonds in addition to or in place of certificated Bonds, to provide for a Book-Entry System for the Bonds or to make any change that does not materially adversely affect the rights of any Bondholder.

15. *Defaults and Remedies.* The Indenture provides that the occurrences of certain events constitute Events of Default. If an Event of Default occurs and is continuing, the Bonds may become or may be declared immediately due and payable, as provided in the Indenture. An Event of Default and its consequences may be waived as provided in the Indenture. Bondholders may not enforce the Indenture or the Bonds except as provided in the Indenture. Except as specifically provided in the Indenture, the Trustee may refuse to enforce the Indenture or the Bonds unless it receives indemnity satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the Bonds then outstanding may direct the Trustee in its exercise of any trust or power.

16. *No Recourse Against Others.* A member, director, officer or employee, as such, of the Issuer shall not have any liability for any obligations of the Issuer or the Company under the Bonds or the Indenture or for any claim based on such obligations or their creation. Each Bondholder by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Bond.

17. *Authentication.* This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been duly executed by the Trustee.

18. *Abbreviations.* Customary abbreviations may be used in the name of a Bondholder or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by

the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A (= Uniform Gifts to Minors Act).

A copy of the Indenture may be inspected at the corporate trust office of the Trustee located at 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF Escambia County, Florida has caused this Bond to be executed in its name by the Chairman or Vice Chairman of its Board of County Commissioners by her manual or facsimile signature and attested by the manual or facsimile signature of its Clerk or Deputy Clerk and its corporate seal to be hereunto affixed or printed hereon.

ESCAMBIA COUNTY, FLORIDA

By: _____
Chairman of the Escambia County
Board of County Commissioners

Attest:

_____
Clerk of Escambia County
Board of County Commissioners

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

Date: March 31, 2009

By: _____
Authorized Signatory

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

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

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

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

_____

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

(Name and Address of Assignee)

_____

the within Bond and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Signature guaranteed:

_____

Medallion Number:_____

*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e. Securities Transfer Agents Medallion Program (STAMP), or New York Stock Exchange Medallion Signature Program (MSP).

_____

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

ESCAMBIA COUNTY, FLORIDA

and

GULF POWER COMPANY

LOAN AGREEMENT

Dated as of March 1, 2009

Relating to

$65,000,000
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project),
First Series 2009

LOAN AGREEMENT

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Exhibit A – Note

Exhibit B – Project Description

LOAN AGREEMENT, dated as of March 1, 2009, between ESCAMBIA COUNTY, FLORIDA (the "Issuer"), a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431 (the "Act"), and a political subdivision of the State of Florida, and GULF POWER COMPANY, a corporation organized and existing under the laws of the State of Florida (the "Company"), evidencing the agreement of the parties hereto.

In consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows (provided that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be a general debt, liability or obligation of the Issuer, or of the State of Florida or any political subdivision thereof but shall be payable solely out of the revenues and proceeds derived from this Agreement and the Note (as hereinafter defined) and the sale of the Bonds referred to herein):

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.1. Definitions. For all purposes of this Agreement, unless the context requires otherwise, words or terms defined in the preamble of this Agreement shall have the meanings specified therein, and the following terms shall have the following meanings:

"Bond Fund", "Bondholder", "Bonds", "Business Day", "Construction Fund", "corporation", "Government Obligations", "Remarketing Agent", "Person", "Tax Certificate and Agreement" and "Trustee" have the same meanings given and assigned to such words in Article I of the Indenture (as hereinafter defined).

"Agreement" means this Loan Agreement and any amendments and supplements hereto.

"Available Proceeds" means the Sale Proceeds of the Bonds plus all investment proceeds of such Sale Proceeds prior to such amounts being withdrawn from the Construction Fund for payment, or reimbursement to the Company, of Costs of Construction or costs to redeem or defease the Bonds in accordance with Section 4.11 of the Indenture.

"Completion Date" means the date the Project is placed in service by the Company.

"Cost of Construction" with respect to the Project means the following:

(a) obligations of the Company incurred for labor and materials (including reimbursements payable to the Company and payments on contracts in the name of the Company) in connection with the acquisition, construction, installation and equipping of the Project;

(b) the cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of construction of the Project;

(c) all costs of engineering services, including the costs for test borings, surveys, estimates, plans and specifications and preliminary investigation therefor, and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project;

(d) overheads of the Company, to the extent not included in subparagraph (c) above, allocable to the Project by the Company in accordance with the Uniform System of Accounts prescribed for Public Utilities and Licensees by the Federal Energy Regulatory Commission;

(e) Costs of Issuance;

(f) all other costs which the Company may properly pay or accrue for the acquisition, construction, installation or equipping of the Project;

(g) interest on the Bonds or on indebtedness of the Company properly allocable to the Project during the period prior to the Completion Date of the Project; and

(h) any sums required to reimburse the Company for advances made for any of the above items or for any other costs incurred or for work done which are properly chargeable or could be chargeable to the Company's capital account for the Project.

"Costs of Issuance" means all expenses incurred in connection with the issuance of the Bonds, including without limitation: initial compensation and expenses of the Trustee; legal expenses and fees of counsel to the Company, counsel to the underwriter of the Bonds, bond counsel, counsel to the Issuer and any other legal counsel employed in connection with the issuance of the Bonds; financial advisory fees; accountants' fees relating to the issuance of the Bonds; any administrative or other fees paid to the Issuer in connection with the issuance of the Bonds; costs of printing and engraving; recording and filing fees; compensation of the underwriter of the Bonds (whether in the form of a discount in connection with the sale of the Bonds or a payment to the underwriter); and rating agency fees.

"Event of Default" means any of the occurrences enumerated in Section 5.1 of this Agreement.

"Indenture" means the Trust Indenture, dated as of March 1, 2009, relating to Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009, between the Issuer and The Bank of New York Mellon Trust Company, N.A., as Trustee, pursuant to which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

"Loan" means the loan to be made by the Issuer to the Company of the proceeds (which shall be deemed to include the underwriting discounts, if any, and original issue discount, if any)

of the sale of the Bonds, exclusive of any accrued interest paid by the initial purchasers of the Bonds upon the delivery thereof.

"Note" means the non-negotiable promissory note of the Company issued pursuant to Section 3.2 hereof, in the form set forth in Exhibit A hereto.

"Plans" means the plans and specifications prepared by or on behalf of the Company for the Project, as the same may be revised from time to time by the Company in accordance with the third paragraph of Section 2.1 hereof, which are on file with the Company and accessible to the Issuer.

"Project" means the solid waste disposal facilities described in the Plans and as designed on the date hereof, described generally in Exhibit B hereto.

"Sale Proceeds" means an amount equal to the principal amount of the Bonds less any original issue discount applicable to the Bonds plus any original issue premium applicable to the Bonds.

SECTION 1.2. Rules of Construction.

(a) Unless the context otherwise requires,

(1) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

(2) references to Articles and Sections are to the Articles and Sections of this Agreement, and

(3) the singular form of any word, including the terms defined in Section 1.1, includes the plural, and vice versa, and a word of any gender includes all genders.

(b) The use herein of a pronoun of any gender shall include correlative words of the other genders.

(c) The words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

(d) The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Agreement.

(e) References to, or agreements or undertakings herein by, the Issuer and the Company or the Issuer or the Company shall not constitute any joint obligation of the Issuer and the Company, but, insofar as each of the Issuer or the Company is concerned, shall be deemed to be a separate, several and individual reference, undertaking or agreement of such Person.

Nothing herein shall be deemed to create any joint undertaking, agreement or liability between the Issuer, the Company or any other Person.

(f) The term "hereafter" means after, and the term "heretofore" means before, the date of execution of this Agreement.

(g) All approvals, consents and acceptances required to be given or made by any Person or party hereunder shall be at the reasonable discretion of the party whose approval, consent or acceptance is required except to the extent otherwise specified herein.

(h) For purposes hereof, the Issuer shall not be deemed to have knowledge of any fact or the occurrence of any event unless and until the Issuer has written notice thereof or actual knowledge thereof.

(i) Whenever the Issuer is named or referred to, it shall be deemed to include its successors and assigns whether so expressed or not. All of the covenants, stipulations, obligations and agreements by or on behalf of, and other provisions for the benefit of, the Issuer contained in this Agreement shall bind and inure to the benefit of such successors and assigns and shall bind and inure to the benefit of any officer, board, commission, issuer, agency or instrumentality to whom or to which there shall be transferred by or in accordance with law any right, power or duty of the Issuer, or of its successors or assigns, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements or other provisions hereof.

(j) Whenever the word "includes" or "including" is used, such word means "includes or including, without limitation."

ARTICLE II

ACQUISITION AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

SECTION 2.1. Acquisition and Completion of the Project. The Company agrees that it will cause the acquisition, construction, installation and equipping of the Project to be completed substantially in accordance with the Plans and in general do all things which may be requisite or proper therefor. The Project shall belong to and be the property of the Company.

The Company agrees to use its best efforts to cause the acquisition, construction, installation and equipping of the Project to be completed substantially in accordance with the Plans as soon as practicable, delays incident to "force majeure" (as defined in Section 5.1 hereof) only excepted.

The Issuer and the Company agree that the Company may from time to time supplement or amend the Plans (including additions thereto or omissions therefrom), provided that such supplements or amendments shall not result in the interest on the Bonds or any portion thereof becoming subject to federal income taxation under the laws then in effect.

SECTION 2.2. Issuance of the Bonds. In order to provide funds for the purpose set forth in Section 3.1 hereof, the Issuer agrees that it will issue and deliver the Bonds to the purchasers thereof and apply and deposit the Sale Proceeds in accordance with the terms of the Indenture and Section 3.1 hereof. The Indenture shall be satisfactory in form and substance to the Issuer and the Company and shall provide the manner in which, and the purposes for which, proceeds of Bonds may be used and invested.

The Issuer has authorized the Trustee to disburse moneys from the Construction Fund in accordance with Section 4.10 of the Indenture.

SECTION 2.3. Establishment of Completion Date. The Completion Date shall be evidenced to the Trustee by a certificate of the Company stating that the Project has been placed in service. The Company agrees to deliver such certificate to the Trustee as soon as practicable following the date on which the Project is placed in service, but the failure to provide such certificate or any delay therein shall not be grounds for a default under this Agreement. Such certificate may direct the Trustee to retain in the Construction Fund a specified sum of money for the payment of any Cost of Construction not then due and payable or which is in dispute.

SECTION 2.4. The Company Required to Pay in Event Construction Fund Insufficient. In the event the amounts in the Construction Fund available for payment of the Cost of Construction should not be sufficient to pay the Cost of Construction in full, the Company agrees to complete the Project substantially in accordance with the Plans and to pay that portion of the Cost of Construction in excess of the amounts available therefor in the Construction Fund. The Issuer does not make any warranty, either express or implied, that the amounts in the Construction Fund and available for payment of the Cost of Construction will be sufficient to pay all of the Cost of Construction. The Company agrees that, if after exhaustion of the amounts in the Construction Fund, it should pay any portion of the Cost of Construction pursuant to the provisions of this Section, it shall not be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

ARTICLE III

LOAN BY ISSUER; PROVISIONS FOR PAYMENT

SECTION 3.1. Loan by Issuer. The Issuer hereby agrees to make the Loan to the Company in order to finance or refinance the Cost of Construction of the Project by causing the proceeds of the sale of the Bonds to be deposited by the Trustee into the Construction Fund.

SECTION 3.2. Delivery of Note by Company; Other Amounts Payable. In order to evidence the Loan and the obligation of the Company to repay the same, the Company shall execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due with respect to the principal or purchase price of, interest and premium, if any, on the Bonds, whether at maturity, prior optional or mandatory redemption, or upon tender for purchase or otherwise. The Note shall be dated the date of the initial authentication of, and mature on the

same maturity date as, the Bonds. If (i) on the date any payments on the Bonds are due, there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due under the Note, first in respect of interest and then, to the extent of remaining moneys, in respect of principal.

The Company shall pay all reasonable costs and expenses incurred in connection with the issuance of the Bonds and the execution, delivery and performance of this Agreement, the Indenture and any other documents or instruments related thereto or to the Bonds, to which the Issuer is a party or by which it is bound, including, without limitation, the reasonable fees of the Issuer's financial advisor and bond counsel. The Company will also pay: (i) the fees, charges and reasonable expenses (including reasonable attorney's fees, costs and expenses, if any) of the Trustee and any paying agents and tender agents under the Indenture, such fees, charges and reasonable expenses to be paid directly to the Trustee or paying agents for their respective accounts as and when such fees, charges and reasonable expenses become due and payable, (ii) any expenses in connection with any redemption of the Bonds and (iii) all other amounts due under the terms hereof to the Issuer. The payment obligations of the Company described in this second paragraph of Section 3.2 shall rank pari passu with the payment obligations of the Company pursuant to the first paragraph of this Section 3.2.

SECTION 3.3. Obligation of the Company Unconditional. The obligation of the Company to make payments as provided in the Note and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional notwithstanding any change in the tax or other laws of the United States of America or of the State of Florida or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Subject in all cases to Section 4.2 hereof, nothing contained in this Section 3.3 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and, in the event the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall not violate the agreements on the part of the Company contained in the preceding sentence, but in no event shall the Company be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and this Agreement. The Issuer shall assign to the Trustee as security under the Indenture all rights, title and interests of the Issuer in and to (i) the Note and all payments thereunder, (ii) this Agreement and all moneys receivable hereunder (except for payments under Sections 4.2 and 5.3 hereof or the second paragraph of Section 3.2 hereof) and (iii) amounts held in the Bond Fund and the Construction Fund as provided in the Indenture. The Company assents to such assignment and hereby agrees that, as to the Trustee, its obligations to make such payments shall be absolute and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out

of any breach by the Issuer or the Trustee of any obligation to the Company, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Issuer or the Trustee.

ARTICLE IV

SPECIAL COVENANTS

SECTION 4.1. Use of Project. The Issuer hereby acknowledges that it shall have no rights to the use or possession of the Project. The Issuer hereby further acknowledges that the Project will not constitute any part of the security for the Bonds.

SECTION 4.2. Indemnity Against Claims.

(a) Notwithstanding anything to the contrary contained herein or in any of the Bonds, in the Indenture or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, (i) the Issuer shall have no obligation to take action under this Agreement, the Indenture, the Bonds or such other instruments or documents unless the Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances reasonably satisfactory to it of payment of or reimbursement for any expenses (including attorneys' fees) in such action and (ii) any judgment rendered against the Issuer for breach of its obligations under this Agreement, the Indenture, the Bonds or such other instruments or documents shall be payable solely from the revenues derived from the Project by the Issuer under this Agreement, the Note and the Indenture, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom. The provisions of this Section shall survive the termination of this Agreement.

(b) In acting under this Agreement, the Indenture, the Bonds or such other instruments or documents, or in refraining from taking such action, the Issuer may conclusively rely on the advice of its counsel.

(c) The Company shall pay and shall indemnify and hold harmless the Issuer, its officials, officers, employees and agents (each, an "Indemnified Party" and, together, the "Indemnified Parties") from (i) any lien or charge upon payments by the Company to the Issuer under the Note or hereunder, (ii) any taxes, assessments, impositions and other charges upon payments by the Company to the Issuer under the Note or hereunder and (iii) any and all liability, damages, costs and expenses, including the reasonable fees and expenses of counsel (the "Liabilities") arising out of or resulting from the transactions contemplated by this Agreement and the Indenture.

The Company also agrees to indemnify and hold harmless the Indemnified Parties from and against all Liabilities arising out of or resulting from (i) any statement or information provided by the Company that is contained in the Indenture, this Agreement, the Tax Certificate and Agreement or any other documents or agreements relating to the Bonds and the proceedings relating to their issuance and sale, which is misleading, untrue or incorrect in any material

respect, (ii) any proceeding concerning the validity or enforceability of the Bonds or the exemption of interest on the Bonds for federal income tax purposes, (iii) any claims, investigations, governmental or regulatory actions, proceedings or inquiries relating to the Bonds or the transactions contemplated by this Agreement, (iv) any material misstatements or omissions in information provided by the Company to the Issuer in connection with any legal proceedings or other official actions of the Issuer pertaining to the Bonds, or (v) any fraud or misrepresentations or omissions in information provided by the Company to the Issuer or the Trustee in connection with the proceedings of the Issuer relating to the issuance of the Bonds.

It is the intention of the parties hereto that the Indemnified Parties shall not incur pecuniary liability or expense (specifically including, but not limited to, expenses incurred in defending any claim, action, lawsuit or administrative or other legal proceeding) by reason of, arising out of, or relating to (i) the terms of this Agreement, (ii) by reason of, arising out of, or relating to the undertakings required of any Indemnified Party hereunder in connection with the issuance of the Bonds, the execution of the Indenture, the performance of any act required of any Indemnified Party by this Agreement or the Indenture, as applicable, or the performance of any act requested of any Indemnified Party by the Company or in any way arising from the transaction of which this Agreement or the Indenture, as applicable, is a part or arising in any manner in connection with the Project; nevertheless, if any Indemnified Party should incur any such pecuniary liability, then in such event the Company shall indemnify and hold harmless such Indemnified Party against all claims by or on behalf of any person, arising out of the same, and all costs and expenses incurred in connection with any such claim or in connection with any action or proceeding brought thereon.

Promptly after receipt by an Indemnified Party under this Section 4.2 of notice of the existence of a claim in respect of which indemnity hereunder may be sought or of the commencement of any action against the Indemnified Party in respect of which indemnity hereunder may be sought, the Indemnified Party shall notify the Company in writing of the existence of such claim or commencement of such action (provided that a failure to so notify the Company will not excuse the Company from its obligations hereunder unless such failure to promptly notify the Company shall materially prejudice the ability of the Company to defend such claim). In case any such action shall be brought against an Indemnified Party under this Section 4.2, the Indemnified Party shall notify the Company of the commencement thereof and the Company shall be entitled to participate in and to assume the defense thereof, with counsel reasonably satisfactory to the Indemnified Party, with full power to litigate, compromise or settle the same; provided that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement unless such compromise or settlement (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 the Company 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. If the Indemnified Party shall have been advised by independent counsel selected by the Indemnified Party that there may be legal defenses available to it which are adverse to or in conflict with those available to the Company or other Indemnified Parties which, in the opinion of such counsel, should be handled by separate counsel, the Company shall

be responsible for the reasonable fees and expenses of one separate legal counsel of the Indemnified Party in conducting its defense; and provided, further, that if the Company shall have failed to assume the defense of such action and shall have failed to employ counsel therefor reasonably satisfactory to the Indemnified Party within a reasonable time after notice of commencement of such action, such reasonable fees and expenses incurred by the Indemnified Party in conducting its own defense shall be borne by the Company.

The provisions contained in this Section 4.2 pertaining to indemnification of the Indemnified Parties shall be in addition to any other indemnification provided to the Indemnified Parties in any other agreement by the Company in connection with the issuance and sale of the Bonds and all matters relating thereto.

The provisions of this Section 4.2 shall survive termination of this Agreement.

(d) The Company hereby agrees to indemnify and hold harmless the Trustee and its officers, directors, agents and employees from and against any and all costs, claims, liabilities, losses or damages whatsoever (including reasonable fees, costs and expenses of counsel, auditors or other experts), asserted or arising out of or in connection with the acceptance or administration of the trusts established pursuant to the Indenture, except costs, claims, liabilities, losses or damages resulting from the negligence or willful misconduct of the Trustee including the reasonable fees, costs and expenses (including the reasonable fees, costs and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties hereunder and of enforcing this indemnification provision. The indemnifications set forth in this Section 4.2(d) shall survive the termination of this Agreement and/or the resignation or removal of the Trustee and shall inure to the benefit of the Trustee's successors and assigns.

SECTION 4.3. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted. The Company agrees that during the term of this Agreement it will maintain its corporate existence and qualification to do business in the State of Florida, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Company may, without violating the agreements contained in this Section 4.3, consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided that, in the event the Company is not the surviving, resulting or transferee corporation, as the case may be, the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company herein and under the Note and is a Florida corporation or is qualified to do business in the State of Florida as a foreign corporation and that such consolidation or merger does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

SECTION 4.4. Annual Statement. The Company agrees to have an annual audit made by its regular independent registered public accounting firm and within 180 days after the close of each fiscal year to furnish the Trustee and any Bondholder who may so request a balance sheet and statement of income and surplus showing the financial condition of the Company and its consolidated subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiaries, if any, for such fiscal year, accompanied by a certificate or opinion of said accountants. The requirements of this Section 4.4 may be satisfied by the submission to the Trustee and each Bondholder who may request such information of the Company's annual report to its shareholders. The Trustee shall have no duty to review or analyze any such financial statements delivered to it pursuant to this Section 4.4 and shall hold such financial statements solely as a repository for the benefit of the Bondholders; the Trustee shall not be deemed to have notice of any information contained therein or event of default which may be disclosed therein in any manner.

SECTION 4.5. Further Assurances and Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project and for carrying out the intention or facilitating the performance of this Agreement.

SECTION 4.6. Maintenance of Project by Company. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining and repairing the Project; provided, however, that the Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary portion of the Project.

SECTION 4.7. Redemption or Purchase of Bonds. The Issuer shall take all steps then necessary under the applicable provisions of the Indenture, at no expense to the Issuer, for the redemption or purchase (other than a purchase pursuant to tenders as provided in the form of Bonds and as provided in Section 3.07 of the Indenture) of Bonds upon receipt, not less than ten days prior to the day on which the Trustee is required to give notice (if any) thereof pursuant to the Indenture, by the Issuer and the Trustee from the Company of a written notice specifying:

(a) the principal amount of Bonds to be redeemed or purchased;

(b) the date of such redemption or purchase; and

(c) in the case of a redemption of Bonds, directions to mail a notice of redemption.

In the case of a purchase of Bonds, the written notice to the Trustee shall, if available moneys in the Bond Fund are insufficient to purchase the principal amount of Bonds specified in (a) above, be accompanied by a deposit with the Trustee of cash or Government Obligations sufficient, together with other available moneys on deposit with the Trustee, to make the directed purchase of Bonds. The Company may purchase Bonds from time to time and deliver them to the Trustee for cancellation pursuant to Section 2.07 of the Indenture.

SECTION 4.8. Compliance with Tax Certificate and Agreement. The Issuer and the Company covenant that they will comply with the covenants and agreements on their respective parts contained in the Tax Certificate and Agreement.

SECTION 4.9. Company's Option to Determine Interest Rate Mode; Appointment of Remarketing Agent. The Issuer and the Company agree that the Company shall have the option to change the interest rate determination method for the Bonds in the manner provided in the Indenture. The Company agrees, in connection with any change in the interest rate determination method, to provide for the appointment of a Remarketing Agent as provided for in Section 9.15 of the Indenture if no Remarketing Agent has been appointed and is serving as such under the Indenture.

SECTION 4.10. Post Issuance Audits. The Company agrees to provide such records regarding the Project and the use, investment and application of proceeds of the Bonds as may reasonably be requested by the Issuer to enable the Issuer to determine that the Company has complied with the requirements of this Agreement and the Indenture subsequent to the issuance of the Bonds. Such compliance shall include, but not be limited to, the proper use of the Bonds proceeds for the intended purposes of the Indenture and this Agreement and compliance with any federal arbitrage rebate requirements. The Company agrees to advance all funds necessary to enable the Issuer to engage and pay for such auditors, accountants, financial advisors, counsel or other professionals for purposes of reasonably determining such compliance.

SECTION 4.11. Recourse Obligations of Company. The Company's obligations for payment and reimbursement of the fees, costs and expenses of the Trustee and the Issuer and the other obligations of the Company under this Agreement, including payment of any rebate liability, shall be full recourse to the Company.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. Events of Default. Each of the following shall be an "Event of Default" under this Agreement:

(a) Failure by the Company to pay when due the amounts required to be paid pursuant to the Note which failure, in the case of such amounts in respect of interest on any Bond, continues for five days, or the failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to this Agreement.

(b) Failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in subsection (a) of this Section 5.1, for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the

Trustee upon the advice of counsel shall agree in writing to an extension of such period prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such period if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected.

(c) The dissolution or liquidation of the Company, except as permitted by Section 4.3 hereof, or the commencement by the Company of any case or proceeding seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition, readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar law of the United States or any state, or adjudication of the Company as bankrupt, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Company in any proceeding for its reorganization instituted under the provisions of Title 11 of the United States Code, as amended, or under any similar statutory provision which may hereafter be enacted.

The foregoing provisions of Section 5.1(b) are subject to the limitation that, if by reason of force majeure the Company is unable in whole or in part to carry out its agreements herein contained other than those set forth in Sections 3.2, 4.3 and 4.8 hereof, an Event of Default shall not be deemed to have occurred during the continuance of such inability. The term "force majeure" as used herein shall mean the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Florida or any of their departments, agencies or officials or of any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission lines, pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company. The Company agrees, however, to remedy to the extent practicable with all reasonable dispatch the effects of any force majeure preventing the Company from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 5.2. Remedies on Default. Whenever any Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps:

(a) By written notice to the Company, the Issuer may declare all amounts payable pursuant to the Note to be immediately due and payable, whereupon the same shall become immediately due and payable; and

(b) The Issuer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

Any amounts collected pursuant to action taken under this Section 5.2 shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee and the paying agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

SECTION 5.3. Agreement to Pay Attorneys' Fees, Costs and Expenses. In the event the Company should breach any of the provisions of the Note or this Agreement and the Issuer should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer the reasonable fees, costs and expenses of such attorneys and such other reasonable costs and expenses so incurred by the Issuer or the Trustee.

SECTION 5.4. No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Note or in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VI

MISCELLANEOUS

SECTION 6.1. Term of This Agreement. Except as otherwise expressly provided herein, this Agreement shall remain in full force and effect from the date hereof until such time as all of the outstanding Bonds shall have been fully paid or provision made therefor in accordance with the provisions of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under this Agreement and the Note shall have been paid.

SECTION 6.2. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows: if to the Issuer, to the Chairman of the Board of County Commissioners, 223 Palafox Place, Pensacola, Florida 32597; if to the Company at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer, with copies to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, N.W., Atlanta, Georgia 30308, Attention: Corporate Finance Department; and if to the Trustee, to The Bank of New York Mellon Trust Company, N.A., 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338, Attention: Corporate Trust Department. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 6.3. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject, however, to the limitations contained in Section 4.3 hereof.

SECTION 6.4. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 6.5. Amendments. This Agreement may not be effectively terminated except in accordance with the provisions hereof and may not be effectively amended except by a written agreement in accordance with Article XI of the Indenture and signed by the parties hereto.

SECTION 6.6. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.7. Applicable Law. This Agreement and the Note shall be governed by and construed in accordance with the laws of the State of Florida without regard to conflict of law principles.

SECTION 6.8. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

SECTION 6.9. Other Financing. Notwithstanding anything in this Agreement to the contrary, the Issuer and the Company may hereafter enter into agreements to provide for the financing or refinancing of costs of the Project or any portion thereof.

SECTION 6.10. Amounts Remaining in the Bond Fund. Any amounts remaining in the Bond Fund upon termination of this Agreement shall, to the extent provided by Section 4.14 of the Indenture, belong to and be paid to the Company by the Trustee.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

ESCAMBIA COUNTY, FLORIDA

[SEAL]

By: _____
Marie Young, Chairman of the Escambia County Board of County Commissioners

Attest:

Ernie Lee Magaha
Clerk of the Circuit Court and Comptroller

By: _____
Deputy Clerk

GULF POWER COMPANY

[SEAL]

By: _____
Vice President and Chief Financial Officer

ATTEST:

_____
Corporate Secretary

EXHIBIT A

GULF POWER COMPANY
PROMISSORY NOTE

$65,000,000 March 31, 2009

GULF POWER COMPANY ("Gulf"), a corporation organized and existing under the laws of the State of Florida, acknowledges itself indebted and for value received hereby promises to pay to the order of Escambia County, Florida (the "County"), and its successors and assigns, the principal sum of SIXTY-FIVE MILLION DOLLARS ($65,000,000) together with interest on the unpaid principal balance thereof from the date hereof until Gulf's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and Gulf promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. Gulf further promises to pay the purchase price of such Bonds as hereinbelow provided.

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the County to Gulf and the obligation of Gulf to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a Loan Agreement (the "Agreement") between the County and Gulf, dated as of March 1, 2009, pursuant to which the County has loaned to Gulf the proceeds of the sale of the County's $65,000,000 in aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), acting pursuant to a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on April 1, 2039. The Bonds are subject to redemption or prior purchase prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the County, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due hereunder, first in respect of interest and

then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

Neither the officers of Gulf nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

[SEAL]

By: _____

Attest: _____

ASSIGNMENT

Pay, without recourse, to the order of The Bank of New York Mellon Trust Company, N.A., as assignee of Escambia County, Florida, under the Trust Indenture, dated as of March 1, 2009, between Escambia County, Florida and The Bank of New York Mellon Trust Company, N.A., as Trustee, securing the payment of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 in the original principal amount of $65,000,000.

ESCAMBIA COUNTY, FLORIDA

By: _____

EXHIBIT B

PROJECT DESCRIPTION

The Project is described in the report entitled Description of Facilities for Solid Waste Recycling and Disposal at James F. Crist Generating Plan Units 4, 5, 6 and 7, dated March 31, 2009, prepared by BECON Corporation for the Company.

The holder hereof has agreed not to transfer this Note except to a successor Trustee under the Trust Indenture dated as of March 1, 2009 of Escambia County, Florida relating to the Bonds (hereinafter referred to).

GULF POWER COMPANY
PROMISSORY NOTE

$65,000,000 March 31, 2009

GULF POWER COMPANY ("Gulf"), a corporation organized and existing under the laws of the State of Florida, acknowledges itself indebted and for value received hereby promises to pay to the order of Escambia County, Florida (the "County"), and its successors and assigns, the principal sum of SIXTY-FIVE MILLION DOLLARS ($65,000,000) together with interest on the unpaid principal balance thereof from the date hereof until Gulf's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and Gulf promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. Gulf further promises to pay the purchase price of such Bonds as hereinbelow provided.

SPECIMEN

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the County to Gulf and the obligation of Gulf to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a Loan Agreement (the "Agreement") between the County and Gulf, dated as of March 1, 2009, pursuant to which the County has loaned to Gulf the proceeds of the sale of the County's $65,000,000 in aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), acting pursuant to a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on April 1, 2039. The Bonds are subject to redemption or prior purchase prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the County, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys

on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

Neither the officers of Gulf nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

SPECIMEN

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

[SEAL]

By: _____
Vice President and Chief Financial Officer

Attest: _____
Secretary and Treasurer

SPECIMEN

ASSIGNMENT

Pay, without recourse, to the order of The Bank of New York Mellon Trust Company, N.A., as assignee of Escambia County, Florida, under the Trust Indenture, dated as of March 1, 2009, between Escambia County, Florida and The Bank of New York Mellon Trust Company, N.A., as Trustee, securing the payment of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 in the original principal amount of $65,000,000.

ESCAMBIA COUNTY, FLORIDA

By: Marie Young

Marie Young, Chairman, Board of County Commissioners

SPECIMEN

$65,000,000
Escambia County, Florida
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project),
First Series 2009

REMARKETING AGREEMENT

March 1, 2009

Gulf Power Company
One Energy Place
Pensacola, Florida 32520-0100

Ladies and Gentlemen:

The undersigned, Goldman, Sachs & Co., as remarketing agent (the "Remarketing Agent") hereby offers to enter into this Remarketing Agreement with you (the "Company") relating to (i) the establishment of a Continuous Remarketing Program (as defined herein), (ii) the reset, from time to time, by the Remarketing Agent of the interest rate on $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"), as more fully described below, and (iii) the purchase and reoffering, from time to time, of the Bonds by the Remarketing Agent. The Company has appointed Goldman, Sachs & Co. as the Remarketing Agent relating to the Bonds. As a condition and inducement to the Remarketing Agent's willingness, from time to time, to reset the interest rate on the Bonds and to purchase and reoffer the Bonds, the Remarketing Agent has requested, and the Company has agreed, to enter into this Remarketing Agreement. Defined terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Official Statement, dated March 26, 2009, relating to the Bonds.

The Bonds will initially bear interest at a long-term interest rate of 1.75% per annum (the "Initial Long-Term Interest Rate") for a long-term interest rate period ending on April 20, 2010 (the "Initial Long-Term Interest Rate Period").

The parties hereto hereby agree to set up a program pursuant to which the Bonds shall be subject to mandatory tender and remarketed in accordance with Section 3.08 of the Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Indenture") between Escambia County, Florida (the "County") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), on a regular basis until maturity or earlier redemption or change to another interest rate mode as permitted under the Indenture (the "Continuous Remarketing Program"). Pursuant to the Continuous Remarketing Program, the Bonds will be subject to mandatory tender in successive long-term interest rate periods or one or more different interest rate periods (each such period, a "New Long-Term Interest Rate Period" and, together with the Initial Long-Term Interest Rate Period, the "Established Long-Term Periods"). Each New Long-Term Interest Rate Period will be determined by the Company in accordance with Section

2.02(b) of the Indenture. The Company and the Remarketing Agent shall mutually agree on the effective date of each Established Long-Term Period (each such effective date, a "Mandatory Purchase Date"). On each Mandatory Purchase Date, the Remarketing Agent will purchase the Bonds from the Company and reoffer the Bonds to the public at a new Long-Term Interest Rate determined by the Remarketing Agent in accordance with Section 2.02(a)(4) of the Indenture (each such rate, a "New Long-Term Interest Rate"). Each New Long-Term Interest Rate and other relevant pricing terms will be specified in the Reoffering Circular (as defined herein) and will apply during the applicable New Long-Term Interest Rate Period. In the event that the Company elects to change the interest rate determination method for the Bonds, the Company and the Remarketing Agent will enter into a separate remarketing agreement that will reflect the new determination method.

SECTION 1. REOFFERING, SALE AND DELIVERY OF BONDS

(a) Upon the terms and conditions and upon the basis of the representations herein set forth, on each Mandatory Purchase Date, the Remarketing Agent hereby agrees to purchase $65,000,000 aggregate principal amount of the Bonds which are subject to mandatory tender on such Mandatory Purchase Date and reoffer such Bonds at a purchase price equal to 100% of the principal amount of such Bonds. The Company agrees to pay a fee to the Remarketing Agent for reoffering the Bonds (the "Commission") on each Settlement Date (as defined herein). Each Commission shall be mutually agreed upon by the Company and the Remarketing Agent.

(b) Simultaneous delivery of the Bonds to the Remarketing Agent and payment to the Trustee for the Bonds (each, a "Settlement") shall be coordinated at such place, time or date as the Remarketing Agent and the Company shall mutually agree upon (such time and date of each Settlement being herein referred to as a "Settlement Date"); each Settlement Date shall be mutually agreed upon by the Company and the Remarketing Agent and disclosed in the Reoffering Circular. At each Settlement, delivery of the Bonds shall be made to or for the account of the Remarketing Agent against payment of $65,000,000 by wire transfer of immediately available funds to the Trustee pursuant to the terms and provisions of the Indenture. On each Settlement Date, the Bonds shall be delivered to or for the account of the Remarketing Agent in definitive registered form without coupons in the form of a single certificate registered to Cede & Co. through the facilities of The Depository Trust Company. In addition, on each Settlement Date, the Company shall have delivered the Commission to the Remarketing Agent by wire transfer. The certificate for the Bonds shall be made available for examination at least 24 hours prior to the applicable Settlement Date.

(c) Each date on which the Bonds bearing a New Long-Term Interest Rate shall be priced is referred to as a "Remarketing Pricing Date."

SECTION 2. USE OF REOFFERING CIRCULAR

(a) For each New Long-Term Interest Rate Period, the Remarketing Agent and the Company shall either (i) supplement the Official Statement, dated March 26, 2009, relating to the Bonds (such Official Statement, including Appendix A thereto (the "Official Statement Appendix") and all documents incorporated by reference in the Official Statement Appendix as

of its date, being hereinafter called the "2009 Official Statement"), with a preliminary term sheet (each, a "Remarketing Supplement") or (ii) agree for the Company to prepare a preliminary reoffering circular, and any appendix thereto (the "Reoffering Appendix") (each such preliminary reoffering circular and each such 2009 Official Statement as supplemented by an applicable Remarketing Supplement is hereinafter referred to as a "Preliminary Reoffering Circular"), providing certain preliminary information relating to the Bonds. The Company authorizes the Remarketing Agent's use of each Preliminary Reoffering Circular. The Official Statement Appendix and each Reoffering Appendix, as applicable to any remarketing of the Bonds, is referred to hereinafter as the "Appendix".

(b) The Company agrees that each Preliminary Reoffering Circular shall be final (except for the interest rate, selling compensation, delivery date and other terms of the Bonds depending on such matters) as of its date within the meaning of Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In order to enable the Remarketing Agent to comply with Rule 15c2-12, the Company has entered into a separate undertaking pursuant to the requirements of Rule 15c2-12 (the "Undertaking") and hereby agrees to provide the Remarketing Agent with sufficient quantities, at the sole expense of the Company, of each Reoffering Circular (as defined herein), dated the applicable Remarketing Pricing Date, in substantially the form of each Preliminary Reoffering Circular, with only such changes therein as shall have been accepted by the Remarketing Agent (such Reoffering Circular, including the Appendix thereto, all documents incorporated by reference in the Appendix thereto as of its date and each applicable Remarketing Supplement, if any (which shall include certain final pricing information) being hereinafter referred to as the "Reoffering Circular"), within two (2) business days after the date of the applicable Remarketing Pricing Date, and in sufficient time to accompany any confirmation of sale of the Bonds.

SECTION 3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE COMPANY

The Company represents and warrants to and agrees with the Remarketing Agent, as of each Remarketing Pricing Date and as of each Settlement Date:

(a) The Company has complied in all material respects with the special covenants of the Company contained in the Loan Agreement, dated as of March 1, 2009 (the "Loan Agreement"). No Event of Default (as defined in the Loan Agreement) shall have occurred or be continuing and no event shall have occurred which, with the passage of time or the giving of notice (or both), would constitute an Event of Default.

(b) The financial information and financial statements of the Company referred to, incorporated by reference or contained in the Appendix to the Preliminary Reoffering Circular and the Reoffering Circular present fairly the financial position of the Company as of the dates indicated and the results of its operations for the periods specified, and the financial statements have been prepared in conformity with generally accepted accounting principles in the United States consistently applied in all material respects with respect to the periods involved, except as stated therein. Since the respective dates of such financial statements, no material adverse change has occurred in the business, properties or financial position of the Company taken as a whole other than as set forth in or contemplated by the Reoffering Circular,

and the Company has not entered into any material transaction or incurred any material liabilities other than in the ordinary course of business or as set forth in or contemplated by the Reoffering Circular.

(c) The descriptions and the information referred to or contained in the Reoffering Circular (other than under the captions "The County," "The Bonds — Book-Entry System," "Purchase of the Bonds," "Underwriting" and "Tax Matters" and in the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" in the Reoffering Circular) as of each Settlement Date will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished to the Company by the Remarketing Agent, in writing expressly for use therein.

(d) The Preliminary Reoffering Circular and the Reoffering Circular each will incorporate by reference certain reports (the "Incorporated Documents") required to be filed by the Company with the Securities and Exchange Commission (the "SEC") pursuant to Section 13 or 15(d) of the Exchange Act, which documents will be prepared by the Company in conformity in all material respects with the relevant requirements of the Exchange Act and the rules and regulations of the SEC thereunder, and copies of such documents will be delivered to the Remarketing Agent. Except as otherwise provided, all references in this Remarketing Agreement to information or statements contained in, set forth in or included in the Preliminary Reoffering Circular or the Reoffering Circular shall be deemed to relate equally to the material actually set forth therein as well as to the material incorporated therein from the Incorporated Documents.

(e) The Incorporated Documents, when they were filed with the SEC, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein not misleading; and any further Incorporated Documents, when they are filed with the SEC, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein not misleading.

(f) The Company has not taken or omitted to take and will not take or omit to take any action which will in any way cause or result in the proceeds from the sale of the Bonds to be applied in a manner other than as provided in the Loan Agreement and the Indenture.

(g) Except as disclosed in or contemplated by the Reoffering Circular, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by this Remarketing Agreement or the Reoffering Circular (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Loan Agreement, the Note, dated March 31, 2009,

issued by the Company pursuant to the Loan Agreement (the "Note") or this Remarketing Agreement, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by this Remarketing Agreement or by the Reoffering Circular (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference).

(h) This Remarketing Agreement, the Loan Agreement and the Note have been duly authorized, executed and delivered by the Company. Assuming due authorization, execution and delivery thereof by the other parties thereto, each of the Loan Agreement and the Note is the legal, valid and binding obligation of the Company and is enforceable in accordance with its terms except as limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles regardless of whether such enforceability is considered in a proceeding in equity or at law; the Undertaking has been or will be duly authorized, executed and delivered by the Company.

(i) The execution of this Remarketing Agreement, the Undertaking and the Loan Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by this Remarketing Agreement), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(j) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of this Remarketing Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(k) The Bonds, the Indenture, the Loan Agreement and the Note conform in all material respects to the descriptions thereof in the Reoffering Circular and no changes will be made to the Indenture that affect the rights or duties of the Remarketing Agent without the prior written consent of the Remarketing Agent.

(l) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation in the States of 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.

(m) To the best of the Company's knowledge, the SEC has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Reoffering Circular or the Reoffering Circular.

(n) (i) The Company agrees to indemnify and hold harmless the Remarketing Agent and each person, if any, who controls the Remarketing Agent, within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Reoffering Circular, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or any alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Remarketing Agent specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(n) shall not inure to the benefit of the Remarketing Agent (or of any person so controlling the Remarketing Agent) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Reoffering Circular (exclusive of the Incorporated Documents), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Remarketing Agent with or prior to the written confirmation of the sale involved if the Company had previously furnished copies thereof in sufficient quantity and on a timely basis to the Remarketing Agent as requested by the Remarketing Agent and the loss, claim, damage or liability of such Remarketing Agent results from an untrue statement or omission of a material fact was corrected in the Reoffering Circular (exclusive of the documents incorporated in the Appendix by reference) as amended or supplemented at the time of such sale.

(ii) The Remarketing Agent agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of the Securities Act against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Reoffering Circular or the Reoffering Circular, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by the Remarketing Agent specifically for use therein.

(iii) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, and the Remarketing Agent agrees with respect to any action against it or any person controlling it as aforesaid, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3(n) nor affect any rights such indemnifying party may have otherwise than under this Section 3(n) to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including

the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement; provided that the Company shall not consent to any settlement unless the settlement (i) includes an unconditional release of the Remarketing Agent or its officers, directors and employees from all liability arising out of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Remarketing Agent or its officers, directors and employees. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

(o) The Company will assist, if necessary therefor, in the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Remarketing Agent shall designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Company shall not be required to qualify as a foreign corporation or to file any consents to service of process under the laws of any state or to comply with any other requirements in any jurisdiction where it is not now so qualified.

(p) If, at any time prior to the completion of any reoffering of the Bonds by the Remarketing Agent, when in the judgment of the Remarketing Agent, it is necessary or desirable to deliver a Reoffering Circular in connection with any reoffering of the Bonds, an event occurs as a result of which in the opinion of the Remarketing Agent, after consultation with Dewey & LeBoeuf LLP, counsel for the Remarketing Agent, the Reoffering Circular as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement (or, in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Exchange Act) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Remarketing Agent more than 90 days after the applicable Settlement Date shall be prepared at the Remarketing Agent's expense.

(q) During such period (not to exceed nine months after each Settlement Date) as the Remarketing Agent believes delivery of the Reoffering Circular is necessary or desirable in connection with the reoffering of the Bonds by the Remarketing Agent or dealers, if any, the Company will advise the Remarketing Agent promptly of any proposal to amend or supplement the Reoffering Circular, insofar as it shall be known to the Company, and agrees not to effect any such amendment or supplementation of the Reoffering Circular which is unsatisfactory in form to Dewey & LeBoeuf LLP or in substance to the Remarketing Agent; the Company will also advise the Remarketing Agent promptly of the institution of any proceedings by the SEC or any

other action or event of which the Company is aware and which may affect the use of the Reoffering Circular in connection with the sale and distribution of the Bonds.

(r) Prior to each Remarketing Pricing Date, the Company shall provide the Remarketing Agent with an opportunity to perform standard due diligence on the Company, which may take the form of a conference call with an officer of the Company.

(s) The Company shall cooperate in preparing, printing and distributing to the Remarketing Agent sufficient copies of each Preliminary Reoffering Circular and the Reoffering Circular.

(t) On each Settlement Date, the Company agrees to pay to the Remarketing Agent the applicable Commission.

SECTION 4. CONDITIONS TO REMARKETING AGENT'S OBLIGATIONS

(a) The Remarketing Agent has entered into this Remarketing Agreement in reliance upon the representations and warranties of the Company contained herein, and upon the performance by the Company of its obligations hereunder, as of the date hereof and as of each Settlement Date. Accordingly, the obligations of the Remarketing Agent hereunder in respect of the reoffering, sale and delivery of the Bonds shall be subject to the performance by the Company of its obligations and agreements to be performed hereunder at or prior to each Settlement Date and to the accuracy of and the compliance with the representations and warranties of the Company contained herein as of the date hereof, as of each Remarketing Pricing Date and as of each Settlement Date.

(b) The obligations of the Remarketing Agent hereunder are subject to receipt, on or prior to each Settlement Date, by the Remarketing Agent of: (i) an opinion, dated the date of such Settlement Date, addressed to the Remarketing Agent from Balch & Bingham LLP, Bond Counsel, substantially in the form of Exhibit A hereto with such changes therein as may be acceptable to the Remarketing Agent; and (ii) the Commission specified in Section 1 hereof.

If the Company shall be unable to satisfy the conditions of the obligations of the Remarketing Agent contained in this Remarketing Agreement, or if the obligations of the Remarketing Agent shall be terminated for any reason permitted by this Remarketing Agreement, this Remarketing Agreement shall terminate and the Remarketing Agent shall be under no further obligation hereunder except as otherwise provided in Sections 3(n) and 7 hereof.

SECTION 5. REMARKETING AGENT'S RIGHT TO CANCEL

(a) The Remarketing Agent shall have the right to cancel its obligations hereunder to purchase, reoffer, sell and deliver the Bonds by notifying the Company in writing of its election to do so between the date of the applicable Remarketing Pricing Date and the related Settlement Date, if at any time thereafter and prior to such Settlement Date:

(i) legislation shall be enacted by the Congress or adopted by either house thereof or a decision shall be rendered by a federal court, including the Tax

Court of the United States, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or any other governmental agency shall be made, which has the purpose or effect of imposing federal taxation upon receipts, revenues or other income of the general character expected to be derived by the County, including, without limitation, upon interest received on bonds of the same kind and character as the Bonds which would have the effect of changing directly or indirectly the federal income tax consequences of interest on bonds of the same kind and character as the Bonds in the hands of the holders thereof;

(ii) the exemption from State of Florida income taxation of interest on the Bonds shall, in the reasonable opinion of the Remarketing Agent, have been materially and adversely affected by the introduction or enactment of any federal or Florida legislation or by an amendment to the Constitution of the United States or the State of Florida or any decision of any federal or state court or any ruling or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States, the Internal Revenue Service or other federal or Florida authority;

(iii) 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, or there shall have occurred and be continuing beyond one full business day prior to the applicable Settlement Date, a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by United States or New York State authorities; or

(iv) any event shall have occurred, or information became known, as a result of which, in the opinion of the Remarketing Agent, the Reoffering Circular shall contain an untrue statement of a material fact or shall omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading;

in case of either (i), (ii) or (iii), with the result that, in the opinion of the Remarketing Agent, the marketability of the Bonds shall have been materially and adversely affected thereby.

SECTION 6. REPRESENTATIONS AND AGREEMENTS TO SURVIVE

The representations, warranties, covenants and indemnities contained in this Remarketing Agreement shall survive each Settlement Date under this Remarketing Agreement, the resale by the Remarketing Agent of the Bonds, or any investigation by the Remarketing Agent of any matters described in or related to the transactions covered by this Remarketing Agreement, the Indenture, the Loan Agreement or the Reoffering Circular.

SECTION 7. PAYMENT OF EXPENSES

All expenses and costs of the Company incident to the performance of its obligations in connection with the sale of the Bonds to the Remarketing Agent, including any costs of mailing or delivery and of printing the Bonds, this Remarketing Agreement, the Preliminary Reoffering Circular, the Reoffering Circular and any other amendments thereof or supplements thereto, and all ancillary papers prepared in connection with the transactions contemplated by this Remarketing Agreement, in reasonable quantities, including any photocopying thereof, fees and expenses of Bond Counsel, fees charged by investment rating agencies for the rating of the Bonds, fees and expenses of the Trustee in connection with the Bonds, fees and expenses of counsel for the County and fees and expenses of counsel for the Remarketing Agent, shall be paid by the Company. Except as indicated above, all other out-of-pocket expenses of the Remarketing Agent shall be paid by the Remarketing Agent.

SECTION 8. NOTICES

Any notice or other communication to be given to the Company under this Remarketing Agreement may be given by delivering the same in writing to the Company, One Energy Place, Pensacola, Florida 32520-0781, Attention: Treasurer, with a copy to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, NW, Atlanta, Georgia 30308, Attention: Corporate Finance Department, and any such notice or other communication to be given to the Remarketing Agent may be given by delivering the same c/o Goldman, Sachs & Co., 85 Broad Street, 29th Floor, New York, New York, Attention: Municipal Money Market Desk.

SECTION 9. APPLICABLE LAW; NON ASSIGNABILITY

This Remarketing Agreement shall be governed by the laws of the State of Florida. This Remarketing Agreement shall not be assigned by the Company.

SECTION 10. SUCCESSORS

This Remarketing Agreement is made solely for the benefit of the parties hereto, their respective successors and any person controlling the Remarketing Agent, and no other person shall have any rights or obligations hereunder. The term "successors" shall not include any purchaser of Bonds from the Remarketing Agent merely because of such purchase.

SECTION 11. TERMINATION

This Remarketing Agreement will terminate upon the effective resignation or removal of the Remarketing Agent in accordance with the Indenture. The Remarketing Agent will resign under this Remarketing Agreement if requested to do so by the Company in writing and may resign at any time. Following termination, the provisions of Section 3(n) will continue in effect, and each party will pay the other any amounts owing at the time of termination.

SECTION 12. SEVERABILITY

If any provision of this Remarketing Agreement shall be determined to be unenforceable, that shall not affect any other provision of this Remarketing Agreement.

This Remarketing Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same agreement.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Philip C Raymond
Title: VP+CFO

GOLDMAN, SACHS & CO.
as Remarketing Agent

By: _____
(Goldman, Sachs & Co.)

EXHIBIT A
To the Remarketing Agreement

[LETTERHEAD OF BALCH & BINGHAM LLP]

[Dated: Each Settlement Date]

Goldman, Sachs & Co.
New York, New York

The Bank of New York Mellon Trust Company, N.A., as trustee
Atlanta, Georgia

Gulf Power Company
Pensacola, Florida

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

To the Addressees:

We acted as Co-Bond Counsel in connection with the issuance on March 31, 2009, by Escambia County, Florida (the "County") of the $65,000,000 aggregate principal amount of its Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds were issued pursuant to a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). This opinion is being delivered pursuant to Section 2.02(b)(1) of the Indenture. All capitalized terms used in this opinion which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Gulf Power Company (the "Company") has notified the Trustee of its election to adjust the interest rate period for the Bonds on _____ from the existing Long-Term Interest Rate Period to another Long-Term Interest Rate Period ending _____ (the "New Interest Rate Period").

We have been asked to render the opinion required by Section 2.02(d) of the Indenture which is a condition to the change in the interest rate determination method relating to the Bonds. We have examined the law and such certified proceedings with respect to the Bonds and other papers as we have deemed necessary to render this opinion. In all such examinations, we have assumed the genuineness of signatures on original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photographic copies and, as to certificates of public officials, we have assumed the same to have been properly given and to be accurate.

Based on our examination, we are of the opinion that the adjustment of the interest rate period applicable to the Bonds from the existing Long-Term Interest Rate Period to the New Interest Rate Period is permitted by the laws of the State of Florida and by the Indenture and will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes of interest on the Bonds.

Except as expressly set forth above, we express no opinion herein with respect to any governmental approvals, consents or authorizations required in connection with any purchase or sale of the Bonds subsequent to the original issuance of the Bonds, including, but not limited to, any approvals, consents or authorizations as may have been or may be required by the securities or blue sky laws of the United States of America or of any state in connection with the remarketing of the Bonds.

We have not undertaken any independent investigation since the original issuance of the Bonds as to the use of the proceeds of the Bonds or the use or function of the facilities financed or refinanced thereby, or as to compliance by the Company, the County and the Trustee with their obligations under the Agreement, the Indenture, the tax and non-arbitrage certification relating to the Bonds or any other documents executed in connection with the original issuance of the Bonds. We express no opinion with respect to interest on the Bonds during any period subsequent to the New Interest Rate Period. Except as specifically set forth herein, we express no opinion with respect to the Bonds or as to the validity or enforceability against the Company of any agreement.

We express no opinion herein as to the accuracy, completeness or sufficiency of any offering material used in connection with the original or any subsequent sale or remarketing of the Bonds, or as to compliance by the County, the Company or any remarketing agent for, or purchaser of, the Bonds during the New Interest Rate Period with any federal or state securities law, rule or regulation applicable to the remarketing of the Bonds.

We have not undertaken to notify you of any changes in law or fact occurring after the date hereof which might affect any of the opinions expressed herein.

Very truly yours,

BALCH & BINGHAM LLP

By:

GULF POWER COMPANY

Letter of Representation

March 26, 2009

Board of County Commissioners
Escambia County, Florida

Goldman, Sachs & Co.
New York, New York

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce Goldman, Sachs & Co., as underwriter (the "Underwriter") and Escambia County, Florida (the "County") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the County relating to the purchase by the Underwriter from the County of $65,000,000 in aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), between the County and the Company, to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the James F. Crist Generating Plant in Escambia County, Florida (the "Project"). The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, the Underwriter will be appointed as Remarketing Agent for the Bonds pursuant to a Remarketing Agreement with the Company dated as of March 1, 2009 (the "Remarketing Agreement"). As used in this Letter of Representation the term "Official Statement" means the Official Statement of the County, dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Appendix") and the documents incorporated in the Appendix by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the County that:

(a) The Company deemed the Preliminary Official Statement "final"

as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering price, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Tax Matters" or "Underwriting" or the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization. The Company hereby consents to the use by the Underwriter of the Official Statement.

(b) The financial statements of the Company contained or incorporated by reference in the Official Statement present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of its operations for the periods specified; and, except as otherwise stated in the Official Statement, said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis during the periods involved (except that the unaudited financial statements incorporated by reference in the Official Statement may be subject to normal year-end adjustments).

(c) There has not been any material adverse change in the business, properties or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Remarketing Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, the Agreement and the Note will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws

relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement and the Remarketing Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Undertaking dated March 31, 2009, from the Company (in form and substance satisfactory to the Underwriter) as required by paragraph (b)(5) of the Rule, the Remarketing Agreement and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation in the States of Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated March 20, 2009 relating to the Bonds, including the Appendix and the documents incorporated in the Appendix by reference (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by the

Appendix and the documents incorporated in the Appendix by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference).

(k) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(l) The Bonds, the Indenture, the Agreement, the Remarketing Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(m) The Official Statement incorporates or will incorporate by reference certain documents filed or to be filed by the Company with the Securities and Exchange Commission, which documents have been, and will be, prepared by the Company in conformity in all material respects with the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission thereunder, and copies of such documents have been and will be delivered to the Underwriter.

(n) The Company has within the past five years complied with all previous undertakings required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Exchange Act.

2. The Company covenants and agrees with the County and the Underwriter that:

(a) During such period (not to exceed nine months after the Closing Date) as the Underwriter believes delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey & LeBoeuf LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

(b) If, at any time prior to the completion of the sale of the Bonds by the Underwriter, when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with sales of the Bonds, an event occurs as a result of which in the opinion of Dewey & LeBoeuf LLP, counsel for the Underwriter, the Official Statement as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement (or, in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Exchange Act) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(c) The Company will assist, if necessary therefor, in the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter shall designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Company shall not be required to qualify as a foreign corporation or to file any consents to service of process under the laws of any state or to comply with any other requirements in any jurisdiction where it is not now so qualified.

(d) The Company will not take or omit to take any action which will in any way cause the proceeds from the sale of the Bonds to be applied in a manner other than as provided in the Indenture and the Agreement.

3. (a) The Company agrees to indemnify and hold harmless the County, any official or employee of the County, the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the

documents incorporated in the Appendix by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved if the Company had previously furnished copies thereof in sufficient quantity and on a timely basis to the Underwriter as requested by the Underwriter and the loss, claim, damage or liability of such Underwriter results from an untrue statement or omission of a material fact was corrected in the Official Statement (exclusive of the documents incorporated in Appendix A by reference) as amended or supplemented at the time of such sale.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the County and any official or employee of the County, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the County agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement; provided that the Company shall not consent to any settlement unless the settlement (i) includes an unconditional release of the Underwriter or its officers, directors and employees from all liability arising out of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Underwriter or its officers, directors and employees. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such

counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the County contained herein, or in the certificates of officers of the Company or officials of the County submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the County or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(k) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the County, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the County's entering into, acceptance and execution of the Purchase Contract and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Florida.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below with a copy to Southern

Company Services, Inc., 30 Ivan Allen Jr. Boulevard, NW, Atlanta, Georgia 30308, Attention: Corporate Finance Department. Any notice or other communication to be given to the County may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the County and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: Terry A. Davis
Name: Terry A. Davis
Title: Assistant Secretary

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

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

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: Marie Young
Name: Marie Young
Title: Chairman

$65,000,000

ESCAMBIA COUNTY, FLORIDA

Solid Waste Disposal Revenue Bonds,
(Gulf Power Company Project),
First Series 2009

PURCHASE CONTRACT

Ladies and Gentlemen:

Goldman, Sachs & Co., as underwriter of the above-mentioned issuance (the "Underwriter"), hereby offers to enter into this Purchase Contract with you (the "County") for the purchase by the Underwriter and sale by the County of $65,000,000 in aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds").

Upon the effectiveness of this Purchase Contract, Gulf Power Company (the "Company") is executing and delivering concurrently therewith a Letter of Representation, dated the date hereof (the "Letter of Representation") and in the form of Exhibit G hereto, wherein the Company will undertake certain obligations with respect to this Purchase Contract. Defined terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Official Statement (as hereinafter defined).

1. Upon the terms and conditions and upon the basis of the representations, warranties and covenants set forth herein and in the Letter of Representation, (i) the Underwriter hereby agrees to purchase the Bonds from the County for offering to the public, and the County hereby agrees to sell the Bonds to the Underwriter for such purpose, for a purchase price of 100% of the principal amount of the Bonds and (ii) the Company agrees to pay $243,750 to the Underwriter as an underwriting fee (the "Fee"). The Underwriter agrees that the initial public offering price for the Bonds shall be 100% of the principal amount thereof.

2. The Bonds shall be as described in and shall be issued under and secured by a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to be executed and delivered on or prior to the Closing Date (as hereinafter defined). The County has previously executed and delivered a Blanket Letter of Representations (the "DTC Letter") covering the Bonds to The Depository Trust Company ("DTC").

The Bonds shall be issued as required by the provisions of a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), between the County and the Company to be executed and delivered on or prior to the Closing Date providing, among other things, for the undertaking by the County to loan amounts to the Company in order to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the Company's James F. Crist Generating Plant in Escambia County, Florida (the "Project"). To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a separate non-negotiable promissory note (the "Note") in a like principal amount bearing interest at the rate borne by the Bonds. The Bonds are more fully described in the Official Statement. As used in this Purchase Contract, the term "Official Statement" means the Official Statement, dated March 26, 2009, including Appendix A thereto (the "Appendix") and the documents incorporated by reference in the Appendix at such date.

3. At the time of or before the acceptance by the County hereof, the County shall deliver to the Underwriter a copy of the Official Statement executed on behalf of the County by an authorized representative of the County.

The County authorizes the use of the Official Statement, the Agreement and the Indenture, and the information therein contained, by the Underwriter in connection with the public offering and sale of the Bonds. The County ratifies and confirms the use by the Underwriter prior to the date hereof of the Preliminary Official Statement of the County, dated March 20, 2009 (the "Preliminary Official Statement"), in connection with the public offering of the Bonds.

The County deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering price, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The County, at the cost of the Company, shall provide to the Underwriter sufficient quantities of the Official Statement which the County hereby deems complete as of its date, executed by an authorized representative of the County, in substantially the same form as the Preliminary Official Statement, subject to minor additions, deletions and revisions, within seven business days after the effective date of this Purchase Contract and in sufficient time to accompany any confirmation that requires payment from any customer. The County agrees to notify the Underwriter and the Company of any material developments impacting the County or the Bonds, of which the County becomes aware, within 90 days after delivery of the Bonds.

4. The County represents and warrants to the Underwriter and the Company that:

(a) The County is a validly existing political subdivision of the State of Florida. The County is authorized by the full legal right, power and authority under the laws of the State of Florida, including, particularly, the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended (the "Act"), to issue the Bonds; to loan the proceeds of the Bonds to the Company for the purpose of financing or refinancing the Project, which loans are to be made under the Agreement; to assign under the Indenture all of its rights in and to the Note, the Agreement (except for Unassigned Rights, as defined in the Indenture) and the funds established under the Indenture as security for the payment of the principal of, purchase price, premium, if any, and interest on the Bonds; to enter into and comply with the provisions of the DTC Letter; to accept the Letter of Representation; to sell and deliver the Bonds to the Underwriter as provided herein; and to carry out and consummate all other transactions contemplated on the part of the County by each of the aforesaid documents and the Official Statement.

(b) The County has complied with all provisions of the Constitution of the State of Florida and the Act and has full power and authority to consummate all transactions contemplated on the part of the County by the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement and any and all other agreements relating thereto.

(c) The County has duly authorized all necessary action to be taken by it for: (i) the issuance and sale of the Bonds upon the terms set forth herein and in the Official Statement and the Indenture; (ii) the execution and delivery by it of the Indenture providing for the issuance of and security for the Bonds and the appointment of the Trustee as trustee, paying agent and bond registrar under the Indenture; (iii) the approval of the Official Statement and the signing of the Official Statement by its authorized representative; (iv) the lending of the proceeds of the Bonds to the Company; (v) the execution, delivery, receipt and due performance of this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and any and all such other agreements and documents as may be required to

be executed, delivered and received by the County in order to carry out, give effect to and consummate the transactions contemplated thereby and by the Official Statement; (vi) the acceptance of the Letter of Representation; and (vii) the carrying out, giving effect to and consummation of the transactions contemplated on the part of the County by this Purchase Contract, the Official Statement, the Indenture and the Agreement.

(d) The statements and information with respect to the County contained in the Preliminary Official Statement, as of its date, and the Official Statement, as of its date and as of the Closing Date, under the caption "The County" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" do not and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading. The County makes no representation with respect to the statements contained in the Preliminary Official Statement or the Official Statement under any captions other than "The County" and the last sentence under "Disclosure Required by Florida Blue Sky Regulations" as aforesaid.

(e) The County will direct that the proceeds from the sale of the Bonds be applied as specified in the Indenture and the Agreement.

(f) The execution and delivery of the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and the other agreements contemplated on the part of the County hereby and by the Official Statement and compliance on the part of the County with the provisions thereof and the pledge and assignment to the Trustee of the Note and the Agreement and acceptance of the Letter of Representation will not conflict with or constitute on the part of the County a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement, indenture, mortgage, lease or other instrument to which the County is subject or by which it is or may be bound, or to the knowledge of the County, any order, rule or regulation applicable to the County of any court or governmental agency or body having jurisdiction over the County or any of its activities or properties; and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the County of the transactions contemplated on the part of the County by said documents have been obtained.

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the actual knowledge of the official of the County executing the certificate described in Section 6(f)(6) hereof (without having made any inquiry or investigation with respect thereto), threatened against or directly affecting the County, except as disclosed in or contemplated by the Official Statement, (i) to restrain or enjoin the issuance and sale of the Bonds or the execution, delivery or performance by the County of the Agreement or the Indenture or (ii) wherein an unfavorable decision, ruling or finding would (A) have a material adverse effect on the transactions contemplated hereby or by the Official Statement (excluding the Appendix and the documents incorporated in the Appendix by reference), (B) adversely affect or put in question the validity or enforceability of the Bonds, the Indenture, the Agreement, the DTC Letter, this Purchase Contract, the acceptance of the Letter of Representation or any other agreement, instrument or document to which the County is a party or by which it is bound relating to the consummation of the transactions contemplated hereby or by the Official Statement (excluding the Appendix and the documents incorporated in the Appendix by reference), or (C) adversely affect the tax-exempt status of the Bonds.

(h) The County will not take, or knowingly or intentionally omit to take, any action the taking or omission of which will cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(i) Any certificate signed by an authorized officer of the County delivered to the Underwriter shall be deemed to be a representation and warranty by the County to the Underwriter as to the statements made therein.

(j) Except for bonds upon which the County is not obligated to pay principal or interest, the County has not since December 31, 1975 defaulted in the payment of the principal of or interest on any of its bonds, notes, warrants or any other securities or any legally authorized obligation issued by the County and is not currently in default in the payment of any such principal or interest.

(k) Based solely on the advice of Lott & Associates, L.P., Co-Bond Counsel, the County represents that the issuance and sale of the Bonds to the Underwriter will not be subject to any State of Florida issuance, transfer or other documentary stamp taxes.

5. At 10:00 A.M., New York Time, on March 31, 2009, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the County and the Underwriter with the consent of the Company (the "Closing Date"), the County will deliver to the Underwriter the Bonds in definitive form, duly executed and authenticated, together with the other documents hereinafter mentioned, and, upon payment by the Company to the Underwriter of the Fee in immediately available funds, the Underwriter will accept such delivery of the Bonds and pay the purchase price therefor in immediately available funds, payable to the order of the Trustee for the account of the County. The Bonds so delivered will be in form acceptable for deposit with DTC and shall be registered in the name of Cede & Co., as nominee of DTC. The certificate for the Bonds shall be made available for examination by the Underwriter at least 24 hours prior to the Closing Date.

6. The Underwriter's obligations hereunder to purchase and pay for the Bonds shall be subject to the performance by the County of its obligations to be performed hereunder at or prior to the Closing Date; to the payment by the Company of the Fee and the performance by the Company of the other obligations and agreements to be performed by it at or prior to the Closing Date hereunder and under the Letter of Representation; and to the accuracy in all material respects of the representations and warranties of the County contained herein and of the Company contained in the Letter of Representation (except to the extent already qualified by materiality, in which case such representations and warranties shall be accurate in all respects), as of the date hereof and as of the Closing Date, and shall also be subject to the following conditions:

(a) At the Closing Date, the Indenture, the Agreement, the Remarketing Agreement, dated as of March 1, 2009, between the Company and the Underwriter (the "Remarketing Agreement"), the Note and the Letter of Representation shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect, and shall not have been materially amended, modified or supplemented except as may have been agreed to in writing by the Underwriter; provided, however, that the acceptance of delivery of the Bonds by the Underwriter on the Closing Date shall be deemed to constitute such agreement pursuant to the foregoing.

(b) At the Closing Date, the Bonds shall have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture.

(c) No amendment or supplement to the Official Statement filed subsequent to the date hereof (including any filing made by the Company pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall be unsatisfactory in form to Dewey & LeBoeuf LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriter) which, in the reasonable judgment of the Underwriter,

shall materially impair the marketability of the Bonds; the County will assist in preparation, at the expense of the Company, of any amendment or supplement to the Official Statement which, at any time within 90 days after the Closing Date, is necessary in the Underwriter's and the Company's opinion in order to make the Official Statement not misleading in light of the circumstances existing at such time.

(d) At or prior to the Closing Date, no order, decree or injunction of any court of competent jurisdiction, nor any order, ruling, regulation or administrative proceeding by any governmental official, body or board, shall have been issued or commenced, nor shall any legislation have been enacted, with the purpose or effect of prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement or the execution or performance of the Indenture, the Agreement or the Note in accordance with their respective terms.

(e) At the Closing Date, there shall be in full force and effect an appropriate order of the Florida Public Service Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement (excluding the Appendix and the documents incorporated in the Appendix by reference).

(f) At or prior to the Closing Date, the Underwriter shall have received the following documents:

(1) Executed counterparts, or certified copies, of the Agreement, the DTC Letter, the Indenture, the Remarketing Agreement, the Letter of Representation and the Note.

(2) Executed copies or photocopies of the applications to, including all amendments, and orders of, the Florida Public Service Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement.

(3) Opinions dated the Closing Date, with such changes as the Underwriter shall approve, of (i) Balch & Bingham LLP, Co-Bond Counsel, substantially in the forms annexed hereto as Exhibits A-1 and A-2; (ii) Lott & Associates, P.L., Co-Bond Counsel, substantially in the form annexed hereto as Exhibit B; (iii) Beggs & Lane, a Registered Limited Liability Partnership, General Counsel for the Company, substantially in the form annexed hereto as Exhibit C; (iv) Troutman Sanders LLP, Counsel for the Company, substantially in the form annexed hereto as Exhibit D; and (v) Dewey & LeBoeuf LLP, Counsel for the Underwriter, substantially in the form annexed hereto as Exhibit E; and such counsel shall have been furnished with such documents as they may request for the purpose of enabling them to pass upon the matters to be covered by their respective opinions.

(4) An opinion, dated the Closing Date, of Alison Rogers, Esq., Counsel for the County, addressed also to Balch & Bingham LLP and Lott & Associates, P.L., as Co-Bond Counsel, to the effect that: (A) the County is a duly constituted political subdivision of the State of Florida, and in good standing under such laws and is authorized to exercise the powers under the Act; (B) the County has full legal right, power and authority to adopt the resolution authorizing the Bonds (the "Resolution"), to enter into this Purchase Contract, the Agreement, the DTC Letter and the Indenture, to issue and deliver the Bonds to the Underwriter as provided in this Purchase Contract, and to carry out and consummate all other transactions contemplated by each of the aforesaid documents and has complied with the provisions of the Act in all matters relating to such transaction; (C) the County has duly authorized (i) the execution, delivery and due performance of this Purchase Contract, the Bonds, the Agreement, the DTC Letter and the Indenture, (ii) the execution and delivery of the Official Statement and (iii) the taking of any and all such action as may be required on the part of the County to carry out, give effect to and

consummate the transaction contemplated by such instruments; (D) the Indenture, the Agreement, the DTC Letter and this Purchase Contract have been duly authorized, executed and delivered by the County and, assuming the due authorization, execution and delivery by the other respective parties thereto, the Indenture, the Agreement, the DTC Letter and this Purchase Contract constitute valid, legally binding and enforceable obligations of the County, except to the extent that their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and principles of equity affecting the availability of specific performance or other equitable relief; (E) the Resolution has been duly adopted by the County and constitutes the legal, valid and binding act of the County and has not been in any way amended, modified, rescinded or revoked; (F) the adoption of the Resolution, the execution and delivery of this Purchase Contract, the Bonds, the DTC Letter, the Agreement and the Indenture, the acceptance of the Letter of Representation and compliance with the provisions of each of such instruments will not conflict with or constitute a breach of or default under, any commitment, agreement or other instrument to which the County is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order of decree to which the County is subject; (G) to her knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, is pending, or to her knowledge threatened, to restrain or enjoin the issuance or sale of the Bonds wherein an unfavorable decision, ruling or finding would materially adversely affect the transaction contemplated by the Official Statement, or which in any way would adversely affect the validity of the Resolution or the validity or enforceability of the Bonds, the Indenture, this Purchase Contract or the Agreement; (H) the County has pledged and assigned to the Trustee pursuant to the Indenture all of the Issuer's right and interest in the Agreement (except for certain payments for indemnification and expenses) and the County has granted no other security interests in and to such rights and interest or in and to the trust funds created and held by the Trustee under the Indenture; and (I) the statements in the Official Statement under the caption "The County" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations", insofar as they relate to the County and purport to constitute summaries of the matters referred to therein, fairly and accurately summarize the matters summarized therein.

(5) A letter, dated the Closing Date, of Deloitte & Touche LLP, substantially to the effect set forth in Exhibit F hereto.

(6) A certificate, satisfactory to the Underwriter, of a duly authorized officer of the County satisfactory to the Underwriter, dated the Closing Date, to the effect that: (A) the County has duly performed all of its obligations to be performed in connection with the issuance and sale of the Bonds at or prior to the Closing Date and each of the representations and warranties of the County contained herein is true and correct as of the Closing Date; (B) the County has authorized, by all necessary action, the execution, delivery, receipt and due performance of the Indenture, the Agreement, this Purchase Contract, the acceptance of the Letter of Representation and any and all such other agreements and documents as may be required to be executed, delivered, received and/or performed by the County in order to carry out, give effect to and consummate the transactions contemplated on its part by the Indenture, the Agreement and the Official Statement; (C) no litigation is pending, or to the knowledge of the official of the County executing the certificate (without having made any independent inquiry or investigation with respect thereto) threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture or the Agreement or the existence or powers of the County or the right of the County to loan the proceeds of the Bonds to the Company or the collection of receipts and revenues pledged or to be pledged to pay the principal of, purchase price, premium, if any, and interest on the Bonds, including, without limitation, payments under the Agreement or the Note; (D) based on the advice of Alison Rogers, Esq.,

Counsel for the County, neither the execution, delivery, receipt or due performance of the Indenture, the Agreement, this Purchase Contract or the other agreements contemplated hereby or by the Official Statement under the circumstances contemplated hereby or thereby, nor the compliance by the County with the provisions thereof, nor acceptance of the Letter of Representation, will conflict with or constitute on the part of the County a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement or other instrument to which the County is subject or by which it is or may be bound; (E) no authority or proceedings relating to this Purchase Contract, the Indenture, the Agreement, or the Official Statement have been modified, repealed, revoked or rescinded; (F) this Purchase Contract, the Indenture, the Agreement and the Official Statement have been duly executed and delivered by the County and the County has duly assigned the Note (issued by the Company under the Agreement) to the Trustee, as assignee and pledge of the County under the Indenture; and (G) the Resolution was duly adopted at a meeting of the County duly called, noticed and held and the Resolution has not been modified, amended or repealed and has from its date of adoption been and is now in full force and effect.

(7) A certificate, dated the Closing Date, of the President or any Vice President and the Treasurer or an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company to the effect that:

(i) the representations and warranties contained in Section 1 of the Letter of Representation are true and correct at and as of the Closing Date and the Company has satisfied all conditions therein contained to be satisfied at or prior to the Closing Date; and

(ii) there has not been any material adverse change in the business, properties or financial condition of the Company from that set forth in or contemplated by the Official Statement.

(8) An undertaking, dated the Closing Date, from the County and the Company (in form and substance satisfactory to the Underwriter) as required by paragraph (b)(5) of the Rule (the "Undertaking").

(9) Such additional certificates, instruments and other documents as the Underwriter or its counsel may deem necessary to evidence the accuracy as of the Closing Date of the representations of the County contained herein and of the Company contained in the Letter of Representation and the due performance or satisfaction by the County and the Company at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the County and the Company in connection with the issuance of the Bonds.

If the County or the Company shall be unable to satisfy the conditions of the obligations of the Underwriter contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the County shall be under further obligation hereunder except as otherwise provided in Section 8 hereof.

7. The County agrees to cooperate with the Underwriter and its counsel and the Company, solely at the expense of the Company, (i) in arranging for the qualification of the Bonds for offer and sale under the securities or "blue sky" laws of such jurisdictions as the Underwriter may request; provided, however, that the County will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction, and (ii) in applying

for and securing ratings on the Bonds by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

8. All expenses and costs incident to the authorization, issuance, printing, sale and delivery, as the case may be, of the Bonds, the Indenture, the Agreement, the Remarketing Agreement, the Note, the DTC Letter, the Preliminary Official Statement, the Official Statement, the Letter of Representation and this Purchase Contract, including, without limitation, (i) the Fee; (ii) fees and disbursements of Counsel for the Underwriter in connection with the qualification of the Bonds for sale under the securities or "blue sky" laws of various jurisdictions; (iii) the preparation and printing of the "blue sky" survey; (iv) any documentary, stamp or other taxes in connection with the issuance and sale of the Bonds hereunder; (v) all filing, registration and recording fees and expenses; (vi) fees of the Trustee; (vii) the fees and disbursements of Co-Bond Counsel, Counsel for the Underwriter, Disclosure Counsel for the County and Counsel for the County; (viii) any administrative or other fees charged in connection with the Bonds by the County; and (ix) the fees, if any, for bond ratings shall be paid by the Company pursuant to the Letter of Representation. Nothing herein shall be construed to relieve the Underwriter of its liability for its default hereunder. The Underwriter shall pay (i) all advertising expenses in connection with the public offering of the Bonds and (ii) all other expenses incurred by it in connection with the public offering and distribution of the Bonds.

9. The Underwriter may terminate this Purchase Contract by written notification to the County and the Company if at any time subsequent to the date hereof and at or prior to the Closing Date (i) legislation shall be enacted by the Congress or adopted by either house thereof or a decision shall be rendered by a federal court, including the Tax Court of the United States, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made, which has the purpose or effect of imposing federal taxation upon receipts, revenues or other income of the general character expected to be derived by the County, including, without limitation, payments under the Note, or upon interest received on bonds of the same kind and character as the Bonds which would have the effect of changing directly or indirectly the federal income tax consequences of interest on bonds of the same kind and character as the Bonds in the hands of the holders thereof; (ii) the exemption from State of Florida income taxation of interest on the Bonds shall, in the reasonable opinion of the Underwriter, have been materially and adversely affected by the introduction or enactment of any federal or Florida legislation or by an amendment to the Constitution of the United States or the State of Florida or any decision of any federal or state court or any ruling or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States, the Internal Revenue Service or other federal or Florida authority; or (iii) 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, or there shall have occurred and be continuing beyond one full business day prior to the Closing Date, a general suspension of trading on the New York Stock Exchange or a material disruption in settlement in securities generally or the declaration of a general banking moratorium by United States or New York State authorities; in case of either (i), (ii) or (iii), with the result that, in the opinion of the Underwriter, the marketability of the Bonds shall have been materially and adversely affected thereby.

10. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Florida. This Purchase Contract shall not be assigned by the County.

11. Any notice or other communication to be given to the County under this Purchase Contract may be given by delivering the same in writing to it at 221 Palafox Place, Pensacola, Florida 32502, Attention: County Attorney. Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to it at Goldman, Sachs & Co., 85

Broad Street, New York, New York 10004, Attention: Municipal Money Market Desk.

12. This Purchase Contract will inure to the benefit of the County, the Underwriter and the Company and their respective successors and assigns, and no other person will have any right or obligation hereunder. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter solely by reason of such purchase.

13. The representations and warranties of the County contained herein, or in the certificates of officials of the County submitted to the Underwriter pursuant hereto, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of the Bonds to the Underwriter.

14. This Purchase Contract may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

15. The Bonds do not pledge the faith, credit or taxing power of the State of Florida or any political subdivision thereof, including the County, but are limited and special obligations payable solely from the proceeds derived by the County under the Agreement and the Note, and neither the County nor the State of Florida, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of and premium, if any, and interest on the Bonds or to make any other payments provided for under the Indenture or under the Agreement or the Note for the Bonds, or (ii) pay the same from any funds of the County other than those derived by the County under the Agreement or the Note, and such Bonds will not constitute a lien upon any property owned by or situated within the territorial limits of the County except the proceeds derived under the Agreement and the Note.

16. Notwithstanding anything to the contrary contained herein or in any of the Bonds, in the Agreement or in any other instrument or document executed by or on behalf of the County in connection therewith, neither the County nor any member of the County or any officer, employee or agent of the County shall be personally liable to the Company, the Underwriter, the Trustee, the holders of the Bonds or any other person for any action taken by the County or by its officers, agents or employees or for any failure to take action under this Purchase Contract, the Indenture, the Agreement, the Bonds or such other instruments or documents or for any matter arising in connection with the financing of the Project, except that the County agrees to take, or to refrain from taking, any action if so required by an injunction or if required to comply with any final judgment for specific performance.

Dated: March 26, 2009

GOLDMAN, SACHS & CO.

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

Accepted as of the date hereof:

BOARD OF COUNTY COMMISSIONERS
OF ESCAMBIA COUNTY, FLORIDA

By:_____
Name:
Title:

Dated: March 26, 2009

GOLDMAN, SACHS & CO.

_____

(Goldman, Sachs & Co.)

Accepted as of the date hereof:

BOARD OF COUNTY COMMISSIONERS
OF ESCAMBIA COUNTY, FLORIDA

By: Marie Young
Name: Marie Young
Title: Chairman

Date Executed
3/23/2009

ATTEST: ERNIE LEE MAGAHA
CLERK OF THE CIRCUIT COURT

DEPUTY CLERK

BOARD OF COUNTY COMMISSIONERS SEAL ESCAMBIA CO. FL

EXHIBIT A-1
to the
Purchase Contract

[LETTERHEAD OF BALCH & BINGHAM LLP]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A.
Atlanta, Georgia

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $65,000,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive, and a Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Indenture) between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called the "Trustee").

The proceeds of the Bonds are to be used to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant") of Gulf Power Company (the "Company"). The solid waste disposal facilities at the Plant to be financed or refinanced with the proceeds of the Bonds are referred to herein as the "Project". The County has entered into a Loan Agreement with the Company, dated as of March 1, 2009 (the "Agreement"), under the provisions of which the County agrees to loan to the Company the proceeds of the Bonds to provide for the acquisition, construction, installation and equipping of the Project. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note"). The Agreement provides for payments by the Company of amounts sufficient to pay the principal of, premium, if any, and interest on, and purchase price of, the Bonds as the same shall become due and payable. The Bonds are payable solely from the payments made by the Company pursuant to the Agreement and the Note.

In our capacity as Co-Bond Counsel, we have examined such documents, records of the

County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. As to questions of fact material to our opinion, we have relied upon (a) representations of the County and the Company, (b) certified proceedings and other certifications of public officials furnished to us, (c) certifications by officials of the Company, and (d) representations of the Company relating to the use of the proceeds of the Bonds, and the design, scope, function, cost and economic useful life of the Project and the relationship of the Project to the Plant which it is designed to serve, contained in a certificate of the Company, dated the date of this opinion, without undertaking to verify the same by independent investigation.

Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Bonds and opinions of Alison Perdue, Counsel to the County, and Lott & Associates, P. L., Co-Bond Counsel for the County, of even date herewith as to the authority, procedures and actions of the County taken with regard to the authorization and issuance of the Bonds. The opinion expressed in the second sentence of paragraph 3 below pertaining to the priority of the security interest granted to the Trustee by virtue of the Trust Indenture is based upon the results of the search of the records of the Florida Department of State Division of Corporations, a copy of which is attached to this opinion.

Based on the foregoing, it is our opinion that:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to undertake the Project, to execute deliver and perform its obligations under the Agreement and the Indenture, to issue and sell the Bonds, to lend the proceeds of the Bonds to the Company to finance or refinance the Project, and to execute, deliver and perform its obligations under the Indenture, the Agreement and the Purchase Contract, dated March 26, 2009, between the County and Goldman, Sachs & Co., as Underwriter.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and, assuming due authorization, execution and delivery of the Indenture by, and the binding effect of the same upon, the Trustee, constitutes a valid and binding obligation of the County enforceable upon the County in accordance with its terms. By the terms of the Indenture, the County's rights in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification and payment of expenses) have been effectively assigned to the Trustee as security for the Bonds, and the Indenture creates a valid security interest in favor of the Trustee in and to such rights first and prior to any other security interest, to the extent one can establish priority by filing of a UCC-1 financing statement under the Florida Uniform Commercial Code. We express no opinion as to priority of a security interest that may be perfected by means other than filing of a UCC-1 financing statement under the Florida Uniform Commercial Code.

4. The Bonds have been duly authorized, executed and delivered by the County and are valid and binding limited obligations of the County, payable solely in accordance with their terms and entitled to the benefit and security of the Indenture.

5. Under existing law, interest on the Bonds is exempt from all State of Florida income taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes,

on interest, income or profits on debt obligations owned by corporations.

6. Under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Under existing law, interest on the Bonds will not be treated as a specific tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and will not be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on corporations. The opinion set forth in the first sentence of this paragraph is rendered in reliance upon certain certifications and representations of the County and the Company made at the time of issuance of the Bonds, and is subject to the condition that the County and the Company comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be and continue to be excluded from gross income for federal income tax purposes. The County and the Company have covenanted to comply with such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The Bonds will initially bear interest at an Initial Long-Term Interest Rate (as such term is defined in the Indenture). The Indenture provides that the method of determining interest on the Bonds may be changed to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate (each as therein defined) and certain other changes may be made to the terms of the Bonds and related documents if the Trustee receives an opinion of counsel stating in effect that such conversion or change will not cause interest on the Bonds to be included in gross income. We express no opinion about the effect of such future events.

The obligations of the parties with respect to the documents described above are subject, in part, to the provisions of the Federal Bankruptcy Code and any applicable bankruptcy, insolvency, reorganization, moratorium or similar law relating to or affecting the enforcement of creditors' rights now or hereafter in effect. Such obligations are also subject to principles of equity which may limit the specific enforcement of certain remedies, but which do not affect the validity of such documents and do not make inadequate other remedies available to the holders of the Bonds for the enforcement of such obligations.

Respectfully submitted,

EXHIBIT A-2
to the
Purchase Contract

[Letterhead of Balch & Bingham LLP]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

Reference is made to our opinion delivered to you concurrently herewith relating to the $65,000,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds") of Escambia County, Florida (the "County") and Section 6(f)(3)(i) of the Purchase Contract, dated March ___, 2009 (the "Purchase Contract"), between the County and you (the "Underwriter"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract.

We have reviewed the Official Statement incident to our activities as Co-Bond Counsel. During the course of such review, we participated in conferences with representatives of the Company, its counsel and your counsel, at which conferences the contents of the Official Statement were discussed. With your consent, our review as Co-Bond Counsel, however, was limited to the information set forth in the Official Settlement on its cover page and under the captions "Introductory Statement", "The County", "Use of Bond Proceeds", "The Bonds" (excluding the information contained under the heading "The Bonds — Book-Entry System" to which no opinion is given), "The Agreement", "The Indenture" and "Tax Matters".

Subject to the preceding paragraph, nothing has come to our attention which would cause us to believe that the information contained under the captioned headings described above in the Official Statement (other than the financial statements and other financial or statistical data contained therein or incorporated therein by reference as to which we express no opinion) includes any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Purchase Contract has been duly authorized and accepted by the County and constitutes a valid and legally binding obligation of the County.

Such instruments as are required have been duly filed and recorded wherever necessary to perfect the security interests created by the Agreement and the Indenture.

The offer and sale of the Bonds do not require registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

This letter is furnished by us solely for the benefit of the Underwriter in connection with

the provisions of the Purchase Contract and may not be relied upon by any other person.

Very truly yours,

EXHIBIT B
to the
Purchase Contract

[LETTERHEAD OF LOTT & ASSOCIATES, P.L.]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A.
Atlanta, Georgia

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $65,000,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive (the "Act"), and a Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Indenture) between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called the "Trustee"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract, dated March 26, 2009 (the "Purchase Contract"), between the County and Goldman, Sachs & Co., as Underwriter.

The proceeds of the Bonds are to be used to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant") which is owned and operated by Gulf Power Company (the "Company"). The County has entered into a Loan Agreement with the Company, dated as of March 1, 2009 (the "Agreement"), under the provisions of which the County agrees to loan to the Company the proceeds of the Bonds to provide for the Project. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note"). The Agreement provides for payments by the Company of amounts sufficient to pay the principal of, premium, if any, and interest on, and purchase price of, the Bonds as the same shall become due and payable. The Bonds are payable solely from the payments made by the Company pursuant to the Agreement and the Note.

In our capacity as Co-Bond Counsel we have examined such documents, records of the

County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Bonds and an opinion of Alison Rogers, Esq., County Attorney, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Bonds.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Bonds, to loan the proceeds of the sale of the Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement, the Indenture and the Purchase Contract.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and, assuming due authorization, execution and delivery of the Indenture by, and the binding effect of the same upon, the Trustee, constitutes a legal, valid and binding obligation of the County enforceable upon the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification and payment of fees and expenses) have been effectively assigned to the Trustee as security for the Bonds. The Indenture creates a valid lien on the trust estate described therein.

5. The issuance and sale of the Bonds have been duly authorized by the County; the Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

The opinions set forth herein are expressly limited to, and we opine only with respect to, the laws of the State of Florida. The opinions expressed herein are limited to the matters expressly set forth herein, and no opinion is implied or may be inferred beyond the matters expressly stated herein. The opinions set forth in this letter are rendered as of the date of this letter, and we disclaim any undertaking to advise you of any changes which may be brought to our attention subsequent to the date hereof. No opinion is expressed herein with respect to the security for the Loan or the validity or priority of any mortgage or security interest relating thereto, or with respect to any other matter (i) requiring a subsequent opinion of counsel as provided in the Indenture or (ii) involving any amendment, modification or change to the forms of documents delivered on the date hereof.

It is to be understood that the rights of the holders of the Bonds, and the enforceability of

the Resolution, the Indenture, the Agreement, the Note, the Purchase Contract and the Bonds, may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State of Florida, and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

Our opinions expressed herein are predicated upon present law, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof. The legal opinions set forth herein are intended for the information solely of the addressees hereof and solely for the purpose of the contemplated transactions described herein and are not to be relied upon by any other person, or entity, or for any other purpose, or quoted as a whole or in part, or otherwise referred to, in any document, or to be filed with any government or other administrative agency, or other person or entity for any other purpose without our prior written consent.

Respectfully submitted,

EXHIBIT C
to the
Purchase Contract

[LETTERHEAD OF BEGGS & LANE]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 26, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008, and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,000,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 26, 2009 (the "Letter of Representation") among the Company, the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Georgia law and the federal law of the United States on the opinion of even date herewith of Troutman Sanders LLP (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Letter of Representation and the Note by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which it or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note and the Agreement, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

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

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6(f)(3) of the Purchase Contract insofar as such opinions relate to matters of Florida and Mississippi law.

Very truly yours,

BEGGS & LANE

EXHIBIT D
to the
Purchase Contract

[LETTERHEAD OF TROUTMAN SANDERS LLP]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,000,000, Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 26, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008 and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,000,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 26, 2009 (the "Letter of Representation") by the Company and accepted by the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and

further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Mississippi and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane") (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System".

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. No registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offer and sale of the Bonds.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

In rendering the opinion expressed in paragraph 5 above, we have, with your consent, relied upon the legal opinion dated the date hereof, rendered to you by Balch & Bingham LLP, Bond Counsel, pursuant to the Purchase Contract to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes and have made no independent investigation with respect to such exclusion. Our opinion herein is subject to the same assumptions, qualifications, exceptions and limitations provided for in such other opinion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

The attorneys in this firm that are rendering this opinion 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 and Mississippi.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(v) of the Purchase Contract insofar as such opinion relates to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(iii) of the Purchase Contract insofar as such opinion relates to Georgia law and the federal law of the United States.

Very truly yours,

TROUTMAN SANDERS LLP

EXHIBIT E
to the
Purchase Contract

[LETTERHEAD OF DEWEY & LEBOEUF LLP]

___, 2009

Goldman, Sachs & Co.
New York, New York

Re: $65,000,000, Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as your counsel in connection with the purchase by the Underwriter of $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 26, 2009 (the "Purchase Contract"), between you and Escambia County, Florida (the "County").

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of Gulf Power Company (the "Company") for the fiscal year ended December 31, 2008 and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the Company and the County; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,000,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 26, 2009 (the "Letter of Representation") by the Company and accepted by the County and you; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and you, as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to us at the closing (except the Bonds, of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

We understand that included among the opinions you are receiving concurrently herewith is an opinion of Troutman Sanders LLP, counsel for the Company, and an opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), general counsel for the Company. In rendering this opinion, we have, with your consent, relied on (i) said opinion of Troutman Sanders LLP to the extent that it relates to matters of conformity to Georgia law and (ii) said opinion of Beggs & Lane to the extent that it relates to matters of conformity to the laws of the States of Florida and Mississippi. With respect to the opinion expressed in paragraph 4 below, we have, with your consent, relied on an opinion of even date herewith rendered by Balch & Bingham LLP in its capacity as Co-Bond Counsel, to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes. In each case, our opinions herein are subject to the same assumptions, qualifications, exceptions and limitations provided for in such other opinions.

Based on the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion that:

1. The Letter of Representation has been duly authorized, executed and delivered by the Company.

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of certain terms of the documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System".

4. No registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offer and sale of the Bonds.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with counsel for the Company and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel for the Company. Based upon our examination of the Official Statement and the Exchange Act Documents and our

participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

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

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent.

Very truly yours,

DEWEY & LEBOEUF LLP

EXHIBIT F
to the
Purchase Contract

[LETTERHEAD OF DELOITTE & TOUCHE LLP]

This letter will be to the effect that:

(A) Deloitte & Touche LLP are an independent registered public accounting firm with respect to Gulf Power Company (the "Company") within the meaning of the Securities Act of 1933, as amended, and the rules and regulations thereunder; (B) at the Underwriter's request, Deloitte & Touche LLP have performed, and will report their findings as a result of performing, certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading of the minute books of the Company; (ii) reading of the unaudited financial statements, if any, of the Company incorporated by reference in Appendix A to the Official Statement (the "Appendix") and agreeing the amounts contained therein with the Company's accounting records; (iii) reading the unaudited financial statements of the Company, from which the unaudited amounts for Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred and Preference Stock and the unaudited Ratio of Earnings to Fixed Charges included in the Appendix are derived and agreeing the amounts contained therein with the Company's accounting records; (iv) reading the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to that set forth in (iii) above and agreeing the amounts contained therein and the unaudited amounts of Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred and Preference Stock and the unaudited Ratio of Earnings to Fixed Charges for the period covered by such financial statements, which amounts and ratio shall be set forth in such letter, to the Company's accounting records; and (v) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether (a) the unaudited financial statements described in (ii) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (b) the unaudited financial statements described in (iii) and (iv) are stated on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (c) the specified unaudited amounts or ratios described in (iii) and (iv) are stated on a basis substantially consistent with that of the corresponding audited amounts and ratios included or incorporated by reference in the Appendix; and (d) there has been any change in the capital stock or long-term debt or any decrease in net assets of the Company as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Appendix, except in each case for changes or decreases which (i) the Appendix discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, or (iv) are occasioned by reclassification of current maturities of long-term debt or (v) are disclosed in such letter (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, nor would they necessarily disclose changes in specified financial statement line items, inconsistencies in the application of generally accepted accounting principles, or other matters, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriter's purposes).

EXHIBIT G
to the
Purchase Contract

GULF POWER COMPANY

Letter of Representation

_____, 2009

Board of County Commissioners
Escambia County, Florida

Goldman, Sachs & Co.
New York, New York

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce Goldman, Sachs & Co., as underwriter (the "Underwriter") and Escambia County, Florida (the "County") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the County relating to the purchase by the Underwriter from the County of $65,000,000 in aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), between the County and the Company, to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the James F. Crist Generating Plant in Escambia County, Florida (the "Project"). The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, the Underwriter will be appointed as Remarketing Agent for the Bonds pursuant to a Remarketing Agreement with the Company dated as of March 1, 2009 (the "Remarketing Agreement"). As used in this Letter of Representation the term "Official Statement" means the Official Statement of the County, dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Appendix") and the documents incorporated in the Appendix by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the County that:

(a) The Company deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the

"Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering price, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Tax Matters" or "Underwriting" or the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization. The Company hereby consents to the use by the Underwriter of the Official Statement.

(b) The financial statements of the Company contained or incorporated by reference in the Official Statement present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of its operations for the periods specified; and, except as otherwise stated in the Official Statement, said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis during the periods involved (except that the unaudited financial statements incorporated by reference in the Official Statement may be subject to normal year-end adjustments).

(c) There has not been any material adverse change in the business, properties or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Remarketing Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, the Agreement and the Note will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement and the Remarketing Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Undertaking dated March 31, 2009, from the Company (in form and substance satisfactory to the Underwriter) as required by paragraph (b)(5) of the Rule, the Remarketing Agreement and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation in the States of Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated March 20, 2009 relating to the Bonds, including the Appendix and the documents incorporated in the Appendix by reference (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference).

(k) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(l) The Bonds, the Indenture, the Agreement, the Remarketing Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(m) The Official Statement incorporates or will incorporate by reference certain documents filed or to be filed by the Company with the Securities and Exchange Commission, which documents have been, and will be, prepared by the Company in conformity in all material respects with the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission thereunder, and copies of such documents have been and will be delivered to the Underwriter.

(n) The Company has within the past five years complied with all previous undertakings required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Exchange Act.

2. The Company covenants and agrees with the County and the Underwriter that:

(a) During such period (not to exceed nine months after the Closing Date) as the Underwriter believes delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey & LeBoeuf LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

(b) If, at any time prior to the completion of the sale of the Bonds by the Underwriter, when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with sales of the Bonds, an event occurs as a result of which in the opinion of Dewey & LeBoeuf LLP, counsel for the Underwriter, the Official Statement as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement (or, in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Exchange Act) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(c) The Company will assist, if necessary therefor, in the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter shall designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Company shall not be required to qualify as a foreign corporation or to file any consents to service of process under the laws of any state or to comply with any other requirements in any jurisdiction where it is not now so qualified.

(d) The Company will not take or omit to take any action which will in any way cause the proceeds from the sale of the Bonds to be applied in a manner other than as

provided in the Indenture and the Agreement.

3. (a) The Company agrees to indemnify and hold harmless the County, any official or employee of the County, the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in the Appendix by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved if the Company had previously furnished copies thereof in sufficient quantity and on a timely basis to the Underwriter as requested by the Underwriter and the loss, claim, damage or liability of such Underwriter results from an untrue statement or omission of a material fact was corrected in the Official Statement (exclusive of the documents incorporated in Appendix A by reference) as amended or supplemented at the time of such sale.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the County and any official or employee of the County, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the County agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this

Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement; provided that the Company shall not consent to any settlement unless the settlement (i) includes an unconditional release of the Underwriter or its officers, directors and employees from all liability arising out of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Underwriter or its officers, directors and employees. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the County contained herein, or in the certificates of officers of the Company or officials of the County submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the County or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(k) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the County, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the County's entering into, acceptance and execution of the Purchase Contract and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Florida.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below with a copy to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, NW, Atlanta, Georgia 30308, Attention: Corporate Finance Department. Any notice or other communication to be given to the County may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the County and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

NEW ISSUE — BOOK-ENTRY ONLY

In the opinion of Balch & Bingham LLP, as Bond Counsel, assuming the accuracy of certain representations and certifications and compliance with certain tax covenants, interest on the Bonds is not includable in gross income for federal income tax purposes under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, except for interest on any such Bond for any period during which such Bond is held by a person who is a "substantial user" of the Project (as defined below) or a "related person" as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and is not includable in adjusted current earnings in computing the federal alternative minimum tax imposed on corporations. See "TAX MATTERS" below for a brief description of certain other possible federal tax consequences arising with respect to the Bonds. In the opinion of Balch & Bingham LLP and Lott & Associates, P.L. ("Co-Bond Counsel"), interest on the Bonds is exempt from present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

$65,000,000

Escambia County, Florida
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project)
First Series 2009

THE BONDS ARE THE LIMITED SPECIAL OBLIGATIONS OF ESCAMBIA COUNTY, FLORIDA (THE "COUNTY") AND ARE PAYABLE SOLELY FROM THE LOAN REPAYMENTS UNDER A NOTE ISSUED PURSUANT TO A LOAN AGREEMENT WITH

GULF POWER
A SOUTHERN COMPANY

a subsidiary of The Southern Company

Dated: Date of original issuance and delivery — Due: April 1, 2039

The Bonds will bear interest at a long-term interest rate per annum of 1.75% (the "Initial Long-Term Interest Rate") for a long-term interest rate period beginning on the date of original issuance and delivery of the Bonds and ending April 20, 2010 (the "Initial Long-Term Interest Rate Period"). The Bonds are subject to mandatory tender for purchase on April 21, 2010 at a price equal to 100% of the principal amount thereof, plus accrued interest. The holders of Bonds during the Initial Long-Term Interest Rate Period will have no right of election to retain the Bonds after April 21, 2010. See "THE BONDS—Mandatory Tender for Purchase."

After the Initial Long-Term Interest Rate Period and subject to satisfaction of certain conditions in the Indenture pursuant to which the Bonds are issued, Gulf Power Company (the "Company") may remarket the Bonds in successive long-term interest rate periods or in one or more different long-term interest rate periods or may change the method of determining the interest rate on the Bonds to a Daily Rate, a Weekly Rate, a Commercial Paper Rate or an Index Rate, as more fully described under "THE BONDS—Determination Methods" below.

The Bonds are also subject to extraordinary optional redemption at any time prior to maturity as described herein under "THE BONDS—Redemption."

The Bonds will be issuable as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. During the Initial Long-Term Interest Rate Period, the Bonds will be issued in denominations of $5,000 and integral multiples thereof. Purchases will be made in book-entry form through DTC participants and no physical delivery of Bonds will be made to purchasers, except as otherwise described in this Official Statement. Payments of principal of, premium, if any, and interest on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as Trustee and Paying Agent, to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry System" below.

THE BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY.

PRICE: 100%

The Bonds are offered subject to prior sale, when, as and if issued and received by Goldman, Sachs & Co. (the "Underwriter"), subject to the receipt of the opinions of Balch & Bingham LLP, Birmingham, Alabama, and Lott & Associates, P.L., Pensacola, Florida, as Co-Bond Counsel, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, and for the Underwriter by its counsel, Dewey & LeBoeuf LLP, New York, New York. The Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about March 31, 2009.

Goldman, Sachs & Co.

March 26, 2009

The information contained in this Official Statement has been obtained from the Company, DTC or other sources that are believed to be reliable. No representation or warranty is made as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation by the Underwriter. The County has not provided any information for inclusion in this Official Statement except with respect to the information under the caption "THE COUNTY" and takes no responsibility for any other information contained in this Official Statement. This Official Statement is submitted in connection with the sale of securities as referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein or in the Appendix hereto (including the documents incorporated therein by reference) is correct as of any time subsequent to its date.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or any other person has been authorized by the County, by the Company or by the Underwriter to give any information or to make any representation other than as contained in this Official Statement or in the Appendix hereto (including the documents incorporated therein by reference) in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING REGULATORY AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING" HEREIN.

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OFFICIAL STATEMENT

$65,000,000

Escambia County, Florida
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project)
First Series 2009
Due April 1, 2039

INTRODUCTORY STATEMENT

This Official Statement of the County, including the cover page and the Appendix, is provided to furnish information in connection with the sale of $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds are to be dated as of the date of their initial issuance, and, subject to prior redemption as hereinafter set forth, will mature on the date set forth on the cover page hereof.

The Bonds are to be issued pursuant to a Trust Indenture dated as of March 1, 2009 (the "Indenture") between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to provide funds to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant"), which is owned and operated by the Company.

The County will loan to the Company the proceeds of the Bonds pursuant to a Loan Agreement dated as of March 1, 2009 (the "Agreement"). In order to evidence the loan from the County (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient to pay when due the principal of, premium, if any, and interest on, and the purchase price of, the Bonds.

The Bonds initially will bear interest at the Initial Long-Term Interest Rate stated on the cover page. During the Initial Long-Term Interest Rate Period (as defined herein), the Company may not change the interest rate mode for the Bonds. After the Initial Long-Term Interest Rate Period and subject to satisfaction of certain conditions in the Indenture, the Company may remarket the Bonds for successive long-term interest rate periods or in one or more different long-term interest rate periods or the interest rate determination method for the Bonds may be converted, at the option of the Company, from a long-term interest rate to a Daily Rate, a Weekly Rate, a Commercial Paper Rate or an Index Rate in accordance with the Indenture, in each case following mandatory tender for purchase upon not less than 30 days' prior written notice to the owners of the Bonds. THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, *IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT AN INTEREST RATE OTHER* THAN THE INITIAL LONG-TERM INTEREST RATE DESCRIBED HEREIN.

The Bonds will be limited special obligations of the County payable solely from and secured by revenues and proceeds to be received by the County pursuant to the Note. The Bonds will be secured by an assignment and pledge to the Trustee of substantially all of the County's right, title and interest in and to the Note and the Agreement.

There follow brief descriptions of the County, the use of the proceeds of the Bonds, the Bonds, the Agreement and the Indenture. Information with respect to the Company, including certain financial statements, is set forth or incorporated by reference in Appendix A hereto.

The descriptions and summaries herein do not purport to be complete, and reference is made to each document for the complete details of all of its terms and conditions. Terms not defined herein have the meanings set forth in the Agreement and the Indenture, copies of which are available for inspection, during the initial offering period of the Bonds, at the offices of Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, Atlanta, Georgia 30308, Attention: Wayne Boston. The statements made herein are qualified in their entirety by reference to each such document.

THE COUNTY

The County is a political subdivision of the State of Florida, duly created and validly existing pursuant to the Constitution and the laws of the State of Florida.

THE BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO BE A GENERAL OBLIGATION OR A PLEDGE OF THE FAITH, CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY, BUT SHALL BE LIMITED AND SPECIAL OBLIGATIONS PAYABLE SOLELY FROM THE PROCEEDS DERIVED BY THE COUNTY UNDER THE AGREEMENT AND THE NOTE, AND NEITHER THE COUNTY NOR THE STATE OF FLORIDA, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL EVER BE REQUIRED TO (I) LEVY AD VALOREM TAXES ON ANY PROPERTY WITHIN ITS TERRITORIAL LIMITS TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR TO MAKE ANY OTHER PAYMENTS PROVIDED FOR UNDER THE INDENTURE OR UNDER THE AGREEMENT OR THE NOTE FOR THE BONDS OR (II) PAY THE SAME FROM ANY FUNDS OF THE COUNTY OTHER THAN THOSE DERIVED BY THE COUNTY UNDER THE AGREEMENT OR THE NOTE, AND SUCH BONDS SHALL NOT CONSTITUTE A LIEN UPON ANY PROPERTY OWNED BY OR SITUATED WITHIN THE TERRITORIAL LIMITS OF THE COUNTY EXCEPT THE PROCEEDS DERIVED UNDER THE AGREEMENT AND THE NOTE.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, PURCHASE PRICE OR INTEREST ON, ANY OF THE BONDS OR FOR ANY CLAIM BASED THEREON OR UPON ANY OBLIGATION, PROVISION, COVENANT OR AGREEMENT CONTAINED IN THE INDENTURE OR ANY OTHER DOCUMENT OF THE COUNTY, AGAINST ANY PAST, PRESENT OR FUTURE OFFICER, OFFICIAL, EMPLOYEE OR AGENT OF THE COUNTY, OR ANY OFFICER, OFFICIAL, EMPLOYEE OR AGENT OF ANY SUCCESSOR TO THE COUNTY, AS SUCH, EITHER DIRECTLY OR THROUGH THE COUNTY OR ANY SUCCESSOR TO THE COUNTY, UNDER ANY RULE OF LAW OR EQUITY, STATUTE OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY SUCH OFFICER, OFFICIAL, EMPLOYEE OR AGENT AS SUCH IS EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF AND IN CONSIDERATION FOR THE EXECUTION OF THE INDENTURE AND THE ISSUANCE OF ANY OF THE BONDS. NEITHER THE OFFICERS OF THE COUNTY NOR ANY PERSON EXECUTING THE BONDS ARE PERSONALLY LIABLE ON THE BONDS BY REASON OF THE ISSUANCE THEREOF.

EXCEPT FOR INFORMATION CONCERNING THE COUNTY UNDER THIS CAPTION AND THE LAST SENTENCE UNDER THE CAPTION "DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS," NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE COUNTY, AND THE COUNTY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

USE OF BOND PROCEEDS

The proceeds received by the County from the sale of the Bonds will be deposited in the construction fund created under the Indenture (the "Construction Fund"), to be used to pay or reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the Bonds.

It is anticipated that a total of approximately $437,500 will be expended by the Company for legal, accounting, printing and other fees in connection with the issuance of the Bonds. See also "UNDERWRITING" herein.

THE BONDS

The Indenture provides that the method of determining the interest rate on the Bonds may be changed from time to time following the Initial Long-Term Interest Rate Period. This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than the Initial Long-Term Interest Rate described herein. The Bonds are subject to mandatory tender upon such conversion. See "— Mandatory Tender for Purchase" below. Holders of the Bonds will have no right of election to retain the Bonds after the Initial Long-Term Interest Rate Period.

Description

The Bonds will mature on the date set forth on the cover page of this Official Statement. The Bonds will bear interest at a long-term interest rate per annum of 1.75% (the "Initial Long-Term Interest Rate") for a long-term interest rate period beginning on the date of original issuance and delivery of the Bonds and ending April 20, 2010 (the "Initial Long-Term Interest Rate Period").

The Bonds are subject to mandatory tender on April 21, 2010 at a purchase price of 100% of the aggregate principal amount thereof plus accrued interest thereon to but not including April 21, 2010. Thereafter, subject to satisfaction of certain conditions in the Indenture, the Company may remarket the Bonds in successive long-term interest rate periods or one or more different long-term interest rate periods or until the Company decides to change the interest rate determination method for the Bonds from time to time as described under "— Determination Methods." A change in the interest rate determination method for the Bonds will result in the mandatory tender of the Bonds, as described below under "— Mandatory Tender for Purchase." A holder of the Bonds during the Initial Long-Term Interest Rate Period will have no right of election to retain such Bonds after April 21, 2010.

The Bonds will initially be issued as fully registered bonds without coupons and in authorized denominations of $5,000 or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"). DTC will act as the initial securities depository (the "Securities Depository") for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of such Bonds, references in this Official Statement to the Bondholders or registered owners or holders shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the Direct or Indirect Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See "— Book-Entry System" below.

The Bank of New York Mellon Trust Company, N.A. (the "Trustee") is the trustee under the Indenture. A principal corporate trust office of The Bank of New York Mellon Trust Company, N.A. is currently located in Atlanta, Georgia. The Trustee may be removed at any time by the holders of a majority in aggregate principal amount of the Bonds at the time outstanding. Any resignation of the Trustee will become effective upon the acceptance of appointment by the successor Trustee. See "THE TRUSTEE" below.

Interest

During the Initial Long-Term Interest Rate Period, the Bonds will bear interest at the Initial Long-Term Interest Rate.

During the Initial Long-Term Interest Rate Period, interest will be payable semiannually on October 1, 2009 and April 1, 2010 (each, an "Interest Payment Date") to the registered holder of the Bonds as of the Record Date (as defined below) by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. "Record Date" means, for Bonds bearing interest at the Initial Long-Term Interest Rate, each September 15 or March 15, as the case may be, preceding the next Interest Payment Date. The initial Interest Payment Date is October 1, 2009. In addition, interest will be payable on April 21, 2010, to the registered holder of the Bonds as of April 20, 2010, which is the last day of the Initial Long-Term Interest Rate Period. When the Bonds are held in book-entry form, such interest payments will be made to DTC as record owner (see "— Book Entry System") below in accordance with DTC's procedures.

During the Initial Long-Term Interest Rate Period, interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Security

The Bonds are limited special obligations of the County, payable by the County solely from and secured by an assignment and pledge by the County to the Trustee of its right to payments by the Company pursuant to the Note.

The County will assign to the Trustee, for the benefit of the holders of the Bonds, all of its right, title and interest in and to the Agreement and the Note and all amounts payable thereunder (except for certain amounts payable under the Agreement in respect of indemnification and certain fees and expenses). The payments by the Company under the Note are required to be made to the Trustee and to be equal, together with other moneys available therefor, to the amount of principal, premium, if any, and interest required to be paid on the Bonds, whether at stated maturity, upon redemption or declaration, or otherwise.

The Bonds and the interest thereon shall not be deemed to be a general obligation or a pledge of the faith, credit or taxing power of the State of Florida or any political subdivision thereof, including the County, but shall be limited and special obligations payable solely from the proceeds derived by the County under the Agreement and the Note, and neither the County nor the State of Florida, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of, premium, if any, or interest on the Bonds or to make any other payments provided for under the Indenture or under the Agreement or the Note or (ii) pay the same from any funds of the County other than those derived by the County under the Agreement or the Note, and such Bonds shall not constitute a lien upon any property owned by or situated within the territorial limits of the County except the proceeds derived under the Agreement and the Note.

Determination Methods

During the Initial Long-Term Interest Rate Period, the Company may not change the interest rate determination method for the Bonds.

After the Initial Long-Term Interest Rate Period and subject to satisfaction of certain conditions in the Indenture, the Company may remarket the Bonds for successive long-term interest rate periods or in one or more different long-term interest rate periods or the interest rate determination method for the Bonds may be converted, at the option of the Company, to a Daily Rate, a Weekly Rate, a Commercial Paper Rate or an Index Rate. On the conversion date applicable to the Bonds, the Bonds shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest (see "— Mandatory Tender for Purchase" below). It is currently anticipated that should the Bonds be converted to bear interest at a new interest rate mode, a new reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest in such interest rate mode. Holders of the Bonds during the Initial Long-Term Interest Rate Period will have no right of election to retain the Bonds after April 21, 2010.

THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT INTEREST RATES OTHER THAN THE INITIAL LONG-TERM INTEREST RATE.

Optional Tender for Purchase

While the Bonds bear interest at the Initial Long-Term Interest Rate, the owner of a Bond does not have the option to require the purchase of his Bonds.

Mandatory Tender for Purchase

The Bonds are subject to mandatory tender for purchase on April 21, 2010 at a purchase price equal to 100% of the principal amount thereof, plus accrued interest to but not including April 21, 2010. After the Initial Long-Term Interest Rate Period, the Bonds will be subject to mandatory tender for purchase, upon 30 days' notice to the Bondholders, at a purchase price equal to 100% of the principal amount thereof, plus accrued interest to the purchase date, on the effective date of any conversion of interest rate determination method for the Bonds. See "— Determination Methods" above. If Bonds are purchased by the Company, such Bonds remain outstanding and may be offered for sale in a different interest rate mode pursuant to the terms of the Indenture.

In the event that notice is given of a mandatory tender for purchase of the Bonds, each Bondholder, in order to receive payment of the tender price for the Bonds owned by such owner, must deliver such Bonds in accordance with the instructions provided in such notice of mandatory tender for purchase. In the event that a Bondholder shall fail to tender any such Bond as required by such notice, such Bond shall nevertheless be deemed to have been tendered for purchase if moneys are available for the payment of the tender price thereof, and the Trustee shall hold the tender price for such Bond uninvested and without any further liability for interest thereon until such Bond is tendered as provided in such notice.

Redemption

Optional Redemption: During the Initial Long-Term Interest Rate Period, the Bonds are not subject to optional redemption.

Extraordinary Optional Redemption: The Bonds are subject to redemption in whole at any time prior to maturity at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, but without premium at any time, upon receipt by the Trustee and the County of a written notice from the Company stating that the Company has determined that:

(a) any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation by the Company of either the Project or the Plant, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(b) changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(c) the Project or the Plant has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

Notice of Redemption

At least 30 days before the redemption date of any Bonds, the Trustee shall cause a notice of any such redemption to be mailed first-class, postage prepaid, to all registered owners of Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Trustee. No further interest will accrue on the principal of any Bonds called for redemption after the redemption date if notice has been duly given and payment of the redemption price thereof and accrued interest has been duly provided for, and the owners of such Bonds will have no rights with respect to such Bonds except to receive payment of the redemption price thereof and interest accrued to the redemption date. With respect to an optional redemption of any Bonds under "— *Extraordinary Optional Redemption*" above, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the County shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Book-Entry System

DTC will act as the initial Securities Depository for the Bonds. The Bonds will be issued only as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully-registered global bond certificates will be issued for the Bonds, representing in the aggregate the total principal amount of the Bonds, and will be deposited with the 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 (the "Indirect Participants"). DTC has Standard & Poor's, a division of The McGraw-Hill Companies, Inc.'s highest rating:

AAA. The DTC rules applicable to Direct and Indirect Participants are on file with the Securities and Exchange Commission (the "Commission"). More information about DTC can be found at www.dtcc.com and www.dtc.org. The contents of such websites do not constitute part of this Official Statement.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, 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 Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Although voting with respect to the Bonds 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by 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 accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Company, the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to the Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, certificated Bonds will be required to 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 Depository) with respect to the Bonds. The Company understands, however, that under current industry practices, DTC would notify its Direct or Indirect Participants of the Company's decision but will only withdraw beneficial interests from a Bond at the request of any Direct or Indirect Participant. In that event, certificates for the Bonds 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 County, the Company, the Underwriter and the Trustee believe to be reliable, but none of the County, the Company, the Trustee or the Underwriter takes any responsibility for the accuracy of such statements. None of the County, the Company, the Underwriter or the Trustee has any 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.

In the event that the book-entry system is discontinued, a Bondholder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee is not required to transfer or exchange any Bond which has been called for redemption or during the period beginning 15 days before mailing a notice of redemption of the Bonds or any portion of the Bonds and ending on the redemption date. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

THE AGREEMENT

Issuance of the Bonds; Construction of the Project

The County will issue the Bonds and loan the proceeds of the sale thereof to the Company, which proceeds will be applied as described under "USE OF BOND PROCEEDS" herein. The Company agrees to cause the Project to be acquired, constructed, installed and equipped substantially in accordance with the plans and specifications as provided in the Agreement.

The Trustee is authorized under the Indenture to make payments from the Construction Fund to pay the Cost of Construction, as defined in the Agreement, or to reimburse the Company for any Cost of Construction paid or incurred by the Company, upon the receipt of written requisitions of the Company. The Agreement provides that if the Company should pay any excess Cost of Construction, it shall not be entitled to any diminution of the amounts payable by it under the Note and the Agreement.

Repayment of the Loan and Other Amounts Payable

In order to evidence the Loan and the Company's obligation to repay the same, the Company will execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due with respect to the principal of, premium, if any, interest on, or purchase price of the Bonds, whenever and in whatever manner the same shall become due, whether at maturity, prior redemption or otherwise. The Note shall be dated the date of the initial issuance of, and mature on the same maturity date as, the Bonds. The Company will also pay the purchase price of Bonds required to be purchased under the terms of the Indenture to the extent there are no remarketing proceeds to pay such amounts. In the event there are available moneys on deposit with the Trustee on any payment date, such moneys will be credited against the payment then due.

The Company will also pay the fees and charges of the Trustee and any paying agents and tender agents under the Indenture and any expenses in connection with any redemption of the Bonds.

Term of Agreement

The Agreement shall remain in full force and effect until such time as all of the outstanding Bonds have been fully paid or provision made therefor in accordance with the terms of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under the Agreement and the Note shall have been paid.

Obligations of the Company Unconditional

The Company agrees that its obligations to make payments as provided in the Note and to perform and observe the other agreements on its part contained in the Agreement are absolute and unconditional notwithstanding, among other things, any changes in the tax or other laws of the United States of America or of the State of Florida or any political subdivision of either thereof or any failure by the County to perform its obligations under the Agreement.

Assignment and Pledge

The County will assign to the Trustee as security under the Indenture all of its right, title and interest of the County in and to (i) the Note and all payments thereunder, (ii) the Agreement and all monies receivable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses) and (iii) amounts held in the bond fund created under the Indenture (the "Bond Fund") and the Construction Fund as provided in the Indenture. The Company will assent to such assignment and will agree that, as to the Trustee, its obligations to make such payments will be absolute and not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the County or the Trustee of any obligation to the Company, whether under the Agreement or otherwise, or out of any indebtedness or liability at any time owing to the Company by the County or the Trustee.

Consolidation, Merger or Sale of Assets

The Company agrees that during the term of the Agreement it will maintain its corporate existence and qualification to do business in the State of Florida, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided that, the Company may consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided, in the event the Company is not the surviving, resulting or transferee corporation, that the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company under the Agreement and the Note and is incorporated in or qualified to do business in Florida as a foreign corporation and that such consolidation or merger does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

Defaults and Remedies; Force Majeure

The Agreement provides that the happening of one or more of the following events will constitute an "Event of Default": (a) failure by the Company to pay when due the amounts required to be paid pursuant to the Note, which failure, in the case of such amounts in respect of interest on any Bond, continues for five days; (b) failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to the Agreement; (c) failure by the Company to observe and perform any other of its covenants, conditions or agreements under the Agreement for a period of 90 days after written notice from the County or the Trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of the Company.

Under the terms of the Agreement, certain of the Company's obligations referred to in clause (c) of the preceding paragraph may be suspended if by reason of force majeure (as defined in the Agreement) the Company is unable to carry out such obligations.

Whenever an Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps: (a) declare all amounts payable pursuant to the Note to be immediately due and payable and (b) take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and thereafter to become due under the Note or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

Any amounts collected pursuant to any above action taken will be deposited with the Trustee and applied in accordance with the provisions of the Indenture, or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee, paying agents and tender agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

Amendment of the Agreement

Prior to the payment of the Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Agreement may not be terminated and may not be effectively amended, changed or modified except in accordance with the Indenture. See "THE INDENTURE — Amendment of the Agreement" below.

THE INDENTURE

Construction Fund

The proceeds from the sale of the Bonds will be deposited in the Construction Fund together with all investment proceeds received from investment of moneys in the Construction Fund. Such proceeds and any other moneys deposited in the Construction Fund shall be applied to the payment of, or reimbursement to the Company for, the cost of financing or refinancing the acquisition, construction, installation and equipping of the Project. See "THE AGREEMENT—Issuance of the Bonds; Construction of the Project" above.

The Indenture provides that upon completion of the Project any moneys remaining in the Construction Fund shall be used to redeem outstanding Bonds in accordance with the Indenture. Until so used, such moneys shall, at the direction of the Company, be paid into either the Construction Fund or the Bond Fund (but only to such extent as, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds, will not cause the interest on the Bonds to be included in gross income for federal income tax purposes), or be used for any other purpose which, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds, is permissible under Florida law and will not cause the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds. Amounts approved by the Company, however, shall be retained by the Trustee in the Construction Fund for payment of any Cost of Construction not then due and payable or which is in dispute.

Permitted Investments

Except as otherwise provided in the Indenture, any moneys held by the Trustee shall be invested and reinvested by the Trustee, at the written direction of the Company to the extent permitted by law, in: (a) Government Obligations (as defined under "—Defeasance" below); (b) bonds and notes of the Federal Land Bank; (c) obligations of the Federal Intermediate Credit Bank; (d) obligations of the Federal Bank for Cooperatives; (e) bonds and notes of Federal Home Loan Banks; (f) negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by

Government Obligations; (g) investments made in or through the Trustee's cash sweep accounts or other short-term investment funds, the assets of which consist of Government Obligations; or (h) other investments then permitted by law.

Default Under the Indenture

The following shall be "Events of Default" under the Indenture: (a) default in the payment of any interest on any Bond outstanding under the Indenture when due and as the same shall become due and payable, which default continues for five days; (b) default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption, or by declaration or otherwise; (c) default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; and (d) the occurrence and continuance of an "Event of Default" under the Agreement.

Remedies Under the Indenture

Upon the occurrence of an Event of Default, the Trustee may, and upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the County and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable.

If, after the principal of the Bonds and the accrued interest thereon have been so declared due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable other than by acceleration, and all other sums payable under the Indenture or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the County and the County also performs all other things in respect of which it may have been in default under the Indenture and pays the reasonable charges of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee's reasonable attorneys' fees then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of the Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

If an Event of Default occurs and is continuing, subject to the Indenture, the Trustee before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable may, and upon request of the holders of at least 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the County and the Company, pursue any available remedy, including appointment of a receiver, by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Indenture, the Agreement or the Note. The Trustee, as the assignee of all the right, title and interest of the County in and to the Agreement and the Note, may enforce each and every right granted to the County under the Agreement and the Note. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondholders. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the County and the Company and receipt of indemnity to its satisfaction shall, in its own name: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the County to enforce any rights under the Agreement and the Note and to require the County to carry out any other provisions of the Indenture for the benefit of the Bondholders and to perform its duties under the Act; (b) bring suit upon the Bonds; (c) by action or suit in equity require the County to account as if it were the trustee of an express trust for the Bondholders; or (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter

existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under the Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

A Bondholder may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the Bondholder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such Bondholder or Bondholders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense (including reasonable attorneys' fees) and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity. Nothing contained in the Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the stated maturity thereof.

A Bondholder may not use the Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Notwithstanding any other provision of the Indenture, the right of any Bondholder to receive payment of principal of, premium, if any, and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the Bondholder.

Waivers of Events of Default

The holders of a majority in principal amount of the Bonds then outstanding, by written notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it. The holders of a majority in principal amount of the Bonds then outstanding may, in writing, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of other Bondholders or would involve the Trustee in personal liability.

Defeasance

Any Bond will be deemed paid for all purposes of the Indenture when (a) payment of the principal of, premium, if any, and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate, and which, when Bonds bear interest at a Long-Term Interest Rate, shall be calculated at such Long-Term Interest Rate) on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further investment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable costs and expenses

of the Trustee (including reasonable attorneys' fees) pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Indenture or be an obligation of the County and shall be payable solely from the moneys or Government Obligations described above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in the Indenture.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) above, the purchase price of tendered Bonds shall be paid from the sale of Bonds under the Indenture. If payment of such purchase price is not made from the sale of Bonds pursuant to the Indenture, payment shall be made from funds (or Government Obligations) on deposit pursuant to the Indenture without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and cancelled.

Notwithstanding the foregoing, no deposit under clause (a)(2) above shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee a Favorable Opinion of Tax Counsel to the effect that (a) the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) that all of the conditions precedent to the defeasance of the Bonds have been complied with), and (2) (a) notice of redemption of the Bond is given in accordance with the Indenture or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with the Indenture, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity date of the Bond.

"Government Obligations" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

Amendment of the Indenture

Any amendment of the Indenture will be effected by a supplemental indenture entered into by the County and the Trustee. The County and the Trustee may enter into supplemental indentures without notice to or the consent of any Bondholder for the following purposes: (a) to cure any ambiguity, inconsistency, formal defect or omission; (b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority; (c) to subject to the Indenture additional collateral or to add other agreements of the County; (d) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of the Bonds of different authorized denominations, redemptions of portions of the Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (f) to increase or decrease the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; (g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds; (h) to evidence the succession of a new Trustee or the appointment by the Trustee or the County of a co-trustee; (i) to make any change that does not materially adversely affect the rights of any Bondholder; or (j) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

If an amendment or supplement to the Indenture or the Bonds without any consent of the Bondholders is not permitted under the Indenture, the County and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the Bondholders' rights to tender the Bonds, or any mandatory redemption or tender of the Bonds, extend the due date for the purchase of Bonds tendered by the Bondholders or call for mandatory redemption or tender or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of the Indenture on the property described in the Granting Clause of the Indenture or (h) deprive any Bondholder of the lien created by the Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the Indenture for the payment of Bonds as described under "— Defeasance" above and those Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture shall be made without the consent of the holder of each of those Bonds affected.

Amendment of the Agreement

The County may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder if the amendment, supplement or waiver is required or permitted: (a) by the provisions of the Agreement or the Indenture; (b) to cure any ambiguity, inconsistency, formal defect or omission; (c) to identify more precisely the Project; (d) in connection with any authorized amendment of or supplement to the Indenture or (e) to make any change that, in the judgment of the Trustee, does not materially adversely affect the rights of any Bondholder.

Any other amendment, change or supplement of the Agreement or the terms of the Note may be entered into with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding.

THE TRUSTEE

The Company maintains deposit accounts and other normal banking relationships with the Trustee and its affiliates. The Company borrows from such affiliates from time to time. The Trustee and its affiliates serve as trustees under other indentures providing for certain tax-exempt bonds for the benefit of the Company or certain securities of the Company.

UNDERWRITING

Goldman, Sachs & Co. (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the County at a purchase price equal to 100% of the aggregate principal amount thereof. The Company will pay to the Underwriter a fee for its services in an amount equal to $243,750.

The Underwriter has agreed to purchase the Bonds subject to all of the terms and conditions of a Purchase Contract with the County. The nature of the Underwriter's obligation is such that it must purchase all of the Bonds if any Bonds are purchased. The Company will agree to indemnify the Underwriter against certain civil liabilities, including liabilities under federal securities laws.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page. After the initial public offering, the public offering price may be changed from time to time.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

None of the County, the Company or the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, none of the County, the Company or the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their respective businesses, the Underwriter and its affiliates have engaged, and may in the future engage, in investment banking and commercial banking transactions with the Company and its affiliates.

TAX MATTERS

In the opinion of Balch & Bingham LLP, as Bond Counsel, which will be dated the date of issuance of the Bonds, under existing statutes, and under existing rulings and court decisions, applicable regulations and proposed regulations, interest on the Bonds is not includable in gross income for federal income tax purposes except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code. In addition, the opinion of Balch & Bingham LLP will state that the interest on the Bonds will not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. No opinion will be expressed with respect to any other federal tax consequences of the receipt or accrual of interest on, or ownership of, the Bonds. Bond Counsel has not undertaken to notify the County, the Trustee, the Company, the Underwriter or the owners of the Bonds of any change in law or fact after the date of such opinions which might affect any of the opinions expressed therein.

Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers, including, without limitation, banks, thrift institutions and other financial institutions, foreign corporations which conduct a trade or business in the United States, property and casualty insurance corporations, S corporations, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

In concluding that the interest on the Bonds is not includable in gross income for federal income tax purposes, Balch & Bingham LLP will (i) rely as to certain factual matters upon representations and certifications of the Company with respect to the use of the proceeds of the Bonds, the design, scope, function, cost and economic useful life of the facilities constituting the Project, and the relationship of such facilities to the plant which they are designed to serve, without undertaking to verify the same by independent investigation, and (ii) assume continued compliance by the County and the Company with their respective covenants relating to the use of the proceeds of the Bonds and compliance with other requirements of the Code. The inaccuracy of any such representations or noncompliance with such covenants may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

On the date of issuance of the Bonds, the County will issue and deliver its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 in the aggregate principal amount of $65,400,000 (the "Second Series 2009 Bonds"). The proceeds of the Second Series 2009 Bonds will be loaned by the County to the Company to finance the Project. Under the provisions of the Code, the Bonds and the Second Series 2009 Bonds will be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the

interest on the Bonds from gross income for federal income tax purposes will be dependent upon whether the interest on the Second Series 2009 Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the Second Series 2009 Bonds, Balch & Bingham LLP will deliver its opinion as bond counsel to the effect that the interest on the Second Series 2009 Bonds is excludable from gross income for federal income tax purposes.

In the opinions of Balch & Bingham LLP and Lott & Associates, P.L., as Co-Bond Counsel, under existing statutes, interest on the Bonds is exempt from all present state income taxation within the State of Florida, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

The foregoing discussion is a general discussion of certain federal and state income tax consequences with respect to the Bonds and does not purport to deal with all tax questions that may be relevant to particular investors or circumstances, including purchasers of Bonds in the secondary market at a price other than the stated redemption price at maturity. Owners of Bonds should consult their own tax advisors with respect to such matters and with respect to the state and local tax consequences of any discount with respect to the Bonds.

SECONDARY MARKET INFORMATION

No financial statements or operating data concerning the County are included in this Official Statement and the County has not undertaken to provide any such information in the future.

Solely for the purpose of enabling the Underwriter to comply with the requirements of Rule 15c2-12(b)(5) under the 1934 Act, as in effect on the date hereof (the "Rule"), the Company has undertaken (but only to the extent required for compliance with valid and effective provisions of the Rule), for the benefit of the Bondholders, to provide the persons specified below (i) not later than 100 days after the end of each fiscal year of the Company, the Company's Annual Report to the Commission on Form 10-K (or any successor form), excluding any exhibits or documents incorporated by referenced therein, other than (if applicable) the audited financial statements appearing in the Company's annual report to shareholders (the "Form 10-K"), or, if the Form 10-K is no longer required, audited annual financial statements of the Company of the type incorporated by reference in Appendix A to this Official Statement (the "Audited Financial Statements"), and (ii) in a timely manner, notice of the occurrence of certain events enumerated in the Rule, if material (the "Company's Undertaking").

The Form 10-K (or, if required, the Audited Financial Statements) shall be provided to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") recognized by the Commission for purposes of the Rule and to the Florida State Information Depository ("FSID"), if one shall be established for the purposes of the Rule, and the notices of certain events shall be provided to each NRMSIR or to the Municipal Securities Rulemaking Board and to the FSID, if any. Effective July 1, 2009, the Form 10-K (or, if required, the Audited Financial Statements) and the notices of certain events will be provided only to the Municipal Securities Rulemaking Board under its Electronic Market Access System.

Neither the County nor its members, officers or employees have any responsibility or liability for the sufficiency, performance or enforcement of the Company's Undertaking. The Company and its directors, officers, employees and shareholders shall have no liability under the Company's Undertaking for any act or failure to act; a failure to perform the Company's Undertaking shall not constitute an Event of Default under the Agreement, an event of default under the Indenture or a default under the Note or any Bond; and the sole remedy shall be specific enforcement of the Company's Undertaking by the Trustee or by such persons, if any, as the Rule may require to be entitled to enforce the same. The Company reserves the right to (a) contest the validity of the Rule and (b) modify its performance of the Company's Undertaking, to the extent not inconsistent with valid and effective provisions of the Rule.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Balch & Bingham LLP and Lott & Associates, P.L., as Co-Bond Counsel. Copies of such opinions will be available at the time of delivery of the Bonds. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, and for the Underwriter by its counsel, Dewey & LeBoeuf LLP, New York, New York. From time to time, Dewey & LeBoeuf LLP acts as counsel to affiliates of the Company for some matters. Lott & Associates, P.L. has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Florida Administrative Code Rule 69W-400.003(1), adopted under and pursuant to the authority of Section 517.051(1), Florida Statutes, requires the County to disclose each default as to the payment of principal and interest with respect to obligations issued or guaranteed by the County after December 31, 1975. Fla. Admin. Code Rule 69W-400.003(2) provides, however, that if the County, in good faith, believes that such disclosures would not be considered material by a reasonable investor, such disclosures may be omitted. Since the County believes that disclosure concerning defaults with regard to any of its other bonds would not be considered material by a reasonable investor in the Bonds, the County has not undertaken to contact the various trustees of other conduit bond issues of the County to determine the existence of prior defaults.

MISCELLANEOUS

Information, including certain financial statements, relating to the business and properties of the Company is included or incorporated by reference in Appendix A to this Official Statement and is hereby made a part hereof.

This Official Statement has been duly approved by Escambia County, Florida. **EXCEPT FOR INFORMATION CONCERNING THE COUNTY UNDER THE CAPTION "THE COUNTY" AND THE LAST SENTENCE UNDER THE CAPTION "DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS," NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE COUNTY, AND THE COUNTY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.**

ESCAMBIA COUNTY, FLORIDA

By: /s/ Marie Young
Chairman of the Board of County Commissioners
of Escambia County, Florida

APPENDIX A

GULF POWER COMPANY

THE INFORMATION CONTAINED HEREIN AS AN APPENDIX TO THE OFFICIAL STATEMENT HAS BEEN OBTAINED FROM GULF POWER COMPANY

GULF POWER COMPANY

Gulf Power Company ("GULF") is a wholly-owned subsidiary of The Southern Company ("Southern"). It is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the transmission, 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. GULF was 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. Effective as of November 2, 2005, GULF was domesticated as a Florida corporation. Under the applicable laws of the State of Florida and the State of Maine, GULF's legal existence was uninterrupted, with only its state of incorporation changed. The principal executive offices of GULF are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

AVAILABLE INFORMATION

GULF is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Such reports and other information can be inspected and copied, upon payment of a fee set by the Commission, at the Public Reference Room of the Commission, 100 F Street, N.E., Room 1580, 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. GULF's reports are also available on the internet through the Commission's EDGAR database at the Commission's website at http://www.sec.gov. Certain securities of GULF are listed on the New York Stock Exchange, and reports and other information concerning GULF can be inspected at the office of such Exchange.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have heretofore been filed by GULF with the Commission pursuant to the 1934 Act, are incorporated by reference in this Appendix and shall be deemed to be a part hereof:

1. Annual Report on Form 10-K for the year ended December 31, 2008 (the "Form 10-K").

2. Current Reports on Form 8-K dated January 22, 2009 and March 16, 2009.

All documents subsequently filed by GULF with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act prior to the termination of the offering hereunder shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing; provided, however, GULF is not incorporating any information furnished under Items 2.02 or 7.01 of any Current Report on Form 8-K unless specifically stated otherwise. Any statement contained in a document incorporated or deemed to be incorporated by reference herein as aforesaid shall be deemed to be modified or superseded for purposes of this Appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix.

GULF hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Appendix, other than exhibits to such documents. Requests for such copies should be directed to Susan D. Ritenour, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520-0780, telephone (850) 444-6111.

RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors in the Form 10-K which is incorporated by reference in this Appendix. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix. The risks and uncertainties not presently known to GULF or that GULF currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

SELECTED INFORMATION

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, 2008	427,929
Generating Capacity at December 31, 2008 (kilowatts)	2,659,400
Sources of Generation during 2008 (kilowatt-hours)	Coal (84%), Gas (16%)

Selected Financial Information

The following selected financial data for each of the years ended December 31, 2004 through December 31, 2008 has been derived from GULF's audited financial statements and related notes and the unaudited selected financial data, incorporated by reference in this Appendix. 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 Appendix.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(Thousands, Except Ratios)				
Operating Revenues	$960,131	$1,083,622	$1,203,914	$1,259,808	$1,387,203
Earnings Before Income Taxes	108,135	120,951	124,582	135,082	158,651
Net Income After Dividends on Preferred and Preference Stock	68,223	75,209	75,989	84,118	98,345
Ratio of Earnings to Fixed Charges (1)	3.93	3.96	3.81	3.95	4.37

	Capitalization as of December 31, 2008		
	Actual	As Adjusted (2)	
	(Thousands, Except Percentages)		
Common Stock Equity	$822,092	$957,092	47.0%
Non-Cumulative Preference Stock	97,998	97,998	4.8%
Senior Notes	110,000	110,000	5.4%
Other Long-Term Debt	739,265	869,665	42.8%
Total, excluding amounts due within one year	$1,769,355	$2,034,755	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) the issuance in January 2009 of $135,000,000 of common stock to Southern; (ii) the proposed issuance of $65,000,000 aggregate principal amount of the Bonds offered hereby; and (iii) the proposed issuance of $65,400,000 aggregate principal amount of the Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009.

BEGGS & LANE
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JOHN P. DANIEL
TERRIE L. DIDIER
THOMAS F. GONZALEZ
STEVEN R. GRIFFIN
DAVID E. HIGHTOWER
BRET M. KANIS
GARY B. LEUCHTMAN
JACK W. LURTON, III
DAVID L. McGEE
GREGORY R. MILLER
WILLIAM H. MITCHEM
RALPH A. PETERSON
JOE SCARBOROUGH
JEFFREY A. STONE
DAVID B. TAYLOR, III
RUSSELL F. VAN SICKLE
MATTHEW D. VINSON
JAMES M. WEBER
CHARLES T. WIGGINS
JOHN F. WINDHAM
JOHN R. ZOESCH, III

W. SPENCER MITCHEM
Of Counsel

E. DIXIE BEGGS
1908-2001

BERT H. LANE
1917-1981

March 31, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 26, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008, and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New

York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,000,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 26, 2009 (the "Letter of Representation") among the Company, the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Georgia law and the federal law of the United States on the opinion of even date herewith of Troutman Sanders LLP (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and

no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Letter of Representation and the Note by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which it or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note and the Agreement, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

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

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6(f)(3) of the Purchase Contract insofar as such opinions relate to matters of Florida and Mississippi law.

Very truly yours,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS

March 31, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,000,000, Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,000,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 26, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008 and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,000,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 26, 2009 (the "Letter of Representation") by the Company and accepted by the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate

records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Mississippi and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane") (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System".

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or

United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. No registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offer and sale of the Bonds.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

In rendering the opinion expressed in paragraph 5 above, we have, with your consent, relied upon the legal opinion dated the date hereof, rendered to you by Balch & Bingham LLP, Bond Counsel, pursuant to the Purchase Contract to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes and have made no independent investigation with respect to such exclusion. Our opinion herein is subject to the same assumptions, qualifications, exceptions and limitations provided for in such other opinion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax

Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

The attorneys in this firm that are rendering this opinion 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 and Mississippi.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(v) of the Purchase Contract insofar as such opinion relates to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(iii) of the Purchase Contract insofar as such opinion relates to Georgia law and the federal law of the United States.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

EXHIBIT E.10.

BALCH & BINGHAM LLP

Alabama • Georgia • Mississippi • Washington, DC

Attorneys and Counselors
1901 Sixth Avenue North, Suite 1500
P.O. Box 306 (35201-0306)
Birmingham, Alabama 35203-4642
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March 31, 2009

Goldman, Sachs & Co.
New York, New York

Re: $65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009

Ladies and Gentlemen:

Reference is made to our opinion delivered to you concurrently herewith relating to the $65,000,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds") of Escambia County, Florida (the "County") and Section 6(f)(3)(i) of the Purchase Contract, dated March 26, 2009 (the "Purchase Contract"), between the County and you (the "Underwriter"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract.

We have reviewed the Official Statement incident to our activities as Co-Bond Counsel. During the course of such review, we participated in conferences with representatives of the Company, its counsel and your counsel, at which conferences the contents of the Official Statement were discussed. With your consent, our review as Co-Bond Counsel, however, was limited to the information set forth in the Official Settlement on its cover page and under the captions "Introductory Statement", "The County", "Use of Bond Proceeds", "The Bonds" (excluding the information contained under the heading "The Bonds — Book-Entry System" to which no opinion is given), "The Agreement", "The Indenture" and "Tax Matters".

Subject to the preceding paragraph, nothing has come to our attention which would cause us to believe that the information contained under the captioned headings described above in the Official Statement (other than the financial statements and other financial or statistical data contained therein, or incorporated therein, by reference as to which we express no opinion) includes any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Purchase Contract has been duly authorized and accepted by the County and constitutes a valid and legally binding obligation of the County.

Such instruments as are required have been duly filed and recorded wherever necessary to perfect the security interests created by the Agreement and the Indenture.

The offer and sale of the Bonds do not require registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture

Act of 1939, as amended.

This letter is furnished by us solely for the benefit of the Underwriter in connection with the provisions of the Purchase Contract and may not be relied upon by any other person.

Very truly yours,

Balch & Bingham LLP

THE LAW OFFICES OF
LOTT & ASSOCIATES, P.L.
25 West Cedar Street, Suite 500
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850/469-1088
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Patricia D. Lott, Esq.
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March 31, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A.
Atlanta, Georgia

Re: **$65,000,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009**

Ladies and Gentlemen:

We have acted as Bond Counsel to Escambia County in connection with the issuance by Escambia County, Florida (the "County") of $65,000,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 (the "Bonds"). The Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive, and other applicable provisions of law (the "Act") and a Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Indenture) between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called the "Trustee"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract, dated March 26, 2009 (the "Purchase Contract"), between the County and Goldman, Sachs & Co., as Underwriter.

The proceeds of the Bonds are to be used to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant") which

is owned and operated by Gulf Power Company (the "Company"). The County has entered into a Loan Agreement with the Company, dated as of March 1, 2009 (the "Agreement"), under the provisions of which the County agrees to loan to the Company the proceeds of the Bonds to provide for the Project. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note"). The Agreement provides for payments by the Company of amounts sufficient to pay the principal of, premium, if any, and interest on, and purchase price of, the Bonds as the same shall become due and payable. The Bonds are payable solely from the payments made by the Company pursuant to the Agreement and the Note.

In our capacity as Bond Counsel we have examined such documents, records of the County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Bonds and an opinion of Alison Rogers, Esq., County Attorney, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Bonds.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Bonds, to loan the proceeds of the sale of the Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement, the Indenture and the Purchase Contract.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and assuming due authorization, execution and delivery of the Indenture by, and the binding effect of the same upon, the Trustee, constitutes a legal, valid and binding obligation of the County enforceable upon the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification and payment of fees and expenses) have been effectively assigned to the Trustee as security for the Bonds. The Indenture creates a valid lien on the trust estate described therein. .

5. The issuance and sale of the Bonds have been duly authorized by the County; the Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

The opinions set forth herein are expressly limited to, and we opine only with respect to, the laws of the State of Florida. The opinions expressed herein are limited to the matters expressly set forth herein, and no opinion is implied or may be inferred beyond the matters expressly stated herein. The opinions set forth in this letter are rendered as of the date of this letter, and we disclaim any undertaking to advise you of any changes which may be brought to our attention subsequent to the date hereof. No opinion is expressed herein with respect to the security for the Loan or the validity or priority of any mortgage or security interest relating thereto, or with respect to any other matter (i) requiring a subsequent opinion of counsel as provided in the Indenture or (ii) involving any amendment, modification or change to the forms of documents delivered on the date hereof.

It is to be understood that the rights of the holders of the Bonds, and the enforceability of the Resolution, the Indenture, the Loan Agreement, the Note, the Purchase Contract and the Bonds, may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State, and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

Our opinions expressed herein are predicated upon present law, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof. The legal opinions set forth herein are intended for the information solely of the addressees hereof and solely for the purpose of the contemplated transactions described herein, and are not to be relied upon by any other person, or entity, or for any other purpose, or quoted as a whole or in part, or otherwise referred to, in any document, or to be filed with any government or other administrative agency, or other person or entity for any other purpose without our prior written consent.

Respectfully submitted,

Lott & Associates, P.L.

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EXHIBIT E.12.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) March 31, 2009

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
000-2429	**Gulf Power Company** (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810

The address of the registrant has not changed since the last report.

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On March 31, 2009, Escambia County, Florida (the "County") issued (i) $65,000,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 due April 1, 2039 (the "First Series 2009 Bonds") and (ii) $65,400,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 due April 1, 2039 (the "Second Series 2009 Bonds" and, together with the First Series 2009 Bonds, the "Bonds") for the benefit of Gulf Power Company (the "Company").

The proceeds received by the County from the sale of the Bonds were deposited in a construction fund created under each Indenture (as defined below) relating to each series of the Bonds (together, the "Construction Funds"), to be used to pay or reimburse the Company for costs to provide funds to finance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant"), which is owned and operated by the Company, and certain costs incident to the sale and issuance of the Bonds.

The County has loaned the proceeds of each series of the Bonds to the Company pursuant to separate Loan Agreements, each dated as of March 1, 2009 (each, a "Loan Agreement" and together, the "Loan Agreements") between the Company and the County. Pursuant to each Loan Agreement, the Company is obligated to make payments in such amounts and at such times as will be sufficient to pay, when due, the principal of, premium, if any, and interest on, the related series of the Bonds. Concurrently with the issuance of the Bonds and to evidence its obligations under the Loan Agreements, the Company delivered to the County a promissory note relating to each series of the Bonds (each,

a "Note" and together, the "Notes"). Each Note contains principal, interest and redemption provisions corresponding to the principal, interest and redemption provisions of the related series of the Bonds.

Each series of the Bonds was issued under a separate Trust Indenture, dated as of March 1, 2009 (each, an "Indenture" and together, the "Indentures"), by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The First Series 2009 Bonds initially were issued bearing interest at a long-term interest rate per annum of 1.75% for a long-term interest rate period (the "Initial Long-Term Interest Rate Period") beginning on March 31, 2009 and ending April 20, 2010. After the Initial Long-Term Interest Rate Period and subject to satisfaction of certain conditions in the Indenture pursuant to which the First Series 2009 Bonds are issued, the Company may remarket the First Series 2009 Bonds in successive long-term interest rate periods or in one or more different long-term interest rate periods or may change the method of determining the interest rate on the Bonds to a daily rate, a weekly rate, a commercial paper rate or an index rate (each as described in the related Indenture).

The Second Series 2009 Bonds initially were issued bearing interest at a daily rate. The interest rate determination method on the Second Series 2009 Bonds may be converted, at the option of the Company, from the daily rate to a weekly rate, a commercial paper rate, an index rate or a long-term interest rate (each as described in the related Indenture).

The Second Series 2009 Bonds are subject to optional redemption, in whole or in part, at the request of the Company, at a redemption price of 100% of the principal amount being redeemed plus interest accrued to the redemption date, except that interest accruing at a daily rate will be paid on the fifth business day following the redemption date. The First Series

2009 Bonds and the Second Series 2009 Bonds are subject to extraordinary optional redemption under certain circumstances at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

SIGNATURE

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 2, 2009

GULF POWER COMPANY

By /s/Wayne Boston
Wayne Boston
Assistant Secretary

Description of Holder

$65,000,000 Escambia County, Florida
Solid Waste Disposal Revenue Bonds
Gulf Power Company Project
First Series 2009

Name of Underwriter	**Principal Amount of Bonds**
Goldman, Sachs & Co. 85 Broad Street New York, New York 10004	$65,000,000.00

Underwriters Fees: $243,750.00

GULF POWER COMPANY

EXHIBIT E.14.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $65,000,000 Escambia County, Florida
Solid Waste Disposal Revenue Bonds
Gulf Power Company Project
First Series 2009

Item Number	Issuance Expenses For:	Amount $
1	Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc.	6,585.35
2	Fees and Expenses of Counsel	148,392.12
3	Fees of Accountants	26,750.00
4	Rating Fee Allocation	80,772.66
5	Issuers Fee	93,103.54
6	Miscellaneous Expenses	1,012.96
	Total Expenses of Issue	356,616.63
	Unamortized Discount Expense	243,750.00
	Total Cost of Issue	$600,366.63

ESCAMBIA COUNTY, FLORIDA

to

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,

as Trustee

TRUST INDENTURE

Dated as of March 1, 2009

Relating to

$65,400,000
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project),
Second Series 2009

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Exhibit A - Form of Bond

TRUST INDENTURE

THIS TRUST INDENTURE made and entered into as of March 1, 2009, by and between ESCAMBIA COUNTY, FLORIDA, a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, Florida Statutes, as amended (the "Act"), and a political subdivision of the State of Florida (the "Issuer"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States, with a designated corporate trust office located in Atlanta, Georgia, as trustee (the "Trustee").

RECITALS

A. In furtherance of its statutory purposes, the Issuer has entered into a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), with Gulf Power Company, a Florida corporation (the "Company"), providing for the undertaking by the Issuer to loan amounts to the Company in order to finance or refinance the acquisition, construction, installation and equipping of the Company's interest in certain solid waste disposal facilities, or portions thereof, at the Plant (as hereinafter defined).

B. The Agreement provides that, for the purposes therein set forth, the Issuer will issue and sell its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 in the aggregate principal amount of $65,400,000 (the "Bonds"); the Issuer will loan the proceeds of the Bonds to the Company; and to evidence the Loan (as hereinafter defined), the Company, will execute and deliver, concurrently with the issuance of the Bonds, the Note (as hereinafter defined).

C. The execution and delivery of this Indenture (as hereinafter defined) and the Agreement and the issuance and sale of the Bonds have been in all respects duly and validly authorized by resolutions duly adopted by the Issuer.

D. The Company has agreed to make payments on the Note to the Issuer in amounts sufficient to pay the principal, purchase price, premium, if any, and interest on the Bonds.

E. All acts, conditions and things required by the Constitution and laws of the State of Florida to happen, exist and be performed precedent to and in the execution and delivery of this Indenture and the Agreement have happened, exist and have been performed as so required, in order to make this Indenture a valid and binding trust indenture for the security of the Bonds in accordance with its terms and in order to make the Agreement a valid and binding loan agreement in accordance with its terms.

F. The Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof.

Accordingly, the Issuer and the Trustee agree as follows for the benefit of each other and for the benefit of the holders of the Bonds issued pursuant to this Indenture.

GRANTING CLAUSE

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and the purchase and acceptance of the Bonds by the holders thereof, and also for and in consideration of the sum of One Dollar ($1.00) to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of all Bonds at any time issued and outstanding hereunder and the interest and the premiums, if any, payable upon redemption or mandatory tender thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein or herein contained; the Issuer has executed and delivered this Indenture, and will cause the Company to deliver to the Trustee the Note; the Issuer does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, (i) all rights, title and interest of the Issuer in, to and under the Note and all payments, if any, made and to be made thereunder and (ii) all moneys and investments held from time to time in the Bond Fund or the Construction Fund (except for moneys deposited with or paid to the Trustee for the redemption of Bonds or the payment of Bonds, including Bonds which are deemed to be paid within the meaning of Section 7.01), subject to the provisions of this Indenture permitting the same to be applied as provided herein (collectively, the "Trust Estate"), as security for the payment of all outstanding Bonds and the interest and the premium, if any, thereon and does hereby bargain, sell, convey, assign and pledge to the Trustee, and grant to the Trustee a security interest in, all other rights, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder (except for Unassigned Rights, as hereinafter defined) as security for the satisfaction of any other obligation assumed by it in connection with all outstanding Bonds at any time issued hereunder;

TO HAVE AND TO HOLD the same unto the Trustee and its successors in trust forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, for the equal and proportionate benefit and security of all and singular present and future holders of the Bonds issued under this Indenture, without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns shall pay or cause to be paid the principal of, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds, and shall perform all the covenants and conditions required of it by this Indenture, and shall pay or cause to be paid to the Trustee and any additional paying agents all sums of money due or to become due to them in accordance with

the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby granted shall terminate and the Trustee shall release this Indenture and shall execute such documents to evidence such termination and release as may be reasonably required by the Issuer or the Company; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds from time to time issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights and interests, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of subject to the terms of this Indenture, and the Issuer agrees with the Trustee and with the respective owners, from time to time, of said Bonds, or part thereof, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. For all purposes of this Indenture, unless the context requires otherwise, words or terms defined in the preamble and recitals of this Indenture shall have the meanings specified therein, and the following terms shall have the following meanings:

"*Act*" means the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended, and other applicable provisions of law.

"Additional Redemption Notice" is defined in Section 3.04(b).

"Additional Tender Notice" is defined in Section 3.07(c).

"*Beneficial Owner*" means the purchaser of a beneficial interest in the Bonds when the Bonds are held by the Securities Depository in the Book-Entry System, and otherwise means a Bondholder.

"Bond Fund" means the trust fund created pursuant to Section 4.04 of this Indenture.

"*Bondholder*" or "*holder*" means the registered owner of any Bond.

"*Bonds*" means the Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 issued by the Issuer hereunder in the aggregate principal amount of $65,400,000.

"*Book-Entry System*" means the system maintained by the Securities Depository described in Section 5.01.

"*Business Day*" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Atlanta, Georgia or the city in which the principal corporate trust office of the Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange or the Federal Reserve System is closed.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations promulgated thereunder as the same may be applicable to the Bonds.

"*Commercial Paper Mode*" means each period of time, comprised of Commercial Paper Periods, during which Commercial Paper Rates are in effect.

"*Commercial Paper Period*" means, with respect to any Bond, each period set under Section 2.02(a)(3).

"*Commercial Paper Rate*" means an interest rate on each Bond set under Section 2.02(a)(3).

"*Company*" means Gulf Power Company, a Florida corporation, and its successors and assigns, and any surviving, resulting or transferee entity as provided in Section 4.3 of the Agreement.

"*Construction Fund*" means the trust fund created pursuant to Section 4.08.

"*Conversion Notice*" is defined in Section 2.02(b)(1).

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

"*Cost of Construction*" shall have the meaning assigned to it in the Agreement.

"*Daily Rate*" means an interest rate on the Bonds set under Section 2.02(a)(l).

"*Daily Rate Period*" means any period defined in Section 2.02(a)(1).

"*Determination Method*" is defined in Section 2.02(a).

"*Electronic Means*" means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"*Event of Default*" is defined in Section 8.01.

"*Favorable Opinion of Tax Counsel*" means an Opinion of Tax Counsel addressed to the Issuer and to the Trustee to the effect that the action proposed to be taken is permitted by the

laws of the State and by this Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds.

"FINRA" is defined in Section 9.15.

"*Government Obligations*" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States, or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

"*Indenture*" means this Trust Indenture, as it may be amended or supplemented from time to time in accordance with its terms.

"Index" means the SIFMA Index or LIBOR Index, as applicable.

"Index Adjustment Date" is defined in Section 2.02(a)(5)(i).

"Index Period" means any period of time established by the Company pursuant to Section 2.02(b)(1) during which the Bonds bear interest at the Index Rate.

"Index Rate" means an interest rate on the Bonds set under 2.02(a)(5).

"Index Rate Determination Date" means (i) if the applicable Index is the LIBOR Index, the second London Business Day immediately preceding the first day of the relevant Index Period or, if the applicable Index is the SIFMA Index, the Business Day immediately preceding the first day of the relevant Index Period; and (ii) the second London Business Day or the Business Day, as the case may be, preceding each Thursday during the relevant Index Period thereafter.

"*Interest Payment Date*" is defined in the form of the Bonds appearing in Exhibit A attached hereto.

"*Interest Period*" is defined in the form of the Bonds appearing in Exhibit A attached hereto.

"*LIBOR Index*" for any Index Rate Determination Date will be the Reported Rate for deposits in U.S. dollars having an index maturity of one month for a period commencing on the second London Business Day immediately following the Index Rate Determination Date, in amounts of not less than $1,000,000, at approximately 11:00 a.m., London time on the Index Rate Determination Date.

"*LIBOR Percentage*" is defined in Section 2.02(a)(5)(i).

"*London Business Day*" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date, are expected to be transacted, in the London interbank market.

"*Long-Term Interest Rate*" means an interest rate on the Bonds set under Section 2.02(a)(4).

"*Long-Term Interest Rate Period*" means any period as defined in Section 2.02(a)(4).

"*Maturity Date*" means the stated maturity for the Bonds as set forth in Section 2.01.

"*Maximum Interest Rate*" means 15% per annum on the date hereof and, to the extent the maximum rate permitted by applicable law shall become less than 15% per annum, then the maximum rate permitted by applicable law.

"*Note*" means the non-negotiable promissory note executed and delivered by the Company in the form attached as Exhibit A to the Agreement concurrently with the issuance of the Bonds in a like principal amount bearing interest at the rate or rates borne by the Bonds.

"*Opinion of Counsel*" means a written opinion of counsel selected by the Company who is acceptable to the Issuer and the Trustee. Such counsel may be an employee of or counsel to the Issuer, the Trustee or the Company.

"*Opinion of Tax Counsel*" means an Opinion of Counsel by counsel of nationally recognized standing in matters relating to the exclusion of interest from gross income on obligations issued by or on behalf of states and their political subdivisions.

The term "*outstanding*" when used with reference to Bonds, or "*Bonds outstanding*" means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except the following:

a. Bonds canceled or purchased by or delivered to the Trustee for cancellation.

b. Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including interest accrued to the due date, of which sufficient moneys are held by the Trustee.

c. Bonds deemed paid by Section 7.01.

d. Bonds in lieu of which others have been authenticated under Section 2.05 (relating to registration and exchange of Bonds) or Section 2.06 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds).

Bonds purchased pursuant to tenders and not delivered to the Trustee for payment are not outstanding, but there will be outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as provided in the second paragraph of Section 2.06.

"*Participant*" means one of the entities which deposit securities, directly or indirectly, in the Book-Entry System.

"*Person*" means any individual, firm, corporation, partnership, limited liability company, limited partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or other legal entity or government or any agency or political subdivision thereof, as well as natural persons.

"*Plant*" means the James F. Crist Generating Plant owned and operated by the Company and located in Escambia County, Florida.

"*Principal*," when used with reference to any Bonds, includes any premium payable on those Bonds.

"*Project*" has the meaning assigned to such term in the Agreement.

"*Record Date*" is defined in the form of the Bonds appearing as Exhibit A attached hereto.

"*Remarketing Agent*" means the Person appointed as Remarketing Agent pursuant to Section 9.15, and its successors under this Indenture.

"*Reported Rate*" means the rate that appears on Reuters Page LIBOR01 or a successor reporter of such rates selected by the Remarketing Agent and acceptable to the Company.

"*Responsible Officer*" when used with respect to the Trustee means any vice president, assistant vice president or other officer of the Trustee within the corporate trust office specified in Section 12.01(b) (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the corporate trust office specified in Section 12.01(b) because of such person's knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Indenture.

"*Reuters Page LIBOR01*" means the display designated as "LIBOR01" on Reuters 3000 Xtra (or any successor service) (or such other page as may replace Page LIBOR01 on Reuters 3000 Xtra or any successor service).

"*Securities Depository*" means The Depository Trust Company, New York, New York or its nominee, and its successors and assigns, or any successor appointed under Section 5.01.

"SIFMA Index" means, as of any date, the rate calculated according to The Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index composed of weekly, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or any successor thereto, or as otherwise designated by The Securities Industry and Financial Markets Association.

"SIFMA Margin" is defined in Section 2.02(a)(5)(i).

"Spread" is defined in Section 2.02(a)(5)(i).

"*State*" means the State of Florida.

"Tax Certificate and Agreement" means the Tax Certificate and Agreement dated March 31, 2009, executed and delivered by the Issuer and the Company in connection with the issuance of the Bonds.

"Trust Estate" is defined in the Granting Clause of this Indenture.

"*Trustee*" means the entity identified as such in the heading of this Indenture and its successors under this Indenture.

"Unassigned Rights" means the rights of the Issuer under Section 4.2, Section 5.3 and the second paragraph of Section 3.2 of the Agreement.

"Weekly Index Period" means, while the Bonds bear interest at an Index Rate, each weekly period beginning on a Thursday and ending on a Wednesday.

"*Weekly Rate*" means an interest rate on the Bonds set under Section 2.02(a)(2).

"Weekly Rate Period" means any period defined in Section 2.02(a)(2).

Section 1.02. Rules of Construction. Unless the context otherwise requires,

(a) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

(b) references to Articles and Sections are to the Articles and Sections of this Indenture, and

(c) the singular form of any word, including the terms defined in Section 1.1, includes the plural, and vice versa, and a word of any gender includes all genders.

(d) The use herein of a pronoun of any gender shall include correlative words of the other genders.

(e) The words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

(f) The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

(g) References to, or agreements or undertakings herein by, the Issuer and the Company or the Issuer or the Company shall not constitute any joint obligation of the Issuer and the Company, but, insofar as each of the Issuer or the Company is concerned, shall be deemed to be a separate, several and individual reference, undertaking or agreement of such Person. Nothing herein shall be deemed to create any joint undertaking, agreement or liability between the Issuer, the Company or any other Person.

(h) The term "hereafter" means after, and the term "heretofore" means before, the date of execution of this Indenture.

(i) All approvals, consents and acceptances required to be given or made by any Person or party hereunder shall be at the reasonable discretion of the party whose approval, consent or acceptance is required except to the extent otherwise specified herein.

(j) For purposes hereof, the Issuer or the Trustee, as applicable, shall not be deemed to have knowledge of any fact or the occurrence of any event unless and until the Issuer or the Trustee, as applicable, has written notice thereof or actual knowledge thereof.

(k) Whenever the Issuer is named or referred to, it shall be deemed to include its successors and assigns whether so expressed or not. All of the covenants, stipulations, obligations and agreements by or on behalf of, and other provisions for the benefit of, the Issuer contained in this Indenture shall bind and inure to the benefit of such successors and assigns and shall bind and inure to the benefit of any officer, board, commission, issuer, agency or instrumentality to whom or to which there shall be transferred by or in accordance with law any right, power or duty of the Issuer, or of its successors or assigns, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements or other provisions hereof.

(l) Whenever the word "includes" or "including" is used, such word means "includes or including, without limitation."

ARTICLE II

THE BONDS

Section 2.01. Issuance of Bonds; Form; Dating. The Bonds shall be designated "Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project),

Second Series 2009." The total principal amount of Bonds that may be outstanding shall not exceed $65,400,000. The Bonds shall be substantially in the form of Exhibit A attached hereto, which is part of this Indenture, in the denominations provided for in the Bonds. The Bonds may have notations, legends or endorsements required by law or usage.

All Bonds will be dated the date of original issuance and delivery, will bear interest from that date and shall mature, subject to prior redemption or mandatory tender, on April 1, 2039. Bonds will be numbered as determined by the Trustee.

Upon the execution and delivery of this Indenture, the Issuer will execute and deliver to the Trustee and the Trustee will authenticate the Bonds and deliver them to the purchaser or purchasers as directed by the Issuer.

Section 2.02. Interest on the Bonds. Interest on the Bonds will be payable as provided in the Bonds and in this Section. Interest on the Bonds will initially be payable at a Daily Rate. The Determination Method may be changed by the Company as described in paragraph (b) below. The methods of determining the various interest rates are as provided in paragraph (a) below.

(a) *Interest Rate Determination Methods.* In accordance with the notification requirements described herein, the Company shall determine the applicable interest rate determination method (each a "Determination Method") on the Bonds. The interest rate on the Bonds shall be determined by one of the following Determination Methods; provided, however, that while there exists an Event of Default under this Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

(1) *Daily Rate.* When interest on the Bonds is payable at a Daily Rate, the Remarketing Agent will set a Daily Rate on or before 11:00 a.m., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

(2) *Weekly Rate.* When interest on the Bonds is payable at a Weekly Rate, the Remarketing Agent will set a Weekly Rate on or before 5:00 p.m., New York City time, on the last Business Day before the commencement of a period during which the Bonds bear interest at a Weekly Rate and on each Tuesday thereafter so long as interest on the Bonds is to be payable at a Weekly Rate or, if any Tuesday is not a Business Day, on the next preceding Business Day. Each Weekly Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations

comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) for the Remarketing Agent to sell the Bonds on the date the rate is set at their principal amount (without regard to accrued interest). Thereafter, each Weekly Rate shall apply to (i) the period beginning on the Wednesday after the Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new Determination Method for the Bonds or (ii) the period beginning on the effective date of the change to a Weekly Rate and ending on the next Tuesday (a "Weekly Rate Period").

(3) *Commercial Paper Rate.* During a Commercial Paper Mode, each Bond will bear interest during the Commercial Paper Period for such Bond at the Commercial Paper Rate for such Bond. Different Commercial Paper Periods may apply to different Bonds at any time and from time to time. Except as otherwise described in this subparagraph (3), the Commercial Paper Period and Commercial Paper Rate for each Bond will be determined by the Remarketing Agent no later than 12:15 p.m., New York City time, on the first day of each Commercial Paper Period.

(i) *Determination of Commercial Paper Periods.* Subject to Section 2.02(b)(2)(vii), each Commercial Paper Period will be a period of at least one day and not more than 270 days, determined by the Remarketing Agent to be the period which, together with all other Commercial Paper Periods for all Bonds then outstanding, will, in the judgment of the Remarketing Agent, result in the lowest overall interest expense on the Bonds over the next 270 days. Each Commercial Paper Period will end on either the day before a Business Day or on the day before the Maturity Date for such Bond. However, any Bond purchased on behalf of the Company and remaining unsold by the Remarketing Agent as of the close of business on the first day of the Commercial Paper Period for that Bond will have a Commercial Paper Period of one day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than one day ending on a day before a Business Day.

In determining the number of days in each Commercial Paper Period, the Remarketing Agent shall take into account the following factors: (I) existing short-term tax-exempt market rates and indices of such short-term rates, (II) the existing market supply and demand for short-term tax-exempt securities, (III) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds, (IV) general economic conditions, (V) industry, economic and financial conditions that may affect or be relevant to the Bonds, (VI) the number of days in other Commercial Paper Periods applicable to the Bonds and (VII) such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant.

(ii) *Determination of Commercial Paper Rates.* The Commercial Paper Rate for each Commercial Paper Period for each Bond shall be the minimum rate necessary (as determined by the Remarketing Agent based on the examination

of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell such Bond on the date and at the time of such determination at its principal amount (without regard to accrued interest).

(4) *Long-Term Interest Rate.* The Remarketing Agent will set a Long-Term Interest Rate on a date not less than three days before the beginning of any period (a "Long-Term Interest Rate Period") in which interest on any of the Bonds will be payable at a Long-Term Interest Rate. The last day on which such Long-Term Interest Rate shall cease to accrue for such Long-Term Interest Rate Period shall be determined by the Company in accordance with Section 2.02(b)(1). Each Long-Term Interest Rate will be the minimum rate necessary (as determined by the Remarketing Agent with respect to any Long-Term Interest Rate Period based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds for delivery on the effective date of the Long-Term Interest Rate at their principal amount (without regard to accrued interest).

(5) *Index Rate.* During an Index Period, the Bonds will bear interest at the Index Rate to be determined as follows:

(i) On the first day of the applicable Index Period and on the first Index Rate Determination Date following each six month anniversary of such day until the end of the Index Period (each, an "Index Adjustment Date"), the Remarketing Agent shall (A) depending on the Index, determine the minimum percentage of the LIBOR Index (the "LIBOR Percentage") or the minimum number of basis points above or below the SIFMA Index (the "SIFMA Margin;" the SIFMA Margin and the LIBOR Percentage are hereinafter sometimes referred to as the "Spread"), as applicable, that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if such Bonds were being sold on such date, and (B) notify the Trustee and the Company in writing of the applicable Spread for such six month period.

(ii) On each Index Rate Determination Date, (A) the Remarketing Agent shall, no later than 11:00 a.m., New York City time, on such date, notify the Trustee in writing, depending on the applicable Index, of the LIBOR Index or the SIFMA Index to apply for the next succeeding Weekly Index Period. The applicable Index as determined by the Remarketing Agent, adjusted by the applicable Spread, will be the interest rate to be borne by the Bonds from the first Thursday after such date through the following Wednesday; provided that, if the applicable Index Rate Determination Date is a day following the Thursday in any

week, the Index Rate so determined will be in effect from the next preceding Thursday through the following Wednesday.

(iii) Promptly upon the determination of the Index Rate by the Remarketing Agent, the Remarketing Agent will notify the Company and the Trustee in writing of the Index Rate for the applicable period. The Index Rate determined by the Remarketing Agent, absent manifest error, shall be binding and conclusive upon the Beneficial Owners, the Bondholders, the Company and the Trustee.

(iv) If the following circumstances exist on any Index Rate Determination Date, the Index Rate shall be determined as follows:

(A) In the event that the applicable Index on such Index Rate Determination Date is the SIFMA Index and the SIFMA Index has not been published or set, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of LIBOR Index that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(B) In the event that the applicable Index on such Index Rate Determination Date is LIBOR Index and no Reported Rate appears on Reuters Page LIBOR01 as of approximately 11:00 a.m., London time, on an Index Rate Determination Date, the Index Rate for the succeeding Weekly Index Period shall be based on the Reported Rate for the preceding week; provided, however, that if no Reported Rate appears in Reuters Page LIBOR01 for two consecutive weeks, the Index Rate shall be determined by the Remarketing Agent and shall be the minimum percentage of the then current rate of interest on four-week Treasury Bills that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(C) In the event that neither Index is available, the Index Rate for the succeeding Weekly Index Period shall be the minimum percentage of a referenced Treasury security selected by the Remarketing Agent that

would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at its principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(v) The foregoing notwithstanding, if the commencement of an Index Period does not coincide with the commencement of the first succeeding Weekly Index Period, the interest rate to be borne by the Bonds from the date of the commencement of the Index Period until the commencement of the first succeeding Weekly Index Period shall be a rate determined by the Remarketing Agent prior to the commencement of such Index Period, and such rate shall be the rate that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on such date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

(6) *Failure of Remarketing Agent to Announce Interest Rates or Spread on the Bonds.* If the appropriate interest rate, Spread or Commercial Paper Period is not or cannot be determined for any reason, or if, 30 days before the end of a Long-Term Interest Rate Period, the Company has not provided for the next Interest Period, the Determination Method for the Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the SIFMA Index plus the SIFMA Margin or, if the SIFMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate as provided to the Trustee in writing by the Remarketing Agent, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period, if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(5) shall be effective instead of this clause (6). The Trustee shall promptly notify the Bondholders of any such automatic change as set forth in Section 3.07(b) and the Bonds shall be subject to mandatory tender as described under "Mandatory Tender Upon a Change in the Determination Method" as provided in paragraph 7 of the form of the Bonds.

While Bonds are in a Commercial Paper Mode, during any transition period caused by an automatic conversion of such Bonds to a Weekly Rate in accordance with this clause (6), Bonds bearing interest at a Weekly Rate and Bonds bearing interest at a Commercial Paper Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods for the Bonds.

(b) (1) *Initial Interest Rate Determination Method; Change in Interest Rate Determination Method.* The Bonds will bear interest initially at a Daily Rate. The Company may change the Determination Method from time to time by notifying the Issuer, the Trustee and the Remarketing Agent, in writing. Such notice (a "Conversion Notice") shall contain (a) the effective date of such change; and (b) the proposed Determination Method; provided, however, that if the change is to an Index Period, such notice shall also specify the applicable Index for the Index Period and the length of such Index Period. The Long-Term Interest Rate Period shall be the same duration for all of the Bonds. The last day of any Long-Term Interest Rate Period must be either the day before the Maturity Date for the Bonds or a day which next precedes a Business Day and shall be at least 365 days after the effective date. The notice must be accompanied by a Favorable Opinion of Tax Counsel. At any time at least seven calendar days prior to the effective date specified in the Conversion Notice, the Company may deliver to the Issuer, the Trustee and the Remarketing Agent an amended Conversion Notice to specify a different proposed Determination Method; provided, however, that the effective date specified in the original Conversion Notice shall not change and such amended Conversion Notice must be accompanied by a Favorable Opinion of Tax Counsel. If the Company's notice complies with this paragraph, and if the Company shall deliver to the Trustee and the Issuer a confirming Favorable Opinion of Tax Counsel on the effective date as specified in the notice, the interest rate on the Bonds will be determined on the basis of the new rate on the effective date specified in the notice until there is another change as provided in this Section. If the change is to a Long-Term Interest Rate Determination Method and no Long-Term Interest Rate has been set by the date three days before the proposed effective date of such change, the Company may cancel the change by notifying the Issuer, the Trustee and the Remarketing Agent, in writing.

If the Company wishes to designate successive Long-Term Interest Rate Periods without specifying the effective dates and last days as described in the preceding paragraph for the second or any subsequent Long-Term Interest Rate Periods, it may do so by following the same procedure as for a change in the Determination Method as provided in the foregoing paragraph.

When one Long-Term Interest Rate Period follows another, all provisions of this Indenture applying to a change in the Determination Method will apply, except the Company will not be required to deliver a Favorable Opinion of Tax Counsel if (i) the Company has previously designated a series of successive Long-Term Interest Rate Periods which, together with the current Long-Term Interest Rate Period, are substantially equal in length, (ii) a Favorable Opinion of Tax Counsel was delivered before the first such Long-Term Interest Rate Period in that series which applies to each such successive Long-Term Interest Rate Period and (iii) no other change in the security for the Bonds or in this Indenture or the terms of the Bonds is made which is effective as of, or agreed to in connection with, the effective date of such subsequent Long-Term Interest Rate Period.

In the event there is a failed conversion of the Bonds for any reason, the Determination Method for the Bonds shall be automatically converted to the Weekly Rate and the Bonds shall continue to be subject to mandatory tender as described under "Mandatory Tender Upon a Change in the Determination Method" as provided in paragraph 7 of the form of the Bonds.

(2) *Limitations.* Any change in the Determination Method pursuant to paragraph (1) above must comply with the following:

(i) the effective date of a change (or each effective date in the case of a change from a Commercial Paper Mode) shall be a Business Day which is at least 15 days (30 days if a Long-Term Interest Rate is then in effect and the effective date is before the day after the last day of a Long-Term Interest Rate Period) after receipt by the Trustee of the Conversion Notice;

(ii) if a Long-Term Interest Rate is then in effect, the effective date of any change must be either the day after the last day of the then current Long-Term Interest Rate Period or, except as described in clause (iii) below, a day on which the Bonds would otherwise be subject to redemption under the paragraph "Optional Redemption During Long-Term Interest Rate Period" in paragraph 9 of the form of the Bonds if the change did not occur;

(iii) if the Company has previously designated successive Long-Term Interest Rate Periods, the effective date of each new Long-Term Interest Rate Period must be the day after the last day on which the Long-Term Interest Rate for the previous Long-Term Interest Rate Period ceases to accrue;

(iv) if a Commercial Paper Mode is then in effect, the effective date of any change must be either the day after the last day of the Commercial Paper Mode or, as to any Bond, the day after the last day of the Commercial Paper Period then in effect (or to be in effect) with respect to that Bond;

(v) if any Bonds have been called for redemption and the redemption has not yet occurred, the effective date of the change cannot be before such redemption date;

(vi) if a Long-Term Interest Rate or a Daily Rate is then in effect, the effective date of any change cannot occur during the period after a Record Date and to, but not including, the related Interest Payment Date;

(vii) if a Commercial Paper Mode is then in effect, the Remarketing Agent shall determine Commercial Paper Periods of such duration that will, in the judgment of the Remarketing Agent, best promote an orderly transition on the effective date. After the receipt by the Trustee of the Conversion Notice, the day after the last day of each Commercial Paper Period shall be, with respect to such Bond, not later than the effective date of the change. The Remarketing Agent shall promptly give written notice of each such last date and each such effective date with respect to each Bond to the Issuer, the Company and the Trustee;

(viii) if an Index Rate is then in effect, the effective date of any change must be the day after the last day of the Index Period then in effect; and

(ix) any change in the Index applicable to Bonds in an Index Rate Determination Method shall be deemed to be a change in the Determination Method for purposes of this Indenture.

During any such transition period, Bonds bearing interest at a Commercial Paper Rate shall be governed by the provisions of this Indenture applicable to a Commercial Paper Mode and Bonds bearing interest at a Daily Rate, Weekly Rate, Long-Term Interest Rate or Index Rate, as applicable, shall be governed by the provisions of this Indenture applicable to such Determination Methods.

(c) *Calculation of Interest.* The Remarketing Agent shall provide the Trustee and the Company with notice in writing or by Electronic Means by 12:30 p.m., New York City time,

(1) on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month,

(2) on each day on which a Weekly Rate becomes effective, of the Weekly Rate,

(3) on the first day of each Commercial Paper Period, of the length thereof and the Commercial Paper Rate, and, if there is more than one Commercial Paper Rate then in effect, of the related applicable principal amounts,

(4) on the first Business Day of a Long-Term Interest Rate Period, of the Long-Term Interest Rate or Long-Term Interest Rates set for that period,

(5) on each Index Adjustment Date, the Spread,

(6) on each Index Rate Determination Date during an Index Period, depending on the applicable Index, the LIBOR Index or SIFMA Index for such date, and

(7) on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date.

Using the rates supplied by this notice, the Trustee will calculate the interest payable on the Bonds. The Remarketing Agent will inform the Trustee and the Company orally of any interest rate so set. The Trustee will confirm the effective interest rate in writing (including by Electronic Means) to any Bondholder who requests it in writing (including by Electronic Means).

The setting of the rates by the Remarketing Agent, the determination of Commercial Paper Periods by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in this Indenture will be conclusive and binding on the Issuer, the Company, the Trustee and the owners of the Bonds.

(d) *Change in Rate Determination Method; Opinions of Counsel.* Notwithstanding any provision of this Section 2.02, no change shall be made in the Determination Method at the direction of the Company pursuant to Section 2.02(b)(1) if the Company shall fail to deliver a Favorable Opinion of Tax Counsel and confirmation thereof if required under Section 2.02(b)(1). If the Trustee shall have sent any notice to the Bondholders regarding a change in rate pursuant to Section 3.07(b), then in the event of such failure to deliver such opinion or confirmation, the Trustee shall promptly notify all Bondholders of such failure and that the method of determining interest on such Bonds shall be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(b)) and the interest rate shall be equal to the SIFMA Index plus the SIFMA Margin or, if the SIFMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage, or if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate, until such time as the Determination Method can be changed in accordance with Section 2.02(b); provided, however, during an Index Period if the applicable Index is not available, clause (iv)(A), (iv)(B) or (iv)(C), as applicable, of Section 2.02(a)(5) shall be effective instead of this Subsection (d).

Section 2.03. Execution and Authentication. The Bonds shall be signed on behalf of the Issuer with the manual or facsimile signature of its Chairman or Vice Chairman and attested by the manual or facsimile signature of its Clerk or Deputy Clerk, and the seal of the Issuer shall be impressed or imprinted on the Bonds by facsimile or otherwise. All authorized facsimile signatures shall have the same effect as if manually signed. If an officer of the Issuer whose signature is on a Bond no longer holds that office at the time the Trustee authenticates the Bond, the Bond shall nevertheless be valid. Also, if a person signing a Bond is the proper officer on the actual date of execution, the Bond shall be valid even if that person is not the proper officer on the nominal date of action.

A Bond shall not be valid for any purpose under this Indenture until the Trustee manually signs the certificate of authentication on the Bond. Such signature shall be conclusive evidence that the Bond has been authenticated under this Indenture.

As a precondition to the initial authentication and delivery of the Bonds, the Trustee shall receive a request and authorization to the Trustee from the Issuer, signed by the Chairman or Vice Chairman of the Issuer, to authenticate and deliver the Bonds to the persons and in the manner therein described.

Section 2.04. Bond Register. Bonds must be presented at the corporate trust office of the Trustee in Atlanta, Georgia, for registration of transfer, exchange and, except as otherwise provided herein, payment. The Trustee shall keep a register of Bonds and of their registration of transfer and exchange, which register shall be open to inspection by the Issuer and the Company during normal business hours.

Section 2.05. Registration and Exchange of Bonds; Persons Treated as Owners. Bonds may be registered as transferred only on the register maintained by the Trustee. Upon surrender for registration of transfer of any Bond to the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the holder or the holder's attorney duly

authorized in writing, the Trustee will authenticate a new Bond or Bonds of the same maturity, in an equal total principal amount and registered in the name of the transferee.

Bonds may be exchanged for an equal total principal amount of Bonds of the same maturity but of different authorized denominations. The Trustee will authenticate and deliver Bonds that the Bondholder making the exchange is entitled to receive, bearing numbers not then outstanding.

Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or to exchange any Bond called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

The registered owner of a Bond shall be treated as the absolute owner of the Bond for all purposes, and payment of principal, interest, premium, if any, or purchase price shall be made only to or upon the written order of the Bondholder or the Bondholder's legal representative, notwithstanding any notice, actual or constructive, to the contrary.

The Trustee will require the payment by a Bondholder requesting exchange or registration of transfer of any tax or other governmental charge required to be paid in respect of the exchange or registration of transfer, but will not impose any other charge on the Bondholder.

Section 2.06. Mutilated, Lost, Stolen, Destroyed or Undelivered Bonds. If any Bond is mutilated, lost, stolen or destroyed, the Trustee will authenticate a new Bond of the same denomination with similar terms if any mutilated Bond shall first be surrendered to the Trustee, and if, in the case of any lost, stolen or destroyed Bond, there shall first be furnished to the Issuer, the Trustee and the Company evidence of such loss, theft or destruction, together with an indemnity satisfactory to them. If the Bond has matured or becomes subject to redemption or tender, instead of issuing a replacement Bond, the Trustee may with the written consent of the Company pay the Bond or the Company may purchase the Bond without requiring surrender of the Bond and make such requirements as the Trustee deems fit for its protection, including a lost instrument bond. The Issuer and the Trustee may charge the Bondholder their reasonable fees, costs and expenses for actions taken pursuant to this Section, including reasonable attorney's fees, costs and expenses, if any.

If a Bond is tendered for purchase as provided in Article III, or if the holder of a Bond gives irrevocable instructions to the Remarketing Agent for purchase, and in each case funds are deposited with the Trustee sufficient for the purchase, the Trustee upon written request of the Company or the Remarketing Agent will authenticate a new Bond in the same maturity and in the same denomination registered as the Company or the Remarketing Agent may direct and deliver it to the Company or upon the Company's order, whether or not the Bond purchased is ever delivered, and the undelivered Bonds shall be canceled on the books of the Trustee, whether or not said undelivered Bonds have been delivered to the Trustee. From and after the purchase date, interest on such Bond shall cease to be payable to the prior holder thereof, such holder shall cease to be entitled to the benefits or security of this Indenture and shall have recourse solely to the

funds held by the Trustee for the purchase of such Bond, and the Trustee shall not register any further transfer of such Bond by such prior holder. All funds held by the Trustee for the purchase of undelivered Bonds shall be held uninvested.

Section 2.07. Cancellation of Bonds. Whenever a Bond is delivered to the Trustee for cancellation (upon payment, redemption, tender or otherwise), or for registration of transfer, exchange or replacement pursuant to Section 2.05 or Section 2.06, the Trustee will promptly cancel and dispose of the Bond in accordance with the Trustee's policy of disposal. The Trustee may, but shall not be required to, destroy canceled Bonds.

Section 2.08. Temporary Bonds. Until definitive Bonds are ready for delivery, the Issuer may execute and the Trustee will authenticate temporary Bonds substantially in the form of the definitive Bonds, with appropriate variations. The Issuer will, without unreasonable delay, prepare and the Trustee will authenticate definitive Bonds in exchange for the temporary Bonds. Such exchange shall be made by the Trustee without charge to the Bondholders. For so long as the Securities Depository shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise holding beneficial ownership of the Bonds is to receive, hold or deliver any definitive or temporary Bond certificate.

ARTICLE III

REDEMPTION, MANDATORY TENDER AND REMARKETING

Section 3.01. Notices to Trustee. If the Company wishes that any Bonds be redeemed pursuant to any optional redemption provision in the Bonds, the Company will notify the Trustee in writing of the applicable provision, the redemption date, the principal amount of the Bonds to be redeemed and other necessary particulars in accordance with Section 4.7 of the Agreement.

Section 3.02. Redemption Dates. The redemption date of Bonds to be redeemed pursuant to any optional redemption provision in the Bonds will be a date permitted by the Bonds and specified by the Company in the notice delivered pursuant to Section 4.7 of the Agreement. The redemption date for mandatory redemptions will be as specified in the Bonds to be redeemed or determined by the Trustee consistently with the provisions of the Bonds.

Section 3.03. Selection of Bonds to Be Redeemed. Except as provided in the Bonds, if fewer than all the Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate in its sole and absolute discretion, except that the Trustee will first select any Bonds owned by the Company or any of its nominees or held by the Trustee for the account of the Company or any of its nominees. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination. Provisions of this

Indenture that apply to Bonds called for redemption also apply to portions of Bonds called for redemption.

Section 3.04. Redemption Notices.

(a) *Official Notice of Redemption.* The Trustee will give notice of each redemption as provided in the Bonds and will at the same time give a copy of the notice to the Remarketing Agent. The notice shall identify the Bonds to be redeemed and shall state (1) the redemption date (and, if the Bonds provide that accrued interest will not be paid on the redemption date, the date it will be paid), (2) the redemption price, (3) that the Bonds called for redemption must be surrendered to collect the redemption price, (4) the address at which the Bonds must be surrendered and (5) that interest on the Bonds called for redemption ceases to accrue on the redemption date.

With respect to an optional redemption of any Bonds under "Optional Redemption During Long-Term Interest Rate Period," "Extraordinary Optional Redemption" or "Optional Redemption During Daily or Weekly Rate Period" in paragraph 9 of the form of the Bonds, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Failure to give any required notice of redemption as to any particular Bonds or any defect therein will not affect the validity of the call for redemption of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(b) *Additional Notice of Redemption.* In addition to the redemption notice required above, further notice (the "Additional Redemption Notice") shall be given by the Trustee as set out below. No defect in the Additional Redemption Notice nor any failure to give all or any portion of the Additional Redemption Notice shall in any manner defeat the effectiveness of a call for redemption if notice is given as prescribed in paragraph (a) above.

(1) Each Additional Redemption Notice shall contain the information required in paragraph (a) above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of the Bonds as originally issued; (iii) the Determination Method for, or the rate of interest borne by, each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed.

(2) Each Additional Redemption Notice shall be sent at least 30 days before the redemption date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depository now being The Depository Trust Company of New York, New York) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

The information required in any redemption notice (including an Additional Redemption Notice) pursuant to this Section and the information required in any notice of tender (including an Additional Tender Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Redemption" in paragraph 9 of the form of the Bonds.

Section 3.05. Payment of Bonds Called for Redemption. Upon surrender to the Trustee, Bonds called for redemption shall be paid as provided in this Article at the redemption price (including premium, if any) stated in the notice, plus interest accrued to the redemption date, or at a purchase price as provided in the form of Bond, except that interest payable on Bonds bearing interest at a Daily Rate will be paid on the fifth Business Day following the redemption date. Bonds called for redemption and purchased pursuant to a tender before the redemption date will not be redeemed but will be dealt with as provided below in this Article. Upon the payment of the redemption price of the Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 3.06. Bonds Redeemed in Part. Subject to Article V, upon surrender of a Bond redeemed in part, the Trustee will authenticate for the holder a new Bond or Bonds in authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered.

Section 3.07. Mandatory Tender.

(a) *Mandatory Tender of Bonds.* The Bonds are subject to mandatory tender for purchase as provided in paragraph 7 of the form of the Bonds.

(b) *Notice to Bondholders of Change in Interest Rate Determination Method.* When a change in the Determination Method is to be made, or upon commencement of a new Long-Term Interest Rate Period or a new Index Period immediately after a prior Index Period, the Trustee will, upon written notice from the Company pursuant to Section 2.02(b), notify the affected Bondholders by first class mail at least 15 days before the effective date of the change or the commencement of a new Long-Term Interest Rate Period or Index Period, except that (i) such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period and (ii) no notice shall be given with respect to a tender under "Mandatory Tender on

Each Interest Payment Date During Commercial Paper Mode" in paragraph 7 of the form of the Bonds. The notice shall be effective when sent and shall state:

(1) the purchase date (and, if the Bonds provide that accrued interest will not be paid on the purchase date, the date it will be paid);

(2) the purchase price;

(3) that the Bonds to be tendered must be surrendered to collect the purchase price;

(4) the address at which or the manner in which the Bonds must be surrendered;

(5) that interest on the Bonds to be tendered ceases to accrue on the purchase date;

(6) that the interest rate determination method will be changed;

(7) the proposed effective date of the new rate; and

(8) that a mandatory tender will result on the effective date of the change as provided in the Bonds and that, in the case of a failed conversion, the interest rate determination method will automatically be converted to a Weekly Rate, and the Bonds will continue to be subject to mandatory tender on such proposed effective date.

Failure to give any required notice of tender as to any particular Bonds or any defect therein will not affect the validity of the tender of any Bonds in respect of which no such failure or defect has occurred. Any notice mailed as provided in the Bonds shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by any holder.

(c) *Additional Notice of Tender.* In addition to the tender notice required above, further notice (the "Additional Tender Notice") shall be given by the Trustee as set out below. No defect in the Additional Tender Notice nor any failure to give all or any portion of the Additional Tender Notice shall in any manner defeat the effectiveness of a tender notice if notice is given as prescribed in paragraph (b) above.

(1) Each Additional Tender Notice shall contain the information required in paragraph (c) above for an official notice of tender plus (i) the CUSIP numbers of all Bonds being tendered; (ii) the date of the Bonds as originally issued; (iii) the maturity date of each Bond being purchased; and (iv) any other descriptive information needed to identify accurately the Bonds being purchased.

(2) Each Additional Tender Notice shall be sent at least 30 days before the purchase date by registered or certified mail or overnight delivery service (or by such other means as the Trustee may have established with the Securities Depository or any information service) to all registered securities depositories then in the business of holding substantial amounts of obligations similar to the Bonds (such depository now being The Depository Trust Company of New York, New York) and to one or more national information services that disseminate notices of purchase of obligations such as the Bonds.

The information required in any tender notice (including an Additional Tender Notice) pursuant to this Section and the information required in any redemption notice (including an Additional Redemption Notice) may be combined in a single notice if it is sent to Bondholders in the manner and at the time specified under "Notice of Tender" in paragraph 7 of the form of the Bonds.

Section 3.08. Disposition of Purchased Bonds. (a) *Bonds to be Remarketed.* Bonds purchased pursuant to tenders as provided in the form of Bonds or as provided in Section 3.07 will be offered for sale by the Remarketing Agent as provided in this Section except as follows:

(1) Bonds required to be tendered as described under "Mandatory Tender Upon a Change in the Determination Method" in paragraph 7 of the form of Bond, which are tendered between the date notice of mandatory tender is given and the mandatory tender date, may be remarketed before the mandatory tender date only if the buyer receives a copy of the mandatory tender notice from the Remarketing Agent; and

(2) Bonds will not be offered for sale under this Section during the continuance of an Event of Default under Section 8.01(a), (b), (c) or (d). Bonds will be offered for sale under this Section 3.08 during an event which with the passage of time or the giving of notice or both may become an Event of Default only in the sole discretion of the Remarketing Agent.

(b) *Remarketing Effort.* Except to the extent the Company directs the Remarketing Agent not to do so, the Remarketing Agent will offer for sale and use reasonable efforts to sell all Bonds to be sold as provided in paragraph (a) above and, when directed by the Company, any Bonds held by the Company. The sale price of each Bond must be equal to the principal amount of each Bond plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all the Bonds. The Remarketing Agent may buy as principal any Bonds to be offered under this Section 3.08.

(c) *Notices in Respect of Tenders.* When the Trustee receives a notice from a Bondholder (or a Beneficial Owner through its direct Participant) as specified in paragraph 6 of the form of the Bond for the Bondholder (or a Beneficial Owner through its direct Participant) that Bonds are being tendered, the Trustee will promptly notify the Remarketing Agent and the

Company in writing or by Electronic Means of the receipt of such notice, but in no event later than the following times:

(i) when the Bonds bear interest at a Daily Rate, no later than 11:15 a.m., New York City time, on the same Business Day; and

(ii) when the Bonds bear interest at a Weekly Rate, no later than 11:15 a.m., New York City time, on the Business Day next succeeding receipt of such notice.

(d) *Delivery of Remarketed Bonds.*

(i) Except when a Book-Entry System of registration is in effect, the Trustee shall hold all Bonds delivered pursuant to this Section 3.08 in trust for the benefit of the owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders, and thereafter, if such Bonds are remarketed, shall deliver replacement Bonds, prepared by the Trustee in accordance with the directions of the Remarketing Agent and authenticated by the Trustee, for any Bonds purchased in accordance with the written directions of the Remarketing Agent, to the Remarketing Agent for delivery to the purchasers thereof.

(ii) The Remarketing Agent shall advise the Trustee and the Company in writing or by facsimile transmission of (A) the principal amount of Bonds which have been remarketed, and (B) the denominations and registration instructions (including taxpayer identification numbers), in each case, in accordance with the following schedule (all times of which are New York City time):

CURRENT METHOD OF INTEREST RATE DETERMINATION OR, IN CONNECTION WITH A CHANGE IN SUCH METHOD, THE NEW METHOD OF INTEREST RATE DETERMINATION	TIME BY WHICH INFORMATION TO BE FURNISHED TO TRUSTEE
Commercial Paper Period	12:15 p.m. on the purchase date
Daily Rate Period	12:15 p.m. on the purchase date
Weekly Rate Period	12:15 p.m. on the purchase date
Long-Term Interest Rate Period	12:15 p.m. on the purchase date
Index Period	12:15 p.m. on the purchase date

(iii) The terms of any sale by the Remarketing Agent shall provide for the authorization of the payment of the purchase price by the Remarketing Agent to the Trustee in exchange for Bonds registered in the name of the new Bondholder which shall be delivered by the Trustee to the Remarketing Agent at or before 2:00 p.m., New York City time, on the purchase date if the purchase price has been received from the Remarketing Agent by the time set forth in Section 3.08(e) on the purchase date.

(e) *Delivery of Proceeds of Sale.* The Remarketing Agent shall deliver directly to the Trustee an amount equal to the principal amount thereof plus accrued interest, if any, of the

Bonds which the Remarketing Agent has advised the Trustee have been remarketed pursuant to Section 3.08(d)(ii) no later than 12:30 p.m., New York City time, on the purchase date.

ARTICLE IV

APPLICATION OF PROCEEDS AND PAYMENT OF BONDS

Section 4.01. Application of Proceeds. The Issuer will cause the proceeds of the initial sale of the Bonds to be deposited with the Trustee, and the Trustee shall deposit such proceeds into the Construction Fund.

Section 4.02. Payment of Bonds. The Trustee will make payments of principal of, premium, if any, and interest on the Bonds from moneys available to the Trustee under this Indenture for that purpose. The Trustee will pay the purchase price of tendered Bonds *first* from the proceeds of the remarketing of Bonds under Section 3.08 and *second* from other moneys available to the Trustee for that purpose.

All moneys received as proceeds of remarketing the Bonds under Section 3.08 shall be held segregated by the Trustee in a separate and segregated trust account. To the extent that the payment of principal or interest on the Bonds is made from moneys as described in this Section, such payment shall also satisfy and discharge any payment obligation of the Company under the Note and the Trustee shall promptly notify the Company in writing if such payment requirement has not been satisfied. If any Bond is redeemed prior to maturity or if the Company surrenders any Bond to the Trustee for cancellation, the Trustee shall cancel such Bond.

Section 4.03. Investments of Moneys. The Trustee will invest and reinvest moneys held by the Trustee as directed in writing by the Company to the extent permitted by law, in:

(a) Government Obligations;

(b) Bonds and notes of the Federal Land Bank;

(c) Obligations of the Federal Intermediate Credit Bank;

(d) Obligations of the Federal Bank for Cooperatives;

(e) Bonds and notes of Federal Home Loan Banks;

(f) Negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations;

(g) Investments made in or through the Trustee's cash sweep accounts or other short-term investments funds, the assets of which consist of investments described in clause (a) above; or

(h) Other investments then permitted by law.

The Trustee may make investments permitted by this Article through its own bond department or the bond department of any bank or trust company under common control with the Trustee and may charge its ordinary and customary fees for such trades, including cash sweep account fees. Investments will be made so as to mature or be subject to redemption at the option of the holder on or before the date or dates that the Trustee anticipates that moneys from the investments will be required. The Trustee, when authorized by the Company, may trade with itself in the purchase and sale of securities for such investment. Investments will be registered in the name of the Trustee and held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash held by the Trustee is insufficient. The Trustee shall not be liable for any loss from such investments to the extent directed by the Company and to the extent such directions have been complied with by the Trustee.

The Trustee may conclusively rely upon the Company's written instructions as to both the suitability and legality of the directed investments. Ratings of permitted investments shall be determined at the time of purchase of such permitted investments and without regard to ratings subcategories. The Trustee shall have no responsibility to monitor the ratings of permitted investments after the initial purchase of such permitted investments.

Although the Issuer and the Company each recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Issuer and the Company hereby agree that confirmations of permitted investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered.

Section 4.04. Creation of Bond Fund. There is hereby created and established with the Trustee a separate and segregated trust fund to be designated "Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project) Second Series 2009 Bond Fund". Moneys deposited therein shall be used to pay the principal of and premium, if any, and interest on the Bonds as provided in this Indenture.

Section 4.05. Payments into the Bond Fund. There shall be deposited into the Bond Fund, as and when received, (i) all payments of the amounts owed by the Company under the first paragraph of Section 3.2 of the Agreement; and (ii) all other moneys received by the Trustee under and pursuant to any of the provisions of the Agreement or the Note which are required, or which are accompanied by directions from the Company that such moneys are, to be paid into the Bond Fund. The Trustee is authorized to receive at any time payments or prepayments from the Company pursuant to the Agreement and the Note for deposit in the Bond Fund. The Trustee is authorized to transfer money from the Construction Fund to the Bond Fund at the written direction of the Company. Any money or investments in the Construction Fund shall be

transferred to the Bond Fund without any direction from the Company upon acceleration of the Bonds as provided in Section 8.02.

Section 4.06. Use of Moneys in the Bond Fund. Except as provided in this Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on the Bonds. Upon receipt of a written notice from the Company pursuant to Section 4.7 of the Agreement and, in the case of a purchase of Bonds, upon the deposit of cash or Government Obligations in the Bond Fund sufficient, together with other amounts available therefor in the Bond Fund, to make the purchase of Bonds, the Issuer and the Trustee covenant and agree to take and cause to be taken the necessary steps to redeem or purchase such principal amount of Bonds as specified by the Company in such written notice; provided, however, that any available moneys in the Bond Fund may be used on direction of the Company to redeem a part of the Bonds outstanding and then redeemable or to purchase Bonds for cancellation so long as the Company is not in default with respect to any payments required pursuant to Section 3.2 of the Agreement and to the extent said moneys are in excess of the amount required for payment of the Bonds theretofore matured or called for redemption and interest accrued and payable in respect of outstanding Bonds.

Section 4.07. Custody of the Bond Fund. The Bond Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer hereby authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of and premium, if any, and interest on the Bonds as the same become due and payable and to make said funds so withdrawn available to the paying agents hereunder at their principal office, for the purpose of paying said principal and premium, if any, and interest, which authorization and direction the Trustee hereby accepts.

Section 4.08. Creation of Construction Fund. There is hereby created and established with the Trustee a separate and segregated trust fund to be designated "Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 Construction Fund", which shall be expended in accordance with the provisions of this Article IV.

Section 4.09. Payments into the Construction Fund. The proceeds of the sale of the Bonds by the Issuer shall be deposited into the Construction Fund, together with all investment proceeds received from investment of moneys in the Construction Fund.

Section 4.10. Disbursements from the Construction Fund. The Trustee is hereby authorized and directed to make payments from the Construction Fund to pay the Cost of Construction, or to reimburse the Company for any Cost of Construction paid by the Company before or after execution of the Agreement and delivery of the Bonds, and the Trustee shall be relieved of all liability with respect to making payments from the Construction Fund in accordance with this Section 4.10. The Trustee shall make each disbursement from the Construction Fund upon receipt of a written requisition by the Company, upon which the Trustee may conclusively rely, stating with respect to each disbursement to be made: (i) the requisition number, (ii) the name and address of the Person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation or portion thereof which is to be paid has been properly

incurred, is a proper charge against the Construction Fund and has not been the basis of any previous withdrawal from the Construction Fund or the proceeds of any other obligations the interest on which is exempt from federal income taxation. The Trustee is also authorized to transfer money from the Construction Fund to the Bond Fund at the written direction of the Company without the need for any requisition. The Trustee shall transfer the money and investments in the Construction Fund to the Bond Fund without any requisition or direction in the event that the Bonds shall be accelerated pursuant to Section 8.02.

The Trustee shall keep and maintain adequate records pertaining to the Construction Fund and all disbursements therefrom; and, after the Project has been completed and a certificate of payment of all costs has been filed with the Trustee as provided in Section 4.11, the Trustee shall file an accounting thereof with the Issuer and the Company.

Section 4.11. Completion of the Project. The completion of the Project and payment of all Cost of Construction shall be evidenced by the filing with the Trustee of the certificate required by the provisions of Section 2.3 of the Agreement. All moneys in the Construction Fund (including moneys earned thereon by investment thereof) remaining after the Completion Date and payment, or provision for payment, in full of the Cost of Construction shall be used by the Trustee at the written direction of the Company (i) if the Bonds are then subject to redemption or will be subject to redemption within 90 days of the date the Project was placed in service, to redeem outstanding Bonds at the earliest possible redemption date within such 90-day period in accordance with Treasury Regulation Section 1.142-2(c), as amended, supplemented or replaced from time to time, (ii) if such Bonds are not subject to redemption within such 90-day period, to establish a defeasance escrow in accordance with Treasury Regulation Section 1.142-2(c), as amended, supplemented or replaced from time to time, or (iii) for any other purpose which, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee, is permissible under then applicable laws of the State and will not under the Code cause the interest on the Bonds to be included in gross income for federal income tax purposes; provided that amounts approved by the Company shall be retained by the Trustee in the Construction Fund for payment of any Cost of Construction not then due and payable or which is in dispute, and any balance remaining of such retained funds after full payment of Cost of Construction shall be held and applied, or used as directed by the Company, in the manner specified in this Section 4.11.

Until used for one or more of the foregoing purposes, such moneys shall be transferred to and held in a separate account in either the Construction Fund or the Bond Fund, as appropriate, and the Company shall not direct the Trustee to invest such moneys so as to provide a yield on such moneys (computed from the date the Project was placed in service) greater than the yield on the Bonds, all as such terms are defined and used in Section 148 of the Code; provided that such yield restriction shall not apply if the Trustee is furnished with an opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee to the effect that, under applicable statutes and regulations, the lack of a yield restriction on such moneys or a restriction at a higher yield or differently-computed yield will not result in the interest on the Bonds becoming includable in gross income for federal income tax purposes.

Section 4.12. Non-presentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof, if funds sufficient to pay such Bond shall have been deposited in the Bond Fund or otherwise made available to the Trustee through deposit therein as provided in Section 4.05, all liability of the Issuer to the holder thereof for the payment of such Bond shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds within a separate account in the Bond Fund, subject to the provisions of Section 4.15, without liability for interest thereon, for the benefit of the holder of such Bond, which shall thereafter (subject to the provisions of Section 4.15) be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Bond.

Section 4.13. Moneys to Be Held in Trust. All moneys required to be deposited with or paid to the Trustee for the account of the Bond Fund or the Construction Fund under any provision of this Indenture shall be held by the Trustee in trust, and except for moneys deposited with or paid to the Trustee for the redemption of Bonds or the payment of Bonds, including Bonds which are deemed to be paid within the meaning of Section 7.01, shall, while held by the Trustee, constitute part of the trust estate and be subject to the security interest created hereby.

Section 4.14. Repayment to the Company from the Bond Fund. Any amounts remaining in the Bond Fund (other than moneys, if any, set aside as provided herein), after payment in full of the Bonds (or provision for payment thereof having been made in accordance with this Indenture), the fees, costs and expenses of the Trustee (including reasonable attorney's fees, costs and expenses, if any) and any additional paying agent and all other amounts required to be paid hereunder shall be repaid to the Company as provided in Section 6.10 of the Agreement.

Section 4.15. Moneys Held in Trust; Unclaimed Funds. Money received by the Remarketing Agent or the Trustee from the sale of a Bond under Section 3.08 or for the purchase of a Bond will be held segregated from other funds of the Remarketing Agent or the Trustee in trust for the benefit of the person from whom such Bond was purchased or the person delivering such purchase money, as the case may be, and will not be invested. The Trustee shall promptly, but in no event later than 30 days of their original deposit, apply moneys received from the Company in accordance with this Indenture and as directed in writing by the Company.

Notwithstanding the provisions of the immediately preceding paragraph, any moneys which shall be set aside by the Trustee or deposited by the Trustee with the paying agents and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

ARTICLE V

BOOK-ENTRY SYSTEM

Section 5.01. Book-Entry System. The Bonds shall be initially issued in the name of Cede & Co., as nominee for The Depository Trust Company as the initial Securities Depository and registered owner of such Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository, or a custodian thereof, for the Bonds. The Beneficial Owners will not receive physical delivery of Bond certificates except as provided herein. For so long as the Securities Depository shall continue to serve as securities depository for such Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only on the records of the Securities Depository, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of such Bonds is to receive, hold or deliver any Bond certificate. The Issuer, the Company and the Trustee will recognize the Securities Depository or its nominee as the Bondholder of such Bonds for all purposes, including payment, notices and voting.

The Issuer and the Trustee covenant and agree, so long as The Depository Trust Company shall continue to serve as Securities Depository for the Bonds, to meet the requirements of The Depository Trust Company with respect to required notices and other provisions of the Letter of Representations among The Depository Trust Company, the Issuer, the Trustee, the Company and the Remarketing Agent, executed with respect to the Bonds.

The Issuer, the Trustee, the Company and the Remarketing Agent may conclusively rely upon (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry System and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of Bonds beneficially owned by, the Beneficial Owners.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or registering the transfer of the book-entry to produce the same effect. Any provision hereof permitting or requiring delivery of Bonds shall, while the Bonds are in a Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable law.

The Trustee and the Issuer, at the written direction and expense of the Company and with the consent of the Remarketing Agent, may from time to time appoint a successor Securities Depository and enter into an agreement with such successor Securities Depository to establish procedures with respect to the Bonds consistent with current industry practice. Any successor Securities Depository shall be a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934, as amended.

Neither the Issuer, the Company, the Trustee nor the Remarketing Agent will have any responsibility or obligation to any Securities Depository, any Participants in the Book-Entry

System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Participant.

Bond certificates are required to be delivered to and registered in the name of the Beneficial Owner, under the following circumstances:

(a) The Securities Depository determines to discontinue providing its service with respect to the Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days' notice to the Issuer, the Company, the Remarketing Agent and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines not to continue the Book-Entry System through a Securities Depository.

The Trustee is hereby authorized to make such changes to the form of Bond attached hereto as Exhibit A which are necessary or appropriate to reflect whether the Book-Entry System is not in effect, that a successor Securities Depository has been appointed or that an additional or co-paying agent or tender agent has been designated pursuant to Section 12.03.

If at any time, the Securities Depository ceases to hold the Bonds, all references herein to the Securities Depository shall be of no further force or effect.

ARTICLE VI

COVENANTS

Section 6.01. Payment of Bonds. The Issuer will promptly pay the principal of, premium, if any, and interest on, and other amounts due with respect to, the Bonds on the dates and in the manner provided in the Bonds, but only from the amounts assigned to and held by the Trustee under this Indenture. Neither the State, nor any political subdivision thereof (including Escambia County) shall be obligated to pay the principal of the Bonds, or the premium, if any, or interest thereon or other costs incidental thereto, the same being payable solely from the revenues and receipts hereinabove referred to.

The Bonds do not pledge the faith, credit or taxing power of the State or any political subdivision thereof, including the Issuer, but shall be limited and special obligations payable solely from the proceeds derived by the Issuer under the Agreement and the Note, and neither the Issuer nor the State, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of and premium, if any, and

interest on the Bonds or to make any other payments provided for hereunder or under the Agreement or the Note for the Bonds, or (ii) pay the same from any funds of the Issuer other than those derived by the Issuer under the Agreement or the Note, and such Bonds shall not constitute a lien upon any property owned by or situated within the territorial limits of the Issuer except the proceeds derived under the Agreement and the Note.

Section 6.02. Performance of Covenants; Issuer. Subject to the provisions of Section 6.08, Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to accept, assign and pledge the Note and the Agreement and the amounts payable under the Note and to pledge the amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part necessary for the issuance of the Bonds and the execution and delivery of this Indenture and the Agreement has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof.

Section 6.03. Recording and Filing; Further Assurances. The Issuer will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the better assuring, assigning and confirming to the Trustee the amounts assigned under this Indenture for the payment of the Bonds. The Issuer further covenants that it will not create or suffer to be created any lien, encumbrance or charge upon its interest in the Note or the Agreement, if any, except the lien of this Indenture.

Section 6.04. Tax Covenants. The Issuer covenants and agrees that it will comply with the terms and conditions on its part contained in the Tax Certificate and Agreement. The Issuer further covenants that it shall not knowingly take any action which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code and the proposed, temporary or final regulations thereunder as such may be applicable to the Bonds or the proceeds derived from the sale of the Bonds or any other moneys; provided, however, that no action taken by the Issuer pursuant to and in accordance with the terms of the Agreement or this Indenture shall give rise in any manner whatsoever to any claim against or liability of the Issuer under this Indenture; and provided further, that any such claims or liabilities shall in all events be subject to the indemnification provisions of the Agreement.

Notwithstanding any provision of this Indenture to the contrary, the Trustee shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code, or any successor statute or any regulation, ruling or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in nonpurpose obligations having a yield higher than the yield on the Bonds, and the Trustee shall not be liable or responsible for monitoring the compliance by the Issuer or the Company with any of the requirements of

Section 148 of the Code or any applicable regulation, ruling or other judicial or administrative interpretation thereof; it being acknowledged and agreed that the sole obligation of the Trustee with respect to the investment of monies held under any fund or account created hereunder shall be to invest such monies in accordance with Section 4.03 in each case pursuant to the written instructions received by the Trustee in accordance with Section 4.03.

Section 6.05. Rights Under Agreement. The Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, and reference is hereby made to the same for a detailed statement of said covenants and obligations of the Company thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement for and on behalf of the Bondholders, whether or not the Issuer is in default hereunder.

Section 6.06. Designation of Additional Paying Agents. The Issuer may cause, with the consent of the Company, the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of additional paying agents and for providing for the payment of such of the Bonds as shall be presented when due at the designated corporate trust office of the Trustee, or its successor in trust hereunder, or at the designated office of said additional paying agents. All such funds held by said additional paying agents shall be held by each of them in trust and shall constitute a part of the trust estate and shall be subject to the security interest created hereby.

Section 6.07. Existence of Issuer. The Issuer covenants that it will at all times maintain its legal existence and will duly procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve and renew all the rights, powers, privileges and franchises owned by it; and will comply with all valid acts, rules, regulations and orders of any legislative, executive, judicial or administrative body applicable to the Project.

Section 6.08. Immunities and Limitations of Responsibility of Issuer.

Notwithstanding any other provision of this Indenture or the Agreement:

(a) (i) the Issuer shall have no obligation to take action under this Indenture, the Bonds, the Agreement or such other instruments or documents, unless the Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances reasonably satisfactory to it of payment of or reimbursement for any expenses (including attorneys' fees) in such action, and (ii) any judgment rendered against the Issuer for breach of its obligations hereunder or under the Bonds, the Agreement or such instruments or documents, shall be payable solely from the revenues derived by the Issuer hereunder or under the Agreement or the Note, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom.

(b) The Issuer shall not be required to incur any expense with respect to the Project or the Bonds unless requested to do so by the Company, in which event the Company hereby agrees

to reimburse the full amount of such expense to the Issuer, and the Issuer may require payment to it of such amount as a prerequisite to its incurring any such expense.

(c) The Issuer may rely conclusively on any communication or other document furnished to it hereunder and reasonably believed by it to be genuine. The Issuer shall not be liable for any action (a) taken by it in good faith and reasonably believed by it to be within its discretion or powers hereunder, or (b) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers hereunder, or (c) taken by it pursuant to any direction or instruction by which it is governed hereunder, or (d) omitted to be taken by it by reason of the lack of any direction or instruction required hereby for such action; nor shall it be responsible for the consequences of any error of judgment reasonably made by it. The Issuer shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any person, except its own officers and employees and agents. When any consent or other action by it is called for hereby, it may defer such action pending receipt of such evidence (if any) as it may reasonably require in support thereof. No permissive right or power to act which the Issuer may have shall be construed as a requirement to act; and no delay in the exercise of a right or power shall affect its subsequent exercise of the right or power.

(d) No recourse shall be had for the payment of the principal of, or premium, if any, purchase price or interest on, any of the Bonds or for any claim based thereon or upon any obligation, provision, covenant or agreement contained in this Indenture or any other document to which the Issuer is a party, against any past, present or future officer, official, employee or agent of the Issuer, or any officer, official, employee or agent of any successor to the Issuer, as such, either directly or through the Issuer or any successor to the Issuer, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officer, official, employee or agent as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of any of the Bonds. Neither the officers of the Issuer nor any Person executing the Bonds shall be personally liable on the Bonds by reason of the issuance thereof.

(e) No failure of the Issuer to comply with any term, condition, covenant or agreement herein shall subject the Issuer, its incorporators, members, directors, officers, employees, agents and counsel to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the Agreement or revenues therefrom that have been pledged to payment of the Bonds or proceeds of the Bonds. Nothing herein shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein; provided, that no costs, expenses or other monetary relief shall be recoverable from the Issuer or its members, trustees, officers, directors, employees, agents and counsel, except as may be payable from the Agreement or revenues therefrom that have been pledged to payment of the Bonds or the proceeds of the Bonds.

(f) The Issuer shall be entitled to advice of counsel concerning all matters under this Indenture and its duties under this Indenture and the transactions contemplated hereby. The Issuer may in all cases pay such reasonable compensation to such attorneys, agents and receivers and

shall be entitled to reimbursement from the Company for all such compensation paid. The Issuer may act upon the opinion or advice of counsel, accountants or such other professionals as the Issuer deems necessary and selected by it in the exercise of reasonable care. The Issuer shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

Section 6.09. Issuer Protected.

(a) The Issuer shall not be responsible for insuring the Project or collecting any insurance moneys, or for validity of the execution by any other party of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(b) Any action taken by the Issuer pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefor or in place thereof.

(c) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Issuer shall be entitled to rely upon a certificate signed by the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Issuer has been notified as provided in Section 9.01(f), or of which by said subsection it is deemed to have notice, the Issuer shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same.

ARTICLE VII

DISCHARGE OF INDENTURE

Section 7.01. Bonds Deemed Paid; Discharge of Indenture. Any Bond will be deemed paid for all purposes of this Indenture when (a) payment of the principal of and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate, and which, when Bonds bear interest at a Long-Term Interest Rate, shall be calculated at such Long-Term Interest Rate), on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further reinvestment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable costs and expenses of the Trustee (including reasonable attorney's fees, costs and expenses) pertaining to

each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of this Indenture or be an obligation of the Issuer, and shall be payable solely from the moneys or Government Obligations under (a)(2) above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in Article II.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) of the first paragraph of this Section 7.01, the purchase price of tendered Bonds shall be paid from the sale of Bonds under Section 3.08. If payment of such purchase price is not made from the sale of Bonds pursuant to Section 3.08, payment shall be made from funds (or Government Obligations) on deposit pursuant to this Section without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and canceled.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee a Favorable Opinion of Tax Counsel to the effect that (a) the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Code and (b) all of the conditions precedent to the defeasance of the Bonds have been complied with, and (2) (a) notice of redemption of the Bond is given in accordance with Article III or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with Article III, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity date of the Bond.

When all outstanding Bonds are deemed paid under the foregoing provisions of this Section, the Trustee will upon written request of the Issuer acknowledge the discharge of the lien of this Indenture; provided, however, that the obligations relating to the tender for purchase as provided in the Bonds, the obligations under Section 6.04 and the obligations under Article II in respect of the registration of transfer, exchange, registration, discharge from registration and replacement of Bonds shall survive the discharge of the lien of this Indenture.

Section 7.02. Application of Trust Money. The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to the preceding Section and shall apply the deposited money and the money from the Government Obligations in accordance with this Indenture only to the payment of principal of, premium, if any, and interest on the Bonds and to the payment of the purchase price of tendered Bonds.

Section 7.03. Repayment to Company. The Trustee shall promptly pay to the Company upon request any excess money or securities held by the Trustee at any time under this Article and any money held by the Trustee under any provision of this Indenture for the payment of principal or interest or for the purchase of Bonds that remains unclaimed for six years.

ARTICLE VIII

DEFAULTS AND REMEDIES

Section 8.01. Events of Default. An "Event of Default" is any of the following:

(a) Default in the payment of any interest on any Bond when due and as the same shall become due and payable, which default continues for five days;

(b) Default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption or by declaration or otherwise;

(c) Default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; or

(d) An event of default has occurred and is continuing under the Agreement.

Section 8.02. Acceleration. Upon the occurrence of an Event of Default, the Trustee may, and upon receipt of the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable; and such principal and interest shall thereupon become and be immediately due and payable.

If after the principal of the Bonds and the accrued interest thereon have been so declared to be due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable otherwise than by acceleration and all other sums payable under this Indenture, under the Agreement or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the Issuer, and the Issuer also performs all other things in respect of which it may have been in default hereunder and pays the reasonable fees, charges, costs and expenses of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee's reasonable attorneys' fees, costs and expenses, then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of Bonds issued hereunder; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. The Trustee shall forward a copy of any such annulment notice pursuant to this paragraph to the Issuer and the Company.

Section 8.03. Other Remedies. If an Event of Default occurs and is continuing, subject to Section 8.06, the Trustee, before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable, may, and upon receipt of the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, pursue any available remedy, including appointment of a receiver, by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Note, this Indenture or the Agreement.

The Trustee, as the assignee of all the right, title and interest of the Issuer in and to the Agreement and the Note, may enforce each and every right granted to the Issuer under the Agreement and the Note. In exercising such rights and the rights given the Trustee under this Article VIII, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 9.01(a), would best serve the interests of the Bondholders.

Section 8.04. Legal Proceeding by Trustee. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon receipt of the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the Issuer and the Company, and receipt of indemnity to its satisfaction shall, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Issuer to enforce any rights under the Agreement and the Note and to require the Issuer to carry out any other provisions of this Indenture for the benefit of the Bondholder and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of this Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 8.05. Appointment of Receivers. Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

Section 8.06. Waiver of Past Defaults. The holders of a majority in principal amount of the Bonds then outstanding by written notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it.

Section 8.07. Control by Majority. The holders of a majority in principal amount of the Bonds then outstanding may, in writing, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee, upon advice of counsel, may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 9.01, that the Trustee determines is unduly prejudicial to the rights of other Bondholders, or would involve the Trustee in personal liability.

Section 8.08. Limitation on Suits. A Bondholder may not pursue any remedy with respect to this Indenture or the Bonds unless (a) the holder gives the Trustee written notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such holder or holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability, cost or expense (including reasonable attorney's fees, costs and expenses) and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the holders of all Bonds then outstanding. Nothing in this Indenture contained shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of and premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner in the Bonds expressed.

A Bondholder may not use this Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Section 8.09. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any holder to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the holder.

Section 8.10. Collection Suit by Trustee. If an Event of Default under Section 8.01(a), (b) or (c) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount remaining unpaid.

Section 8.11. Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Bondholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the holders in any election of a trustee in bankruptcy or other person performing similar functions. In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Section 8.12. Priorities. All monies received by the Trustee pursuant to any right given or action taken under the provisions of this Article VIII shall be deposited in the Bond Fund and all monies (except monies held in separate accounts by the Trustee pursuant to Section 4.15 in the Bond Fund) shall be applied as follows:

FIRST: To the Trustee for amounts to which it is entitled under Section 9.02.

SECOND: To Bondholders for amounts due and unpaid on the Bonds for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal and interest, respectively.

THIRD: To the Company.

The Trustee may fix a payment date for any payment to the Bondholders.

Section 8.13. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs and expenses, including reasonable attorneys' fees, costs and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a holder pursuant to

Section 8.07 or a suit by holders of more than 10% in principal amount of the Bonds then outstanding.

ARTICLE IX

TRUSTEE AND REMARKETING AGENT

Section 9.01. Acceptance of the Trusts. The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform such trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of any Event of Default and after the curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under the circumstances in the enforcement of a corporate indenture.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees selected by it with reasonable care and the Trustee shall not be responsible for the conduct of such attorneys, agents, receivers or employees, if selected with reasonable care, and shall be entitled to advice of counsel concerning all matters relating to the trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Issuer or the Company), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the certificate of the Trustee endorsed on the Bonds), or for the recording or re-recording, filing or re-filing of this Indenture, or any other instrument required by this Indenture to secure the Bonds, or for insuring the Project or collecting any insurance moneys, or for validity of the execution by the Issuer of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(d) The Trustee shall not be accountable for the use or application of any Bonds authenticated or delivered hereunder or the proceeds thereof. The Trustee may become the owner of Bonds secured hereby with the same rights which it would have if not the Trustee. To the extent permitted by law, the Trustee may also receive tenders and

purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

(e) The Trustee may conclusively rely upon and shall be fully protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon all future owners of the same Bond and upon owners of Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to conclusively rely upon a certificate signed by the Issuer or the Company as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified as provided in subsection (h) of this Section 9.01, or of which by said subsection it is deemed to have notice, the Trustee shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Clerk or Deputy Clerk of the Issuer under the Issuer's seal to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and it shall not be answerable for other than its negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV, unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer or by the holders of at least 25% in aggregate principal amount of Bonds then outstanding; and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no default except as aforesaid.

(i) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right fully to inspect any and all parts of the Project, including all books, papers and records of the Issuer pertaining to the Project and the Bonds and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee, which the Trustee in its discretion may deem desirable for the purpose of establishing the right of the Issuer to the authentication of any Bonds, the withdrawal of any cash or the taking of any other action by the Trustee.

(l) Before taking any action referred to in Section 8.02, 8.03, 8.04, 8.05, 8.08, 8.09 or 9.04, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all costs and expenses (including reasonable attorney's fees, costs and expenses) to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default by reason of any action so taken.

(m) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be mutually agreed upon.

(n) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(o) Notwithstanding the effective date of this Indenture or anything to the contrary in this Indenture, the Trustee shall have no liability or responsibility for any act or event relating to this Indenture which occurs prior to the date the Trustee formally executes this Indenture and commences acting as Trustee hereunder.

(p) The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, except for any information provided by the Trustee, and shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

(q) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligation under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; hurricanes or other storms; wars; terrorism; similar

military disturbances; sabotage; epidemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Trustee shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

(r) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture and/or the Agreement sent by the Issuer or the Company, as the case may be, by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Issuer and the Company, respectively, shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such instructions, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Issuer or the Company, as applicable, elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer and the Company, as applicable, agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 9.02. Fees, Charges and Expenses of Trustee. The Trustee shall be entitled to payment and reimbursement for reasonable fees, costs and expenses for its services rendered hereunder and all advances, counsel fees, costs and expenses and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon an Event of Default, but only upon an Event of Default, the Trustee shall have a first lien, with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges, costs and expenses incurred by it.

Section 9.03. Notice to Bondholders if an Event of Default Occurs. If an Event of Default occurs of which the Trustee is by Section 9.01(h) required to take notice or if notice of an Event of Default be given as in Section 9.01(h) provided, then the Trustee shall promptly give written notice thereof by registered or certified mail to each owner of Bonds then outstanding.

Section 9.04. Intervention by Trustee. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the owners of the Bonds, the Trustee may intervene on behalf of the Bondholders and shall do so if requested in writing by the owners of at least 25% of the aggregate principal amount of Bonds then outstanding. The rights and obligations of the Trustee under this Section 9.04 are subject to the approval of a court of competent jurisdiction.

Section 9.05. Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee hereunder and vested with all of the title to the trust estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 9.06. Resignation by Trustee. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving thirty days' written notice to the Issuer and the Company, served personally or sent by registered or certified mail, and to each owner of Bonds then outstanding, sent by registered or certified mail, and such resignation shall take effect at the end of such thirty days, or upon the earlier appointment of a successor Trustee pursuant to Section 9.08.

Section 9.07. Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to (a) the Trustee, the Issuer and the Company, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding, or (b) the Trustee and the owners of the Bonds then outstanding, and signed by the Issuer and the Company.

Section 9.08. Appointment of Successor Trustee. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor shall be appointed by the Issuer at the direction of the Company. The Issuer shall cause notice of such appointment to be given in the same manner as the giving of notices of redemption as set forth in Section 3.04. If the Issuer fails to make such appointment promptly, a successor may be appointed by the owners of a majority in aggregate principal amount of Bonds then outstanding. Every such successor Trustee appointed pursuant to the provisions of this Section 9.08 shall be a trust company or bank in good standing having a reported capital, surplus and undivided profits of not less than $25,000,000, if there be such an institution willing, qualified and able to accept the trusts upon reasonable and customary terms.

Section 9.09. Concerning Any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all of the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder, and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from

the Issuer be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article IX, shall be filed and/or recorded by the successor Trustee in each recording office where this Indenture shall have been filed and/or recorded and the successor Trustee shall bear the cost thereof.

Section 9.10. Successor Trustee as Bond Registrar, Custodian of Bond Fund and Construction Fund and Paying Agent. In the event of a change of Trustee, the Trustee which has resigned or been removed shall cease to be bond registrar, custodian of the Bond Fund and the Construction Fund and a paying agent for principal of and premium, if any, and interest on the Bonds, and the successor Trustee shall become such bond registrar, custodian and a paying agent.

Section 9.11. Trustee and Issuer Required to Accept Directions and Actions of Company. Whenever, after a reasonable request by the Company, the Issuer shall fail, refuse or neglect to give any direction to the Trustee or to require the Trustee to take any action which the Issuer is required to have the Trustee take pursuant to the provisions of the Agreement or this Indenture, the Company as agent of the Issuer may give any such direction to the Trustee or require the Trustee to take any such action, and the Trustee is hereby irrevocably empowered and directed to accept such direction from the Company as sufficient for all purposes of this Indenture. The Company shall have the right as agent of the Issuer to cause the Trustee to comply with any of the Trustee's obligations under this Indenture to the same extent that the Issuer is empowered so to do.

Certain actions or failures to act by the Issuer under this Indenture may create or result in an Event of Default under this Indenture and the Company, as agent of the Issuer, may to the extent permitted by law, perform any and all acts or take such action as may be necessary for and on behalf of the Issuer to prevent or correct said Event of Default and the Trustee shall take or accept such performance by the Company as performance by the Issuer in such event.

The Issuer hereby makes, constitutes and appoints the Company irrevocably as its agent to give all directions, do all things and perform all acts provided, and to the extent so provided, by this Section 9.11.

Section 9.12. No Transfer of Note Held by the Trustee; Exception. Except as required to effect an assignment to a successor Trustee, the Trustee shall not sell, assign or transfer the Note and the Trustee is authorized to enter into an agreement with the Company to such effect.

Section 9.13. Filing of Certain Continuation Statements. Notwithstanding anything to the contrary contained herein, the Trustee shall not be responsible for any initial filings of any financing statements or the information contained therein (including the exhibits thereto), the perfection of any such security interests, or the accuracy or sufficiency of any description of

collateral in such initial filings or for filing any modifications or amendments to the initial filings required by any amendments to Article 9 of the Uniform Commercial Code. In addition, unless the Trustee shall have been notified in writing by the Issuer that any such initial filing or description of collateral was or has become defective, the Trustee shall be fully protected in (i) conclusively relying on such initial filing and descriptions in filing any financing or continuation statements or modifications thereto and (ii) filing any continuation statements in the same filing offices as the initial filings were made. The Trustee shall cause to be filed a continuation statement with respect to each Uniform Commercial Code financing statement relating to the Bonds which was filed at the time of the issuance thereof, in such manner and in such places as the initial filings were made, provided that a copy of the filed original financing statement is timely delivered to the Trustee. The Company shall be responsible for the reasonable costs and expenses incurred by the Trustee in the preparation and filing of all continuation statements hereunder, including reasonable attorney's fees, costs and expenses. The Issuer shall sign and deliver to the Trustee or its designee such continuation statements as may be requested of it from time to time by the Trustee. Upon the filing of any such continuation statements the Trustee shall immediately notify the Issuer and the Company that the same has been accomplished.

Section 9.14 Duties of Remarketing Agent. Except as otherwise described herein, the Remarketing Agent will set the interest rates on the Bonds and perform the other duties provided for in Section 2.02 and will remarket the Bonds as provided in Section 3.08, subject to any provisions of a remarketing agreement or similar agreement between the Company and the Remarketing Agent. The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondholder may do to the same extent as if the Remarketing Agent were not serving as such.

Section 9.15 Eligibility of Remarketing Agent. Unless a notice of redemption with respect to the Bonds has theretofore been issued by the Trustee pursuant to Section 3.04, upon any change in the Determination Method, the Company shall appoint a Remarketing Agent in sufficient time for such Remarketing Agent to establish the interest rate for such succeeding Interest Rate Period. The Company will give prompt notice of such appointment to the Issuer and the Trustee. The initial Remarketing Agent appointed under this Indenture is Goldman, Sachs & Co. Any successor Remarketing Agent will be a bank, trust company or member of the Financial Industry Regulatory Authority, Inc. ("FINRA") organized and doing business under the laws of the United States or any state or the District of Columbia, will have a combined capital stock, surplus and undivided profits of at least $15,000,000 as shown in its most recent published annual report, will be a Participant in the Securities Depository and will be authorized by law to perform all the duties imposed upon it by this Indenture. Any Remarketing Agent shall be rated at least Baa3/P-3 or otherwise qualified by Moody's Investors Service, Inc. or have an equivalent rating of another rating agency.

Section 9.16 Replacement of Remarketing Agent. The Remarketing Agent may resign by notifying the Issuer, the Trustee and the Company in writing. Such resignation will take effect on the day a successor Remarketing Agent appointed in accordance with this Section 9.16 has accepted the appointment or, if no successor has so accepted, 30 days after notice of resignation has been sent. The Company may remove the Remarketing Agent at any time by an

instrument signed by the Company and filed with the Remarketing Agent, the Issuer and the Trustee at least 30 days prior to the effective date of such removal (which will not in any event occur prior to the appointment of a successor Remarketing Agent). A new Remarketing Agent may be appointed by the Company upon the resignation or removal of the Remarketing Agent. The Trustee shall promptly notify the Bondholders of any change in the Remarketing Agent.

Section 9.17. Compensation of Remarketing Agent. The Remarketing Agent will not be entitled to any compensation from the Issuer or the Trustee or to any property held under this Indenture but must make separate arrangements with the Company for compensation.

Section 9.18. Successor Trustee or Remarketing Agent. If the Trustee or the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee or Remarketing Agent, provided that such successor shall be eligible under the applicable provisions in this Article.

ARTICLE X

AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE

Section 10.01. Without Consent of Bondholders. The Issuer and the Trustee may amend or supplement this Indenture or the Bonds without notice to or consent of any Bondholder:

(a) to cure any ambiguity, inconsistency, formal defect or omission;

(b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority;

(c) to subject to this Indenture additional collateral or to add other agreements of the Issuer;

(d) to modify this Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(f) to increase or decrease the number of days specified for the giving of notices in Section 3.07 and to make corresponding changes to the period for notice of redemption of the Bonds; provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Daily Rate or a Weekly Rate and until 30 days after the Trustee has given notice to the owners of the Bonds;

(g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds;

(h) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-trustee;

(i) to make any change (including a change in Section 4.01 to reflect any amendment to the Code or interpretations by the Internal Revenue Service of the Code) that does not materially adversely affect the rights of any Bondholder; or

(j) to make any other changes to this Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

Section 10.02. With Consent of Bondholders. If an amendment of or supplement to this Indenture or the Bonds without any consent of Bondholders is not permitted by the preceding Section, the Issuer and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the holders' rights to tender the Bonds, or any mandatory redemption of the Bonds, extend the due date for the purchase of Bonds tendered by the holders thereof or call for mandatory redemption or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of this Indenture on the property described in the Granting Clause of this Indenture or (h) deprive any Bondholder of the lien created by this Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to Article VII for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of that Article shall be made without the consent of the holder of each of those Bonds affected.

Section 10.03. Effect of Consents. Any consent received pursuant to Section 10.02 will bind each Bondholder delivering such consent and each subsequent holder of a Bond or portion of a Bond evidencing the same debt as the consenting holder's Bond.

Section 10.04. Notation on or Exchange of Bonds. If an amendment or supplement changes the terms of a Bond, the Trustee may require the holder to deliver it to the Trustee. The

Trustee may place an appropriate notation on the Bond about the changed terms and return it to the holder. Alternatively, if the Trustee, the Issuer and the Company determine, the Issuer in exchange for the Bond will issue and the Trustee will authenticate a new Bond that reflects the changed terms.

Section 10.05. Signing by Trustee of Amendments and Supplements. The Trustee will sign any amendment or supplement to this Indenture or the Bonds authorized by this Article if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee will be entitled to receive and (subject to Section 9.01) will be fully protected in relying on an Opinion of Counsel stating that such amendment or supplement is authorized by this Indenture.

Section 10.06. Company Consent Required. An amendment or supplement to this Indenture or the Bonds shall not become effective unless the Company delivers to the Trustee its written consent to the amendment or supplement.

Section 10.07. Notice to Bondholders. The Trustee shall cause notice of the execution of each supplement or amendment to this Indenture or the Agreement to be mailed to the Bondholders. The notice will, at the option of the Company, either (i) briefly state (in a summary prepared by the Company) the nature of the amendment or supplement and that copies of it are on file with the Trustee for inspection by Bondholders or (ii) enclose a copy of such amendment or supplement.

ARTICLE XI

AMENDMENTS OF AND SUPPLEMENTS TO THE AGREEMENT

Section 11.01. Without Consent of Bondholders. The Issuer may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note, or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder, if the amendment, supplement or waiver is required or permitted (a) by the provisions of the Agreement or this Indenture, (b) to cure any ambiguity, inconsistency, formal defect or omission, (c) to identify more precisely the Project, (d) in connection with any authorized amendment of or supplement to this Indenture or (e) to make any change that in the judgment of the Trustee, with the advice of counsel, does not materially adversely affect the rights of any Bondholder.

Section 11.02. With Consent of Bondholders. If an amendment of or supplement to the Agreement or the Note without any consent of Bondholders is not permitted by Section 11.01, the Issuer may enter into, and/or the Trustee may consent to (as the case may be), such amendment or supplement, or may waive compliance by the Company of any provision of the Agreement, without notice to any Bondholder but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the

consent of each Bondholder affected thereby, no amendment, supplement or waiver may result in anything described in the lettered clauses of Section 10.02.

Section 11.03. Consents by Trustee to Amendments or Supplements. The Trustee will consent to any amendment or supplement to the Agreement or the Note authorized by this Article XI if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing a consent to an amendment or supplement, the Trustee shall be entitled to receive and (subject to Section 9.01) shall be fully protected in relying on a Favorable Opinion of Tax Counsel.

ARTICLE XII

MISCELLANEOUS

Section 12.01. Notices. (a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Indenture or the Bonds must be in writing except as expressly provided otherwise in this Indenture or the Bonds.

(b) Any notice or other communication shall be sufficiently given and deemed given when delivered by hand or mailed by first-class mail, postage prepaid, addressed as follows: if to the Issuer, to the Chairman of the Board of County Commissioners, 223 Palafox Place, Pensacola, Florida 32597; if to the Trustee, to The Bank of New York Mellon Trust Company, N.A., 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338, Attention: Corporate Trust Department; if to the Company at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer, with copies to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, N.W., Atlanta, Georgia 30308, Attention: Corporate Finance Department; and if to the Remarketing Agent, to the address specified at the time of acceptance of its duties. Any addressee may designate additional or different addresses for purposes of this Section.

Section 12.02. Bondholders' Consent. Any consent or other instrument required by this Indenture to be signed by Bondholders may be in any number of concurrent documents and may be signed by a Bondholder or by the holder's agent appointed in writing. Proof of the execution of such instrument or of the instrument appointing an agent and of the ownership of Bonds, if made in the following manner, shall be conclusive for any purposes of this Indenture with regard to any action taken by the Trustee under the instrument:

(a) The fact and date of a Person's signing an instrument may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the Person signing the writing acknowledged before the officer the execution of the writing, or by an affidavit of any witness to the signing.

(b) The fact of ownership of Bonds, the amount or amounts, numbers and other identification of such Bonds and the date of holding shall be proved by the registration books kept pursuant to this Indenture.

In determining whether the holders of the required principal amount of Bonds outstanding have taken any action under this Indenture, Bonds owned by the Company or any person controlling, controlled by or under common control with the Company shall be disregarded and deemed not to be outstanding unless all of the Bonds are so owned. In determining whether the Trustee shall be protected in relying on any such action, only Bonds which a Responsible Officer of the Trustee actually knows to be so owned shall be disregarded unless all Bonds are owned (or deemed owned) by the Company, in which case such Bonds shall be considered outstanding for purposes of the determination.

Any consent or other instrument shall be irrevocable and shall bind any subsequent owner of such Bond or any Bond delivered in substitution therefor.

Section 12.03. Appointment of Separate Paying Agent and/or Tender Agent. If, at any time, the Securities Depository ceases to hold the Bonds, with the effect that the Bonds are no longer subject to the Book-Entry System, then the Issuer and the Trustee, acting at the written request of the Company, may appoint one or more banks or trust companies to act as paying agent and/or tender agent for the Bonds hereunder. Any such paying agent or tender agent shall be a bank or trust company organized under the laws of the United States of America or any state thereof, shall have a reported capital and surplus of at least $100,000,000 and a corporate trust office located in New York, New York at which Bonds may be presented for payment or purchase and shall perform such duties and responsibilities as may be delegated to it hereunder. If such a paying agent or tender agent is appointed, then all references herein to the "Trustee" shall include such paying agent or tender agent to the extent of the duties performed by such entity.

Section 12.04. Limitation of Rights. Nothing expressed or implied in this Indenture or the Bonds shall give any person other than the Trustee, the Issuer, the Company, the Remarketing Agent and the Bondholders any right, remedy or claim under or with respect to this Indenture.

Section 12.05. Severability. If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

Section 12.06. Payments Due on Non-Business Days. If a payment date is not a Business Day at the place of payment, then payment may be made at that place on the next Business Day, and no interest shall accrue for the intervening period.

Section 12.07. Governing Law. This Indenture shall be governed exclusively by and construed in accordance with the applicable laws of the State without regard to conflict of law principles.

Section 12.08. Captions. The captions in this Indenture are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Indenture.

Section 12.09. Counterparts. This Indenture may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

IN WITNESS WHEREOF, Escambia County, Florida has caused these presents to be signed in its name and behalf by the Chairman or Vice Chairman of its Board of County Commissioners, and its official seal to be hereunto affixed and attested by its Clerk or Deputy Clerk, and to evidence its acceptance of the trusts hereby created The Bank of New York Mellon Trust Company, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

ESCAMBIA COUNTY, FLORIDA

[SEAL]

By: _____
Marie Young, Chairman of the Escambia County Board of County Commissioners

Attest:

Ernie Lee Magaha
Clerk of the Circuit Court and Comptroller

By: _____
Deputy Clerk

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

[SEAL]

By: _____

Title: _____

By: _____

Title: _____

IN WITNESS WHEREOF, Escambia County, Florida has caused these presents to be signed in its name and behalf by the Chairman or Vice Chairman of its Board of County Commissioners, and its official seal to be hereunto affixed and attested by its Clerk or Deputy Clerk, and to evidence its acceptance of the trusts hereby created The Bank of New York Mellon Trust Company, N.A., as Trustee, has caused these presents to be signed in its name and behalf and its official seal to be hereunto affixed and attested by its duly authorized officers, all as of the day and year first above written.

ESCAMBIA COUNTY, FLORIDA

[SEAL]

By: _____
Marie Young, Chairman of the Escambia
County Board of County Commissioners

Attest:

Ernie Lee Magaha
Clerk of the Circuit Court and Comptroller

By: _____
Deputy Clerk

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee

[SEAL]

By: _____

Title: VICE PRESIDENT

By: _____

Title: VICE PRESIDENT

EXHIBIT A
Form of Bond

UNITED STATES OF AMERICA

STATE OF FLORIDA

No. _____ $65,400,000

ESCAMBIA COUNTY, FLORIDA
SOLID WASTE DISPOSAL REVENUE BOND
(GULF POWER COMPANY PROJECT),
SECOND SERIES 2009

MATURITY DATE	DATED DATE	CUSIP
April 1, 2039	March 31, 2009	296163 BB3

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: $65,400,000

Escambia County, Florida (the "*Issuer*"), a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, and a political subdivision of the State of Florida, for value received, hereby promises to pay, solely from the sources described in this Bond, to the Registered Owner identified above, or registered assigns, on the Maturity Date stated above (or if this Bond is called for earlier redemption as described herein, on the redemption date) the principal amount identified above and to pay interest as provided in this Bond.

1. *Indenture; Agreement.* This Bond is one of the bonds (the "*Bonds*"), limited to $65,400,000 in principal amount, issued under the Trust Indenture dated as of March 1, 2009 (the "*Indenture*") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "*Trustee*"). The terms of the Bonds include those in the Indenture and those contained herein. Bondholders are referred to the Indenture for a statement of certain of those terms. When used with reference to the Bonds, the term "principal" includes any premium payable on those Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

The Issuer has entered into a Loan Agreement dated as of March 1, 2009 (the "*Agreement*") with Gulf Power Company, a Florida corporation (the "*Company*"). Under the Agreement, the Issuer has loaned the proceeds of the Bonds to the Company (the "*Loan*"). In order to evidence the Loan and the Company's obligation to repay the same, the Company has

executed and delivered its non-negotiable promissory note (the "*Note*"). The Note provides for the repayment by the Company of the Loan, including interest thereon, in installments sufficient to pay (i) the principal of and premium, if any, and interest on the Bonds as the same shall become due and payable, (ii) the purchase price of certain tendered Bonds as required under the Indenture and (iii) the cost of operating, maintaining and repairing the Project (as hereinafter defined). The Note provides that the payments thereunder shall be paid directly to the Trustee as assignee of the Issuer. The Issuer has assigned its rights to such payments under the Agreement and the Note to the Trustee as security for the Bonds. The proceeds of the Bonds will be used to finance or refinance certain solid waste disposal facilities (the "*Project*") located at the Company's James F. Crist Generating Plant (the "*Plant*") in Escambia County, Florida.

The Indenture, the Agreement and the Note may be amended or supplemented as provided by their terms, and references to them include any amendments or supplements.

The Issuer has established a book-entry only system of registration for the Bonds (the "*Book-Entry System*"). Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner (if any) of this Bond shall be deemed to have agreed to this arrangement. If the Securities Depository (or its nominee) is the registered owner of this Bond, it shall be treated as the owner of it for all purposes.

2. *Source of Payments.* The principal of, premium, if any, and interest on, and any other amounts due with respect to, the Bonds are limited special obligations of the Issuer and, as provided in the Indenture, are payable solely and only from payments derived from the Agreement, the Note and any other moneys held by the Trustee under the Indenture for such purpose. The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Florida, particularly Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended, and pursuant to resolutions adopted by the Issuer on March 19, 2009, which resolutions authorize the execution and delivery of the Bonds, the Agreement and the Indenture. The Bonds and the interest thereon are limited special obligations of the Issuer and are payable solely from the revenues and other amounts derived from the Agreement and the Note and are secured as set forth in the Indenture. The Bonds and premium, if any, and interest thereon and other amounts due with respect to the Bonds shall not be deemed to constitute a debt or general obligation or a pledge of the faith and credit of the State of Florida or any political subdivision thereof, including the Issuer. Neither the State of Florida nor any political subdivision thereof nor the Issuer shall be obligated to pay the principal of the Bonds or premium, if any, or interest thereon or other amounts due with respect thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State of Florida or any political subdivision thereof is pledged to the payment of such amounts. Payments under the Note sufficient for the prompt payment when due of the principal of and premium, if any, and interest on the Bonds are to be paid to the Trustee by the Company for the account of the Issuer and deposited in a special trust account created by the Issuer and have been duly pledged and assigned for that purpose. In addition, substantially all other rights of the Issuer under the Agreement have also been assigned to the Trustee to secure payment of amounts due on the Bonds.

3. *Interest Rate.* Interest on this Bond will be paid at the lesser of (a) a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long-Term Interest Rate or an Index Rate as selected by the Company and as determined in accordance with the Indenture or (b) 15% per annum. Interest will initially be payable at a Daily Rate as set forth in the Indenture. The Company may change the Determination Method from time to time. A change in the Determination Method will result in mandatory tender of the Bonds (see *"Mandatory Tender for Purchase"* below). While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred, except that if interest on any Bond was then payable at a Commercial Paper Rate, the interest rate for all Bonds then bearing interest at a Commercial Paper Rate will be the highest Commercial Paper Rate then in effect for any Bond.

When interest is payable at a Daily Rate, a Weekly Rate, a Commercial Paper Rate or an Index Rate, it will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years), and when payable at a Long-Term Interest Rate, on the basis of a 360-day year of twelve 30-day months. Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred.

4. *Interest Payment and Record Dates.* Interest will accrue on the unpaid portion of the principal of this Bond from the Dated Date stated above and thereafter from the Interest Payment Date (as hereinafter defined) (or in the case of Bonds bearing interest at the Daily Rate, from the Interest Period described below) next succeeding the date of authentication hereof to which interest has been paid or duly provided for, unless the date of authentication hereof is an Interest Payment Date to which interest has been paid or duly provided for, in which case from the date of authentication hereof, or unless no interest has been paid or duly provided for on the Bonds, in which case from the Dated Date; provided, however, that if the date of authentication is between the Record Date (as hereinafter defined) for any Interest Payment Date and such Interest Payment Date, then interest will accrue from such Interest Payment Date or, if the Company shall default in payment of the interest due on such Interest Payment Date, then from the next preceding Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, then from the Dated Date. In each case, interest shall accrue to, but not including, the next Interest Payment Date.

When interest is payable at the rate in the first column below, interest accrued during the period (an *"Interest Period"*) shown in the second column will be paid on the date (an *"Interest Payment Date"*) in the third column to holders of record on the date (a *"Record Date"*) in the fourth column:

RATE	INTEREST PERIOD	INTEREST PAYMENT DATE	RECORD DATE
Daily*	Calendar month	Fifth Business Day of the next month	Last Business Day of the month
Weekly*	Calendar month	First Business Day of the next month	Last Business Day before Interest Payment Date
Commercial Paper	From 1 to 270 days as determined for each Bond pursuant to the Indenture ("*Commercial Paper Period*")	Day after the last day of Commercial Paper Period	Last Business Day before Interest Payment Date
Long-Term**	Six month period or portion thereof ending the last day of March or September	April 1 and October 1	Fifteenth of the month before the Interest Payment Date (March 15 and September 15) ***

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* If there shall be a change from a Daily Rate or a Weekly Rate on a day other than the first day of a calendar month, the then current Interest Period relating to such Daily Rate or Weekly Rate shall end on the day immediately preceding the date on which the new interest rate on the Bonds shall become effective, which date in the case of a change from a Weekly Rate shall be the Interest Payment Date for such Interest Period, for which the Record Date shall be the immediately preceding Business Day; but in the case of a change from a Daily Rate, the Interest Payment Date for such Interest Period shall be the fifth Business Day after the last day of such Interest Period, for which the Record Date shall be the last Business Day of such Interest Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

** If there shall be a change from a Long-Term Interest Rate on a day other than a regularly scheduled Interest Payment Date for a Long-Term Interest Rate Period, or if there shall be an early termination of such Long-Term Interest Rate Period and a new Long-Term Interest Rate shall be set, such Long-Term Interest Rate Period shall end on the day immediately preceding the date on which the new interest rate shall become effective, which date shall be the Interest Payment Date for such Long-Term Interest Rate Period, for which the Record Date shall be the last day of such Long-Term Interest Rate Period or, if sooner, the first day of such Long-Term Interest Rate Period. If such new interest rate shall be a Daily Rate or a Weekly Rate, the first Interest Period relating thereto shall begin on the effective date of such new interest rate and end on the last day of the then current calendar month, for which the Interest Payment Date and the Record Date shall be as prescribed in this Table.

*** If an Interest Payment Date occurs less than 15 days after the first day of a Long-Term Interest Rate Period, the first day of such Long-Term Interest Rate Period is the Record Date for such Interest Payment Date.

RATE	INTEREST PERIOD	INTEREST PAYMENT DATE	RECORD DATE
Index	Calendar month	First Business Day of the next month	Last Business Day before Interest Payment Date

"Business Day" is defined in the Indenture. The initial Interest Payment Date for the Bonds shall be May 7, 2009. Payment of defaulted interest will be made to holders of record as of the fifth-to-last Business Day before payment.

5. *Method of Payment.* Holders must surrender Bonds to the Trustee to collect principal at maturity or upon redemption. (See "*Optional Tenders*" and "*Mandatory Tender for Purchase*" below for information regarding the payment of purchase price of tendered Bonds.) Interest on Bonds bearing interest at a Commercial Paper Rate (other than Bonds in the Book-Entry System) is payable only upon presentation of such Bonds to the Trustee. Interest on Bonds bearing interest at a Daily Rate, a Weekly Rate, an Index Rate or a Long-Term Interest Rate (other than Bonds in the Book-Entry System) will be paid to the registered holder hereof as of the Record Date by check mailed by first-class mail on the Interest Payment Date to such holder's registered address. A holder of $1,000,000 or more in principal amount of Bonds may be paid interest at a Daily Rate, a Weekly Rate, an Index Rate, a Long-Term Interest Rate or a Commercial Paper Rate by wire or other electronic transfer in immediately available funds to an account in the continental United States if the holder makes a written request of the Trustee (in form satisfactory to the Trustee) at least two Business Days before the Record Date specifying the account address. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire or other electronic transfers payable in such money. If any payment on the Bonds is due on a non-Business Day, it will be made on the next Business Day, and no interest will accrue as a result. Interest and principal on the Bonds in the Book-Entry System will be paid in accordance with the procedures of the Securities Depository.

6. *Optional Tenders.* "*Tender*" means to require, or the act of requiring, the Trustee to purchase a Bond at the holder's option under the provisions of this paragraph 6 at 100% of the principal amount plus interest accrued to (but excluding) the date of purchase. During a Daily or Weekly Interest Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that Interest Period, the Trustee will pay (but only from funds available therefor as provided in the Indenture) a purchase price of principal plus interest accruing after the last day of that Interest Period. While the Bonds bear interest at a Long-Term Interest Rate, a Commercial Paper Rate or an Index Rate, the owner of a Bond does not have the option to require the Trustee to purchase its Bond.

Daily Rate Tender. When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee

(any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice in writing or by Electronic Means to the Remarketing Agent, in each case prior to 11:00 a.m., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository. Any notice received by the Trustee after 11:00 a.m., New York City time, shall be deemed to have been given on the next Business Day.

When interest on the Bonds is payable at a Daily Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

Weekly Rate Tender. When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is in effect, a Beneficial Owner (through its direct Participant in the Securities Depository) may tender his interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice to be delivered to a Responsible Officer of the Trustee) and an irrevocable notice in writing or by Electronic Means to the Remarketing Agent, in each case prior to 5:00 p.m., New York City time, on a Business Day stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the date, which must be a Business Day at least seven days after the notice is delivered, on which the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository.

When interest on the Bonds is payable at a Weekly Rate and a Book-Entry System is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering the notices as described above (which shall include the certificate number of the Bond), and shall also deliver the Bond to the Trustee by 1:00 p.m., New York City time, on the date of purchase (see additional requirements below).

Payment of Purchase Price. The purchase price for a tendered Bond will be paid in immediately available funds to the registered owner of the Bond by the close of business on the date of purchase. No purchase of Bonds by the Trustee shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

7. *Mandatory Tender for Purchase.* As provided below, the Bonds are subject to mandatory tender for purchase under certain circumstances. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, UNDER THE CONDITIONS DESCRIBED BELOW. All purchases will be made

in funds immediately available on the purchase date and will be at a purchase price of 100% of the principal amount of the Bonds being purchased (unless a premium is required as otherwise specified) plus interest accrued to (but excluding) the purchase date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the purchase date. Bonds tendered for purchase on a date after a call for redemption but before the redemption date will be purchased pursuant to the tender. No purchase of Bonds shall be deemed to be a payment or redemption of the Bonds or of any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

Mandatory Tender at Beginning of a New Long-Term Interest Rate Period. When the Bonds bear interest at a Long-Term Interest Rate and a new Long-Term Interest Rate is to be determined, the Bonds will be subject to mandatory tender for purchase on the effective date of the new Long-Term Interest Rate. In the case of a change prior to the day originally established as the day after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under *"Optional Redemption During Long-Term Interest Rate Period"* below.

Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode. When Bonds bear interest at a Commercial Paper Rate, each Bond must be tendered for purchase on the Interest Payment Date for such Bond.

Mandatory Tender Upon a Change in the Determination Method. Except as provided in the Indenture, on the effective date of the change in the Determination Method (the methods being Daily, Weekly, Commercial Paper, Long-Term Interest or Index Rates), the Bonds will be subject to mandatory tender for purchase on the effective date of such change. Any such purchase shall be at a price equal to 100% of the principal amount of the Bonds, plus accrued interest, except that in the case of change prior to the day originally established as the date after the last day of a Long-Term Interest Rate Period, the Bonds will be purchased at the percentage of their principal amount which would be payable upon the applicable redemption described under "*Optional Redemption During Long-Term Interest Rate Period*" below.

Mandatory Tender Upon Expiration of Index Period. When a new Index Period immediately follows the expiration of a prior Index Period, the Bonds will be subject to mandatory tender for purchase on the commencement date of the new Index Period.

Notice of Tender. At least 15 days before each mandatory tender (except for tenders described under "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode*" above, for which no notice will be given and except that such notice shall be given at least 30 days prior to the effective date if a Long-Term Interest Rate Period is in effect and the effective date is on or before the end of the Long-Term Interest Rate Period), the Trustee will mail a notice of tender by first-class mail to each Bondholder at the holder's registered address. Failure to give any required notice of tender as to any particular Bonds, or any defect therein, will not affect the validity of the tender of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice. When notice of tender is required and given, and when Bonds are to be tendered without notice, Bonds tendered become due and payable on the purchase date; in such case when funds are deposited with the Trustee sufficient for purchase, interest on the Bonds to be purchased ceases to accrue as of the date of purchase.

8. *Delivery Address; Additional Delivery Requirements.* Notices in respect of tenders and Bonds tendered must be delivered to the Trustee, and notices in respect of tenders must be delivered to the Remarketing Agent, as provided in the Indenture.

All tendered Bonds must be accompanied by an instrument of transfer satisfactory to the Trustee, executed in blank by the registered owner or his duly authorized attorney, with the signature guaranteed by an eligible guarantor institution.

Limitation on Tenders. Except as provided under "*Mandatory Tender Upon a Change in the Determination Method,*" "*Mandatory Tender Upon Expiration of Index Period,*" "*Mandatory Tender at Beginning of a New Long-Term Interest Rate Period*" and "*Mandatory Tender on Each Interest Payment Date During Commercial Paper Mode,*" no Bonds may be tendered while they bear interest at a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate.

Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds. The giving of notice by the registered owner of a Bond as provided in paragraph 6 or the occurrence of a mandatory tender for purchase as described in paragraph 7 constitutes the irrevocable tender for purchase of each Bond (or portion of Bond) with respect to which such notice was given, irrespective of whether such Bond was delivered as provided in this paragraph or paragraph 6 or 7. The determination of the Trustee as to whether a notice of tender has been properly sent shall be conclusive and binding upon the Bondholders.

The Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver his Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver his Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, his Bond shall constitute an undelivered Bond as described in the Indenture and interest shall cease to accrue on his Bond as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the tender price thereof. BY ACCEPTANCE OF THIS BOND, THE OWNER AGREES TO SELL AND SURRENDER THIS BOND, PROPERLY ENDORSED, TO THE TRUSTEE AFTER THE GIVING OF IRREVOCABLE NOTICE OF TENDER FOR PURCHASE AS DESCRIBED ABOVE.

9. *Redemptions.* All redemptions will be made in funds immediately available on the redemption date and will be at a redemption price of 100% of the principal amount of the Bonds being redeemed (unless a premium is required as provided below) plus interest accrued to the redemption date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the redemption date.

Optional Redemption During Long-Term Interest Rate Period. During any Long-Term Interest Rate Period, if the Long-Term Interest Rate Period is less than or equal to five years, the Bonds will not be redeemable pursuant to this provision during the Long-Term Interest Rate Period.

If the Long-Term Interest Rate Period is greater than five years, the Bonds will not be redeemable for five years after the date on which the Bonds begin to bear interest at the Long-Term Interest Rate. After the five year no-call period, the Bonds may be redeemed at any time in whole or in part at 100% of their principal amount plus accrued interest, if any.

As an alternative to and in lieu of the foregoing redemption provisions, if, with respect to any Long-Term Interest Rate Period, a Favorable Opinion of Tax Counsel is delivered to the Trustee not later than the date of the establishment of such Long-Term Interest Rate Period, such Bonds may be redeemed during such Long-Term Interest Rate Period at the option of the Company in whole or in part at any time after a no-call period, if any, established by the Remarketing Agent, at the percentages of their principal amount, plus accrued interest, as follows: the Remarketing Agent shall, given the duration of the Long-Term Interest Rate Period, determine and inform the Trustee and the Company, on a date which is no later than the establishment of the Long-Term Interest Rate, the periods during which such Bonds shall not be subject to redemption (the "*Call Protection Period*"), the premium or premiums payable upon redemption (the "*Call Premiums*"), if any, applicable to the redemption of such Bonds after the Call Protection Period, and the period or periods during which the Call Premiums shall be effective (the "*Call Premium Periods*") necessary to establish the Long-Term Interest Rate. Such Call Protection Period, Call Premiums and Call Premium Periods shall be established in accordance with optional call redemption provisions which, in the judgment of the Remarketing Agent, are generally accepted at the time of determination as the standard features for obligations such as the Bonds, given the length of the Long-Term Interest Rate Period.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole at any time prior to maturity at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, but without premium at any time, upon receipt by the Trustee and the Issuer of a written notice from the Company stating that the Company has determined that:

(i) Any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation of either, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(ii) Changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(iii) The Project or the Plant has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

If the Issuer shall have received such notice by the Company, the Issuer, upon request of the Company, shall give written notice to the Trustee directing the Trustee to take all action necessary to redeem the outstanding Bonds in whole and on a date specified in such notice, which date shall be not less than 45 nor more than 90 days from the date the notice is received by the Trustee.

Optional Redemption During Daily or Weekly Rate Period. When interest on the Bonds is payable at a Daily or Weekly Rate, the Bonds may be redeemed in whole or in part at the option of the Company on any Business Day.

Optional Redemption During Index Rate Periods. During any Index Rate Period, the Bonds are not subject to optional redemption.

Notice of Redemption. At least 30 days before each redemption, the Trustee will mail a notice of redemption by first-class mail, postage prepaid, to each Bondholder with Bonds to be redeemed at such holder's registered address. Failure to give any required notice of redemption as to any particular Bonds, or any defect therein, will not affect the validity of the call for redemption of any Bonds in respect of which no failure or defect occurs. Any notice mailed as provided in this paragraph shall be effective when sent and will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Notice. When notice is required and given, Bonds called for redemption become due and payable on the redemption date; in such case when funds are deposited with the Trustee sufficient for redemption, interest on the Bonds to be redeemed ceases to accrue as of the date of redemption.

10. *Denominations; Transfer; Exchange.* The Bonds may be issued in registered form without coupons in denominations as follows: (1) when interest is payable at a Daily, Weekly or Commercial Paper Rate, $100,000 or any integral multiple thereof; (2) when interest is payable at a Long-Term Interest Rate, $5,000 and integral multiples thereof; and (3) when interest is payable at an Index Rate, $100,000 and integral multiples of $5,000 thereafter. A holder may register the transfer of or exchange Bonds in accordance with the Indenture. The Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee will not be required to register the transfer of or exchange any Bond which has been called for redemption or during the period beginning 15 days before the mailing of notice calling the Bonds or any portion of the Bonds for redemption and ending on the redemption date.

11. *Persons Deemed Owners.* The registered holder of this Bond shall be treated as the owner of it for all purposes.

12. *Funds in Trust; Unclaimed Funds.* All moneys which the Trustee shall have withdrawn from the account of the Company or shall have received from any other source and set aside, or deposited with the paying agents, for the purpose of paying any of the Bonds, either at the maturity thereof or upon call for redemption or tender, shall be held in trust for the respective holders of such Bonds. But any moneys which shall be so set aside or deposited by the Trustee

and which shall remain unclaimed by the holders of such Bonds for a period of six years after the date on which such Bonds shall have become due and payable shall upon request in writing be paid to the Company or to such officer, board or body as may then be entitled by law to receive the same, and thereafter the holders of such Bonds shall look only to the Company or to such officer, board or body, as the case may be, for payment and then only to the extent of the amount so received without any interest thereon, and the Trustee, the Issuer and the paying agents shall have no responsibility with respect to such moneys.

13. *Discharge Before Redemption, Tender or Maturity.* If the Company at any time deposits with the Trustee money or Government Obligations as described in the Indenture sufficient to pay at redemption, tender or maturity principal of and interest and premium, if any, on the outstanding Bonds, and if the Company also pays or provides for the payment of all other sums then payable by the Company under the Agreement or the Indenture, the lien of the Indenture will be discharged. After discharge, Bondholders must look only to the deposited money and securities for payment except as otherwise specifically provided in the Indenture.

14. *Amendment, Supplement, Waiver.* Subject to certain exceptions, the Indenture, the Agreement or the Bonds may be amended or supplemented, and any past default or compliance with any provision may be waived, with the consent of the holders of a majority in principal amount of the Bonds then outstanding. Any such consent shall be irrevocable and shall bind any subsequent owner of this Bond or any Bond delivered in substitution for this Bond. Without the consent of any Bondholder, the Issuer may amend or supplement the Indenture, the Agreement or the Bonds as described in the Indenture, among other things, to cure any ambiguity, omission, defect or inconsistency, to provide for uncertificated Bonds in addition to or in place of certificated Bonds, to provide for a Book-Entry System for the Bonds or to make any change that does not materially adversely affect the rights of any Bondholder.

15. *Defaults and Remedies.* The Indenture provides that the occurrences of certain events constitute Events of Default. If an Event of Default occurs and is continuing, the Bonds may become or may be declared immediately due and payable, as provided in the Indenture. An Event of Default and its consequences may be waived as provided in the Indenture. Bondholders may not enforce the Indenture or the Bonds except as provided in the Indenture. Except as specifically provided in the Indenture, the Trustee may refuse to enforce the Indenture or the Bonds unless it receives indemnity satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the Bonds then outstanding may direct the Trustee in its exercise of any trust or power.

16. *No Recourse Against Others.* A member, director, officer or employee, as such, of the Issuer shall not have any liability for any obligations of the Issuer or the Company under the Bonds or the Indenture or for any claim based on such obligations or their creation. Each Bondholder by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Bond.

17. *Authentication.* This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been duly executed by the Trustee.

18. *Abbreviations.* Customary abbreviations may be used in the name of a Bondholder or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A (= Uniform Gifts to Minors Act).

A copy of the Indenture may be inspected at the corporate trust office of the Trustee located at 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF Escambia County, Florida has caused this Bond to be executed in its name by the Chairman or Vice Chairman of its Board of County Commissioners by her manual or facsimile signature and attested by the manual or facsimile signature of its Clerk or Deputy Clerk and its corporate seal to be hereunto affixed or printed hereon.

ESCAMBIA COUNTY, FLORIDA

By: _____
Chairman of the Escambia County
Board of County Commissioners

Attest:

_____
Clerk of Escambia County
Board of County Commissioners

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

Date: March 31, 2009

By: _____
Authorized Signatory

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

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

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

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

_____

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

(Name and Address of Assignee)

_____

the within Bond and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Signature guaranteed:

_____

Medallion Number:_____

*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of a recognized signature guarantee program, i.e. Securities Transfer Agents Medallion Program (STAMP), or New York Stock Exchange Medallion Signature Program (MSP).

_____

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

ESCAMBIA COUNTY, FLORIDA

and

GULF POWER COMPANY

LOAN AGREEMENT

Dated as of March 1, 2009

Relating to

$65,400,000
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project),
Second Series 2009

LOAN AGREEMENT

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Exhibit A – Note

Exhibit B – Project Description

LOAN AGREEMENT, dated as of March 1, 2009, between ESCAMBIA COUNTY, FLORIDA (the "Issuer"), a "local agency" as defined in the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431 (the "Act"), and a political subdivision of the State of Florida, and GULF POWER COMPANY, a corporation organized and existing under the laws of the State of Florida (the "Company"), evidencing the agreement of the parties hereto.

In consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows (provided that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be a general debt, liability or obligation of the Issuer, or of the State of Florida or any political subdivision thereof but shall be payable solely out of the revenues and proceeds derived from this Agreement and the Note (as hereinafter defined) and the sale of the Bonds referred to herein):

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.1. Definitions. For all purposes of this Agreement, unless the context requires otherwise, words or terms defined in the preamble of this Agreement shall have the meanings specified therein, and the following terms shall have the following meanings:

"Bond Fund", "Bondholder", "Bonds", "Business Day", "Construction Fund", "corporation", "Government Obligations", "Remarketing Agent", "Person", "Tax Certificate and Agreement" and "Trustee" have the same meanings given and assigned to such words in Article I of the Indenture (as hereinafter defined).

"Agreement" means this Loan Agreement and any amendments and supplements hereto.

"Available Proceeds" means the Sale Proceeds of the Bonds plus all investment proceeds of such Sale Proceeds prior to such amounts being withdrawn from the Construction Fund for payment, or reimbursement to the Company, of Costs of Construction or costs to redeem or defease the Bonds in accordance with Section 4.11 of the Indenture.

"Completion Date" means the date the Project is placed in service by the Company.

"Cost of Construction" with respect to the Project means the following:

(a) obligations of the Company incurred for labor and materials (including reimbursements payable to the Company and payments on contracts in the name of the Company) in connection with the acquisition, construction, installation and equipping of the Project;

(b) the cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of construction of the Project;

(c) all costs of engineering services, including the costs for test borings, surveys, estimates, plans and specifications and preliminary investigation therefor, and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper construction of the Project;

(d) overheads of the Company, to the extent not included in subparagraph (c) above, allocable to the Project by the Company in accordance with the Uniform System of Accounts prescribed for Public Utilities and Licensees by the Federal Energy Regulatory Commission;

(e) Costs of Issuance;

(f) all other costs which the Company may properly pay or accrue for the acquisition, construction, installation or equipping of the Project;

(g) interest on the Bonds or on indebtedness of the Company properly allocable to the Project during the period prior to the Completion Date of the Project; and

(h) any sums required to reimburse the Company for advances made for any of the above items or for any other costs incurred or for work done which are properly chargeable or could be chargeable to the Company's capital account for the Project.

"Costs of Issuance" means all expenses incurred in connection with the issuance of the Bonds, including without limitation: initial compensation and expenses of the Trustee; legal expenses and fees of counsel to the Company, counsel to the underwriter of the Bonds, bond counsel, counsel to the Issuer and any other legal counsel employed in connection with the issuance of the Bonds; financial advisory fees; accountants' fees relating to the issuance of the Bonds; any administrative or other fees paid to the Issuer in connection with the issuance of the Bonds; costs of printing and engraving; recording and filing fees; compensation of the underwriter of the Bonds (whether in the form of a discount in connection with the sale of the Bonds or a payment to the underwriter); and rating agency fees.

"Event of Default" means any of the occurrences enumerated in Section 5.1 of this Agreement.

"Indenture" means the Trust Indenture, dated as of March 1, 2009, relating to Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009, between the Issuer and The Bank of New York Mellon Trust Company, N.A., as Trustee, pursuant to which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

"Loan" means the loan to be made by the Issuer to the Company of the proceeds (which shall be deemed to include the underwriting discounts, if any, and original issue discount, if any)

of the sale of the Bonds, exclusive of any accrued interest paid by the initial purchasers of the Bonds upon the delivery thereof.

"Note" means the non-negotiable promissory note of the Company issued pursuant to Section 3.2 hereof, in the form set forth in Exhibit A hereto.

"Plans" means the plans and specifications prepared by or on behalf of the Company for the Project, as the same may be revised from time to time by the Company in accordance with the third paragraph of Section 2.1 hereof, which are on file with the Company and accessible to the Issuer.

"Project" means the solid waste disposal facilities described in the Plans and as designed on the date hereof, described generally in Exhibit B hereto.

"Sale Proceeds" means an amount equal to the principal amount of the Bonds less any original issue discount applicable to the Bonds plus any original issue premium applicable to the Bonds.

SECTION 1.2. Rules of Construction.

(a) Unless the context otherwise requires,

(1) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles,

(2) references to Articles and Sections are to the Articles and Sections of this Agreement, and

(3) the singular form of any word, including the terms defined in Section 1.1, includes the plural, and vice versa, and a word of any gender includes all genders.

(b) The use herein of a pronoun of any gender shall include correlative words of the other genders.

(c) The words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

(d) The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Agreement.

(e) References to, or agreements or undertakings herein by, the Issuer and the Company or the Issuer or the Company shall not constitute any joint obligation of the Issuer and the Company, but, insofar as each of the Issuer or the Company is concerned, shall be deemed to be a separate, several and individual reference, undertaking or agreement of such Person.

Nothing herein shall be deemed to create any joint undertaking, agreement or liability between the Issuer, the Company or any other Person.

(f) The term "hereafter" means after, and the term "heretofore" means before, the date of execution of this Agreement.

(g) All approvals, consents and acceptances required to be given or made by any Person or party hereunder shall be at the reasonable discretion of the party whose approval, consent or acceptance is required except to the extent otherwise specified herein.

(h) For purposes hereof, the Issuer shall not be deemed to have knowledge of any fact or the occurrence of any event unless and until the Issuer has written notice thereof or actual knowledge thereof.

(i) Whenever the Issuer is named or referred to, it shall be deemed to include its successors and assigns whether so expressed or not. All of the covenants, stipulations, obligations and agreements by or on behalf of, and other provisions for the benefit of, the Issuer contained in this Agreement shall bind and inure to the benefit of such successors and assigns and shall bind and inure to the benefit of any officer, board, commission, issuer, agency or instrumentality to whom or to which there shall be transferred by or in accordance with law any right, power or duty of the Issuer, or of its successors or assigns, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements or other provisions hereof.

(j) Whenever the word "includes" or "including" is used, such word means "includes or including, without limitation."

ARTICLE II

ACQUISITION AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

SECTION 2.1. Acquisition and Completion of the Project. The Company agrees that it will cause the acquisition, construction, installation and equipping of the Project to be completed substantially in accordance with the Plans and in general do all things which may be requisite or proper therefor. The Project shall belong to and be the property of the Company.

The Company agrees to use its best efforts to cause the acquisition, construction, installation and equipping of the Project to be completed substantially in accordance with the Plans as soon as practicable, delays incident to "force majeure" (as defined in Section 5.1 hereof) only excepted.

The Issuer and the Company agree that the Company may from time to time supplement or amend the Plans (including additions thereto or omissions therefrom), provided that such supplements or amendments shall not result in the interest on the Bonds or any portion thereof becoming subject to federal income taxation under the laws then in effect.

SECTION 2.2. Issuance of the Bonds. In order to provide funds for the purpose set forth in Section 3.1 hereof, the Issuer agrees that it will issue and deliver the Bonds to the purchasers thereof and apply and deposit the Sale Proceeds in accordance with the terms of the Indenture and Section 3.1 hereof. The Indenture shall be satisfactory in form and substance to the Issuer and the Company and shall provide the manner in which, and the purposes for which, proceeds of Bonds may be used and invested.

The Issuer has authorized the Trustee to disburse moneys from the Construction Fund in accordance with Section 4.10 of the Indenture.

SECTION 2.3. Establishment of Completion Date. The Completion Date shall be evidenced to the Trustee by a certificate of the Company stating that the Project has been placed in service. The Company agrees to deliver such certificate to the Trustee as soon as practicable following the date on which the Project is placed in service, but the failure to provide such certificate or any delay therein shall not be grounds for a default under this Agreement. Such certificate may direct the Trustee to retain in the Construction Fund a specified sum of money for the payment of any Cost of Construction not then due and payable or which is in dispute.

SECTION 2.4. The Company Required to Pay in Event Construction Fund Insufficient. In the event the amounts in the Construction Fund available for payment of the Cost of Construction should not be sufficient to pay the Cost of Construction in full, the Company agrees to complete the Project substantially in accordance with the Plans and to pay that portion of the Cost of Construction in excess of the amounts available therefor in the Construction Fund. The Issuer does not make any warranty, either express or implied, that the amounts in the Construction Fund and available for payment of the Cost of Construction will be sufficient to pay all of the Cost of Construction. The Company agrees that, if after exhaustion of the amounts in the Construction Fund, it should pay any portion of the Cost of Construction pursuant to the provisions of this Section, it shall not be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

ARTICLE III

LOAN BY ISSUER; PROVISIONS FOR PAYMENT

SECTION 3.1. Loan by Issuer. The Issuer hereby agrees to make the Loan to the Company in order to finance or refinance the Cost of Construction of the Project by causing the proceeds of the sale of the Bonds to be deposited by the Trustee into the Construction Fund.

SECTION 3.2. Delivery of Note by Company; Other Amounts Payable. In order to evidence the Loan and the obligation of the Company to repay the same, the Company shall execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due with respect to the principal or purchase price of, interest and premium, if any, on the Bonds, whether at maturity, prior optional or mandatory redemption, or upon tender for purchase or otherwise. The Note shall be dated the date of the initial authentication of, and mature on the

same maturity date as, the Bonds. If (i) on the date any payments on the Bonds are due, there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payment then due under the Note, first in respect of interest and then, to the extent of remaining moneys, in respect of principal.

The Company shall pay all reasonable costs and expenses incurred in connection with the issuance of the Bonds and the execution, delivery and performance of this Agreement, the Indenture and any other documents or instruments related thereto or to the Bonds, to which the Issuer is a party or by which it is bound, including, without limitation, the reasonable fees of the Issuer's financial advisor and bond counsel. The Company will also pay: (i) the fees, charges and reasonable expenses (including reasonable attorney's fees, costs and expenses, if any) of the Trustee and any paying agents and tender agents under the Indenture, such fees, charges and reasonable expenses to be paid directly to the Trustee or paying agents for their respective accounts as and when such fees, charges and reasonable expenses become due and payable, (ii) any expenses in connection with any redemption of the Bonds and (iii) all other amounts due under the terms hereof to the Issuer. The payment obligations of the Company described in this second paragraph of Section 3.2 shall rank pari passu with the payment obligations of the Company pursuant to the first paragraph of this Section 3.2.

SECTION 3.3. Obligation of the Company Unconditional. The obligation of the Company to make payments as provided in the Note and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional notwithstanding any change in the tax or other laws of the United States of America or of the State of Florida or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Subject in all cases to Section 4.2 hereof, nothing contained in this Section 3.3 shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and, in the event the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer as the Company may deem necessary to compel performance so long as such action shall not violate the agreements on the part of the Company contained in the preceding sentence, but in no event shall the Company be entitled to any diminution of the amounts payable under the Note and as provided in Section 3.2 hereof.

SECTION 3.4. Assignment and Pledge of Payments and Rights Under the Note and this Agreement. The Issuer shall assign to the Trustee as security under the Indenture all rights, title and interests of the Issuer in and to (i) the Note and all payments thereunder, (ii) this Agreement and all moneys receivable hereunder (except for payments under Sections 4.2 and 5.3 hereof or the second paragraph of Section 3.2 hereof) and (iii) amounts held in the Bond Fund and the Construction Fund as provided in the Indenture. The Company assents to such assignment and hereby agrees that, as to the Trustee, its obligations to make such payments shall be absolute and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out

of any breach by the Issuer or the Trustee of any obligation to the Company, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Issuer or the Trustee.

ARTICLE IV

SPECIAL COVENANTS

SECTION 4.1. Use of Project. The Issuer hereby acknowledges that it shall have no rights to the use or possession of the Project. The Issuer hereby further acknowledges that the Project will not constitute any part of the security for the Bonds.

SECTION 4.2. Indemnity Against Claims.

(a) Notwithstanding anything to the contrary contained herein or in any of the Bonds, in the Indenture or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, (i) the Issuer shall have no obligation to take action under this Agreement, the Indenture, the Bonds or such other instruments or documents unless the Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances reasonably satisfactory to it of payment of or reimbursement for any expenses (including attorneys' fees) in such action and (ii) any judgment rendered against the Issuer for breach of its obligations under this Agreement, the Indenture, the Bonds or such other instruments or documents shall be payable solely from the revenues derived from the Project by the Issuer under this Agreement, the Note and the Indenture, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom. The provisions of this Section shall survive the termination of this Agreement.

(b) In acting under this Agreement, the Indenture, the Bonds or such other instruments or documents, or in refraining from taking such action, the Issuer may conclusively rely on the advice of its counsel.

(c) The Company shall pay and shall indemnify and hold harmless the Issuer, its officials, officers, employees and agents (each, an "Indemnified Party" and, together, the "Indemnified Parties") from (i) any lien or charge upon payments by the Company to the Issuer under the Note or hereunder, (ii) any taxes, assessments, impositions and other charges upon payments by the Company to the Issuer under the Note or hereunder and (iii) any and all liability, damages, costs and expenses, including the reasonable fees and expenses of counsel (the "Liabilities") arising out of or resulting from the transactions contemplated by this Agreement and the Indenture.

The Company also agrees to indemnify and hold harmless the Indemnified Parties from and against all Liabilities arising out of or resulting from (i) any statement or information provided by the Company that is contained in the Indenture, this Agreement, the Tax Certificate and Agreement or any other documents or agreements relating to the Bonds and the proceedings relating to their issuance and sale, which is misleading, untrue or incorrect in any material

respect, (ii) any proceeding concerning the validity or enforceability of the Bonds or the exemption of interest on the Bonds for federal income tax purposes, (iii) any claims, investigations, governmental or regulatory actions, proceedings or inquiries relating to the Bonds or the transactions contemplated by this Agreement, (iv) any material misstatements or omissions in information provided by the Company to the Issuer in connection with any legal proceedings or other official actions of the Issuer pertaining to the Bonds, or (v) any fraud or misrepresentations or omissions in information provided by the Company to the Issuer or the Trustee in connection with the proceedings of the Issuer relating to the issuance of the Bonds.

It is the intention of the parties hereto that the Indemnified Parties shall not incur pecuniary liability or expense (specifically including, but not limited to, expenses incurred in defending any claim, action, lawsuit or administrative or other legal proceeding) by reason of, arising out of, or relating to (i) the terms of this Agreement, (ii) by reason of, arising out of, or relating to the undertakings required of any Indemnified Party hereunder in connection with the issuance of the Bonds, the execution of the Indenture, the performance of any act required of any Indemnified Party by this Agreement or the Indenture, as applicable, or the performance of any act requested of any Indemnified Party by the Company or in any way arising from the transaction of which this Agreement or the Indenture, as applicable, is a part or arising in any manner in connection with the Project; nevertheless, if any Indemnified Party should incur any such pecuniary liability, then in such event the Company shall indemnify and hold harmless such Indemnified Party against all claims by or on behalf of any person, arising out of the same, and all costs and expenses incurred in connection with any such claim or in connection with any action or proceeding brought thereon.

Promptly after receipt by an Indemnified Party under this Section 4.2 of notice of the existence of a claim in respect of which indemnity hereunder may be sought or of the commencement of any action against the Indemnified Party in respect of which indemnity hereunder may be sought, the Indemnified Party shall notify the Company in writing of the existence of such claim or commencement of such action (provided that a failure to so notify the Company will not excuse the Company from its obligations hereunder unless such failure to promptly notify the Company shall materially prejudice the ability of the Company to defend such claim). In case any such action shall be brought against an Indemnified Party under this Section 4.2, the Indemnified Party shall notify the Company of the commencement thereof and the Company shall be entitled to participate in and to assume the defense thereof, with counsel reasonably satisfactory to the Indemnified Party, with full power to litigate, compromise or settle the same; provided that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement unless such compromise or settlement (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 the Company 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. If the Indemnified Party shall have been advised by independent counsel selected by the Indemnified Party that there may be legal defenses available to it which are adverse to or in conflict with those available to the Company or other Indemnified Parties which, in the opinion of such counsel, should be handled by separate counsel, the Company shall

be responsible for the reasonable fees and expenses of one separate legal counsel of the Indemnified Party in conducting its defense; and provided, further, that if the Company shall have failed to assume the defense of such action and shall have failed to employ counsel therefor reasonably satisfactory to the Indemnified Party within a reasonable time after notice of commencement of such action, such reasonable fees and expenses incurred by the Indemnified Party in conducting its own defense shall be borne by the Company.

The provisions contained in this Section 4.2 pertaining to indemnification of the Indemnified Parties shall be in addition to any other indemnification provided to the Indemnified Parties in any other agreement by the Company in connection with the issuance and sale of the Bonds and all matters relating thereto.

The provisions of this Section 4.2 shall survive termination of this Agreement.

(d) The Company hereby agrees to indemnify and hold harmless the Trustee and its officers, directors, agents and employees from and against any and all costs, claims, liabilities, losses or damages whatsoever (including reasonable fees, costs and expenses of counsel, auditors or other experts), asserted or arising out of or in connection with the acceptance or administration of the trusts established pursuant to the Indenture, except costs, claims, liabilities, losses or damages resulting from the negligence or willful misconduct of the Trustee including the reasonable fees, costs and expenses (including the reasonable fees, costs and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties hereunder and of enforcing this indemnification provision. The indemnifications set forth in this Section 4.2(d) shall survive the termination of this Agreement and/or the resignation or removal of the Trustee and shall inure to the benefit of the Trustee's successors and assigns.

SECTION 4.3. The Company to Maintain Its Corporate Existence; Conditions Under Which Exceptions Permitted. The Company agrees that during the term of this Agreement it will maintain its corporate existence and qualification to do business in the State of Florida, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Company may, without violating the agreements contained in this Section 4.3, consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided that, in the event the Company is not the surviving, resulting or transferee corporation, as the case may be, the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company herein and under the Note and is a Florida corporation or is qualified to do business in the State of Florida as a foreign corporation and that such consolidation or merger does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

SECTION 4.4. Annual Statement. The Company agrees to have an annual audit made by its regular independent registered public accounting firm and within 180 days after the close of each fiscal year to furnish the Trustee and any Bondholder who may so request a balance sheet and statement of income and surplus showing the financial condition of the Company and its consolidated subsidiaries, if any, at the close of such fiscal year and the results of operations of the Company and its consolidated subsidiaries, if any, for such fiscal year, accompanied by a certificate or opinion of said accountants. The requirements of this Section 4.4 may be satisfied by the submission to the Trustee and each Bondholder who may request such information of the Company's annual report to its shareholders. The Trustee shall have no duty to review or analyze any such financial statements delivered to it pursuant to this Section 4.4 and shall hold such financial statements solely as a repository for the benefit of the Bondholders; the Trustee shall not be deemed to have notice of any information contained therein or event of default which may be disclosed therein in any manner.

SECTION 4.5. Further Assurances and Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project and for carrying out the intention or facilitating the performance of this Agreement.

SECTION 4.6. Maintenance of Project by Company. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining and repairing the Project; provided, however, that the Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary portion of the Project.

SECTION 4.7. Redemption or Purchase of Bonds. The Issuer shall take all steps then necessary under the applicable provisions of the Indenture, at no expense to the Issuer, for the redemption or purchase (other than a purchase pursuant to tenders as provided in the form of Bonds and as provided in Section 3.07 of the Indenture) of Bonds upon receipt, not less than ten days prior to the day on which the Trustee is required to give notice (if any) thereof pursuant to the Indenture, by the Issuer and the Trustee from the Company of a written notice specifying:

(a) the principal amount of Bonds to be redeemed or purchased;

(b) the date of such redemption or purchase; and

(c) in the case of a redemption of Bonds, directions to mail a notice of redemption.

In the case of a purchase of Bonds, the written notice to the Trustee shall, if available moneys in the Bond Fund are insufficient to purchase the principal amount of Bonds specified in (a) above, be accompanied by a deposit with the Trustee of cash or Government Obligations sufficient, together with other available moneys on deposit with the Trustee, to make the directed purchase of Bonds. The Company may purchase Bonds from time to time and deliver them to the Trustee for cancellation pursuant to Section 2.07 of the Indenture.

SECTION 4.8. Compliance with Tax Certificate and Agreement. The Issuer and the Company covenant that they will comply with the covenants and agreements on their respective parts contained in the Tax Certificate and Agreement.

SECTION 4.9. Company's Option to Determine Interest Rate Mode; Appointment of Remarketing Agent. The Issuer and the Company agree that the Company shall have the option to change the interest rate determination method for the Bonds in the manner provided in the Indenture. The Company agrees, in connection with any change in the interest rate determination method, to provide for the appointment of a Remarketing Agent as provided for in Section 9.15 of the Indenture if no Remarketing Agent has been appointed and is serving as such under the Indenture.

SECTION 4.10. Post Issuance Audits. The Company agrees to provide such records regarding the Project and the use, investment and application of proceeds of the Bonds as may reasonably be requested by the Issuer to enable the Issuer to determine that the Company has complied with the requirements of this Agreement and the Indenture subsequent to the issuance of the Bonds. Such compliance shall include, but not be limited to, the proper use of the Bonds proceeds for the intended purposes of the Indenture and this Agreement and compliance with any federal arbitrage rebate requirements. The Company agrees to advance all funds necessary to enable the Issuer to engage and pay for such auditors, accountants, financial advisors, counsel or other professionals for purposes of reasonably determining such compliance.

SECTION 4.11. Recourse Obligations of Company. The Company's obligations for payment and reimbursement of the fees, costs and expenses of the Trustee and the Issuer and the other obligations of the Company under this Agreement, including payment of any rebate liability, shall be full recourse to the Company.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. Events of Default. Each of the following shall be an "Event of Default" under this Agreement:

(a) Failure by the Company to pay when due the amounts required to be paid pursuant to the Note which failure, in the case of such amounts in respect of interest on any Bond, continues for five days, or the failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to this Agreement.

(b) Failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in subsection (a) of this Section 5.1, for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee, unless the Issuer and the

Trustee upon the advice of counsel shall agree in writing to an extension of such period prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such period if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected.

(c) The dissolution or liquidation of the Company, except as permitted by Section 4.3 hereof, or the commencement by the Company of any case or proceeding seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition, readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar law of the United States or any state, or adjudication of the Company as bankrupt, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Company in any proceeding for its reorganization instituted under the provisions of Title 11 of the United States Code, as amended, or under any similar statutory provision which may hereafter be enacted.

The foregoing provisions of Section 5.1(b) are subject to the limitation that, if by reason of force majeure the Company is unable in whole or in part to carry out its agreements herein contained other than those set forth in Sections 3.2, 4.3 and 4.8 hereof, an Event of Default shall not be deemed to have occurred during the continuance of such inability. The term "force majeure" as used herein shall mean the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Florida or any of their departments, agencies or officials or of any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission lines, pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company. The Company agrees, however, to remedy to the extent practicable with all reasonable dispatch the effects of any force majeure preventing the Company from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 5.2. Remedies on Default. Whenever any Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps:

(a) By written notice to the Company, the Issuer may declare all amounts payable pursuant to the Note to be immediately due and payable, whereupon the same shall become immediately due and payable; and

(b) The Issuer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

Any amounts collected pursuant to action taken under this Section 5.2 shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee and the paying agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

SECTION 5.3. Agreement to Pay Attorneys' Fees, Costs and Expenses. In the event the Company should breach any of the provisions of the Note or this Agreement and the Issuer should employ attorneys or incur other expenses for the collection of amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer the reasonable fees, costs and expenses of such attorneys and such other reasonable costs and expenses so incurred by the Issuer or the Trustee.

SECTION 5.4. No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Note or in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VI

MISCELLANEOUS

SECTION 6.1. Term of This Agreement. Except as otherwise expressly provided herein, this Agreement shall remain in full force and effect from the date hereof until such time as all of the outstanding Bonds shall have been fully paid or provision made therefor in accordance with the provisions of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under this Agreement and the Note shall have been paid.

SECTION 6.2. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, addressed as follows: if to the Issuer, to the Chairman of the Board of County Commissioners, 223 Palafox Place, Pensacola, Florida 32597; if to the Company at One Energy Place, Pensacola, Florida 32520-0100, Attention: Treasurer, with copies to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, N.W., Atlanta, Georgia 30308, Attention: Corporate Finance Department; and if to the Trustee, to The Bank of New York Mellon Trust Company, N.A., 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338, Attention: Corporate Trust Department. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 6.3. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject, however, to the limitations contained in Section 4.3 hereof.

SECTION 6.4. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 6.5. Amendments. This Agreement may not be effectively terminated except in accordance with the provisions hereof and may not be effectively amended except by a written agreement in accordance with Article XI of the Indenture and signed by the parties hereto.

SECTION 6.6. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.7. Applicable Law. This Agreement and the Note shall be governed by and construed in accordance with the laws of the State of Florida without regard to conflict of law principles.

SECTION 6.8. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

SECTION 6.9. Other Financing. Notwithstanding anything in this Agreement to the contrary, the Issuer and the Company may hereafter enter into agreements to provide for the financing or refinancing of costs of the Project or any portion thereof.

SECTION 6.10. Amounts Remaining in the Bond Fund. Any amounts remaining in the Bond Fund upon termination of this Agreement shall, to the extent provided by Section 4.14 of the Indenture, belong to and be paid to the Company by the Trustee.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

ESCAMBIA COUNTY, FLORIDA

[SEAL]

By: _____
Marie Young, Chairman of the Escambia County Board of County Commissioners

Attest:

Ernie Lee Magaha
Clerk of the Circuit Court and Comptroller

SEAL

By: _____
Deputy Clerk

GULF POWER COMPANY

[SEAL]

By: _____
Vice President and Chief Financial Officer

ATTEST:

_____
Corporate Secretary

EXHIBIT A

GULF POWER COMPANY
PROMISSORY NOTE

$65,400,000 March 31, 2009

GULF POWER COMPANY ("Gulf"), a corporation organized and existing under the laws of the State of Florida, acknowledges itself indebted and for value received hereby promises to pay to the order of Escambia County, Florida (the "County"), and its successors and assigns, the principal sum of SIXTY-FIVE MILLION FOUR HUNDRED THOUSAND DOLLARS ($65,400,000) together with interest on the unpaid principal balance thereof from the date hereof until Gulf's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and Gulf promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. Gulf further promises to pay the purchase price of such Bonds as hereinbelow provided.

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the County to Gulf and the obligation of Gulf to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a Loan Agreement (the "Agreement") between the County and Gulf, dated as of March 1, 2009, pursuant to which the County has loaned to Gulf the proceeds of the sale of the County's $65,400,000 in aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), acting pursuant to a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on April 1, 2039. The Bonds are subject to redemption or prior purchase prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the County, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or declaration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such

moneys shall be credited against the payment then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

Neither the officers of Gulf nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

[SEAL]

By: _____

Attest: _____

ASSIGNMENT

Pay, without recourse, to the order of The Bank of New York Mellon Trust Company, N.A., as assignee of Escambia County, Florida, under the Trust Indenture, dated as of March 1, 2009, between Escambia County, Florida and The Bank of New York Mellon Trust Company, N.A., as Trustee, securing the payment of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 in the original principal amount of $65,400,000.

ESCAMBIA COUNTY, FLORIDA

By: _____

EXHIBIT B

PROJECT DESCRIPTION

The Project is described in the report entitled Description of Facilities for Solid Waste Recycling and Disposal at James F. Crist Generating Plan Units 4, 5, 6 and 7, dated March 31, 2009, prepared by BECON Corporation for the Company.

The holder hereof has agreed not to transfer this Note except to a successor Trustee under the Trust Indenture dated as of March 1, 2009 of Escambia County, Florida relating to the Bonds (hereinafter referred to).

GULF POWER COMPANY
PROMISSORY NOTE

$65,400,000 March 31, 2009

GULF POWER COMPANY ("Gulf"), a corporation organized and existing under the laws of the State of Florida, acknowledges itself indebted and for value received hereby promises to pay to the order of Escambia County, Florida (the "County"), and its successors and assigns, the principal sum of SIXTY-FIVE MILLION FOUR HUNDRED THOUSAND DOLLARS ($65,400,000) together with interest on the unpaid principal balance thereof from the date hereof until Gulf's obligations with respect to the payment of such sum shall be discharged at the rate or rates borne by the Bonds referred to below. As additional interest hereon there shall be payable, and Gulf promises to pay when due, amounts which shall equal the premium, if any, due on such Bonds in connection with the redemption thereof. Gulf further promises to pay the purchase price of such Bonds as hereinbelow provided.

SPECIMEN

This Note is issued to evidence the Loan (as defined in the Agreement hereinafter referred to) of the County to Gulf and the obligation of Gulf to repay the same and shall be governed by and be payable in accordance with the terms and conditions of a Loan Agreement (the "Agreement") between the County and Gulf, dated as of March 1, 2009, pursuant to which the County has loaned to Gulf the proceeds of the sale of the County's $65,400,000 in aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). This Note (together with the Agreement) has been assigned to The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), acting pursuant to a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and the Trustee, and may not be assigned by the Trustee except to a successor Trustee pursuant to the terms of the Indenture. Such assignment is made as security for the Bonds. The Bonds are dated and bear interest in accordance with the provisions of the Indenture, and mature on April 1, 2039. The Bonds are subject to redemption or prior purchase prior to maturity as provided therein.

Subject to the provisions of the Agreement, payments hereon are to be made by paying to the Trustee, as assignee of the County, in funds which will be immediately available on the day payment is due, amounts which, and at or before times which, shall correspond to the payments with respect to the principal of and premium, if any, and interest on the Bonds whenever and in whatever manner the same shall become due, whether at stated maturity, upon redemption or acceleration or otherwise, and the purchase price of Bonds required to be purchased under the Indenture. If (i) on the date any payments on the Bonds are due there are any available moneys on deposit with the Trustee which are not being held for the payment of Bonds due and payable but which have not been presented for payment, or (ii) on any date on which Bonds are required

to be purchased pursuant to the Bonds or Article III of the Indenture, there are available moneys on deposit with the Trustee held for the payment of the purchase price which are not being held for the payment of Bonds which have not been presented for payment, then, in each case, such moneys shall be credited against the payments then due hereunder, first in respect of interest and then, to the extent of remaining moneys, in respect of principal. Upon the occurrence of an Event of Default, as defined in the Agreement, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement.

SPECIMEN

Neither the officers of Gulf nor any persons executing this Note shall be liable personally or shall be subject to any personal liability or accountability by reason of the issuance hereof.

IN WITNESS WHEREOF, Gulf Power Company has caused this Note to be executed in its corporate name and on its behalf by its President, its Treasurer or a Vice President by his manual signature, and its corporate seal to be impressed hereon and attested by the manual signature of its Secretary or an Assistant Secretary, all as of the date first above written.

GULF POWER COMPANY

[SEAL]

By: _____
Vice President and Chief Financial Officer

Attest: _____
Secretary and Treasurer

SPECIMEN

ASSIGNMENT

Pay, without recourse, to the order of The Bank of New York Mellon Trust Company, N.A., as assignee of Escambia County, Florida, under the Trust Indenture, dated as of March 1, 2009, between Escambia County, Florida and The Bank of New York Mellon Trust Company, N.A., as Trustee, securing the payment of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 in the original principal amount of $65,400,000.

ESCAMBIA COUNTY, FLORIDA

By: Marie Young

Marie Young, Chairman
Board of County Commissioners

SPECIMEN

REMARKETING AGREEMENT

REMARKETING AGREEMENT dated as of March 1, 2009, between GULF POWER COMPANY (the "Company") and GOLDMAN, SACHS & CO.

WHEREAS, Escambia County, Florida (the "Issuer") proposes to issue its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 in the aggregate principal amount of $65,400,000 (the "Bonds") pursuant to the Trust Indenture dated as of March 1, 2009 (the "Indenture") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); and

WHEREAS, pursuant to the promissory note issued under the Loan Agreement dated as of March 1, 2009 (the "Agreement"), between the Issuer and the Company, relating to the Bonds, the Company has agreed to pay amounts at least sufficient to pay the principal of, and premium, if any, purchase price of, and interest on the Bonds; and

WHEREAS, Goldman, Sachs & Co. (the "Remarketing Agent") has been appointed (and the Remarketing Agent hereby accepts the appointment) as Remarketing Agent pursuant to the Indenture; and

WHEREAS, the Company and the Remarketing Agent desire to make additional provisions regarding the Remarketing Agent's role for the Bonds.

NOW, THEREFORE, the Company and the Remarketing Agent hereby agree as follows:

Section 1. Definitions. All capitalized terms used in this Remarketing Agreement which are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

Section 2. Confirmation of Appointment. The Company hereby confirms the appointment of the Remarketing Agent pursuant to the Indenture.

Section 3. Duties. The Remarketing Agent will perform the duties specified under the Indenture subject to the terms of the Indenture and this Remarketing Agreement. In acting as Remarketing Agent, the Remarketing Agent will act as agent and not as principal except as expressly provided in this Section.

The Remarketing Agent may, if it determines to do so in its sole discretion, buy as principal any Bonds but it will not in any event be obligated to do so, and if it buys Bonds it will have the same rights as would any other person holding the Bonds.

Section 4. Disclosure Statement. (a) If the Remarketing Agent determines that it is necessary or desirable to use a disclosure statement in connection with its offering of the Bonds, the Remarketing Agent will notify the Company and the Company will provide the Remarketing Agent with a disclosure statement satisfactory to the Remarketing Agent and its counsel in respect of the Bonds. The Company will supply the Remarketing Agent with such number of copies of the disclosure statement and documents related thereto as the Remarketing Agent requests from time to time and will amend the disclosure statement (and/or the documents incorporated by reference in it) so that at all times the disclosure statement and any documents related thereto will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements in such documents, in the light of the circumstances under which they were made, not misleading. In addition, the Company will take all steps reasonably requested by the Remarketing Agent which the Remarketing Agent or its counsel may consider necessary or desirable to register the sale of the Bonds by the Remarketing Agent under any federal or state securities law or to qualify the Indenture under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and will provide the Remarketing Agent such officers' certificates, counsel opinions, accountants' letters and other documents as may be customary in similar transactions. The Company also agrees to furnish the Remarketing Agent a Disclosure Statement as defined in paragraph (b) of this Section at such times and in such quantities in order to enable the Remarketing Agent to comply with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Prior to such time that Rule 15c2-12(b)(5) becomes applicable to the Bonds, the Company agrees to enter into a separate undertaking satisfactory to the Remarketing Agent with respect to the continuing disclosure requirements of Rule 15c2-12(b)(5). If the Company does not perform its obligations under this Section, the Remarketing Agent may immediately cease remarketing efforts.

(b) The Issuer (solely as to the section of the Official Statement entitled "THE COUNTY" and the last sentence of the section of the Official Statement entitled "DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS") and the Company have prepared and delivered to the Remarketing Agent a copy of the Official Statement, dated March 26, 2009, including an appendix consisting of financial and other information in respect of the Company. Such Official Statement, including Appendix A thereto and the materials incorporated by reference therein, is referred to herein as the "Official Statement." The Company authorizes the use by the Remarketing Agent of the Official Statement in connection with the remarketing of the Bonds. For purposes of this Remarketing Agreement, the Official Statement and any other documents provided to the Remarketing Agent pursuant to paragraph (a) of this Section shall be considered to be the "Disclosure Statement".

Section 5. Indemnification. (a) The Company agrees to indemnify and hold harmless the Remarketing Agent and its officers, directors, agents and employees (collectively, the "Indemnified Persons" and individually, an "Indemnified Person") from and against any losses, claims, damages or liabilities to which any Indemnified Person may become subject insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of, or are based upon, any untrue statement or alleged untrue statement of a material fact contained in the Disclosure Statement, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact necessary to

make the statements made therein, in light of the circumstances under which they were made, not misleading, and will reimburse each Indemnified Person for any legal or other expenses reasonably incurred by such Indemnified Person in investigating, defending or preparing to defend any such action or claim; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in the Disclosure Statement in reliance upon and in conformity with written information furnished to the Company for use therein by the Remarketing Agent. The indemnity agreement in this paragraph shall be in addition to any liability which the Company may otherwise have to any Indemnified Person and shall extend upon the same terms and conditions to each person, if any, who controls any Indemnified Person within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Act"), and the Exchange Act.

(b) Promptly after receipt by an Indemnified Person under paragraph (a) of this Section of notice of the commencement of any action, such Indemnified Person shall, if a claim in respect thereof is to be made against the Company under such paragraph, notify the Company in writing of the commencement thereof; but the omission so to notify the Company shall not relieve the Company from any liability which the Company may have to any Indemnified Person otherwise than under such paragraph. In case any such action shall be brought against any Indemnified Person, and such Indemnified Person shall notify the Company of the commencement thereof, the Company shall be entitled to participate therein and, to the extent that the Company wishes, to assume the defense thereof, with counsel reasonably satisfactory to such Indemnified Person, and after notice from the Company to such Indemnified Person of its election so to assume the defense thereof, the Company shall not be liable to such Indemnified Person under such paragraph for any legal or other expenses subsequently incurred by such Indemnified Person in connection with the defense thereof other than reasonable out-of-pocket costs of any investigation; provided, however, that if the named parties to any such action (including any impleaded parties) include both the Remarketing Agent (or its officers, directors, agents or employees or any person so controlling the Remarketing Agent) and the Company, and the Remarketing Agent (or such officers, directors, agents or employees or such person so controlling the Remarketing Agent) shall have reasonably concluded that there may be one or more legal defenses available to it which are different from or additional to those available to the Company and representation of both parties by the same counsel would be inappropriate due to a conflict of interest between them, the Remarketing Agent (or such officers, directors, agents or employees or such person so controlling the Remarketing Agent) shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of the Remarketing Agent (or such officers, directors, agents or employees or such person so controlling the Remarketing Agent); provided, further, however, that the Company shall not, in connection with any one such action or separate but substantially similar or related actions arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys at any point in time for the Remarketing Agent and its officers, directors, agents and employees and all persons so controlling the Remarketing Agent. The Company shall not be liable for any settlement of any proceeding effected without its prior written consent.

(c) The indemnity agreements contained in this Section 5 shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Remarketing Agent or the Company, or the delivery of and any payment for any Bonds hereunder, and shall survive the termination or cancellation of this Remarketing Agreement.

Section 6. Fees and Expenses. In consideration of the Remarketing Agent's services under this Remarketing Agreement, the Company will pay the Remarketing Agent as Remarketing Agent, (a) while the Bonds bear interest at a Daily, Weekly, Commercial Paper or Index Rate, an annual amount equal to an aggregate of one-tenth (1/10) of 1% of the aggregate principal amount of Bonds outstanding under the Indenture, payable quarterly in arrears on each March 1, June 1, September 1 and December 1, commencing on the first such day after the issuance of the Bonds and computed on the basis of the average principal amount of the Bonds outstanding during each preceding quarterly (or partial quarter) period, with partial quarterly payment to be prorated based upon the number of days in the quarterly period and (b) in connection with any remarketing due to a mandatory tender, a fee to be negotiated by the Company and the Remarketing Agent. The Company also will pay all expenses in connection with the preparation of any Disclosure Statement and the registration of the Bonds and any other documents relating to the Bonds under any securities laws or qualifying the Indenture under the Trust Indenture Act and will reimburse the Remarketing Agent for all of its direct out-of-pocket expenses incurred by it as Remarketing Agent under this Remarketing Agreement and the Indenture, including counsel fees and disbursements.

Section 7. Conditions Precedent to the Obligations of the Remarketing Agent. The obligations of the Remarketing Agent to offer for sale and to use reasonable efforts to sell any Bond or Bonds hereunder shall be subject to the accuracy and completeness in all material respects of the representations and warranties of the Company contained herein as of the date hereof and as of each and every date on which the Remarketing Agent shall offer for sale or use reasonable efforts to sell any Bond or Bonds hereunder (each such date being a "Performance Date"), to the performance by the Company of its obligations hereunder and to the following conditions at each Performance Date:

(a) This Remarketing Agreement, the Agreement and the Indenture shall be in full force and effect, and shall not have been amended, modified or supplemented since the date of original issuance of the Bonds except for any amendment, modification or supplement of which the Remarketing Agent has received written notice prior to such Performance Date.

(b) Interest on the Bonds shall not be includible in gross income of the owners thereof for purposes of federal income taxes; no registration under the Act of any security shall be required in connection with the remarketing of the Bonds in accordance with the terms hereof; and the Indenture shall be exempt from qualification pursuant to the Trust Indenture Act.

(c) No event of default under the Indenture or event which, with notice or lapse of time, or both, would constitute an event of default under such document, shall have occurred and be continuing.

(d) The Bonds that have been tendered for purchase pursuant to optional tender and would otherwise be subject to remarketing shall not have been called for redemption pursuant to the Indenture unless such redemption provision provides the Company an option to cause a mandatory tender of the Bonds and the Company has provided the Remarketing Agent written notice of its election to cause a mandatory tender of the Bonds.

(e) There shall have not 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, or there shall have not occurred a general suspension of trading on the New York Stock Exchange, a material disruption in settlement in securities generally, or the declaration of a general banking moratorium by United States or New York State authorities with the result that, in the opinion of the Remarketing Agent, the ability of the Remarketing Agent to market the Bonds would be materially and adversely affected.

(f) Prior to each Performance Date, the Remarketing Agent shall receive such further information, certificates, opinions and documents as it shall reasonably request.

(g) There shall have been no material adverse change in the business, properties or financial condition of the Company since the date of the Disclosure Statement or the most recent amendment or supplement thereto.

Section 8. Fails. The Remarketing Agent will not be liable to the Company on account of the failure of any person to whom the Remarketing Agent has sold a Bond to pay for such Bond or to deliver any document in respect of the sale.

Section 9. Remarketing Agent's Performance. The duties and obligations of the Remarketing Agent shall be determined solely by the express provisions of this Remarketing Agreement and the Indenture, and the Remarketing Agent shall not be responsible for the performance of any other duties and obligations than as are specifically set forth in this Remarketing Agreement and the Indenture, and no implied covenants or obligations shall be read into this Remarketing Agreement or the Indenture against the Remarketing Agent. The Remarketing Agent may conclusively rely upon any notice or document given or furnished to the Remarketing Agent and conforming to the requirements of this Remarketing Agreement or the Indenture and shall be protected in acting upon any such notice or document reasonably believed by it to be genuine and to have been given, signed or presented by the proper party or parties.

Section 10. Termination. This Remarketing Agreement will terminate upon the effective resignation or removal of the Remarketing Agent in accordance with

the Indenture. The Remarketing Agent will resign under this Remarketing Agreement if requested to do so by the Company in writing and may resign at any time. Following termination, the provisions of Section 5 hereof will continue in effect, and each party will pay the other any amounts owing at the time of termination.

Section 11. Amendment of Indenture. The Company shall not consent to an amendment of the Indenture which affects the rights or duties of the Remarketing Agent without the Remarketing Agent's prior written consent.

Section 12. Miscellaneous. This Remarketing Agreement will be governed by the laws of the State of Florida. Notices will be given to the addresses below until a party designates a new address in writing.

Section 13. Counterparts. This Remarketing Agreement may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

Section 14. Severability. If any provision of this Remarketing Agreement shall be determined to be unenforceable, that shall not affect any other provision of this Remarketing Agreement.

GULF POWER COMPANY

By: P C Raymond
Name: Philip C. Raymond
Title: VP + CFO

GOLDMAN, SACHS & CO.

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

GULF POWER COMPANY

Letter of Representation

March 31, 2009

Board of County Commissioners
Escambia County, Florida

Goldman, Sachs & Co.
New York, New York

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce Goldman, Sachs & Co., as underwriter (the "Underwriter") and Escambia County, Florida (the "County") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the County relating to the purchase by the Underwriter from the County of $65,400,000 in aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), between the County and the Company, to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the James F. Crist Generating Plant in Escambia County, Florida (the "Project"). The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, the Underwriter will be appointed as Remarketing Agent for the Bonds pursuant to a Remarketing Agreement with the Company dated as of March 1, 2009 (the "Remarketing Agreement"). As used in this Letter of Representation the term "Official Statement" means the Official Statement of the County, dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Appendix") and the documents incorporated in the Appendix by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the County that:

(a) The Company deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering price, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The Official Statement does not, and at the Closing Date (as defined in the

Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Tax Matters" or "Underwriting" or the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization. The Company hereby consents to the use by the Underwriter of the Official Statement.

(b) The financial statements of the Company contained or incorporated by reference in the Official Statement present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of its operations for the periods specified; and, except as otherwise stated in the Official Statement, said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis during the periods involved (except that the unaudited financial statements incorporated by reference in the Official Statement may be subject to normal year-end adjustments).

(c) There has not been any material adverse change in the business, properties or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Remarketing Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, the Agreement and the Note will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement and the Remarketing Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Remarketing Agreement and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof,

did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation in the States of Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated March 20, 2009 relating to the Bonds, including the Appendix and the documents incorporated in the Appendix by reference (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference).

(k) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(l) The Bonds, the Indenture, the Agreement, the Remarketing Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(m) The Official Statement incorporates or will incorporate by reference certain documents filed or to be filed by the Company with the Securities and Exchange Commission, which documents have been, and will be, prepared by the Company in conformity in all material respects with the requirements of the Securities Exchange Act of 1934, as amended

(the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission thereunder, and copies of such documents have been and will be delivered to the Underwriter.

(n) The Company has within the past five years complied with all previous undertakings required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Exchange Act.

2. The Company covenants and agrees with the County and the Underwriter that:

(a) During such period (not to exceed nine months after the Closing Date) as the Underwriter believes delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey & LeBoeuf LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

(b) If, at any time prior to the completion of the sale of the Bonds by the Underwriter, when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with sales of the Bonds, an event occurs as a result of which in the opinion of Dewey & LeBoeuf LLP, counsel for the Underwriter, the Official Statement as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement (or, in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Exchange Act) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(c) The Company will assist, if necessary therefor, in the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter shall designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Company shall not be required to qualify as a foreign corporation or to file any consents to service of process under the laws of any state or to comply with any other requirements in any jurisdiction where it is not now so qualified.

(d) The Company will not take or omit to take any action which will in any way cause the proceeds from the sale of the Bonds to be applied in a manner other than as provided in the Indenture and the Agreement.

3. (a) The Company agrees to indemnify and hold harmless the County, any official or employee of the County, the Underwriter and each person, if any, who controls the

Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in the Appendix by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved if the Company had previously furnished copies thereof in sufficient quantity and on a timely basis to the Underwriter as requested by the Underwriter and the loss, claim, damage or liability of such Underwriter results from an untrue statement or omission of a material fact was corrected in the Official Statement (exclusive of the documents incorporated in Appendix A by reference) as amended or supplemented at the time of such sale.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the County and any official or employee of the County, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the County agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to

participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement; provided that the Company shall not consent to any settlement unless the settlement (i) includes an unconditional release of the Underwriter or its officers, directors and employees from all liability arising out of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Underwriter or its officers, directors and employees. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the County contained herein, or in the certificates of officers of the Company or officials of the County submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the County or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(k) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the County, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the County's entering into, acceptance and execution of the Purchase Contract and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Florida.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of the Company at its address set forth below with a copy to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, NW, Atlanta, Georgia 30308, Attention: Corporate Finance Department. Any notice or other communication to be given to the County may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the County and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: Terry A. Davis
Name: Terry A. Davis
Title: Assistant Secretary

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name: Marie Young
Title: Chairman

$65,400,000

ESCAMBIA COUNTY, FLORIDA

Solid Waste Disposal Revenue Bonds,
(Gulf Power Company Project),
Second Series 2009

PURCHASE CONTRACT

Ladies and Gentlemen:

Goldman, Sachs & Co., as underwriter of the above-mentioned issuance (the "Underwriter"), hereby offers to enter into this Purchase Contract with you (the "County") for the purchase by the Underwriter and sale by the County of $65,400,000 in aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds").

Upon the effectiveness of this Purchase Contract, Gulf Power Company (the "Company") is executing and delivering concurrently therewith a Letter of Representation, dated the date hereof (the "Letter of Representation") and in the form of Exhibit G hereto, wherein the Company will undertake certain obligations with respect to this Purchase Contract. Defined terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Official Statement (as hereinafter defined).

1. Upon the terms and conditions and upon the basis of the representations, warranties and covenants set forth herein and in the Letter of Representation, (i) the Underwriter hereby agrees to purchase the Bonds from the County for offering to the public, and the County hereby agrees to sell the Bonds to the Underwriter for such purpose, for a purchase price of 100% of the principal amount of the Bonds and (ii) the Company agrees to pay $245,250 to the Underwriter as an underwriting fee (the "Fee"). The Underwriter agrees that the initial public offering price for the Bonds shall be 100% of the principal amount thereof.

2. The Bonds shall be as described in and shall be issued under and secured by a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to be executed and delivered on or prior to the Closing Date (as hereinafter defined). The County has previously executed and delivered a Blanket Letter of Representations (the "DTC Letter") covering the Bonds to The Depository Trust Company ("DTC").

The Bonds shall be issued as required by the provisions of a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), between the County and the Company to be executed and delivered on or prior to the Closing Date providing, among other things, for the undertaking by the County to loan amounts to the Company in order to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the Company's James F. Crist Generating Plant in Escambia County, Florida (the "Project"). To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a separate non-negotiable promissory note (the "Note") in a like principal amount bearing interest at the rate borne by the Bonds. The Bonds are more fully described in the Official Statement. As used in this Purchase Contract, the term "Official Statement" means the Official Statement, dated March 26, 2009, including Appendix A thereto (the "Appendix") and the documents incorporated by reference in the Appendix at such date.

3. At the time of or before the acceptance by the County hereof, the County shall deliver to the Underwriter a copy of the Official Statement executed on behalf of the County by an authorized representative of the County.

The County authorizes the use of the Official Statement, the Agreement and the Indenture, and the information therein contained, by the Underwriter in connection with the public offering and sale of the Bonds. The County ratifies and confirms the use by the Underwriter prior to the date hereof of the Preliminary Official Statement of the County, dated March 20, 2009 (the "Preliminary Official Statement"), in connection with the public offering of the Bonds.

The County deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering price, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The County, at the cost of the Company, shall provide to the Underwriter sufficient quantities of the Official Statement which the County hereby deems complete as of its date, executed by an authorized representative of the County, in substantially the same form as the Preliminary Official Statement, subject to minor additions, deletions and revisions, within seven business days after the effective date of this Purchase Contract and in sufficient time to accompany any confirmation that requires payment from any customer. The County agrees to notify the Underwriter and the Company of any material developments impacting the County or the Bonds, of which the County becomes aware, within 90 days after delivery of the Bonds.

4. The County represents and warrants to the Underwriter and the Company that:

(a) The County is a validly existing political subdivision of the State of Florida. The County is authorized by the full legal right, power and authority under the laws of the State of Florida, including, particularly, the Florida Industrial Development Financing Act, being Part II of Chapter 159, Florida Statutes, Sections 159.25 through 159.431, as amended (the "Act"), to issue the Bonds; to loan the proceeds of the Bonds to the Company for the purpose of financing or refinancing the Project, which loans are to be made under the Agreement; to assign under the Indenture all of its rights in and to the Note, the Agreement (except for Unassigned Rights, as defined in the Indenture) and the funds established under the Indenture as security for the payment of the principal of, purchase price, premium, if any, and interest on the Bonds; to enter into and comply with the provisions of the DTC Letter; to accept the Letter of Representation; to sell and deliver the Bonds to the Underwriter as provided herein; and to carry out and consummate all other transactions contemplated on the part of the County by each of the aforesaid documents and the Official Statement.

(b) The County has complied with all provisions of the Constitution of the State of Florida and the Act and has full power and authority to consummate all transactions contemplated on the part of the County by the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement and any and all other agreements relating thereto.

(c) The County has duly authorized all necessary action to be taken by it for: (i) the issuance and sale of the Bonds upon the terms set forth herein and in the Official Statement and the Indenture; (ii) the execution and delivery by it of the Indenture providing for the issuance of and security for the Bonds and the appointment of the Trustee as trustee, paying agent and bond registrar under the Indenture; (iii) the approval of the Official Statement and the signing of the Official Statement by its authorized representative; (iv) the lending of the proceeds of the Bonds to the Company; (v) the execution, delivery, receipt and due performance of this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and any and all such other agreements and documents as may be required to

be executed, delivered and received by the County in order to carry out, give effect to and consummate the transactions contemplated thereby and by the Official Statement; (vi) the acceptance of the Letter of Representation; and (vii) the carrying out, giving effect to and consummation of the transactions contemplated on the part of the County by this Purchase Contract, the Official Statement, the Indenture and the Agreement.

(d) The statements and information with respect to the County contained in the Preliminary Official Statement, as of its date, and the Official Statement, as of its date and as of the Closing Date, under the caption "The County" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" do not and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading. The County makes no representation with respect to the statements contained in the Preliminary Official Statement or the Official Statement under any captions other than "The County" and the last sentence under "Disclosure Required by Florida Blue Sky Regulations" as aforesaid.

(e) The County will direct that the proceeds from the sale of the Bonds be applied as specified in the Indenture and the Agreement.

(f) The execution and delivery of the Official Statement, this Purchase Contract, the Bonds, the Indenture, the Agreement, the DTC Letter and the other agreements contemplated on the part of the County hereby and by the Official Statement and compliance on the part of the County with the provisions thereof and the pledge and assignment to the Trustee of the Note and the Agreement and acceptance of the Letter of Representation will not conflict with or constitute on the part of the County a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement, indenture, mortgage, lease or other instrument to which the County is subject or by which it is or may be bound, or to the knowledge of the County, any order, rule or regulation applicable to the County of any court or governmental agency or body having jurisdiction over the County or any of its activities or properties; and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the County of the transactions contemplated on the part of the County by said documents have been obtained.

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the actual knowledge of the official of the County executing the certificate described in Section 6(f)(6) hereof (without having made any inquiry or investigation with respect thereto), threatened against or directly affecting the County, except as disclosed in or contemplated by the Official Statement, (i) to restrain or enjoin the issuance and sale of the Bonds or the execution, delivery or performance by the County of the Agreement or the Indenture or (ii) wherein an unfavorable decision, ruling or finding would (A) have a material adverse effect on the transactions contemplated hereby or by the Official Statement (excluding the Appendix and the documents incorporated in the Appendix by reference), (B) adversely affect or put in question the validity or enforceability of the Bonds, the Indenture, the Agreement, the DTC Letter, this Purchase Contract, the acceptance of the Letter of Representation or any other agreement, instrument or document to which the County is a party or by which it is bound relating to the consummation of the transactions contemplated hereby or by the Official Statement (excluding the Appendix and the documents incorporated in the Appendix by reference), or (C) adversely affect the tax-exempt status of the Bonds.

(h) The County will not take, or knowingly or intentionally omit to take, any action the taking or omission of which will cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture and the Agreement, as amended from time to time.

(i) Any certificate signed by an authorized officer of the County delivered to the Underwriter shall be deemed to be a representation and warranty by the County to the Underwriter as to the statements made therein.

(j) Except for bonds upon which the County is not obligated to pay principal or interest, the County has not since December 31, 1975 defaulted in the payment of the principal of or interest on any of its bonds, notes, warrants or any other securities or any legally authorized obligation issued by the County and is not currently in default in the payment of any such principal or interest.

(k) Based solely on the advice of Lott & Associates, L.P., Co-Bond Counsel, the County represents that the issuance and sale of the Bonds to the Underwriter will not be subject to any State of Florida issuance, transfer or other documentary stamp taxes.

5. At 10:00 A.M., New York Time, on March 31, 2009, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the County and the Underwriter with the consent of the Company (the "Closing Date"), the County will deliver to the Underwriter the Bonds in definitive form, duly executed and authenticated, together with the other documents hereinafter mentioned, and, upon payment by the Company to the Underwriter of the Fee in immediately available funds, the Underwriter will accept such delivery of the Bonds and pay the purchase price therefor in immediately available funds, payable to the order of the Trustee for the account of the County. The Bonds so delivered will be in form acceptable for deposit with DTC and shall be registered in the name of Cede & Co., as nominee of DTC. The certificate for the Bonds shall be made available for examination by the Underwriter at least 24 hours prior to the Closing Date.

6. The Underwriter's obligations hereunder to purchase and pay for the Bonds shall be subject to the performance by the County of its obligations to be performed hereunder at or prior to the Closing Date; to the payment by the Company of the Fee and the performance by the Company of the other obligations and agreements to be performed by it at or prior to the Closing Date hereunder and under the Letter of Representation; and to the accuracy in all material respects of the representations and warranties of the County contained herein and of the Company contained in the Letter of Representation (except to the extent already qualified by materiality, in which case such representations and warranties shall be accurate in all respects), as of the date hereof and as of the Closing Date, and shall also be subject to the following conditions:

(a) At the Closing Date, the Indenture, the Agreement, the Remarketing Agreement, dated as of March 1, 2009, between the Company and the Underwriter (the "Remarketing Agreement"), the Note and the Letter of Representation shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect, and shall not have been materially amended, modified or supplemented except as may have been agreed to in writing by the Underwriter; provided, however, that the acceptance of delivery of the Bonds by the Underwriter on the Closing Date shall be deemed to constitute such agreement pursuant to the foregoing.

(b) At the Closing Date, the Bonds shall have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture.

(c) No amendment or supplement to the Official Statement filed subsequent to the date hereof (including any filing made by the Company pursuant to Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall be unsatisfactory in form to Dewey & LeBoeuf LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriter) which, in the reasonable judgment of the Underwriter,

shall materially impair the marketability of the Bonds; the County will assist in preparation, at the expense of the Company, of any amendment or supplement to the Official Statement which, at any time within 90 days after the Closing Date, is necessary in the Underwriter's and the Company's opinion in order to make the Official Statement not misleading in light of the circumstances existing at such time.

(d) At or prior to the Closing Date, no order, decree or injunction of any court of competent jurisdiction, nor any order, ruling, regulation or administrative proceeding by any governmental official, body or board, shall have been issued or commenced, nor shall any legislation have been enacted, with the purpose or effect of prohibiting the issuance, offering or sale of the Bonds as contemplated hereby or by the Official Statement or the execution or performance of the Indenture, the Agreement or the Note in accordance with their respective terms.

(e) At the Closing Date, there shall be in full force and effect an appropriate order of the Florida Public Service Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement (excluding the Appendix and the documents incorporated in the Appendix by reference).

(f) At or prior to the Closing Date, the Underwriter shall have received the following documents:

(1) Executed counterparts, or certified copies, of the Agreement, the DTC Letter, the Indenture, the Remarketing Agreement, the Letter of Representation and the Note.

(2) Executed copies or photocopies of the applications to, including all amendments, and orders of, the Florida Public Service Commission authorizing the participation of the Company in the transactions contemplated hereby and by the Official Statement.

(3) Opinions dated the Closing Date, with such changes as the Underwriter shall approve, of (i) Balch & Bingham LLP, Co-Bond Counsel, substantially in the forms annexed hereto as Exhibits A-1 and A-2; (ii) Lott & Associates, P. L., Co-Bond Counsel, substantially in the form annexed hereto as Exhibit B; (iii) Beggs & Lane, a Registered Limited Liability Partnership, General Counsel for the Company, substantially in the form annexed hereto as Exhibit C; (iv) Troutman Sanders LLP, Counsel for the Company, substantially in the form annexed hereto as Exhibit D; and (v) Dewey & LeBoeuf LLP, Counsel for the Underwriter, substantially in the form annexed hereto as Exhibit E; and such counsel shall have been furnished with such documents as they may request for the purpose of enabling them to pass upon the matters to be covered by their respective opinions.

(4) An opinion, dated the Closing Date, of Alison Rogers, Esq., Counsel for the County, addressed also to Balch & Bingham LLP and Lott & Associates, P.L., as Co-Bond Counsel, to the effect that: (A) the County is a duly constituted political subdivision of the State of Florida, and in good standing under such laws and is authorized to exercise the powers under the Act; (B) the County has full legal right, power and authority to adopt the resolution authorizing the Bonds (the "Resolution"), to enter into this Purchase Contract, the Agreement, the DTC Letter and the Indenture, to issue and deliver the Bonds to the Underwriter as provided in this Purchase Contract, and to carry out and consummate all other transactions contemplated by each of the aforesaid documents and has complied with the provisions of the Act in all matters relating to such transaction; (C) the County has duly authorized (i) the execution, delivery and due performance of this Purchase Contract, the Bonds, the Agreement, the DTC Letter and the Indenture, (ii) the execution and delivery of the Official Statement and (iii) the taking of any and all such action as may be required on the part of the County to carry out, give effect to and

consummate the transaction contemplated by such instruments; (D) the Indenture, the Agreement, the DTC Letter and this Purchase Contract have been duly authorized, executed and delivered by the County and, assuming the due authorization, execution and delivery by the other respective parties thereto, the Indenture, the Agreement, the DTC Letter and this Purchase Contract constitute valid, legally binding and enforceable obligations of the County, except to the extent that their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and principles of equity affecting the availability of specific performance or other equitable relief; (E) the Resolution has been duly adopted by the County and constitutes the legal, valid and binding act of the County and has not been in any way amended, modified, rescinded or revoked; (F) the adoption of the Resolution, the execution and delivery of this Purchase Contract, the Bonds, the DTC Letter, the Agreement and the Indenture, the acceptance of the Letter of Representation and compliance with the provisions of each of such instruments will not conflict with or constitute a breach of or default under, any commitment, agreement or other instrument to which the County is a party or by which it is bound, or under any existing law, rule, regulation, ordinance, judgment, order of decree to which the County is subject; (G) to her knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, is pending, or to her knowledge threatened, to restrain or enjoin the issuance or sale of the Bonds wherein an unfavorable decision, ruling or finding would materially adversely affect the transaction contemplated by the Official Statement, or which in any way would adversely affect the validity of the Resolution or the validity or enforceability of the Bonds, the Indenture, this Purchase Contract or the Agreement; (H) the County has pledged and assigned to the Trustee pursuant to the Indenture all of the Issuer's right and interest in the Agreement (except for certain payments for indemnification and expenses) and the County has granted no other security interests in and to such rights and interest or in and to the trust funds created and held by the Trustee under the Indenture; and (I) the statements in the Official Statement under the caption "The County" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations", insofar as they relate to the County and purport to constitute summaries of the matters referred to therein, fairly and accurately summarize the matters summarized therein.

(5) A letter, dated the Closing Date, of Deloitte & Touche LLP, substantially to the effect set forth in Exhibit F hereto.

(6) A certificate, satisfactory to the Underwriter, of a duly authorized officer of the County satisfactory to the Underwriter, dated the Closing Date, to the effect that: (A) the County has duly performed all of its obligations to be performed in connection with the issuance and sale of the Bonds at or prior to the Closing Date and each of the representations and warranties of the County contained herein is true and correct as of the Closing Date; (B) the County has authorized, by all necessary action, the execution, delivery, receipt and due performance of the Indenture, the Agreement, this Purchase Contract, the acceptance of the Letter of Representation and any and all such other agreements and documents as may be required to be executed, delivered, received and/or performed by the County in order to carry out, give effect to and consummate the transactions contemplated on its part by the Indenture, the Agreement and the Official Statement; (C) no litigation is pending, or to the knowledge of the official of the County executing the certificate (without having made any independent inquiry or investigation with respect thereto) threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture or the Agreement or the existence or powers of the County or the right of the County to loan the proceeds of the Bonds to the Company or the collection of receipts and revenues pledged or to be pledged to pay the principal of, purchase price, premium, if any, and interest on the Bonds, including, without limitation, payments under the Agreement or the Note; (D) based on the advice of Alison Rogers, Esq.,

Counsel for the County, neither the execution, delivery, receipt or due performance of the Indenture, the Agreement, this Purchase Contract or the other agreements contemplated hereby or by the Official Statement under the circumstances contemplated hereby or thereby, nor the compliance by the County with the provisions thereof, nor acceptance of the Letter of Representation, will conflict with or constitute on the part of the County a breach of or a default under any existing law, court or administrative regulation, decree or order or any agreement or other instrument to which the County is subject or by which it is or may be bound; (E) no authority or proceedings relating to this Purchase Contract, the Indenture, the Agreement, or the Official Statement have been modified, repealed, revoked or rescinded; (F) this Purchase Contract, the Indenture, the Agreement and the Official Statement have been duly executed and delivered by the County and the County has duly assigned the Note (issued by the Company under the Agreement) to the Trustee, as assignee and pledge of the County under the Indenture; and (G) the Resolution was duly adopted at a meeting of the County duly called, noticed and held and the Resolution has not been modified, amended or repealed and has from its date of adoption been and is now in full force and effect.

(7) A certificate, dated the Closing Date, of the President or any Vice President and the Treasurer or an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company to the effect that:

(i) the representations and warranties contained in Section 1 of the Letter of Representation are true and correct at and as of the Closing Date and the Company has satisfied all conditions therein contained to be satisfied at or prior to the Closing Date; and

(ii) there has not been any material adverse change in the business, properties or financial condition of the Company from that set forth in or contemplated by the Official Statement.

(8) Such additional certificates, instruments and other documents as the Underwriter or its counsel may deem necessary to evidence the accuracy as of the Closing Date of the representations of the County contained herein and of the Company contained in the Letter of Representation and the due performance or satisfaction by the County and the Company at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the County and the Company in connection with the issuance of the Bonds.

If the County or the Company shall be unable to satisfy the conditions of the obligations of the Underwriter contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the County shall be under further obligation hereunder except as otherwise provided in Section 8 hereof.

7. The County agrees to cooperate with the Underwriter and its counsel and the Company, solely at the expense of the Company, (i) in arranging for the qualification of the Bonds for offer and sale under the securities or "blue sky" laws of such jurisdictions as the Underwriter may request; provided, however, that the County will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction, and (ii) in applying for and securing ratings on the Bonds by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

8. All expenses and costs incident to the authorization, issuance, printing, sale and delivery, as

the case may be, of the Bonds, the Indenture, the Agreement, the Remarketing Agreement, the Note, the DTC Letter, the Preliminary Official Statement, the Official Statement, the Letter of Representation and this Purchase Contract, including, without limitation, (i) the Fee; (ii) fees and disbursements of Counsel for the Underwriter in connection with the qualification of the Bonds for sale under the securities or "blue sky" laws of various jurisdictions; (iii) the preparation and printing of the "blue sky" survey; (iv) any documentary, stamp or other taxes in connection with the issuance and sale of the Bonds hereunder; (v) all filing, registration and recording fees and expenses; (vi) fees of the Trustee; (vii) the fees and disbursements of Co-Bond Counsel, Counsel for the Underwriter, Disclosure Counsel for the County and Counsel for the County; (viii) any administrative or other fees charged in connection with the Bonds by the County; and (ix) the fees, if any, for bond ratings shall be paid by the Company pursuant to the Letter of Representation. Nothing herein shall be construed to relieve the Underwriter of its liability for its default hereunder. The Underwriter shall pay (i) all advertising expenses in connection with the public offering of the Bonds and (ii) all other expenses incurred by it in connection with the public offering and distribution of the Bonds.

9. The Underwriter may terminate this Purchase Contract by written notification to the County and the Company if at any time subsequent to the date hereof and at or prior to the Closing Date (i) legislation shall be enacted by the Congress or adopted by either house thereof or a decision shall be rendered by a federal court, including the Tax Court of the United States, or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made, which has the purpose or effect of imposing federal taxation upon receipts, revenues or other income of the general character expected to be derived by the County, including, without limitation, payments under the Note, or upon interest received on bonds of the same kind and character as the Bonds which would have the effect of changing directly or indirectly the federal income tax consequences of interest on bonds of the same kind and character as the Bonds in the hands of the holders thereof; (ii) the exemption from State of Florida income taxation of interest on the Bonds shall, in the reasonable opinion of the Underwriter, have been materially and adversely affected by the introduction or enactment of any federal or Florida legislation or by an amendment to the Constitution of the United States or the State of Florida or any decision of any federal or state court or any ruling or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States, the Internal Revenue Service or other federal or Florida authority; or (iii) 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, or there shall have occurred and be continuing beyond one full business day prior to the Closing Date, a general suspension of trading on the New York Stock Exchange or a material disruption in settlement in securities generally or the declaration of a general banking moratorium by United States or New York State authorities; in case of either (i), (ii) or (iii), with the result that, in the opinion of the Underwriter, the marketability of the Bonds shall have been materially and adversely affected thereby.

10. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Florida. This Purchase Contract shall not be assigned by the County.

11. Any notice or other communication to be given to the County under this Purchase Contract may be given by delivering the same in writing to it at 221 Palafox Place, Pensacola, Florida 32502, Attention: County Attorney. Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to it at Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, Attention: Municipal Money Market Desk.

12. This Purchase Contract will inure to the benefit of the County, the Underwriter and the Company and their respective successors and assigns, and no other person will have any right or

obligation hereunder. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter solely by reason of such purchase.

13. The representations and warranties of the County contained herein, or in the certificates of officials of the County submitted to the Underwriter pursuant hereto, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of the Bonds to the Underwriter.

14. This Purchase Contract may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

15. The Bonds do not pledge the faith, credit or taxing power of the State of Florida or any political subdivision thereof, including the County, but are limited and special obligations payable solely from the proceeds derived by the County under the Agreement and the Note, and neither the County nor the State of Florida, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of and premium, if any, and interest on the Bonds or to make any other payments provided for under the Indenture or under the Agreement or the Note for the Bonds, or (ii) pay the same from any funds of the County other than those derived by the County under the Agreement or the Note, and such Bonds will not constitute a lien upon any property owned by or situated within the territorial limits of the County except the proceeds derived under the Agreement and the Note.

16. Notwithstanding anything to the contrary contained herein or in any of the Bonds, in the Agreement or in any other instrument or document executed by or on behalf of the County in connection therewith, neither the County nor any member of the County or any officer, employee or agent of the County shall be personally liable to the Company, the Underwriter, the Trustee, the holders of the Bonds or any other person for any action taken by the County or by its officers, agents or employees or for any failure to take action under this Purchase Contract, the Indenture, the Agreement, the Bonds or such other instruments or documents or for any matter arising in connection with the financing of the Project, except that the County agrees to take, or to refrain from taking, any action if so required by an injunction or if required to comply with any final judgment for specific performance.

Dated: March 31, 2009

GOLDMAN, SACHS & CO.



(Goldman, Sachs & Co.)

Accepted as of the date hereof:

BOARD OF COUNTY COMMISSIONERS
OF ESCAMBIA COUNTY, FLORIDA

By:_____
Name:
Title:

Dated: March 31, 2009

GOLDMAN, SACHS & CO.

_____

(Goldman, Sachs & Co.)

Accepted as of the date hereof:

BOARD OF COUNTY COMMISSIONERS
OF ESCAMBIA COUNTY, FLORIDA

By: Marie Young
Name: Marie Young
Title: Chairman

Date Executed
3/23/2009

ATTEST: ERNIE LEE MAGAHA
CLERK OF THE CIRCUIT COURT
By: Deputy Clerk
DEPUTY CLERK

BOARD OF COUNTY COMMISSIONERS SEAL ESCAMBIA CO. FL.

EXHIBIT A-1
to the
Purchase Contract

[LETTERHEAD OF BALCH & BINGHAM LLP]

___, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A.
Atlanta, Georgia

Re: $65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $65,400,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). The Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive, and a Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Indenture) between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called the "Trustee").

The proceeds of the Bonds are to be used to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant") of Gulf Power Company (the "Company"). The solid waste disposal facilities at the Plant to be financed or refinanced with the proceeds of the Bonds are referred to herein as the "Project". The County has entered into a Loan Agreement with the Company, dated as of March 1, 2009 (the "Agreement"), under the provisions of which the County agrees to loan to the Company the proceeds of the Bonds to provide for the acquisition, construction, installation and equipping of the Project. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note"). The Agreement provides for payments by the Company of amounts sufficient to pay the principal of, premium, if any, and interest on, and purchase price of, the Bonds as the same shall become due and payable. The Bonds are payable solely from the payments made by the Company pursuant to the Agreement and the Note.

In our capacity as Co-Bond Counsel, we have examined such documents, records of the

County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. As to questions of fact material to our opinion, we have relied upon (a) representations of the County and the Company, (b) certified proceedings and other certifications of public officials furnished to us, (c) certifications by officials of the Company, and (d) representations of the Company relating to the use of the proceeds of the Bonds, and the design, scope, function, cost and economic useful life of the Project and the relationship of the Project to the Plant which it is designed to serve, contained in a certificate of the Company, dated the date of this opinion, without undertaking to verify the same by independent investigation.

Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Bonds and opinions of Alison Perdue, Counsel to the County, and Lott & Associates, P. L., Co-Bond Counsel for the County, of even date herewith as to the authority, procedures and actions of the County taken with regard to the authorization and issuance of the Bonds. The opinion expressed in the second sentence of paragraph 3 below pertaining to the priority of the security interest granted to the Trustee by virtue of the Trust Indenture is based upon the results of the search of the records of the Florida Department of State Division of Corporations, a copy of which is attached to this opinion.

Based on the foregoing, it is our opinion that:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to undertake the Project, to execute deliver and perform its obligations under the Agreement and the Indenture, to issue and sell the Bonds, to lend the proceeds of the Bonds to the Company to finance or refinance the Project, and to execute, deliver and perform its obligations under the Indenture, the Agreement and the Purchase Contract dated March 31, 2009 between the County and Goldman, Sachs & Co., as Underwriter (the "Underwriter").

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and, assuming due authorization, execution and delivery of the Indenture by, and the binding effect of the same upon, the Trustee, constitutes a valid and binding obligation of the County enforceable upon the County in accordance with its terms. By the terms of the Indenture, the County's rights in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification and payment of expenses) have been effectively assigned to the Trustee as security for the Bonds, and the Indenture creates a valid security interest in favor of the Trustee in and to such rights first and prior to any other security interest, to the extent one can establish priority by filing of a UCC-1 financing statement under the Florida Uniform Commercial Code. We express no opinion as to priority of a security interest that may be perfected by means other than filing of a UCC-1 financing statement under the Florida Uniform Commercial Code.

4. The Bonds have been duly authorized, executed and delivered by the County and are valid and binding limited obligations of the County, payable solely in accordance with their terms and entitled to the benefit and security of the Indenture.

5. Under existing law, interest on the Bonds is exempt from all State of

Florida income taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

6. Under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Under existing law, interest on the Bonds will not be treated as a specific tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and will not be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on corporations. The opinion set forth in the first sentence of this paragraph is rendered in reliance upon certain certifications and representations of the County and the Company made at the time of issuance of the Bonds, and is subject to the condition that the County and the Company comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be and continue to be excluded from gross income for federal income tax purposes. The County and the Company have covenanted to comply with such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The Bonds will initially bear interest at a Daily Rate (as such term is defined in the Indenture) determined by the Underwriter. The Indenture provides that the method of determining interest on the Bonds may be changed to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate (each as therein defined) and certain other changes may be made to the terms of the Bonds and related documents if the Trustee receives an opinion of counsel stating in effect that such conversion or change will not cause interest on the Bonds to be included in gross income. We express no opinion about the effect of such future events.

The obligations of the parties with respect to the documents described above are subject, in part, to the provisions of the Federal Bankruptcy Code and any applicable bankruptcy, insolvency, reorganization, moratorium or similar law relating to or affecting the enforcement of creditors' rights now or hereafter in effect. Such obligations are also subject to principles of equity which may limit the specific enforcement of certain remedies, but which do not affect the validity of such documents and do not make inadequate other remedies available to the holders of the Bonds for the enforcement of such obligations.

Respectfully submitted,

EXHIBIT A-2
to the
Purchase Contract

[Letterhead of Balch & Bingham LLP]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Re: $65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

Reference is made to our opinion delivered to you concurrently herewith relating to the $65,400,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds") of Escambia County, Florida (the "County") and Section 6(f)(3)(i) of the Purchase Contract, dated March 31, 2009 (the "Purchase Contract"), between the County and you (the "Underwriter"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract.

We have reviewed the Official Statement incident to our activities as Co-Bond Counsel. During the course of such review, we participated in conferences with representatives of the Company, its counsel and your counsel, at which conferences the contents of the Official Statement were discussed. With your consent, our review as Co-Bond Counsel, however, was limited to the information set forth in the Official Settlement on its cover page and under the captions "Introductory Statement", "The County", "Use of Bond Proceeds", "The Bonds" (excluding the information contained under the heading "The Bonds — Book-Entry System" to which no opinion is given), "The Agreement", "The Indenture" and "Tax Matters".

Subject to the preceding paragraph, nothing has come to our attention which would cause us to believe that the information contained under the captioned headings described above in the Official Statement (other than the financial statements and other financial or statistical data contained therein, or incorporated therein, by reference as to which we express no opinion) includes any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Purchase Contract has been duly authorized and accepted by the County and constitutes a valid and legally binding obligation of the County.

Such instruments as are required have been duly filed and recorded wherever necessary to perfect the security interests created by the Agreement and the Indenture.

The offer and sale of the Bonds do not require registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

This letter is furnished by us solely for the benefit of the Underwriter in connection with the provisions of the Purchase Contract and may not be relied upon by any other person.

Very truly yours,

EXHIBIT B
to the
Purchase Contract

[LETTERHEAD OF LOTT & ASSOCIATES, P.L.]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A.
Atlanta, Georgia

Re: $65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by Escambia County, Florida (the "County") of $65,400,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). The Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive (the "Act"), and a Trust Indenture relating to the Bonds dated as of March 1, 2009 (the "Indenture) between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called the "Trustee"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract dated March 31, 2009 (the "Purchase Contract"), between the County and Goldman, Sachs & Co., as Underwriter.

The proceeds of the Bonds are to be used to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant") which is owned and operated by Gulf Power Company (the "Company"). The County has entered into a Loan Agreement with the Company, dated as of March 1, 2009 (the "Agreement"), under the provisions of which the County agrees to loan to the Company the proceeds of the Bonds to provide for the Project. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note"). The Agreement provides for payments by the Company of amounts sufficient to pay the principal of, premium, if any, and interest on, and purchase price of, the Bonds as the same shall become due and payable. The Bonds are payable solely from the payments made by the Company pursuant to the Agreement and the Note.

In our capacity as Co-Bond Counsel we have examined such documents, records of the

County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Bonds and an opinion of Alison Rogers, Esq., County Attorney, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Bonds.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Bonds, to loan the proceeds of the sale of the Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement, the Indenture and the Purchase Contract.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and, assuming due authorization, execution and delivery of the Indenture by, and the binding effect of the same upon, the Trustee, constitutes a legal, valid and binding obligation of the County enforceable upon the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification and payment of fees and expenses) have been effectively assigned to the Trustee as security for the Bonds. The Indenture creates a valid lien on the trust estate described therein.

5. The issuance and sale of the Bonds have been duly authorized by the County; the Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

The opinions set forth herein are expressly limited to, and we opine only with respect to, the laws of the State of Florida. The opinions expressed herein are limited to the matters expressly set forth herein, and no opinion is implied or may be inferred beyond the matters expressly stated herein. The opinions set forth in this letter are rendered as of the date of this letter, and we disclaim any undertaking to advise you of any changes which may be brought to our attention subsequent to the date hereof. No opinion is expressed herein with respect to the security for the Loan or the validity or priority of any mortgage or security interest relating thereto, or with respect to any other matter (i) requiring a subsequent opinion of counsel as provided in the Indenture or (ii) involving any amendment, modification or change to the forms of documents delivered on the date hereof.

It is to be understood that the rights of the holders of the Bonds, and the enforceability of

the Resolution, the Indenture, the Agreement, the Note, the Purchase Contract and the Bonds, may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State of Florida, and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

Our opinions expressed herein are predicated upon present law, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof. The legal opinions set forth herein are intended for the information solely of the addressees hereof and solely for the purpose of the contemplated transactions described herein and are not to be relied upon by any other person, or entity, or for any other purpose, or quoted as a whole or in part, or otherwise referred to, in any document, or to be filed with any government or other administrative agency, or other person or entity for any other purpose without our prior written consent.

Respectfully submitted,

EXHIBIT C
to the
Purchase Contract

[LETTERHEAD OF BEGGS & LANE]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,400,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 31, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008, and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,400,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 31, 2009 (the "Letter of Representation") among the Company, the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Georgia law and the federal law of the United States on the opinion of even date herewith of Troutman Sanders LLP (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Letter of Representation and the Note by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which it or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note and the Agreement, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

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

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6(f)(3) of the Purchase Contract insofar as such opinions relate to matters of Florida and Mississippi law.

Very truly yours,

BEGGS & LANE

EXHIBIT D
to the
Purchase Contract

[LETTERHEAD OF TROUTMAN SANDERS LLP]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Board of Commissioners
Excambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,400,000, Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,400,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 31, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008 and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,400,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 31, 2009 (the "Letter of Representation") by the Company and accepted by the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and

further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Mississippi and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane") (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System".

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. No registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offer and sale of the Bonds.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

In rendering the opinion expressed in paragraph 5 above, we have, with your consent, relied upon the legal opinion dated the date hereof, rendered to you by Balch & Bingham LLP, Bond Counsel, pursuant to the Purchase Contract to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes and have made no independent investigation with respect to such exclusion.. Our opinion herein is subject to the same assumptions, qualifications, exceptions and limitations provided for in such other opinion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

The attorneys in this firm that are rendering this opinion 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 and Mississippi.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(v) of the Purchase Contract insofar as such opinion relates to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(iii) of the Purchase Contract insofar as such opinion relates to Georgia law and the federal law of the United States.

Very truly yours,

TROUTMAN SANDERS LLP

EXHIBIT E
to the
Purchase Contract

[LETTERHEAD OF DEWEY & LEBOEUF LLP]

_____, 2009

Goldman, Sachs & Co.
New York, New York

Re: $65,400,000, Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as your counsel in connection with the purchase by the Underwriter of $65,400,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 31, 2009 (the "Purchase Contract"), between you and Escambia County, Florida (the "County").

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of Gulf Power Company (the "Company") for the fiscal year ended December 31, 2008 and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the Company and the County; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,400,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 31, 2009 (the "Letter of Representation") by the Company and accepted by the County and you; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and you, as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to us at the closing (except the Bonds, of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

We understand that included among the opinions you are receiving concurrently herewith is an opinion of Troutman Sanders LLP, counsel for the Company, and an opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), general counsel for the Company. In rendering this opinion, we have, with your consent, relied on (i) said opinion of Troutman Sanders LLP to the extent that it relates to matters of conformity to Georgia law and (ii) said opinion of Beggs & Lane to the extent that it relates to matters of conformity to the laws of the States of Florida and Mississippi. With respect to the opinion expressed in paragraph 4 below, we have, with your consent, relied on an opinion of even date herewith rendered by Balch & Bingham LLP in its capacity as Co-Bond Counsel, to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes. In each case, our opinions herein are subject to the same assumptions, qualifications, exceptions and limitations provided for in such other opinions.

Based on the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion that:

1. The Letter of Representation has been duly authorized, executed and delivered by the Company.

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of certain terms of the documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System".

4. No registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offer and sale of the Bonds.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP, with counsel for the Company and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Deloitte & Touche LLP and with counsel for the Company. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act

Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

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

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent.

Very truly yours,

DEWEY & LEBOEUF LLP

EXHIBIT F
to the
Purchase Contract

[LETTERHEAD OF DELOITTE & TOUCHE LLP]

This letter will be to the effect that:

(A) Deloitte & Touche LLP are an independent registered public accounting firm with respect to Gulf Power Company (the "Company") within the meaning of the Securities Act of 1933, as amended, and the rules and regulations thereunder; (B) at the Underwriter's request, Deloitte & Touche LLP have performed, and will report their findings as a result of performing, certain limited procedures performed through a specified date not more than five business days prior to the date of such letter, namely (i) reading of the minute books of the Company; (ii) reading of the unaudited financial statements, if any, of the Company incorporated by reference in Appendix A to the Official Statement (the "Appendix") and agreeing the amounts contained therein with the Company's accounting records; (iii) reading the unaudited financial statements of the Company, from which the unaudited amounts for Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred and Preference Stock and the unaudited Ratio of Earnings to Fixed Charges included in the Appendix are derived and agreeing the amounts contained therein with the Company's accounting records; (iv) reading the latest available unaudited financial statements of the Company, if any, for any calendar quarter subsequent to that set forth in (iii) above and agreeing the amounts contained therein and the unaudited amounts of Operating Revenues, Earnings Before Income Taxes, Net Income After Dividends on Preferred and Preference Stock and the unaudited Ratio of Earnings to Fixed Charges for the period covered by such financial statements, which amounts and ratio shall be set forth in such letter, to the Company's accounting records; and (v) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether (a) the unaudited financial statements described in (ii) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (b) the unaudited financial statements described in (iii) and (iv) are stated on a basis substantially consistent with that of the audited financial statements incorporated by reference in the Appendix; (c) the specified unaudited amounts or ratios described in (iii) and (iv) are stated on a basis substantially consistent with that of the corresponding audited amounts and ratios included or incorporated by reference in the Appendix; and (d) there has been any change in the capital stock or long-term debt or any decrease in net assets of the Company as compared with amounts shown in the latest audited balance sheet incorporated by reference in the Appendix, except in each case for changes or decreases which (i) the Appendix discloses have occurred or may occur, (ii) are occasioned by the declaration of dividends, (iii) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, or (iv) are occasioned by reclassification of current maturities of long-term debt or (v) are disclosed in such letter (it being understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, nor would they necessarily disclose changes in specified financial statement line items, inconsistencies in the application of generally accepted accounting principles, or other matters, and accordingly that Deloitte & Touche LLP make no representations as to the sufficiency of such procedures for the Underwriter's purposes).

EXHIBIT G
to the
Purchase Contract

GULF POWER COMPANY

Letter of Representation

_____, 2009

Board of County Commissioners
Escambia County, Florida

Goldman, Sachs & Co.
New York, New York

Ladies and Gentlemen:

Gulf Power Company (the "Company") delivers this Letter of Representation in order to induce Goldman, Sachs & Co., as underwriter (the "Underwriter") and Escambia County, Florida (the "County") to enter into a Purchase Contract, to be dated the date hereof (the "Purchase Contract"), with the County relating to the purchase by the Underwriter from the County of $65,400,000 in aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). The Bonds will be issued under and secured by a Trust Indenture, dated as of March 1, 2009 (the "Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used, pursuant to the terms of a Loan Agreement, dated as of March 1, 2009 (the "Agreement"), between the County and the Company, to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities located at the James F. Crist Generating Plant in Escambia County, Florida (the "Project"). The Company's payment obligations with respect to the Bonds under the Agreement will be evidenced by a non-negotiable promissory note equal in principal amount to the Bonds and bearing interest at the rate or rates borne by the Bonds (the "Note"). In addition, the Underwriter will be appointed as Remarketing Agent for the Bonds pursuant to a Remarketing Agreement with the Company dated as of March 1, 2009 (the "Remarketing Agreement"). As used in this Letter of Representation the term "Official Statement" means the Official Statement of the County, dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Appendix") and the documents incorporated in the Appendix by reference.

1. In consideration of the execution and delivery of the Purchase Contract, the Company represents, warrants and covenants to and with the Underwriter and the County that:

(a) The Company deemed the Preliminary Official Statement "final" as of its date, as described in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the

"Rule"), for purposes of the Rule, except for the omission of no more than the following information: the offering price, interest rate, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the securities depending on such matters. The Official Statement does not, and at the Closing Date (as defined in the Purchase Contract) the Official Statement, as it may be amended or supplemented, will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Letter of Representation shall apply to statements in or omissions from the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Tax Matters" or "Underwriting"or the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations" or in the statements on the cover page with respect to the initial public offering price, tax exemption and terms of offering or on the Table of Contents page with respect to stabilization. The Company hereby consents to the use by the Underwriter of the Official Statement.

(b) The financial statements of the Company contained or incorporated by reference in the Official Statement present fairly, in all material respects, the financial position of the Company as of the dates indicated and the results of its operations for the periods specified; and, except as otherwise stated in the Official Statement, said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis during the periods involved (except that the unaudited financial statements incorporated by reference in the Official Statement may be subject to normal year-end adjustments).

(c) There has not been any material adverse change in the business, properties or financial condition of the Company as a whole from that set forth in or contemplated by the Official Statement.

(d) The Company has not entered into any material transaction or incurred any material liability otherwise than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(e) This Letter of Representation has been, and the Agreement, the Remarketing Agreement and the Note, when executed and delivered by the Company, will be, duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, the Agreement and the Note will be legal, valid and binding obligations of the Company and will be enforceable in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

(f) All necessary authorizations, approvals, consents or other orders of any governmental authority or agency for the execution and delivery by the Company of the Agreement and the Remarketing Agreement and for the issuance by the Company of the Note have been obtained and are in full force and effect.

(g) The execution of this Letter of Representation, the Remarketing Agreement and the Agreement, the issuance and delivery of the Note, the consummation of the transactions herein and therein contemplated and the fulfillment of the terms hereof and thereof, did not or will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party (except for breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by the Purchase Contract and this Letter of Representation), or of the Company's charter or by-laws or, to the knowledge of the Company, any order, rule or regulation applicable to the Company of any court or of any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its activities or its properties.

(h) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation in the States of Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business.

(i) To the best of the Company's knowledge, the Securities and Exchange Commission has not issued, and is not threatening to issue, any order preventing or suspending the use of the Preliminary Official Statement, dated March 20, 2009 relating to the Bonds, including the Appendix and the documents incorporated in the Appendix by reference (the "Preliminary Official Statement") or the Official Statement.

(j) Except as disclosed in or contemplated by the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body known to the Company to be pending or threatened against or directly affecting the Company, nor to the best of the knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding (i) would have a material adverse effect on the transactions contemplated by the Purchase Contract or the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference), or (ii) would adversely affect the validity or enforceability of the Bonds, the Indenture, the Agreement, the Note, the Purchase Contract or this Letter of Representation, or any agreement or instrument to which the Company is a party, used or contemplated for use in connection with the consummation by the Company of the transactions contemplated by the Purchase Contract or by the Official Statement (excluding transactions contemplated solely by the Appendix and the documents incorporated in the Appendix by reference).

(k) The Company acknowledges the terms of the Purchase Contract as they relate to it and the Company will pay the fees, costs and expenses to be paid by it pursuant to Section 8 of the Purchase Contract (subject to the terms and conditions set forth therein).

(l) The Bonds, the Indenture, the Agreement, the Remarketing Agreement and the Note conform in all material respects to the descriptions thereof in the Official Statement.

(m) The Official Statement incorporates or will incorporate by reference

certain documents filed or to be filed by the Company with the Securities and Exchange Commission, which documents have been, and will be, prepared by the Company in conformity in all material respects with the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission thereunder, and copies of such documents have been and will be delivered to the Underwriter.

(n) The Company has within the past five years complied with all previous undertakings required pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Exchange Act.

2. The Company covenants and agrees with the County and the Underwriter that:

(a) During such period (not to exceed nine months after the Closing Date) as the Underwriter believes delivery of the Official Statement is necessary or desirable in connection with the sales of the Bonds by the Underwriter or dealers, if any, the Company will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement, insofar as it shall be known to the Company, and agrees not to effect any such amendment or supplementation of the Official Statement which is unsatisfactory in form to Dewey & LeBoeuf LLP or in substance to the Underwriter; the Company will also advise the Underwriter promptly of the institution of any proceedings by the Securities and Exchange Commission or any other action or event of which the Company is aware and which may affect the use of the Official Statement in connection with the sale and distribution of the Bonds.

(b) If, at any time prior to the completion of the sale of the Bonds by the Underwriter, when in the judgment of the Underwriter, it is necessary or desirable to deliver an Official Statement in connection with sales of the Bonds, an event occurs as a result of which in the opinion of Dewey & LeBoeuf LLP, counsel for the Underwriter, the Official Statement as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will prepare an amendment or supplement (or, in its discretion, make an appropriate filing pursuant to Section 13 or 14 of the Exchange Act) which will correct such statement or omission; provided that any such amendment or supplement which is requested by the Underwriter more than 90 days after the Closing Date shall be prepared at the Underwriter's expense.

(c) The Company will assist, if necessary therefor, in the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter shall designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Company shall not be required to qualify as a foreign corporation or to file any consents to service of process under the laws of any state or to comply with any other requirements in any jurisdiction where it is not now so qualified.

(d) The Company will not take or omit to take any action which will in any way cause the proceeds from the sale of the Bonds to be applied in a manner other than as provided in the Indenture and the Agreement.

3. (a) The Company agrees to indemnify and hold harmless the County, any official or employee of the County, the Underwriter and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), against any and all losses, claims, damages, liabilities, joint or several, and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement, or in any amendment or supplement thereto, or arising out of any omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of any such untrue statement or omission or alleged untrue statement or omission made in any such documents in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein; provided, however, that the indemnity agreement contained in this Section 3(a) shall not inure to the benefit of the Underwriter (or of any person so controlling the Underwriter) to the extent of any losses, claims, damages, liabilities or expenses arising from the sale of the Bonds to any person if a copy of the Official Statement (exclusive of the documents incorporated in Appendix A by reference), as amended or supplemented at the time of such sale, shall not have been given or sent to such person by or on behalf of the Underwriter with or prior to the written confirmation of the sale involved if the Company had previously furnished copies thereof in sufficient quantity and on a timely basis to the Underwriter as requested by the Underwriter and the loss, claim, damage or liability of such Underwriter results from an untrue statement or omission of a material fact was corrected in the Official Statement (exclusive of the documents incorporated in the Appendix by reference) as amended or supplemented at the time of such sale.

(b) The Underwriter agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, the County and any official or employee of the County, against any and all losses, claims, damages, liabilities and expenses whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Official Statement, or in any amendment or supplement thereto, or any omission or alleged omission to state therein any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such document in reliance upon and in conformity with written information furnished to the Company by the Underwriter specifically for use therein.

(c) The Company agrees with respect to any action against it, any of its directors or officers or any person controlling it as aforesaid, the Underwriter agrees with respect to any action against it or any person controlling it as aforesaid, and the County agrees with respect to any action against it, or any of its officers or employees, in respect of which indemnity may be sought hereunder, that it will promptly give written notice of the commencement of such action to the party or parties against whom indemnity may be sought; but the omission so to notify any indemnifying party will not relieve such indemnifying party from any liability which it may have to the indemnified party which failed to give such notice otherwise than under this Section 3 nor affect any rights such indemnifying party may have otherwise than under this Section 3 to participate in or assume the defense of any action brought against such indemnified party. Upon receipt of any such notice by an indemnifying party, such indemnifying party shall

be entitled to assume the defense of such action, including the employment of counsel and the payment of all expenses in connection with such defense, and will have the right to negotiate and consent to settlement; provided that the Company shall not consent to any settlement unless the settlement (i) includes an unconditional release of the Underwriter or its officers, directors and employees from all liability arising out of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Underwriter or its officers, directors and employees. Any indemnified party shall have the right to employ separate counsel in any such action against it and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been specifically authorized in writing by the indemnifying party or the indemnifying party shall have elected not to assume the defense of such action. No indemnifying party shall be liable for any settlement of any such action effected without its consent; but if any such action is settled with the consent of an indemnifying party or if there be a final judgment for the plaintiff in any such action (of which an indemnifying party shall have been notified as aforesaid), such indemnifying party shall indemnify and hold harmless each indemnified party from and against any losses, claims, damages, liabilities or expenses incurred or suffered by reason of such settlement or judgment.

4. The Company will deliver or cause to be delivered all opinions, certificates and other documents as provided for in the Purchase Contract to be delivered by it.

5. The representations and warranties of the Company and the County contained herein, or in the certificates of officers of the Company or officials of the County submitted to the Underwriter pursuant to the Purchase Contract, and the agreements of the Company and the Underwriter contained in Section 3 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the County or any of its officials or employees, the Underwriter or controlling person thereof, or the Company or any of its directors or officers or controlling persons, and shall survive the delivery of the Bonds to the Underwriter. The Company's agreement contained in Section 1(k) hereof to pay expenses shall survive the termination of the Purchase Contract and this Letter of Representation.

6. This Letter of Representation is made solely for the benefit of the County, the Underwriter and the Company, and, to the extent expressly provided herein, any person referred to in Section 3 hereof, and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds from the Underwriter merely because of such purchase.

7. The execution and delivery of this Letter of Representation by the Company shall constitute the Company's approval of and consent to the County's entering into, acceptance and execution of the Purchase Contract and performance thereunder.

8. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Florida.

9. Any notice or other communication to be given to the Company under this Letter of Representation may be given by delivering the same in writing to the Treasurer of

the Company at its address set forth below with a copy to Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, NW, Atlanta, Georgia 30308, Attention: Corporate Finance Department. Any notice or other communication to be given to the County may be given by delivering the same in writing to its address set forth in the Purchase Contract. Any notice or other communication to be given to the Underwriter may be given by delivering the same in writing at the address of the Underwriter set forth in the Purchase Contract. The Company, the County and the Underwriter shall each be fully entitled to rely upon notice given pursuant to this Section and to act thereon.

10. This Letter of Representation shall become effective upon execution thereof and the effectiveness of the Purchase Contract referred to herein. It shall terminate upon termination of the Purchase Contract.

11. This Letter of Representation may be executed in counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

Very truly yours,

GULF POWER COMPANY
One Energy Place
Pensacola, Florida 32520-0781

By: _____
Name:
Title:

Accepted and confirmed as of the
date first above written

GOLDMAN, SACHS & CO.

By: _____
(Goldman, Sachs & Co.)

The acceptance and confirmation of this Letter of Representation by the County shall constitute a representation and warranty by the County to the Company and the Underwriter that the representations and warranties contained in Section 4 of the Purchase Contract are true as of the date hereof and will be true in all material respects as of the Closing Date.

Accepted and confirmed as of the
date first above written

BOARD OF COUNTY COMMISSIONERS
Escambia County, Florida

By: _____
Name:
Title:

NEW ISSUE — BOOK-ENTRY ONLY

In the opinion of Balch & Bingham LLP, as Bond Counsel, assuming the accuracy of certain representations and certifications and compliance with certain tax covenants, interest on the Bonds is not includable in gross income for federal income tax purposes under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, except for interest on any such Bond for any period during which such Bond is held by a person who is a "substantial user" of the Project (as defined below) or a "related person" as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and is not includable in adjusted current earnings in computing the federal alternative minimum tax imposed on corporations. See "TAX MATTERS" below for a brief description of certain other possible federal tax consequences arising with respect to the Bonds. In the opinion of Balch & Bingham LLP and Lott & Associates, P.L. ("Co-Bond Counsel"), interest on the Bonds is exempt from present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

$65,400,000

Escambia County, Florida
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project)
Second Series 2009

THE BONDS ARE THE LIMITED SPECIAL OBLIGATIONS OF ESCAMBIA COUNTY, FLORIDA (THE "COUNTY") AND ARE PAYABLE SOLELY FROM THE LOAN REPAYMENTS UNDER A NOTE ISSUED PURSUANT TO A LOAN AGREEMENT WITH

GULF POWER
A SOUTHERN COMPANY

a subsidiary of The Southern Company

Dated: Date of original issuance and delivery — Due: April 1, 2039

The Bonds will bear interest from the date of their original issuance and delivery at a Daily Rate determined by Goldman, Sachs & Co. (the "Underwriter") as described under "THE BONDS—Interest" herein, payable on the fifth Business Day of each month, commencing May 7, 2009.

The Bonds are subject to redemption, optional tender and mandatory tender as described under "THE BONDS—Redemption," "THE BONDS—Optional Tender for Purchase" and "THE BONDS—Mandatory Tender for Purchase" below.

Subject to satisfaction of certain conditions in the Indenture pursuant to which the Bonds are issued, Gulf Power Company (the "Company") may from time to time change the method of determining the interest rate on the Bonds to a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate, as more fully described under "THE BONDS—Determination Methods" below.

The Bonds will be issuable as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. During a Daily Rate Period, the Bonds will be issued in denominations of $100,000 and integral multiples thereof. Purchases will be made in book-entry form through DTC participants and no physical delivery of Bonds will be made to purchasers, except as otherwise described in this Official Statement. Payments of principal of, premium, if any, and interest on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as Trustee and Paying Agent, to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry System" below.

Goldman, Sachs & Co. has been appointed as the Remarketing Agent for the Bonds.

THE BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY.

PRICE: 100%

The Bonds are offered subject to prior sale, when, as and if issued and received by the Underwriter, subject to the receipt of the opinions of Balch & Bingham LLP, Birmingham, Alabama, and Lott & Associates, P.L., Pensacola, Florida, as Co-Bond Counsel, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed on for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, and for the Underwriter by its counsel, Dewey & LeBoeuf LLP, New York, New York. The Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about March 31, 2009.

Goldman, Sachs & Co.

March 26, 2009

The information contained in this Official Statement has been obtained from the Company, DTC or other sources that are believed to be reliable. No representation or warranty is made as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation by the Underwriter. The County has not provided any information for inclusion in this Official Statement except with respect to the information under the caption "THE COUNTY" and takes no responsibility for any other information contained in this Official Statement. This Official Statement is submitted in connection with the sale of securities as referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein or in the Appendix hereto (including the documents incorporated therein by reference) is correct as of any time subsequent to its date.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or any other person has been authorized by the County, by the Company or by the Underwriter to give any information or to make any representation other than as contained in this Official Statement or in the Appendix hereto (including the documents incorporated therein by reference) in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING REGULATORY AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING" HEREIN.

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OFFICIAL STATEMENT

$65,400,000

Escambia County, Florida
Solid Waste Disposal Revenue Bonds
(Gulf Power Company Project)
Second Series 2009
Due April 1, 2039

INTRODUCTORY STATEMENT

This Official Statement of the County, including the cover page and the Appendix, is provided to furnish information in connection with the sale of $65,400,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). The Bonds are to be dated as of the date of their initial issuance, and, subject to prior redemption as hereinafter set forth, will mature on the date set forth on the cover page hereof.

The Bonds are to be issued pursuant to a Trust Indenture dated as of March 1, 2009 (the "Indenture") between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to provide funds to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant"), which is owned and operated by the Company.

The County will loan to the Company the proceeds of the Bonds pursuant to a Loan Agreement dated as of March 1, 2009 (the "Agreement"). In order to evidence the loan from the County (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient to pay when due the principal of, premium, if any, and interest on, and the purchase price of, the Bonds.

The Bonds initially will bear interest at a Daily Rate. The interest rate determination method on the Bonds may be converted, at the option of the Company, from the Daily Rate to a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate in accordance with the Indenture, in each case following mandatory tender for purchase upon not less than 15 days' prior written notice to the owners of the Bonds. THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT AN INTEREST RATE OTHER THAN THE DAILY RATE MODE DESCRIBED HEREIN.

The Bonds will be limited special obligations of the County payable solely from and secured by revenues and proceeds to be received by the County pursuant to the Note. The Bonds will be secured by an assignment and pledge to the Trustee of substantially all of the County's right, title and interest in and to the Note and the Agreement.

There follow brief descriptions of the County, the use of the proceeds of the Bonds, the Bonds, the Agreement and the Indenture. Information with respect to the Company, including certain financial statements, is set forth or incorporated by reference in Appendix A hereto.

The descriptions and summaries herein do not purport to be complete, and reference is made to each document for the complete details of all of its terms and conditions. Terms not defined herein have the meanings set forth in the Agreement and the Indenture, copies of which are available for inspection, during the initial offering period of the Bonds, at the offices of Southern Company Services, Inc., 30 Ivan Allen Jr. Boulevard, Atlanta, Georgia 30308, Attention: Wayne Boston. The statements made herein are qualified in their entirety by reference to each such document.

THE COUNTY

The County is a political subdivision of the State of Florida, duly created and validly existing pursuant to the Constitution and the laws of the State of Florida.

THE BONDS AND THE INTEREST THEREON SHALL NOT BE DEEMED TO BE A GENERAL OBLIGATION OR A PLEDGE OF THE FAITH, CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE COUNTY, BUT SHALL BE LIMITED AND SPECIAL OBLIGATIONS PAYABLE SOLELY FROM THE PROCEEDS DERIVED BY THE COUNTY UNDER THE AGREEMENT AND THE NOTE, AND NEITHER THE COUNTY NOR THE STATE OF FLORIDA, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL EVER BE REQUIRED TO (I) LEVY AD VALOREM TAXES ON ANY PROPERTY WITHIN ITS TERRITORIAL LIMITS TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS OR TO MAKE ANY OTHER PAYMENTS PROVIDED FOR UNDER THE INDENTURE OR UNDER THE AGREEMENT OR THE NOTE FOR THE BONDS OR (II) PAY THE SAME FROM ANY FUNDS OF THE COUNTY OTHER THAN THOSE DERIVED BY THE COUNTY UNDER THE AGREEMENT OR THE NOTE, AND SUCH BONDS SHALL NOT CONSTITUTE A LIEN UPON ANY PROPERTY OWNED BY OR SITUATED WITHIN THE TERRITORIAL LIMITS OF THE COUNTY EXCEPT THE PROCEEDS DERIVED UNDER THE AGREEMENT AND THE NOTE.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, PURCHASE PRICE OR INTEREST ON, ANY OF THE BONDS OR FOR ANY CLAIM BASED THEREON OR UPON ANY OBLIGATION, PROVISION, COVENANT OR AGREEMENT CONTAINED IN THE INDENTURE OR ANY OTHER DOCUMENT OF THE COUNTY, AGAINST ANY PAST, PRESENT OR FUTURE OFFICER, OFFICIAL, EMPLOYEE OR AGENT OF THE COUNTY, OR ANY OFFICER, OFFICIAL, EMPLOYEE OR AGENT OF ANY SUCCESSOR TO THE COUNTY, AS SUCH, EITHER DIRECTLY OR THROUGH THE COUNTY OR ANY SUCCESSOR TO THE COUNTY, UNDER ANY RULE OF LAW OR EQUITY, STATUTE OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY SUCH OFFICER, OFFICIAL, EMPLOYEE OR AGENT AS SUCH IS EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF AND IN CONSIDERATION FOR THE EXECUTION OF THE INDENTURE AND THE ISSUANCE OF ANY OF THE BONDS. NEITHER THE OFFICERS OF THE COUNTY NOR ANY PERSON EXECUTING THE BONDS ARE PERSONALLY LIABLE ON THE BONDS BY REASON OF THE ISSUANCE THEREOF.

EXCEPT FOR INFORMATION CONCERNING THE COUNTY UNDER THIS CAPTION AND THE LAST SENTENCE UNDER THE CAPTION "DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS," NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE COUNTY, AND THE COUNTY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

USE OF BOND PROCEEDS

The proceeds received by the County from the sale of the Bonds will be deposited in the construction fund created under the Indenture (the "Construction Fund"), to be used to pay or reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the Bonds.

It is anticipated that a total of approximately $437,500 will be expended by the Company for legal, accounting, printing and other fees in connection with the issuance of the Bonds. See also "UNDERWRITING" herein.

THE BONDS

The Indenture provides that the method of determining the interest rate on the Bonds may be changed from time to time. This Official Statement does not provide any information regarding the Bonds after the date, if any, on which the Bonds convert to bear interest, as permitted by the Indenture, at interest rates other than the Daily Rate described herein. The Bonds are subject to mandatory tender upon any such conversion. See "—Mandatory Tender for Purchase" below. Holders of the Bonds will have no right of election to retain the Bonds if the Company decides to convert the interest rate determination method for the Bonds to another interest rate determination method.

Description

The Bonds will mature on the date set forth on the cover page of this Official Statement. Interest on the Bonds will initially be payable at the Daily Rate. The Company may change the interest rate determination method for the Bonds from time to time as described below under "—Determination Methods." A change in the interest rate determination method for the Bonds will result in the mandatory tender of the Bonds, as described below under "—Mandatory Tender for Purchase."

The Bonds will initially be issued as fully registered bonds without coupons and in authorized denominations of $100,000 or any integral multiple thereof. The Bonds will initially be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"). DTC will act as the initial securities depository (the "Securities Depository") for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of such Bonds, references in this Official Statement to the Bondholders or registered owners or holders shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the Direct or Indirect Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See "—Book-Entry System" below.

The Bank of New York Mellon Trust Company, N.A. (the "Trustee") is the trustee under the Indenture. A principal corporate trust office of The Bank of New York Mellon Trust Company, N.A. is currently located in Atlanta, Georgia. The Trustee may be removed at any time by the holders of a majority in aggregate principal amount of the Bonds at the time outstanding. Any resignation of the Trustee will become effective upon the acceptance of appointment by the successor Trustee. See "THE TRUSTEE" below.

Goldman, Sachs & Co. has been appointed as remarketing agent (the "Remarketing Agent") for the Bonds under the Indenture. See "THE REMARKETING AGREEMENT" below.

Interest

While the Bonds bear interest at a Daily Rate, interest shall be payable to the registered holder of the Bonds as of the Record Date (as defined below) by check mailed by first-class mail on the Interest Payment Date (as defined below) to such holder's registered address. When the Bonds are held in book-entry form, such payments will be made to DTC as record owner (see "—Book Entry System") below in accordance with DTC's procedures.

"Record Date" means, with respect to Bonds bearing interest at a Daily Rate, the last Business Day (as defined below) of each month. "Interest Payment Date" means, with respect to Bonds bearing interest at a Daily Rate, the fifth Business Day of the following month. "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Atlanta, Georgia, or the city in which the principal corporate trust office of the Trustee may be located, are authorized by law to close, or (iii) a day on which the New York Stock Exchange or the Federal Reserve System is closed.

Interest on the Bonds will accrue from the first day of the month (unless no interest has been paid or duly provided for on the Bonds in which case interest shall accrue from the date of issuance) until the last day of the month and will be paid on the fifth Business Day of the following month. Interest will be computed on the basis of the actual number of days elapsed over a year of 365 days (366 days in leap years). Interest on overdue principal and, to the extent lawful, on overdue premium and interest will be payable at the rate on the Bonds on the day before the default occurred. While there exists an Event of Default under the Indenture, the interest rate on the Bonds will be the rate on the Bonds on the day before the Event of Default occurred.

The Remarketing Agent will set a Daily Rate on or before 11:00 A.M., New York City time, on each Business Day for that Business Day. Each Daily Rate will be the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day the Daily Rate is set at their principal amount (without regard to accrued interest). The Daily Rate for any non-Business Day will be the rate for the last day for which a rate was set.

Fallback Interest Period and Rate

If the appropriate Daily Rate is not or cannot be determined for any reason, the method of determining interest on the Bonds will be automatically converted to the Weekly Rate (without the necessity of complying with the requirements of the Indenture described under "—Determination Methods" below) and the interest rate will be equal to the SIFMA Index plus the SIFMA Margin (each as defined below) or, if the SIFMA Index is unavailable, the LIBOR Index multiplied by the LIBOR Percentage (each as defined below) or, if the LIBOR Index is unavailable, 90% of the 30-day Treasury rate as provided to the Trustee in writing by the Remarketing Agent, until such time as the method of determining interest on the Bonds can be changed in accordance with the Indenture. The Trustee will promptly notify the Bondholders of any such automatic change as set forth in the Indenture.

"SIFMA Index" means, as of any date, the rate calculated according to The Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index composed of weekly, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or any successor thereto, or as otherwise designated by The Securities Industry and Financial Markets Association.

"LIBOR Index" means, the Reported Rate for deposits in U.S. dollars having an index maturity of one month for a period commencing on the second London Business Day immediately following the date of determination, in amounts of not less than $1,000,000, at approximately 11:00 A.M., London time, on the date of determination.

"LIBOR Percentage" means the minimum percentage of the LIBOR Index and "SIFMA Margin" means the minimum number of basis points above or below the SIFMA Index, in each case, that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds

known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

Calculation and Notice of Interest

The Remarketing Agent will provide the Trustee and the Company with notice in writing or by Electronic Means (as defined below) by 12:30 P.M., New York City time, on the first Business Day after a month in which interest on the Bonds was payable at a Daily Rate, of the Daily Rate for each day in such month, and on any Business Day preceding any redemption or purchase date, any interest rate requested by the Trustee in order to enable it to calculate the accrued interest, if any, due on such redemption or purchase date. Using the rates supplied by such notice, the Trustee will calculate the interest payable on the Bonds. The Trustee will confirm the effective interest rate by telephone or in writing (including by Electronic Means) to any Bondholder who requests it in writing (including by Electronic Means).

"Electronic Means" means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

The setting of the rates by the Remarketing Agent and the calculation of interest payable on the Bonds by the Trustee as provided in the Indenture will be conclusive and binding on the County, the Company, the Trustee and the owners of the Bonds.

Special Considerations Relating to the Bonds

The Remarketing Agent is Paid by the Company

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement (as defined herein)), all as further described in this Official Statement. The Remarketing Agent is appointed by the Company and is paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

The Bonds May be Offered at Different Prices on Any Date

Pursuant to the Indenture, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the minimum rate necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the Bonds on the day

the rate is set at their principal amount (without regard to accrued interest). The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the interest rate on the Bonds is set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the interest rate on the Bonds is set, at a discount to par to some investors.

The Ability to Sell the Bonds other than through the Tender Process May Be Limited

The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named

Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Security

The Bonds are limited special obligations of the County, payable by the County solely from and secured by an assignment and pledge by the County to the Trustee of its right to payments by the Company pursuant to the Note.

The County will assign to the Trustee, for the benefit of the holders of the Bonds, all of its right, title and interest in and to the Agreement and the Note and all amounts payable thereunder (except for certain amounts payable under the Agreement in respect of indemnification and certain fees and expenses). The payments by the Company under the Note are required to be made to the Trustee and to be equal, together with other moneys available therefor, to the amount of principal, premium, if any, and interest required to be paid on the Bonds, whether at stated maturity, upon redemption or declaration, or otherwise.

The Bonds and the interest thereon shall not be deemed to be a general obligation or a pledge of the faith, credit or taxing power of the State of Florida or any political subdivision thereof, including the County, but shall be limited and special obligations payable solely from the proceeds derived by the County under the Agreement and the Note, and neither the County nor the State of Florida, nor any political subdivision thereof, shall ever be required to (i) levy ad valorem taxes on any property within its territorial limits to pay the principal of, premium, if any, or interest on the Bonds or to make any other payments provided for under the Indenture or under the Agreement or the Note or (ii) pay the same from any funds of the County other than those derived by the County under the Agreement or the Note, and such Bonds shall not constitute a lien upon any property owned by or situated within the territorial limits of the County except the proceeds derived under the Agreement and the Note.

Determination Methods

The Bonds may be converted, at the option of the Company, to bear interest at a Weekly Rate, a Commercial Paper Rate, an Index Rate or a Long-Term Interest Rate. On the conversion date applicable to the Bonds, the Bonds shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest (see "—Mandatory Tender for Purchase" below). It is currently anticipated that,

should the Bonds be converted to bear interest at a new interest rate mode, a new reoffering memorandum or reoffering circular will be distributed describing the Bonds while they bear interest in such interest rate mode. Holders of the Bonds will have no right of election to retain the Bonds if the Company decides to convert the interest rate determination method for the Bonds to another interest rate determination method.

THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT INTEREST RATES OTHER THAN A DAILY RATE.

Optional Tender for Purchase

While the Bonds bear interest at a Daily Rate, the holder of any Bond may elect to have its Bond (or any portion of its Bond equal to the lowest authorized denomination or whole multiples thereof) purchased by the Trustee at 100% of the principal amount thereof plus interest accrued to the date of purchase, as described below.

When interest on a Bond is payable at a Daily Rate and a book-entry system is in effect, a Beneficial Owner of such Bond (through its Direct Participant in the Securities Depository) may tender its interest in a Bond (or portion of Bond) by delivering an irrevocable written notice or an irrevocable telephone notice, promptly confirmed in writing, to the Trustee (any such telephone notice must be delivered to a responsible officer of the Trustee) and an irrevocable notice in writing or by Electronic Means to the Remarketing Agent, in each case by 11:00 A.M., New York City time, on a Business Day, stating the principal amount of the Bond (or portion of Bond) being tendered, payment instructions for the purchase price and the Business Day (which may be the date the notice is delivered) the Bond (or portion of Bond) is to be purchased. The Beneficial Owner shall effect delivery of such Bond by causing such Direct Participant to transfer its interest in the Bond equal to such Beneficial Owner's interest on the records of the Securities Depository to the participant account of the Trustee or its agent with the Securities Depository. Any notice received by the Trustee after 11:00 A.M., New York City time, will be deemed to have been given on the next Business Day.

When interest on a Bond is payable at a Daily Rate and a book-entry system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering (i) the notices described above (which must include the certificate number of the Bond) and (ii) the Bond to the Trustee by 1:00 P.M., New York City time, on the date of purchase.

Payment of the purchase price of Bonds to be purchased upon optional tender as described above will be made by the Trustee in immediately available funds (to the registered owner of the Bond) by the close of business on the date of purchase. During a Daily Rate Period, if a Bond is tendered after the Record Date and before the Interest Payment Date for that interest period, the Trustee will pay a purchase price of principal plus interest accruing after the last day of that interest period. The tendering holder will receive interest for that interest period from the Trustee pursuant to the usual procedures for the payment of interest.

Bonds for which the owners have given notice of tender for purchase but which are not delivered on the tender date shall be deemed tendered. Bonds tendered for purchase on a date after a call for redemption has been given but before the redemption date will be purchased pursuant to the tender.

Notice in respect of tenders and Bonds tendered must be delivered as follows:

Trustee
The Bank of New York Mellon Trust Company, N.A.
900 Ashwood Parkway, Suite 425
Atlanta, Georgia 30338
Attention: Corporate Trust Department
Telephone: (770) 698-5188
Telecopy: (770) 698-5195

Remarketing Agent
Goldman, Sachs & Co.
85 Broad Street, 29th Floor
New York, New York 10004
Attention: Municipal Money Market Desk
Telephone: (212) 902-6633
Fax: (212) 428-3132
E-mail: gs-vrdb@gs.com

Irrevocability

Each notice of tender by a Bondholder, whether delivered in writing or by Electronic Means, will automatically constitute an irrevocable tender for purchase of the Bond (or portion thereof) to which the notice relates on the purchase date at a price equal to 100% of the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the purchase date. The determination of the Trustee as to whether a notice of tender has been properly delivered will be conclusive and binding upon the Bondholders.

Unless the Bonds are held in DTC's book-entry system, the Trustee may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. If any owner of a Bond who gave notice of optional tender or which is subject to mandatory tender fails to deliver its Bond to the Trustee at the place and on the applicable date and time specified, or fails to deliver its Bond properly endorsed, and moneys for the payment of such Bond are on deposit with the Trustee, its Bond shall constitute an undelivered Bond as described in the Indenture and interest shall cease to accrue on his Bonds as of the tender date and such owner shall have no right under the Indenture other than the right to receive payment of the tender price thereof on the date specified in the notice.

Remarketing and Purchase

Except to the extent the Company directs the Remarketing Agent not to remarket Bonds and except as otherwise provided in the Indenture, the Remarketing Agent for the Bonds will offer for sale and use reasonable efforts to sell all Bonds tendered for purchase (as described below) and, when directed by the Company, any Bonds held by the Company, at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Trustee will pay the purchase price of the Bonds tendered for purchase first from the proceeds of the remarketing of such Bonds and, if such remarketing proceeds are insufficient, from moneys made available by the Company pursuant to the Agreement and the Note. The Company is obligated under the Agreement and the Note to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed. See "THE REMARKETING AGREEMENT" below.

Although it is not obligated to do so, the Company currently expects that it will, at all times while the Bonds may be tendered for purchase, maintain arrangements for a line or lines of credit or similar facility or facilities with such banks or other lenders as the Company may determine in its sole discretion to provide for the Company's sole benefit liquidity support for its unconditional obligation to purchase Bonds.

Mandatory Tender for Purchase

The Bonds are subject to mandatory tender for purchase, upon 15 days' notice to the Bondholders, at a purchase price equal to 100% of the principal amount thereof, plus accrued interest to the purchase date, on the effective date of any conversion of the Bonds from the initial interest rate mode described in this Official Statement to another interest rate mode. See "—Determination Methods" above. If Bonds are purchased by the Company, such Bonds remain outstanding and may be offered for sale in a different interest rate mode pursuant to the terms of the Indenture.

In the event that notice is given of a mandatory tender for purchase of the Bonds, each Bondholder, in order to receive payment of the tender price for the Bonds owned by such owner, must deliver such Bonds in accordance with the instructions provided in such notice of mandatory tender for purchase. In the event that a Bondholder shall fail to tender any such Bond as required by such notice, such Bond shall nevertheless be deemed to have been tendered for purchase if moneys are available for the payment of the tender price thereof, and the Trustee shall hold the tender price for such Bond uninvested and without any further liability for interest thereon until such Bond is tendered as provided in such notice.

Redemption

Optional Redemption: The Bonds may be redeemed in whole or in part, at the request of the Company, on any Business Day, at a redemption price of 100% of the principal amount being redeemed plus interest accrued to the redemption date, except that interest accruing at a Daily Rate will be paid on the fifth Business Day following the redemption date.

Extraordinary Optional Redemption: The Bonds are subject to redemption in whole at any time prior to maturity at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, but without premium at any time, upon receipt by the Trustee and the County of a written notice from the Company stating that the Company has determined that:

(a) any federal, state or local body exercising governmental or judicial authority has taken any action which results in the imposition of unreasonable burdens or excessive liabilities with respect to the Project or the Plant, rendering impracticable or uneconomical the operation by the Company of either the Project or the Plant, including, without limitation, the condemnation or taking by eminent domain of all or substantially all of the Project or the Plant; or

(b) changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes have made the continued operation of the Plant as an efficient generating facility uneconomical; or

(c) the Project or the Plant has been damaged or destroyed to such an extent that it is not practicable or desirable to rebuild, repair or restore the Project or the Plant.

Notice of Redemption

At least 30 days before the redemption date of any Bonds, the Trustee shall cause a notice of any such redemption to be mailed first-class, postage prepaid, to all registered owners of Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Trustee. No further interest will accrue on the principal of any Bonds called for redemption after the redemption date if notice has been duly given and payment of the redemption price thereof and accrued interest has been duly provided for, and the owners of such Bonds will have no rights with respect to such Bonds except to receive payment of the redemption price thereof and interest accrued to the redemption date. With respect to an optional redemption of any Bonds under "— *Extraordinary Optional Redemption*" above, unless moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may state that said redemption shall be conditional upon receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the County shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Partial Redemption

If fewer than all of the Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed by lot or other method it deems fair and appropriate, except that the Trustee will first select any Bonds owned by the Company or its nominees or held by the Trustee for the account of the Company or its nominees. The Trustee will

make selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination.

Book-Entry System

DTC will act as the initial Securities Depository for the Bonds. The Bonds will be issued only as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully-registered global bond certificates will be issued for the Bonds, representing in the aggregate the total principal amount of the Bonds, and will be deposited with the 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 (the "Indirect Participants"). DTC has Standard & Poor's, a division of The McGraw-Hill Companies, Inc.'s highest rating: AAA. The DTC rules applicable to Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The contents of such websites do not constitute part of this Official Statement.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, 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 Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Although voting with respect to the Bonds 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by 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 accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, the Company, the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to the Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Direct or Indirect Participant, to the Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Direct or Indirect Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of the Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, certificated Bonds will be required to 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 Depository) with respect to the Bonds. The Company understands, however, that under current industry practices, DTC would notify its Direct or Indirect Participants of the Company's decision but will only withdraw beneficial interests from a Bond at the request of any Direct or Indirect Participant. In that event, certificates for the Bonds 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 County, the Company, the Underwriter and the Trustee believe to be reliable, but none of the County, the Company, the Trustee or the Underwriter takes any responsibility for the accuracy of such statements. None of the County, the Company, the Underwriter or the Trustee has any 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.

In the event that the book-entry system is discontinued, a Bondholder may transfer or exchange the Bonds in accordance with the Indenture. The Trustee will require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Except in connection with the purchase of Bonds tendered for purchase, the Trustee is not required to transfer or exchange any Bond which has been called for redemption or during the period beginning 15 days before mailing a notice of redemption of the Bonds or any portion of the Bonds and ending on the redemption date. In addition, in case of such discontinuance, an additional or co-paying agent may be designated.

THE AGREEMENT

Issuance of the Bonds; Construction of the Project

The County will issue the Bonds and loan the proceeds of the sale thereof to the Company, which proceeds will be applied as described under "USE OF BOND PROCEEDS" herein. The Company agrees to cause the Project to be acquired, constructed, installed and equipped substantially in accordance with the plans and specifications as provided in the Agreement.

The Trustee is authorized under the Indenture to make payments from the Construction Fund to pay the Cost of Construction, as defined in the Agreement, or to reimburse the Company for any Cost of Construction paid or incurred by the Company, upon the receipt of written requisitions of the Company. The Agreement provides that if the Company should pay any excess Cost of Construction, it shall not be entitled to any diminution of the amounts payable by it under the Note and the Agreement.

Repayment of the Loan and Other Amounts Payable

In order to evidence the Loan and the Company's obligation to repay the same, the Company will execute and deliver the Note in a principal amount equal to the aggregate principal amount of the Bonds and providing for payments which correspond in time and amount with payments due with respect to the principal of, premium, if any, interest on, or purchase price of the Bonds, whenever and in whatever manner the same shall become due, whether at maturity, prior redemption or otherwise. The Note shall be dated the date of the initial issuance of, and mature on the same maturity date as, the Bonds. The Company will also pay the purchase price of Bonds required to be purchased under the terms of the Indenture to the extent there are no remarketing proceeds to pay such amounts. In the event there are available moneys on deposit with the Trustee on any payment date, such moneys will be credited against the payment then due.

The Company will also pay the fees and charges of the Trustee and any paying agents and tender agents under the Indenture and any expenses in connection with any redemption of the Bonds.

Term of Agreement

The Agreement shall remain in full force and effect until such time as all of the outstanding Bonds have been fully paid or provision made therefor in accordance with the terms of the Indenture, whichever shall first occur, and the fees and expenses of the Trustee and any paying agents and all other amounts payable by the Company under the Agreement and the Note shall have been paid.

Obligations of the Company Unconditional

The Company agrees that its obligations to make payments as provided in the Note and to perform and observe the other agreements on its part contained in the Agreement are absolute and unconditional notwithstanding, among other things, any changes in the tax or other laws of the United States of America or of the State of Florida or any political subdivision of either thereof or any failure by the County to perform its obligations under the Agreement.

Assignment and Pledge

The County will assign to the Trustee as security under the Indenture all of its right, title and interest of the County in and to (i) the Note and all payments thereunder, (ii) the Agreement and all monies receivable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses) and (iii) amounts held in the bond fund created under the Indenture (the "Bond Fund") and the Construction Fund as provided in the Indenture. The Company will assent to such assignment and will agree that, as to the Trustee, its obligations to make such payments will be absolute and not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the County or the Trustee of any obligation to the Company, whether under the Agreement or otherwise, or out of any indebtedness or liability at any time owing to the Company by the County or the Trustee.

Consolidation, Merger or Sale of Assets

The Company agrees that during the term of the Agreement it will maintain its corporate existence and qualification to do business in the State of Florida, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided that, the Company may consolidate with or merge into another domestic corporation (i.e., a corporation incorporated and existing under the laws of one of the states of the United States of America or under the laws of the United States of America) or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided, in the event the Company is not the surviving, resulting or transferee corporation, that the surviving, resulting or transferee corporation assumes, accepts and agrees in writing to pay and perform all of the obligations of the Company under the Agreement and the Note and is incorporated in or qualified to do business in Florida as a foreign corporation and that such consolidation or merger does not result in the loss of the exclusion from gross income for federal income tax purposes of interest on the outstanding Bonds.

Defaults and Remedies; Force Majeure

The Agreement provides that the happening of one or more of the following events will constitute an "Event of Default": (a) failure by the Company to pay when due the amounts required to be paid pursuant to the Note, which failure, in the case of such amounts in respect of interest on any Bond, continues for five days; (b) failure by the Company to pay within 30 days of the date due any other amounts required to be paid pursuant to the Agreement; (c) failure by the Company to observe and perform any other of its covenants, conditions or agreements under the Agreement for a period of 90 days after written notice from the County or the Trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of the Company.

Under the terms of the Agreement, certain of the Company's obligations referred to in clause (c) of the preceding paragraph may be suspended if by reason of force majeure (as defined in the Agreement) the Company is unable to carry out such obligations.

Whenever an Event of Default shall have occurred and be continuing, the Issuer may, in addition to any other remedy now or hereafter existing at law, in equity or by statute, take either or both of the following remedial steps: (a) declare all amounts payable pursuant to the Note to be immediately due and payable and (b) take whatever action at law or in equity may appear necessary or desirable to collect the amounts referred to in (a) above then due and thereafter to become due under the Note or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement.

Any amounts collected pursuant to any above action taken will be deposited with the Trustee and applied in accordance with the provisions of the Indenture, or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture) and the fees and expenses of the Trustee, paying agents and tender agents and all other amounts required to be paid under the Indenture shall have been paid, returned to the Company.

Amendment of the Agreement

Prior to the payment of the Bonds in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), the Agreement may not be terminated and may not be effectively amended, changed or modified except in accordance with the Indenture. See "THE INDENTURE — Amendment of the Agreement" below.

THE INDENTURE

Construction Fund

The proceeds from the sale of the Bonds will be deposited in the Construction Fund together with all investment proceeds received from investment of moneys in the Construction Fund. Such proceeds and any other moneys deposited in the Construction Fund shall be applied to the payment of, or reimbursement to the Company for, the cost of financing or refinancing the acquisition, construction, installation and equipping of the Project. See "THE AGREEMENT—Issuance of the Bonds; Construction of the Project" above.

The Indenture provides that upon completion of the Project any moneys remaining in the Construction Fund shall be used to redeem outstanding Bonds in accordance with the Indenture. Until so used, such moneys shall, at the direction of the Company, be paid into either the Construction Fund or the bond fund created under the Indenture (the "Bond Fund") (but only to such extent as, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds, will not cause the interest on the Bonds to be included in gross income for federal income tax purposes), or be used for any other purpose which, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds, is permissible under Florida law and will not cause the loss of the exclusion from gross income for federal income tax purposes of the interest on the Bonds. Amounts approved by the Company, however, shall be retained by the Trustee in the Construction Fund for payment of any Cost of Construction not then due and payable or which is in dispute.

Permitted Investments

Except as otherwise provided in the Indenture, any moneys held by the Trustee shall be invested and reinvested by the Trustee, at the written direction of the Company to the extent permitted by law, in: (a) Government Obligations (as defined under "—Defeasance" below); (b) bonds and notes of the Federal Land Bank; (c) obligations of the Federal Intermediate Credit Bank; (d) obligations of the Federal Bank for Cooperatives; (e) bonds and notes of Federal Home Loan Banks; (f) negotiable or non-negotiable certificates of deposit, time deposits or similar banking arrangements, issued by a bank or trust company (which may be the commercial banking department of the Trustee or any bank or trust company under common control with the Trustee) or savings and loan association which are insured by the Federal Deposit Insurance Corporation or secured as to principal by Government Obligations; (g) investments made in or through the Trustee's cash sweep accounts or other short-term investment funds, the assets of which consist of Government Obligations; or (h) other investments then permitted by law.

Default Under the Indenture

The following shall be "Events of Default" under the Indenture: (a) default in the payment of any interest on any Bond outstanding under the Indenture when due and as the same shall become due and payable, which default continues for five days; (b) default in the due and punctual payment of principal on any Bond when due and payable, whether at maturity, upon redemption, or by declaration or otherwise; (c) default in the due and punctual payment of the purchase price of any Bond required to be purchased in accordance with its terms; and (d) the occurrence and continuance of an "Event of Default" under the Agreement.

Remedies Under the Indenture

Upon the occurrence of an Event of Default, the Trustee may, and upon written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the County and the Company, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable.

If, after the principal of the Bonds and the accrued interest thereon have been so declared due and payable, all arrears of interest and interest on overdue installments of interest (if lawful) and the principal and premium, if any, on all Bonds then outstanding which shall have become due and payable other than by acceleration, and all other sums payable under the Indenture or upon the Bonds, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, are paid by the County and the County also performs all other things in respect of which it may have been in default under the Indenture and pays the reasonable charges of the Trustee, the Bondholders and any trustee appointed under law, including the Trustee's reasonable attorneys' fees then, and in every such case, the Trustee shall annul such declaration and its consequences, and such annulment shall be binding upon all holders of the Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

If an Event of Default occurs and is continuing, subject to the Indenture, the Trustee before or after declaring the principal of the Bonds and the interest accrued thereon immediately due and payable may, and upon request of the holders of at least 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the County and the Company, pursue any available remedy, including appointment of a receiver, by proceeding at law or in equity available to the Trustee under the Agreement or the Note to collect the principal of or interest on the Bonds or to enforce the performance of any provision of the Bonds, the Indenture, the Agreement or the Note. The Trustee, as the assignee of all the right, title and interest of the County in and to the Agreement and the Note, may enforce each and every right granted to the County under the Agreement and the Note. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondholders. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding shall, by notice in writing delivered to the County and the Company and receipt of indemnity to its satisfaction shall, in its own name: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the County to enforce any rights under the Agreement and the Note and to require the County to carry out any other provisions of the Indenture for the benefit of the Bondholders and to perform its duties under the Act; (b) bring suit upon the Bonds; (c) by action or suit in equity require the County to account as if it were the trustee of an express trust for the Bondholders; or (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

No remedy conferred upon or reserved to the Trustee or to the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence and continuance of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under the Indenture, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate with such powers as the court making such appointment shall confer.

In the event of a bankruptcy or reorganization of the Company, the Trustee may file a proof of claim on behalf of all Bondholders with respect to the obligations of the Company pursuant to the Agreement and the Note.

A Bondholder may not pursue any remedy with respect to the Indenture or the Bonds unless (a) the Bondholder gives the Trustee notice stating that an Event of Default is continuing, (b) the holders of at least 25% in principal amount of the Bonds then outstanding make a written request to the Trustee to pursue the remedy, (c) such Bondholder or Bondholders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense (including reasonable attorneys' fees) and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity. Nothing contained in the Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the stated maturity thereof.

A Bondholder may not use the Indenture to prejudice the rights of another Bondholder or to obtain a preference or priority over the other Bondholders.

Notwithstanding any other provision of the Indenture, the right of any Bondholder to receive payment of principal of, premium, if any, and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of the Bondholder.

Waivers of Events of Default

The holders of a majority in principal amount of the Bonds then outstanding, by written notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent to it. The holders of a majority in principal amount of the Bonds then outstanding may, in writing, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of other Bondholders or would involve the Trustee in personal liability.

Defeasance

Any Bond will be deemed paid for all purposes of the Indenture when (a) payment of the principal of, premium, if any, and interest (which, except for Bonds which bear interest at a Long-Term Interest Rate, shall be calculated at the Maximum Interest Rate, and which, when Bonds bear interest at a Long-Term Interest Rate, shall be calculated at such Long-Term Interest Rate) on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee in trust (A) moneys in an amount which are sufficient to make such payment and/or (B) Government Obligations maturing as to principal and interest in such amounts and at such times as will insure, without any further investment, the availability of sufficient moneys to make such payment, and (b) all compensation and reasonable costs and expenses of the Trustee (including reasonable attorneys' fees) pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction. When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Indenture or be an obligation of the County and shall be payable solely from the moneys or Government Obligations described above, except that such Bond may be tendered if and as provided in the Bonds and it may be registered as transferred, exchanged, registered, discharged from registration or replaced as provided in the Indenture.

Notwithstanding the foregoing, upon the deposit of funds or Government Obligations under clause (a)(2) above, the purchase price of tendered Bonds shall be paid from the sale of Bonds under the Indenture. If payment of such purchase price is not made from the sale of Bonds pursuant to the Indenture, payment shall be made from funds (or Government Obligations) on deposit pursuant to the Indenture without the need of any further instruction or direction by the Company, in which case such Bonds shall be surrendered to the Trustee and cancelled.

Notwithstanding the foregoing, no deposit under clause (a)(2) above shall be deemed a payment of a Bond until (1) the Company has furnished the Trustee a Favorable Opinion of Tax Counsel to the effect that (a) the deposit of such cash or Government Obligations will not cause the Bonds to become "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) that all of the conditions precedent to the defeasance of the Bonds have been complied with, and (2) (a) notice of redemption of the Bond is given in accordance with the Indenture or, if the Bond is not to be redeemed or paid within the next 60 days, until the Company has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (i) to notify, as soon as practicable, the owner of the Bond, in accordance with the Indenture, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond, and premium, if any, and interest on such Bond, if the Bond is to be redeemed rather than paid and (ii) to give notice of redemption not less than 30 nor more than 60 days prior to the redemption date for such Bond or (b) the maturity date of the Bond.

"Government Obligations" means (i) noncallable direct obligations of the United States for which its full faith and credit are pledged, (ii) noncallable obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States or (iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i) or (ii).

Amendment of the Indenture

Any amendment of the Indenture will be effected by a supplemental indenture entered into by the County and the Trustee. The County and the Trustee may enter into supplemental indentures without notice to or the consent of any Bondholder for the following purposes: (a) to cure any ambiguity, inconsistency, formal defect or omission; (b) to grant to the Trustee for the benefit of the Bondholders additional rights, remedies, powers or authority; (c) to subject to the Indenture additional collateral or to add other agreements of the County; (d) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (e) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of the Bonds of different authorized denominations, redemptions of portions of the Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (f) to increase or decrease the number of days specified for the giving of notices of mandatory tender and to make corresponding changes to the period for notice of redemption of the Bonds; (g) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds; (h) to evidence the succession of a new Trustee or the appointment by the Trustee or the County of a co-trustee; (i) to make any change that does not materially adversely affect the rights of any Bondholder; or (j) to make any other changes to the Indenture that take effect as to any or all remarketed Bonds following a mandatory tender.

If an amendment or supplement to the Indenture or the Bonds without any consent of the Bondholders is not permitted under the Indenture, the County and the Trustee may enter into such amendment or supplement without prior notice to any Bondholders but with the consent of the holders of at least a majority in aggregate principal amount of the Bonds then outstanding. However, without the consent of each Bondholder affected thereby, no amendment or supplement may (a) extend the maturity of the principal of, or interest on, any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or supplement, (e) impair the exclusion from federal gross income of interest on any Bond, (f) eliminate the Bondholders' rights to tender the Bonds, or any mandatory redemption or tender of the Bonds, extend the due date for the purchase of Bonds tendered by the Bondholders or call for mandatory redemption or tender or reduce the purchase or redemption price of such Bonds, (g) create a lien ranking prior to or on a parity with the lien of the Indenture on the property described in the Granting Clause of the Indenture or (h) deprive any Bondholder of the lien created by the Indenture on such property. In addition, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the Indenture for the payment

of Bonds as described under "— Defeasance" above and those Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions of the Indenture shall be made without the consent of the holder of each of those Bonds affected.

Amendment of the Agreement

The County may enter into, and the Trustee may consent to, any amendment of or supplement to the Agreement or the Note or may waive compliance by the Company of any provision of the Agreement or the Note, in each case without notice to or consent of any Bondholder if the amendment, supplement or waiver is required or permitted: (a) by the provisions of the Agreement or the Indenture; (b) to cure any ambiguity, inconsistency, formal defect or omission; (c) to identify more precisely the Project; (d) in connection with any authorized amendment of or supplement to the Indenture or (e) to make any change that, in the judgment of the Trustee, does not materially adversely affect the rights of any Bondholder.

Any other amendment, change or supplement of the Agreement or the terms of the Note may be entered into with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding.

THE TRUSTEE

The Company maintains deposit accounts and other normal banking relationships with the Trustee and its affiliates. The Company borrows from such affiliates from time to time. The Trustee and its affiliates serve as trustees under other indentures providing for certain tax-exempt bonds for the benefit of the Company or certain securities of the Company.

THE REMARKETING AGREEMENT

Goldman, Sachs & Co. has been appointed as the Remarketing Agent for the Bonds. If, and to the extent the Company directs the Remarketing Agent to remarket Bonds delivered for purchase pursuant to the Indenture, the Remarketing Agent, pursuant to and subject to the provisions of a remarketing agreement with the Company (the "Remarketing Agreement"), will offer for sale and use reasonable efforts to sell such Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date. The Remarketing Agent may resign by giving notice to the County, the Company and the Trustee (such resignation will be effective upon the appointment of a successor remarketing agent or 30 days after such notice has been sent) and may suspend remarketing upon the occurrence of certain events. The Company may remove the Remarketing Agent at any time upon 30 days' notice and appoint a successor by notifying the Remarketing Agent, the County and the Trustee.

UNDERWRITING

Goldman, Sachs & Co. (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the County at a purchase price equal to 100% of the aggregate principal amount thereof. The Company will pay to the Underwriter a fee for its services in an amount equal to $245,250.

The Underwriter has agreed to purchase the Bonds subject to all of the terms and conditions of a Purchase Contract with the County. The nature of the Underwriter's obligation is such that it must purchase all of the Bonds if any Bonds are purchased. The Company will agree to indemnify the Underwriter against certain civil liabilities, including liabilities under federal securities laws.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page. After the initial public offering, the public offering price may be changed from time to time.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriter may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

None of the County, the Company or the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, none of the County, the Company or the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their respective businesses, the Underwriter and its affiliates have engaged, and may in the future engage, in investment banking and commercial banking transactions with the Company and its affiliates.

TAX MATTERS

In the opinion of Balch & Bingham LLP, as Bond Counsel, which will be dated the date of issuance of the Bonds, under existing statutes, and under existing rulings and court decisions, applicable regulations and proposed regulations, interest on the Bonds is not includable in gross income for federal income tax purposes except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code. In addition, the opinion of Balch & Bingham LLP will state that the interest on the Bonds will not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. No opinion will be expressed with respect to any other federal tax consequences of the receipt or accrual of interest on, or ownership of, the Bonds. Bond Counsel has not undertaken to notify the County, the Trustee, the Company, the Underwriter or the owners of the Bonds of any change in law or fact after the date of such opinions which might affect any of the opinions expressed therein.

Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers, including, without limitation, banks, thrift institutions and other financial institutions, foreign corporations which conduct a trade or business in the United States, property and casualty insurance corporations, S corporations, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

In concluding that the interest on the Bonds is not includable in gross income for federal income tax purposes, Balch & Bingham LLP will (i) rely as to certain factual matters upon representations and certifications of the Company with respect to the use of the proceeds of the Bonds, the design, scope, function, cost and economic useful life of the facilities constituting the Project, and the relationship of such facilities to the plant which they are designed to serve, without undertaking to verify the same by independent investigation, and (ii) assume continued compliance by the County and the Company with their respective covenants relating to the use of the proceeds of the Bonds and compliance with other requirements of the Code. The inaccuracy of any such representations or noncompliance with such covenants may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

On the date of issuance of the Bonds, the County will issue and deliver its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 in the aggregate principal amount of $65,000,000 (the "First Series 2009 Bonds"). The proceeds of the First Series 2009 Bonds will be loaned by the County to the Company to finance the Project. Under the provisions of the Code, the Bonds and the First Series 2009 Bonds will be aggregated and treated as a single issue of bonds for federal income tax purposes and the exclusion of the interest on the Bonds from gross income for federal income tax purposes will be dependent upon whether the interest on the

First Series 2009 Bonds is excluded from gross income for federal income tax purposes. Contemporaneously with the issuance and delivery of the First Series 2009 Bonds, Balch & Bingham LLP will deliver its opinion as bond counsel to the effect that the interest on the First Series 2009 Bonds is excludable from gross income for federal income tax purposes.

In the opinions of Balch & Bingham LLP and Lott & Associates, P.L., as Co-Bond Counsel, under existing statutes, interest on the Bonds is exempt from all present state income taxation within the State of Florida, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

The foregoing discussion is a general discussion of certain federal and state income tax consequences with respect to the Bonds and does not purport to deal with all tax questions that may be relevant to particular investors or circumstances, including purchasers of Bonds in the secondary market at a price other than the stated redemption price at maturity. Owners of Bonds should consult their own tax advisors with respect to such matters and with respect to the state and local tax consequences of any discount with respect to the Bonds.

SECONDARY MARKET INFORMATION

No financial statements or operating data concerning the County are included in this Official Statement and the County has not undertaken to provide any such information in the future.

The Company has agreed in the Remarketing Agreement that, prior to the commencement of a Commercial Paper Period or a Long-Term Interest Rate Period with respect to the Bonds or at such other time that Rule 15c2-12(b)(5) under the 1934 Act becomes applicable to the Bonds, it will enter into a separate undertaking satisfactory to the Remarketing Agent with respect to the continuing disclosure requirements of such Rule.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Balch & Bingham LLP and Lott & Associates, P.L., as Co-Bond Counsel. Copies of such opinions will be available at the time of delivery of the Bonds. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest thereon, will be passed upon for the Company by its counsel, Beggs & Lane, a Registered Limited Liability Partnership, Pensacola, Florida, and Troutman Sanders LLP, Atlanta, Georgia, and for the Underwriter by its counsel, Dewey & LeBoeuf LLP, New York, New York. From time to time, Dewey & LeBoeuf LLP acts as counsel to affiliates of the Company for some matters. Lott & Associates, P.L. has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Florida Administrative Code Rule 69W-400.003(1), adopted under and pursuant to the authority of Section 517.051(1), Florida Statutes, requires the County to disclose each default as to the payment of principal and interest with respect to obligations issued or guaranteed by the County after December 31, 1975. Fla. Admin. Code Rule 69W-400.003(2) provides, however, that if the County, in good faith, believes that such disclosures would not be considered material by a reasonable investor, such disclosures may be omitted. Since the County believes that disclosure concerning defaults with regard to any of its other bonds would not be considered material by a reasonable investor in the Bonds, the County has not undertaken to contact the various trustees of other conduit bond issues of the County to determine the existence of prior defaults.

MISCELLANEOUS

Information, including certain financial statements, relating to the business and properties of the Company is included or incorporated by reference in Appendix A to this Official Statement and is hereby made a part hereof.

This Official Statement has been duly approved by Escambia County, Florida. **EXCEPT FOR INFORMATION CONCERNING THE COUNTY UNDER THE CAPTION "THE COUNTY" AND THE LAST SENTENCE UNDER THE CAPTION "DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS," NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE COUNTY, AND THE COUNTY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.**

ESCAMBIA COUNTY, FLORIDA

By: /s/ Marie Young
Chairman of the Board of County Commissioners
of Escambia County, Florida

APPENDIX A

GULF POWER COMPANY

THE INFORMATION CONTAINED HEREIN AS AN APPENDIX TO THE OFFICIAL STATEMENT HAS BEEN OBTAINED FROM GULF POWER COMPANY

GULF POWER COMPANY

Gulf Power Company ("GULF") is a wholly-owned subsidiary of The Southern Company ("Southern"). It is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the transmission, 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. GULF was 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. Effective as of November 2, 2005, GULF was domesticated as a Florida corporation. Under the applicable laws of the State of Florida and the State of Maine, GULF's legal existence was uninterrupted, with only its state of incorporation changed. The principal executive offices of GULF are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

AVAILABLE INFORMATION

GULF is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Such reports and other information can be inspected and copied, upon payment of a fee set by the Commission, at the Public Reference Room of the Commission, 100 F Street, N.E., Room 1580, 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. GULF's reports are also available on the internet through the Commission's EDGAR database at the Commission's website at http://www.sec.gov. Certain securities of GULF are listed on the New York Stock Exchange, and reports and other information concerning GULF can be inspected at the office of such Exchange.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have heretofore been filed by GULF with the Commission pursuant to the 1934 Act, are incorporated by reference in this Appendix and shall be deemed to be a part hereof:

1. Annual Report on Form 10-K for the year ended December 31, 2008 (the "Form 10-K").

2. Current Reports on Form 8-K dated January 22, 2009 and March 16, 2009.

All documents subsequently filed by GULF with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act prior to the termination of the offering hereunder shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing; provided, however, GULF is not incorporating any information furnished under Items 2.02 or 7.01 of any Current Report on Form 8-K unless specifically stated otherwise. Any statement contained in a document incorporated or deemed to be incorporated by reference herein as aforesaid shall be deemed to be modified or superseded for purposes of this Appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix.

GULF hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Appendix, other than exhibits to such documents. Requests for such copies should be directed to Susan D. Ritenour, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520-0780, telephone (850) 444-6111.

RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors in the Form 10-K which is incorporated by reference in this Appendix. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix. The risks and uncertainties not presently known to GULF or that GULF currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

SELECTED INFORMATION

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, 2008	427,929
Generating Capacity at December 31, 2008 (kilowatts)	2,659,400
Sources of Generation during 2008 (kilowatt-hours)	Coal (84%), Gas (16%)

Selected Financial Information

The following selected financial data for each of the years ended December 31, 2004 through December 31, 2008 has been derived from GULF's audited financial statements and related notes and the unaudited selected financial data, incorporated by reference in this Appendix. 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 Appendix.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(Thousands, Except Ratios)				
Operating Revenues	$960,131	$1,083,622	$1,203,914	$1,259,808	$1,387,203
Earnings Before Income Taxes	108,135	120,951	124,582	135,082	158,651
Net Income After Dividends on Preferred and Preference Stock	68,223	75,209	75,989	84,118	98,345
Ratio of Earnings to Fixed Charges (1)	3.93	3.96	3.81	3.95	4.37

	Capitalization as of December 31, 2008		
	Actual	As Adjusted (2)	
	(Thousands, Except Percentages)		
Common Stock Equity	$822,092	$957,092	47.0%
Non-Cumulative Preference Stock	97,998	97,998	4.8%
Senior Notes	110,000	110,000	5.4%
Other Long-Term Debt	739,265	869,665	42.8%
Total, excluding amounts due within one year	$1,769,355	$2,034,755	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) the issuance in January 2009 of $135,000,000 of common stock to Southern; (ii) the proposed issuance of $65,400,000 aggregate principal amount of the Bonds offered hereby; and (iii) the proposed issuance of $65,000,000 aggregate principal amount of the Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009.

EXHIBIT F.8.

BEGGS & LANE

A REGISTERED LIMITED LIABILITY PARTNERSHIP
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ELIZABETH C. CALLAHAN
JAMES S. CAMPBELL
JODI D. COOKE
J. NIXON DANIEL, III
JOHN P. DANIEL
TERRIE L. DIDIER
THOMAS F. GONZALEZ
STEVEN R. GRIFFIN
DAVID E. HIGHTOWER
BRET M. KANIS
GARY B. LEUCHTMAN
JACK W. LURTON, III
DAVID L. McGEE
GREGORY R. MILLER
WILLIAM H. MITCHEM
RALPH A. PETERSON
JOE SCARBOROUGH
JEFFREY A. STONE
DAVID B. TAYLOR, III
RUSSELL F. VAN SICKLE
MATTHEW D. VINSON
JAMES M. WEBER
CHARLES T. WIGGINS
JOHN F. WINDHAM
JOHN R. ZOESCH, III

W. SPENCER MITCHEM
Of Counsel

E. DIXIE BEGGS
1908-2001

BERT H. LANE
1917-1981

March 31, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,400,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 31, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008, and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New

York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,400,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 31, 2009 (the "Letter of Representation") among the Company, the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Georgia law and the federal law of the United States on the opinion of even date herewith of Troutman Sanders LLP (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System."

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States

governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. The execution and delivery of the Agreement, the Letter of Representation and the Note by the Company will not result in a breach of or constitute a default under the Charter or by-laws of the Company or any indenture, mortgage, deed of trust, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which it or any of its property is bound or any order, rule or regulation applicable to the Company of any court or other governmental body having jurisdiction over the Company or any of its property.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

We have no knowledge of any material litigation or proceedings pending or threatened which challenge the validity of the Note and the Agreement, or which seek to enjoin the performance of the Company's obligations thereunder.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

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

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP and Troutman Sanders LLP may rely on this opinion in giving their opinions pursuant to Section 6(f)(3) of the Purchase Contract insofar as such opinions relate to matters of Florida and Mississippi law.

Very truly yours,

Beggs & Lane

BEGGS & LANE

TROUTMAN SANDERS

March 31, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

The Bank of New York Mellon Trust Company, N.A., as Trustee
Atlanta, Georgia

Re: $65,400,000, Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with the purchase by Goldman, Sachs & Co. (the "Underwriter") of $65,400,000 aggregate principal amount of Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"), pursuant to the Purchase Contract dated March 31, 2009 (the "Purchase Contract"), between Escambia County, Florida (the "County") and the Underwriter.

We have examined (i) the Official Statement dated March 26, 2009 relating to the Bonds, including Appendix A thereto (the "Official Statement"), which incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2008 and the Current Reports on Form 8-K of the Company dated January 22, 2009 and March 16, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) the Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Trust Indenture"), between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"); (iii) the Loan Agreement related to the Bonds, dated as of March 1, 2009 (the "Agreement"), between the County and the Company; (iv) the promissory note dated March 31, 2009 (the "Note") in the aggregate principal amount of $65,400,000 issued by the Company pursuant to the Agreement; (v) the Purchase Contract; (vi) the Letter of Representation dated March 31, 2009 (the "Letter of Representation") by the Company and accepted by the County and the Underwriter; and (vii) the Remarketing Agreement, dated as of March 1, 2009, between the Company and Goldman, Sachs & Co., as Remarketing Agent (the "Remarketing Agreement"). In addition, we have examined, and have relied as to matters of fact upon, the documents delivered at the closing (except the Bonds of which we have examined a specimen), and upon originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, agreements, documents and other instruments and such certificates or comparable documents of public officials and of officers and representatives of the County and the Company, and have made such other and further investigations, as we deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original

documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, relying as to matters of Mississippi and Florida law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane") (subject to the same qualifications and limitations stated therein), we hereby advise you that in our opinion:

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

2. The Agreement, the Remarketing Agreement and the Note have been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Agreement by the County, the Agreement and the Note constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject to the qualifications that the enforceability of the Company's obligations under the Agreement and the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The statements made in the Official Statement under the captions "The Bonds", "The Agreement" and "The Indenture", insofar as they purport to constitute summaries of the terms of documents referred to therein, constitute accurate summaries of the terms of such documents in all material respects; provided that no opinion is expressed with respect to the information contained under the heading "The Bonds — Book-Entry System".

4. All orders, consents or other authorizations or approvals of the Florida Public Service Commission legally required for the issuance of the Note and with respect to the authorization, execution and delivery of the Agreement by the Company have been obtained; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance of the Note or the authorization, execution and delivery of the Agreement by the Company.

5. No registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offer and sale of the Bonds.

6. The Letter of Representation has been duly authorized, executed and delivered by the Company.

In rendering the opinion expressed in paragraph 5 above, we have, with your consent, relied upon the legal opinion dated the date hereof, rendered to you by Balch & Bingham LLP, Bond Counsel, pursuant to the Purchase Contract to the effect, among other things, that interest on the Bonds, to the extent set forth in such opinion, is excluded from gross income for federal income tax purposes and have made no independent investigation with respect to such exclusion.. Our opinion herein is subject to the same assumptions, qualifications, exceptions and limitations provided for in such other opinion.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement or the Exchange Act Documents and take no responsibility therefor except as and to the extent set forth in paragraph 3 above. In the course of the preparation by the County and the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Deloitte & Touche LLP, with your counsel and with Co-Bond Counsel. In addition, in the course of the preparation by the Company of the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with your counsel and with representatives of Deloitte & Touche LLP. Based upon our examination of the Official Statement and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Exchange Act Documents, as of their respective dates of filing with the Securities and Exchange Commission (the "Commission"), complied as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion or belief as to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Exchange Act Documents, and (ii) we have no reason to believe that the Official Statement (including the Exchange Act Documents) on the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Official Statement or the Exchange Act Documents or with respect to the information in the Official Statement under the captions "The County", "The Bonds — Book-Entry System", "Underwriting" and "Tax Matters" and the last sentence under the caption "Disclosure Required by Florida Blue Sky Regulations".

The attorneys in this firm that are rendering this opinion 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 and Mississippi.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent, except that Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(v) of the Purchase Contract insofar as such opinion relates to matters of Georgia law and except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 6(f)(3)(iii) of the Purchase Contract insofar as such opinion relates to Georgia law and the federal law of the United States.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

BALCH & BINGHAM LLP

Alabama • Georgia • Mississippi • Washington, DC

Attorneys and Counselors
1901 Sixth Avenue North, Suite 1500
P.O. Box 306 (35201-0306)
Birmingham, Alabama 35203-4642
(205) 251-8100
(205) 226-8799 Fax
www.balch.com

March 31, 2009

Goldman, Sachs & Co.
New York, New York

Re: $65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009

Ladies and Gentlemen:

Reference is made to our opinion delivered to you concurrently herewith relating to the $65,400,000 aggregate principal amount of Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds") of Escambia County, Florida (the "County") and Section 6(f)(3)(i) of the Purchase Contract, dated March 31, 2009 (the "Purchase Contract"), between the County and you (the "Underwriter"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract.

We have reviewed the Official Statement incident to our activities as Co-Bond Counsel. During the course of such review, we participated in conferences with representatives of the Company, its counsel and your counsel, at which conferences the contents of the Official Statement were discussed. With your consent, our review as Co-Bond Counsel, however, was limited to the information set forth in the Official Settlement on its cover page and under the captions "Introductory Statement", "The County", "Use of Bond Proceeds", "The Bonds" (excluding the information contained under the heading "The Bonds — Book-Entry System" to which no opinion is given), "The Agreement", "The Indenture" and "Tax Matters".

Subject to the preceding paragraph, nothing has come to our attention which would cause us to believe that the information contained under the captioned headings described above in the Official Statement (other than the financial statements and other financial or statistical data contained therein, or incorporated therein, by reference as to which we express no opinion) includes any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The Purchase Contract has been duly authorized and accepted by the County and constitutes a valid and legally binding obligation of the County.

Such instruments as are required have been duly filed and recorded wherever necessary to perfect the security interests created by the Agreement and the Indenture.

The offer and sale of the Bonds do not require registration of the Bonds under the Securities Act of 1933, as amended, or qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

This letter is furnished by us solely for the benefit of the Underwriter in connection with the provisions of the Purchase Contract and may not be relied upon by any other person.

Very truly yours,

Balch & Bingham LLP

THE LAW OFFICES OF
LOTT & ASSOCIATES, P.L.
25 West Cedar Street, Suite 500
Pensacola, Florida 32502

850/469-1088
Telecopy 850/432-0677

Richard I. Lott, Esq.
Rilott@lottlaw.com

Patricia D. Lott, Esq.
Plott@lottlaw.com

March 31, 2009

Goldman, Sachs & Co.
New York, New York

Board of County Commissioners
Escambia County, Florida

Gulf Power Company
Pensacola, Florida

The Bank of New York Mellon Trust Company, N.A.
Atlanta, Georgia

Re: **$65,400,000 Escambia County, Florida Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009**

Ladies and Gentlemen:

We have acted as Bond Counsel to Escambia County in connection with the issuance by Escambia County, Florida (the "County") of $65,400,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 (the "Bonds"). The Bonds are being issued pursuant to the Florida Industrial Development Financial Act, which, as amended, appears as Part II of Chapter 159, Florida Statutes, Sections 159.25 to 159.431, inclusive, and other applicable provisions of law (the "Act") and a Trust Indenture relating to the Bonds, dated as of March 1, 2009 (the "Indenture) between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (said banking corporation and any bank or trust company becoming successor trustee under the Indenture being herein called the "Trustee"). Terms used herein and not defined herein shall have the meanings accorded to such term in the Purchase Contract (the "Purchase Contract"), between the County and Goldman, Sachs & Co., as Underwriter.

The proceeds of the Bonds are to be used to finance or refinance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant") which

is owned and operated by Gulf Power Company (the "Company"). The County has entered into a Loan Agreement with the Company, dated as of March 1, 2009 (the "Agreement"), under the provisions of which the County agrees to loan to the Company the proceeds of the Bonds to provide for the Project. To evidence the loan made pursuant to the Agreement, the Company will execute and deliver, concurrently with the issuance of the Bonds, a non-negotiable promissory note (the "Note"). The Agreement provides for payments by the Company of amounts sufficient to pay the principal of, premium, if any, and interest on, and purchase price of, the Bonds as the same shall become due and payable. The Bonds are payable solely from the payments made by the Company pursuant to the Agreement and the Note.

In our capacity as Bond Counsel we have examined such documents, records of the County and other instruments as we deem necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement and certain other documents. Our opinions regarding authority and actions by the County are based upon direct inquiries by us, examination of a certified copy of the proceedings of the County relating to the authorization and issuance of the Bonds and an opinion of Alison Rogers, Esq., County Attorney, of even date herewith as to the authority, procedures and actions of the County in the authorization and issuance of the Bonds.

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a political subdivision of the State of Florida validly existing under Florida law, with full authority to issue the Bonds, to loan the proceeds of the sale of the Bonds to the Company, and to execute, deliver and perform its obligations under the Agreement, the Indenture and the Purchase Contract.

2. The Agreement has been duly authorized, executed and delivered by the County and the Company and constitutes a legal, valid and binding obligation of the County in accordance with its terms.

3. The Indenture has been duly authorized, executed and delivered by the County and assuming due authorization, execution and delivery of the Indenture by, and the binding effect of the same upon, the Trustee, constitutes a legal, valid and binding obligation of the County enforceable upon the County in accordance with its terms.

4. By the terms of the Indenture, the County's right in the Agreement and in all revenues and receipts received or to be received thereunder (except for rights to indemnification and payment of fees and expenses) have been effectively assigned to the Trustee as security for the Bonds. The Indenture creates a valid lien on the trust estate described therein.

5. The issuance and sale of the Bonds have been duly authorized by the County; the Bonds have been duly executed and delivered by the County and authenticated by the Trustee; and the Bonds are legal, valid and binding limited obligations of the County, payable in accordance with the terms of the Indenture and entitled to the benefit and security of the Indenture.

6. Under the Act, the Bonds and the interest thereon are exempt from all present Florida taxation, except estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations.

The opinions set forth herein are expressly limited to, and we opine only with respect to, the laws of the State of Florida. The opinions expressed herein are limited to the matters expressly set forth herein, and no opinion is implied or may be inferred beyond the matters expressly stated herein. The opinions set forth in this letter are rendered as of the date of this letter, and we disclaim any undertaking to advise you of any changes which may be brought to our attention subsequent to the date hereof. No opinion is expressed herein with respect to the security for the Loan or the validity or priority of any mortgage or security interest relating thereto, or with respect to any other matter (i) requiring a subsequent opinion of counsel as provided in the Indenture or (ii) involving any amendment, modification or change to the forms of documents delivered on the date hereof.

It is to be understood that the rights of the holders of the Bonds, and the enforceability of the Resolution, the Indenture, the Loan Agreement, the Note, the Purchase Contract and the Bonds, may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State, and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

Our opinions expressed herein are predicated upon present law, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof. The legal opinions set forth herein are intended for the information solely of the addressees hereof and solely for the purpose of the contemplated transactions described herein, and are not to be relied upon by any other person, or entity, or for any other purpose, or quoted as a whole or in part, or otherwise referred to, in any document, or to be filed with any government or other administrative agency, or other person or entity for any other purpose without our prior written consent.

Respectfully submitted,

Bott & Associates, P.L.

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EXHIBIT F.12.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) March 31, 2009

Commission File Number	**Registrant, State of Incorporation, Address and Telephone Number**	**I.R.S. Employer Identification No.**
000-2429	**Gulf Power Company** (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810

The address of the registrant has not changed since the last report.

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On March 31, 2009, Escambia County, Florida (the "County") issued (i) $65,000,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), First Series 2009 due April 1, 2039 (the "First Series 2009 Bonds") and (ii) $65,400,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds (Gulf Power Company Project), Second Series 2009 due April 1, 2039 (the "Second Series 2009 Bonds" and, together with the First Series 2009 Bonds, the "Bonds") for the benefit of Gulf Power Company (the "Company").

The proceeds received by the County from the sale of the Bonds were deposited in a construction fund created under each Indenture (as defined below) relating to each series of the Bonds (together, the "Construction Funds"), to be used to pay or reimburse the Company for costs to provide funds to finance the acquisition, construction, installation and equipping of certain solid waste disposal facilities (the "Project") located at the James F. Crist Generating Plant in Escambia County, Florida (the "Plant"), which is owned and operated by the Company, and certain costs incident to the sale and issuance of the Bonds.

The County has loaned the proceeds of each series of the Bonds to the Company pursuant to separate Loan Agreements, each dated as of March 1, 2009 (each, a "Loan Agreement" and together, the "Loan Agreements") between the Company and the County. Pursuant to each Loan Agreement, the Company is obligated to make payments in such amounts and at such times as will be sufficient to pay, when due, the principal of, premium, if any, and interest on, the related series of the Bonds. Concurrently with the issuance of the Bonds and to evidence its obligations under the Loan Agreements, the Company delivered to the County a promissory note relating to each series of the Bonds (each,

a "Note" and together, the "Notes"). Each Note contains principal, interest and redemption provisions corresponding to the principal, interest and redemption provisions of the related series of the Bonds.

Each series of the Bonds was issued under a separate Trust Indenture, dated as of March 1, 2009 (each, an "Indenture" and together, the "Indentures"), by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The First Series 2009 Bonds initially were issued bearing interest at a long-term interest rate per annum of 1.75% for a long-term interest rate period (the "Initial Long-Term Interest Rate Period") beginning on March 31, 2009 and ending April 20, 2010. After the Initial Long-Term Interest Rate Period and subject to satisfaction of certain conditions in the Indenture pursuant to which the First Series 2009 Bonds are issued, the Company may remarket the First Series 2009 Bonds in successive long-term interest rate periods or in one or more different long-term interest rate periods or may change the method of determining the interest rate on the Bonds to a daily rate, a weekly rate, a commercial paper rate or an index rate (each as described in the related Indenture).

The Second Series 2009 Bonds initially were issued bearing interest at a daily rate. The interest rate determination method on the Second Series 2009 Bonds may be converted, at the option of the Company, from the daily rate to a weekly rate, a commercial paper rate, an index rate or a long-term interest rate (each as described in the related Indenture).

The Second Series 2009 Bonds are subject to optional redemption, in whole or in part, at the request of the Company, at a redemption price of 100% of the principal amount being redeemed plus interest accrued to the redemption date, except that interest accruing at a daily rate will be paid on the fifth business day following the redemption date. The First Series

2009 Bonds and the Second Series 2009 Bonds are subject to extraordinary optional redemption under certain circumstances at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

SIGNATURE

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 2, 2009

GULF POWER COMPANY

By /s/Wayne Boston
Wayne Boston
Assistant Secretary

Description of Holder

$65,400,000 Escambia County, Florida
Solid Waste Disposal Revenue Bonds
Gulf Power Company Project
Second Series 2009

Name of Underwriter	**Principal Amount of Bonds**
Goldman, Sachs & Co. 85 Broad Street New York, New York 10004	$65,400,000.00

Underwriters Fees: $245,250.00

GULF POWER COMPANY

EXHIBIT F14.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $65,400,000 Escambia County, Florida
Solid Waste Disposal Revenue Bonds
Gulf Power Company Project
Second Series 2009

Item Number	Issuance Expenses For:	Amount $
1	Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc.	6,585.35
2	Fees and Expenses of Counsel	148,392.12
3	Fees of Accountants	26,750.00
4	Rating Fee Allocation	80,772.66
5	Issuers Fee	93,103.54
6	Miscellaneous Expenses	1,012.96
	Total Expenses of Issue	356,616.63
	Unamortized Discount Expense	245,250.00
	Total Cost of Issue	$601,866.63

$125,000,000
Series 2009A Floating Rate Senior Notes
due June 28, 2010

GULF POWER COMPANY

UNDERWRITING AGREEMENT

June 22, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Ladies and Gentlemen:

Gulf Power Company, a Florida corporation (the "Company"), confirms its agreement (the "Agreement") with you (the "Underwriter") with respect to the sale by the Company and the purchase by the Underwriter, of $125,000,000 aggregate principal amount of the Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Senior Notes").

The Company understands that the Underwriter proposes to make a public offering of the Senior Notes pursuant to this Agreement. The Senior Notes will be issued pursuant to a Senior Note Indenture, dated as of January 1, 1998 (the "Base Indenture"), between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and amended and as to be further supplemented and amended by a fifteenth supplemental indenture, dated as of June 26, 2009, 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.

Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement") between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Senior Notes.

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

(a) A registration statement on Form S-3 (File No. 333-149664) 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 Underwriter, 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 Underwriter 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 or pursuant to Section 8A of the 1933 Act against the Company or related to the offering 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 used with respect to the Senior Notes, including the information deemed a part thereof pursuant to Rule 430B(f)(1) under the 1933 Act on the date of such registration statement's effectiveness for purposes of Section 11 of the 1933 Act, as such Section applies to the Company and the Underwriter for the Senior Notes pursuant to Rule 430B(f)(2) under the 1933 Act (the "Effective Date"), including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the Effective Date, being hereinafter called the "Registration Statement"; the base prospectus relating to the Senior Notes and certain other securities of the Company, in the form in which it has most recently been filed with the Commission on or prior to the date of this Agreement relating to the Senior Notes, being hereinafter called the "Basic Prospectus"; the Basic Prospectus as amended and supplemented by a preliminary prospectus supplement dated June 22, 2009 relating to the Senior Notes which has been filed with the Commission pursuant to Rule 424(b) under the 1933 Act, as it may be further amended and supplemented immediately prior to the Applicable Time (as defined below) is hereinafter called the "Pricing Prospectus"; the Basic Prospectus as amended or supplemented in final form, including 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 4(e) hereof is hereinafter called the "Final Supplemented Prospectus"; any reference herein to any Preliminary Prospectus, the Basic Prospectus, the Pricing Prospectus or the Final Supplemented 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, Basic Prospectus, Pricing Prospectus or Final Supplemented Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus, the Basic Prospectus, the Pricing Prospectus or the Final Supplemented Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus, Basic Prospectus, Pricing Prospectus or Final Supplemented 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, Basic Prospectus, Pricing Prospectus or Final Supplemented 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.

For purposes of this Agreement, the "Applicable Time" is 4:39 p.m. (New York Time) on the date of this Agreement; the documents listed in Schedule II, taken together and attached hereto, are collectively referred to as the "Pricing Disclosure Package."

(b) The documents incorporated by reference in the Registration Statement or the Pricing 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 Pricing Prospectus and any Permitted Free Writing Prospectus (as defined in Section 3(a) hereof), 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 Final Supplemented 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 Final Supplemented 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 Underwriter 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 Underwriter expressly for use in the Pricing Prospectus, any Permitted Free Writing Prospectus and the Final Supplemented Prospectus; or (B) any information set forth in the Pricing Prospectus or the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

(c) The Registration Statement and the Final Supplemented Prospectus comply, and any further amendments or supplements thereto, when any such amendments become 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 the Registration Statement, the Pricing Disclosure Package and the Final Supplemented Prospectus do not and will not, (i) as of the Effective Date as to the Registration Statement and any amendment thereto, (ii) as of the Applicable Time as to the Pricing Disclosure Package and (iii) as of the date of the Final Supplemented Prospectus as to the

Final Supplemented Prospectus or as of the date when any supplement is filed as to the Final Supplemented Prospectus as further supplemented or as of the Closing Date as to the Final Supplemented Prospectus or the Final Supplemented Prospectus as it may be further supplemented as provided above, 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 Pricing Disclosure Package and the Final Supplemented Prospectus as further 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) any statements or omissions made in a Permitted Free Writing Prospectus, the Registration Statement, the Pricing Prospectus or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter expressly for use therein; or (C) any information set forth in the Pricing Prospectus or the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

(d) Each Permitted Free Writing Prospectus listed on Schedule II hereto does not include anything that conflicts with the information contained in the Registration Statement, the Pricing Prospectus or the Final Supplemented Prospectus and each such Permitted Free Writing Prospectus, as supplemented by and taken together with the Pricing Disclosure Package as of the Applicable Time, did not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriter with respect to any statement or omissions made in a Permitted Free Writing Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter expressly for use therein.

(e) 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.

(f) At the determination date for purposes of the Senior Notes within the meaning of Rule 164(h) under the 1933 Act, the Company was not an "ineligible issuer" as defined in Rule 405 under the 1933 Act.

(g) Since the respective dates as of which information is given in the Registration Statement and the Pricing 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.

(h) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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 Underwriter.

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

(j) 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 Pricing Disclosure Package and the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(k) 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 this Agreement, 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 Pricing Disclosure Package and the Final Supplemented Prospectus.

(l) The Calculation Agent Agreement has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Calculation Agent Agreement by the Calculation Agent, the Calculation Agent Agreement constitutes 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 the Enforceability Exceptions.

(m) The execution, delivery and performance by the Company of this Agreement, the Calculation Agent 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.

(n) 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 Federal Power Act; (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.

(o) The financial statements incorporated by reference in the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis (except that the unaudited financial statements incorporated by reference in the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus 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 Pricing Prospectus and the Final Supplemented Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements incorporated by reference in the Registration Statement.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITER; 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 the Underwriter and the Underwriter agrees to purchase from the Company, the Senior Notes at a price equal to 99.80% of the principal amount thereof.

(b) Payment of the purchase price and delivery of certificates for the Senior Notes shall be made at the offices of Troutman Sanders LLP, 30 Ivan Allen Jr. Blvd, NW, Suite 950, Atlanta, Georgia 30308, at 10:00 A.M., New York time, on June 26, 2009 or such other time, place or date as shall be agreed upon by the Underwriter 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 Underwriter. It is understood that the Underwriter will accept delivery of, receipt for, and make payment of, the principal amount of the Senior Notes which it has agreed to purchase.

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 Underwriter shall accept such delivery.

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

SECTION 3. FREE WRITING PROSPECTUSES.

(a) The Company represents and agrees that, without the prior consent of the Underwriter, it has not made and will not make any offer relating to the Senior Notes that would constitute a "free writing prospectus" as defined in Rule 405 under the 1933 Act, other than a Permitted Free Writing Prospectus; the Underwriter represents and agrees that, without the prior consent of the Company, it has not made and will not make any offer relating to the Senior Notes that would constitute a "free writing prospectus" as defined in Rule 405 under the 1933 Act, other than a Permitted Free Writing Prospectus or a free writing prospectus that is not required to be filed by the Company pursuant to Rule 433 or one or more free writing prospectuses through customary Bloomberg distribution that do not contain substantive changes from or additions to the information contained in Schedule I hereto; any such free writing prospectus (which shall include the pricing term sheet discussed in Section 3(b) hereof), the use of which has been consented to by the Company and the Underwriter, is listed on Schedule II and herein called a "Permitted Free Writing Prospectus."

(b) The Company agrees to prepare a pricing term sheet, substantially in the form of Schedule I hereto and approved by the Underwriter, and to file such

pricing term sheet pursuant to Rule 433(d) under the 1933 Act within the time period prescribed by such Rule.

(c) The Company and the Underwriter have complied and will comply with the requirements of Rule 433 under the 1933 Act applicable to any free writing prospectus, including timely Commission filing where required and legending.

(d) The Company agrees that if at any time following issuance of a Permitted Free Writing Prospectus any event occurred or occurs as a result of which such Permitted Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Final Supplemented Prospectus or include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to the Underwriter and, if requested by the Underwriter, will prepare and furnish without charge to the Underwriter a free writing prospectus or other document, the use of which has been consented to by the Underwriter, which will correct such conflict, statement or omission; provided, however, that this representation and warranty shall not apply to any statements or omissions in a Permitted Free Writing Prospectus made in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter, expressly for use therein.

(e) The Company agrees that if there occurs an event or development as a result of which the Pricing Disclosure Package would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances then prevailing, not misleading, the Company will notify the Underwriter so that any use of the Pricing Disclosure Package may cease until it is amended or supplemented.

SECTION 4. COVENANTS OF THE COMPANY. The Company covenants with the Underwriter as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriter 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 Underwriter orally of the issuance of any stop order under the 1933 Act with respect to the Registration Statement, or the institution of any proceedings for that purpose or pursuant to Section 8A of the 1933 Act against the Company or related to the offering, 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 Underwriter sufficient conformed copies of the Registration Statement, the Basic Prospectus,

the Pricing Prospectus and the Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) and, from time to time, as many copies of the Basic Prospectus, the Pricing Prospectus and the Final Supplemented Prospectus as the Underwriter may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriter with written or electronic copies of each amendment and supplement to the Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriter may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the 1933 Act) shall be required by law in connection with the sale of any Senior Notes by the Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Underwriter, shall occur, which in the opinion of the Company or of Underwriter's counsel should be set forth in a supplement to or an amendment of the Final Supplemented Prospectus, as the case may be, in order to make the Final Supplemented Prospectus not misleading in the light of the circumstances when it (or in lieu thereof, the notice referred to in Rule 173(a) under the 1933 Act) 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 Final Supplemented Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriter to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriter 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 (or in lieu thereof, the notice referred to in Rule 173(a) under the 1933 Act) is delivered, not misleading or which will effect any other necessary compliance. In case the 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 the Underwriter, will furnish to the Underwriter, at the expense of the 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 Underwriter and Dewey & LeBoeuf LLP.

(c) The Company will endeavor, in cooperation with the Underwriter, 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 Underwriter 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, the Company will file the Final Supplemented Prospectus, in a form approved by the Underwriter, such approval not to be unreasonably withheld, with the Commission and will advise the Underwriter of such filing and will confirm such advice in writing. Furthermore, the Company will make any other required filings pursuant to Rule 433(d)(1) of the 1933 Act within the time required by such Rule.

(f) During a period of 15 days from the date of this Agreement, the Company will not, without the Underwriter'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 Underwriter agrees that commercial paper or other debt securities with scheduled maturities of less than one year are not subject to this Section 4(f).

SECTION 5. 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 4(c) hereof, including filing fees and the reasonable fees and disbursements of Dewey & LeBoeuf LLP, counsel for the Underwriter, 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 Underwriter of copies of the Registration Statement as originally filed and of each amendment thereto and of the Pricing Prospectus, any Permitted Free Writing Prospectus, the Final Supplemented Prospectus, and any

amendments or supplements thereto, (vi) the printing and delivery to the Underwriter of copies of any blue sky survey, (vii) the fee of the Financial Industry Regulatory Authority, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee and Calculation Agent, including the fees and disbursements of counsel for the Trustee and Calculation Agent in connection with the Indenture, the Calculation Agent Agreement 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 10 hereof, the Underwriter 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 & LeBoeuf LLP.

SECTION 6. CONDITIONS OF UNDERWRITER'S OBLIGATIONS. The obligations of the Underwriter 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 or pursuant to Section 8A of the 1933 Act against the Company or related to the offering shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Pricing Prospectus or the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Pricing Prospectus and the Final Supplemented Prospectus, and any such supplement, as applicable, shall have been filed in the manner and within the time period required by Rule 424. The pricing term sheet contemplated by Section 3(b) hereto, and any other material required to be filed by the Company pursuant to Rule 433(d) under the 1933 Act, shall have been filed by the Company with the Commission within the applicable time periods prescribed for such filings by Rule 433.

(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 Underwriter or the Company (but all provisions of such order or orders heretofore entered, copies of which shall be delivered to the Underwriter prior to the Closing Date, are deemed acceptable to the Underwriter and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriter 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 Underwriter 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 III.

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

(3) The opinion, dated the Closing Date, of Emmet, Marvin & Martin, LLP, counsel to the Trustee, substantially in the form attached hereto as Schedule V.

(4) The opinion, dated the Closing Date, of Dewey & LeBoeuf LLP, counsel for the Underwriter, substantially in the form attached hereto as Schedule VI.

(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 Underwriter 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 or pursuant to Section 8A of the 1933 Act against the Company or related to the offering have been initiated or, to the knowledge of the Company, threatened by the Commission.

(e) The Underwriter shall have received on the date hereof and shall receive on the Closing Date from Deloitte & Touche LLP, a letter or letters addressed to the Underwriter (which may refer to letters previously delivered to the Underwriter) dated the respective dates of delivery thereof 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the rules and regulations under the 1934 Act; (C) on the basis of certain limited procedures performed through a specified date not more than three 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) for a review of interim financial statement information as described in Statement on Auditing Standards No. 100, "Interim Financial Information", on the unaudited financial statements, if any, of the Company incorporated by reference in the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable; 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 Underwriter's 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, 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 and Preference Stock and the unaudited Ratio of Earnings to Fixed Charges set forth in the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, 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 three 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 unaudited balance sheet incorporated by reference in the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, except in each case for changes or decreases which (i) the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, disclose 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 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 and Preference 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable.

(f) On the Closing Date, counsel for the Underwriter 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 Underwriter and Dewey & LeBoeuf LLP, counsel for the Underwriter.

(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 & LeBoeuf LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriter) which, in the reasonable judgment of the Underwriter, shall materially impair the marketability of the 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 Underwriter 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 5, 8 and 10(b) hereof.

SECTION 7. 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 6(a) and in Section 6(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 Underwriter. Any such termination shall be

without liability of any party to any other party except as otherwise provided in Sections 5, 8 and 10(b) hereof.

SECTION 8. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless the Underwriter and each person, if any, who controls the 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, the 1934 Act or otherwise, and to reimburse the 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 Basic Prospectus, the Pricing Prospectus, any Permitted Free Writing Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriter 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 Basic Prospectus, the Pricing Prospectus, any Permitted Free Writing Prospectus, the Final Supplemented Prospectus as so amended or supplemented, or in any free writing prospectus used by the Company other than a Permitted Free Writing Prospectus, 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, Basic Prospectus, Pricing Prospectus, Permitted Free Writing Prospectus or Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter for use therein. The 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 8, to notify the Company in writing of the commencement thereof but the omission of the Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to the Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 8. In case any such action shall be brought against the Underwriter or any such person controlling the Underwriter and the 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, the 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 the 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) The Underwriter agrees 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 8(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Basic Prospectus, the Pricing Prospectus, any Permitted Free Writing 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 the Underwriter for use therein.

SECTION 9. 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 the Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriter.

SECTION 10. TERMINATION OF AGREEMENT.

(a) The Underwriter 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 Underwriter, the offering, sale or delivery of the Senior Notes on the terms and in the

manner contemplated by this Agreement and the Final Supplemented Prospectus shall have been materially impaired.

(b) If this Agreement shall be terminated by the Underwriter 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 Underwriter for the reasonable fees and disbursements of Dewey & LeBoeuf LLP and for the out of pocket expenses (in an amount not exceeding $10,000) reasonably incurred by the Underwriter 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 5 and 8 hereof.

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 Underwriter shall be directed to the Underwriter at Morgan Stanley & Co. Incorporated, 1585 Broadway, 29th Floor, New York, New York 10036, Attention: Investment Banking Division; 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., 30 Ivan Allen Jr. Boulevard, N.W., Atlanta, Georgia 30308, Attention: Earl C. Long.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriter, 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 Underwriter and the Company and their respective successors and the controlling persons and officers and directors referred to in Section 8 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 Underwriter and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from the Underwriter shall be deemed to be a successor by reason merely of such purchase. The Company acknowledges and agrees that in connection with all aspects of each transaction contemplated by this Agreement, the Company and the Underwriter have an arms-length business relationship that creates no fiduciary duty on the part of either party and each expressly disclaims any fiduciary or financial advisory relationship.

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 Underwriter and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Philip C. Raymond
Title: Vice President and Chief Financial Officer

CONFIRMED AND ACCEPTED,
as of the date first above written

MORGAN STANLEY & CO.
INCORPORATED

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 Underwriter and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Philip C. Raymond
Title: Vice President and Chief Financial Officer

CONFIRMED AND ACCEPTED,
as of the date first above written

MORGAN STANLEY & CO.
INCORPORATED

By: _____
Name: Yurij Slyz
Title: Vice President

SCHEDULE I

PRICING TERM SHEET

(To Preliminary Prospectus Supplement dated June 22, 2009)

Issuer:	Gulf Power Company
Security:	Series 2009A Floating Rate Senior Notes due June 28, 2010
Expected Ratings*:	Long Term: A2/A/A (Moody's/Standard & Poor's/Fitch)
	Short Term: A-1/F1 (Standard & Poor's/Fitch)
Principal Amount:	$125,000,000
Public Offering Price:	100%
Maturity Date:	June 28, 2010
Interest:	Floating rate based on three-month LIBOR rate (calculated as described in the Preliminary Prospectus Supplement) plus 0.10% ,reset quarterly and payable March 28, June 28, September 28 and December 28 until maturity, commencing September 28, 2009
Format:	SEC Registered
Denominations:	$1,000 and any integral multiple thereof
CUSIP:	402479 BZ1
Trade Date:	June 22, 2009
Expected Settlement Date:	June 26, 2009 (T+4)
Sole Book-Running Manager:	Morgan Stanley & Co. Incorporated

* Note: A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, the issuer, the underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling Gulf Power Company collect at 1-850-444-6111 or Morgan Stanley & Co. Incorporated toll free at 1-866-718-1649.

SCHEDULE II

PRICING DISCLOSURE PACKAGE

1) Prospectus dated March 27, 2008
2) Preliminary Prospectus Supplement dated June 22, 2009 (which shall be deemed to include documents incorporated by reference therein)
3) Permitted Free Writing Prospectuses
    a) Pricing Term Sheet attached as Schedule I hereto

Schedule III

[Letterhead of BEGGS & LANE]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
$125,000,000
Series 2009A Floating Rate Senior Notes
due June 28, 2010

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 $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and amended and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated June 22, 2009 between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as

supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and as supplemented by a prospectus supplement dated June 22, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 22, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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

The Indenture, the Calculation Agent Agreement 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 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 Calculation Agent Agreement and 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 22, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 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 letter is limited to the date hereof. This opinion may not be used, quoted or 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 & LeBoeuf LLP may rely on this opinion in giving their opinions pursuant to

the Underwriting Agreement insofar as such opinions relate to matters of Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule IV

[Letterhead of TROUTMAN SANDERS LLP]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement dated June 22, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009, and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 22, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 22, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 to matters of 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation in the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date and the Final Supplemented Prospectus, as of June 22, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

The attorneys in this firm that are rendering this opinion 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, the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule V

[Letterhead of Emmet, Marvin & Martin LLP]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

Gulf Power Company
Series 2009A Floating Rate Senior Notes due June 28, 2010

Ladies and Gentlemen:

We have acted as counsel for The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)) ("BNYM"), in connection with the issuance by Gulf Power Company (the "Company") of $125,000,000 aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes"). The Notes are being issued under the Senior Note Indenture dated as of January 1, 1998 (the "Original Indenture") between the Company and BNYM, as trustee (in such capacity, the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (the "Supplemental Indenture" and, together with the Original Indenture, the "Indenture"), between the Company and the Trustee. Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes.

For purposes of this opinion, we have reviewed the Indenture and the Calculation Agent Agreement and such other documents, records and papers, and satisfied ourselves as to such other matters, as we have deemed necessary or appropriate for this opinion. As to questions of fact material to this opinion, we have relied on certificates of BNYM and of public officials. In such review, 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 the originals of all documents submitted to us as copies or forms and the authenticity of the originals of such latter documents. We have assumed

that BNYM has been duly incorporated and that the Indenture and the Calculation Agent Agreement have been duly authorized, executed and delivered by the Company and constitutes the valid and binding agreement of, and is enforceable in accordance with its terms against, the Company.

Based upon the foregoing and subject to the qualifications below, we are of the opinion that:

1) BNYM is a banking corporation validly existing under the laws of the State of New York with corporate power and authority to enter into and perform its obligations under the Indenture.

2) The Supplemental Indenture and the Calculation Agent Agreement have been duly authorized, executed and delivered by BNYM and constitute valid and binding agreements of BNYM enforceable against BNYM in accordance with their terms, except as may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and general equitable principles (whether considered in a proceeding in equity or at law) and by an implied covenant of reasonableness, good faith and fair dealing.

We are members of the Bar of the State of New York and, for purposes of this opinion, do not hold ourselves out as experts on the laws of any jurisdiction other than the State of New York. The opinions expressed herein are limited to matters governed by the laws of the State of New York.

This opinion is solely for your benefit in connection with the issuance and sale by the Company of the Notes and may not be relied upon by you for any other purpose, or relied upon or furnished to any other person, without our prior written consent.

Very truly yours,

Schedule VI

[Letterhead of DEWEY & LEBOEUF LLP]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have represented the Underwriter (hereinafter defined) in connection with (i) the issuance and sale by Gulf Power Company (the "Company") of $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture, dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture, dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter of the Notes pursuant to the terms of an Underwriting Agreement dated June 22, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(c)(4) 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 Company's registration statement on Form S-3 (File No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (collectively, the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 22, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 22, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 law of the State of 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 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing

Disclosure Package, 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, on the Effective Date and the Final Supplemented Prospectus, as of June 22, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 laws of the States of Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 6 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 & LEBOEUF LLP

$15,000,000
Series 2009A Floating Rate Senior Notes
due June 28, 2010

GULF POWER COMPANY

UNDERWRITING AGREEMENT

June 23, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Ladies and Gentlemen:

Gulf Power Company, a Florida corporation (the "Company"), confirms its agreement (the "Agreement") with you (the "Underwriter") with respect to the sale by the Company and the purchase by the Underwriter, of $15,000,000 aggregate principal amount of the Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Senior Notes").

The Senior Notes will be part of the same series as the $125,000,000 aggregate principal amount of the Company's Series 2009A Floating Rate Senior Notes due June 28, 2010 that were offered on June 22, 2009, increasing the aggregate principal amount of the series to $140,000,000.

The Company understands that the Underwriter proposes to make a public offering of the Senior Notes pursuant to this Agreement. The Senior Notes will be issued pursuant to a Senior Note Indenture, dated as of January 1, 1998 (the "Base Indenture"), between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and amended and as to be further supplemented and amended by a fifteenth supplemental indenture, dated as of June 26, 2009, 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.

Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement") between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Senior Notes.

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

(a) A registration statement on Form S-3 (File No. 333-149664) 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 Underwriter, 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 Underwriter 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 or pursuant to Section 8A of the 1933 Act against the Company or related to the offering 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 used with respect to the Senior Notes, including the information deemed a part thereof pursuant to Rule 430B(f)(1) under the 1933 Act on the date of such registration statement's effectiveness for purposes of Section 11 of the 1933 Act, as such Section applies to the Company and the Underwriter for the Senior Notes pursuant to Rule 430B(f)(2) under the 1933 Act (the "Effective Date"), including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the Effective Date, being hereinafter called the "Registration Statement"; the base prospectus relating to the Senior Notes and certain other securities of the Company, in the form in which it has most recently been filed with the Commission on or prior to the date of this Agreement relating to the Senior Notes, being hereinafter called the "Basic Prospectus"; the Basic Prospectus as amended and supplemented by a preliminary prospectus supplement dated June 22, 2009 relating to the Senior Notes which has been filed with the Commission pursuant to Rule 424(b) under the 1933 Act, as it may be further amended and supplemented immediately prior to the Applicable Time (as defined below) is hereinafter called the "Pricing Prospectus"; the Basic Prospectus as amended or supplemented in final form, including 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 4(e) hereof is hereinafter called the "Final Supplemented Prospectus"; any reference herein to any Preliminary Prospectus, the Basic Prospectus, the Pricing Prospectus or the Final Supplemented 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, Basic Prospectus, Pricing Prospectus or Final Supplemented Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus, the Basic Prospectus, the Pricing Prospectus or the Final Supplemented Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary

Prospectus, Basic Prospectus, Pricing Prospectus or Final Supplemented 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, Basic Prospectus, Pricing Prospectus or Final Supplemented 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.

For purposes of this Agreement, the "Applicable Time" is 12:31 p.m. (New York Time) on the date of this Agreement; the documents listed in Schedule II, taken together and attached hereto, are collectively referred to as the "Pricing Disclosure Package."

(b) The documents incorporated by reference in the Registration Statement or the Pricing 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 Pricing Prospectus and any Permitted Free Writing Prospectus (as defined in Section 3(a) hereof), 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 Final Supplemented 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 Final Supplemented 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 Underwriter 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 Underwriter expressly for use in the Pricing Prospectus, any Permitted Free Writing Prospectus and the Final Supplemented Prospectus; or (B) any information set forth in the Pricing Prospectus or the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

(c) The Registration Statement and the Final Supplemented Prospectus comply, and any further amendments or supplements thereto, when any such amendments become 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 the Registration Statement, the Pricing Disclosure Package and the Final Supplemented Prospectus do not and will not, (i) as of the Effective Date as to the Registration Statement and any amendment thereto, (ii) as of the Applicable Time as to the Pricing Disclosure Package and (iii) as of the date of the Final Supplemented Prospectus as to the Final Supplemented Prospectus or as of the date when any supplement is filed as to the Final Supplemented Prospectus as further supplemented or as of the Closing Date as to the Final Supplemented Prospectus or the Final Supplemented Prospectus as it may be further supplemented as provided above, 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 Pricing Disclosure Package and the Final Supplemented Prospectus as further 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) any statements or omissions made in a Permitted Free Writing Prospectus, the Registration Statement, the Pricing Prospectus or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter expressly for use therein; or (C) any information set forth in the Pricing Prospectus or the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

(d) Each Permitted Free Writing Prospectus listed on Schedule II hereto does not include anything that conflicts with the information contained in the Registration Statement, the Pricing Prospectus or the Final Supplemented Prospectus and each such Permitted Free Writing Prospectus, as supplemented by and taken together with the Pricing Disclosure Package as of the Applicable Time, did not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriter with respect to any statement or omissions made in a Permitted Free Writing Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter expressly for use therein.

(e) 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.

(f) At the determination date for purposes of the Senior Notes within the meaning of Rule 164(h) under the 1933 Act, the Company was not an "ineligible issuer" as defined in Rule 405 under the 1933 Act.

(g) Since the respective dates as of which information is given in the Registration Statement and the Pricing 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.

(h) The Company is a corporation duly organized and existing under the laws of the State of Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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 Underwriter.

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

(j) 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 Pricing Disclosure Package and the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(k) 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 this Agreement, 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 Pricing Disclosure Package and the Final Supplemented Prospectus.

(l) The Calculation Agent Agreement has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery of the Calculation Agent Agreement by the Calculation Agent, the Calculation Agent Agreement constitutes 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 the Enforceability Exceptions.

(m) The execution, delivery and performance by the Company of this Agreement, the Calculation Agent 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.

(n) 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 Federal Power Act; (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.

(o) The financial statements incorporated by reference in the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, together with the related schedules and notes, present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of and for the dates indicated; said financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis (except that the unaudited financial statements incorporated by reference in the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus 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 Pricing Prospectus and the Final Supplemented Prospectus present fairly the information shown therein and have been compiled on a basis consistent

with that of the audited and unaudited financial statements incorporated by reference in the Registration Statement.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITER; 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 the Underwriter and the Underwriter agrees to purchase from the Company, the Senior Notes at a price equal to 99.80% of the principal amount thereof.

(b) Payment of the purchase price and delivery of certificates for the Senior Notes shall be made at the offices of Troutman Sanders LLP, 30 Ivan Allen Jr. Blvd, NW, Suite 950, Atlanta, Georgia 30308, at 10:00 A.M., New York time, on June 26, 2009 or such other time, place or date as shall be agreed upon by the Underwriter 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 Underwriter. It is understood that the Underwriter will accept delivery of, receipt for, and make payment of, the principal amount of the Senior Notes which it has agreed to purchase.

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 Underwriter shall accept such delivery.

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

SECTION 3. FREE WRITING PROSPECTUSES.

(a) The Company represents and agrees that, without the prior consent of the Underwriter, it has not made and will not make any offer relating to the Senior Notes that would constitute a "free writing prospectus" as defined in Rule 405 under the 1933 Act, other than a Permitted Free Writing Prospectus; the Underwriter represents and agrees that, without the prior consent of the Company, it has not made and will not make any offer relating to the Senior Notes that would constitute a "free writing prospectus" as defined in Rule 405 under the 1933 Act, other than a Permitted Free Writing Prospectus or a free writing prospectus that is not required to be filed by the Company pursuant to Rule 433 or one or more free writing prospectuses through customary Bloomberg distribution that do not contain substantive changes from or additions to the information contained in Schedule I hereto; any such free writing prospectus (which shall include the pricing term sheet discussed in Section 3(b) hereof), the use of which has been consented to by the Company and the Underwriter, is listed on Schedule II and herein called a "Permitted Free Writing Prospectus."

(b) The Company agrees to prepare a pricing term sheet, substantially in the form of Schedule I hereto and approved by the Underwriter, and to file such pricing term sheet pursuant to Rule 433(d) under the 1933 Act within the time period prescribed by such Rule.

(c) The Company and the Underwriter have complied and will comply with the requirements of Rule 433 under the 1933 Act applicable to any free writing prospectus, including timely Commission filing where required and legending.

(d) The Company agrees that if at any time following issuance of a Permitted Free Writing Prospectus any event occurred or occurs as a result of which such Permitted Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Final Supplemented Prospectus or include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to the Underwriter and, if requested by the Underwriter, will prepare and furnish without charge to the Underwriter a free writing prospectus or other document, the use of which has been consented to by the Underwriter, which will correct such conflict, statement or omission; provided, however, that this representation and warranty shall not apply to any statements or omissions in a Permitted Free Writing Prospectus made in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter, expressly for use therein.

(e) The Company agrees that if there occurs an event or development as a result of which the Pricing Disclosure Package would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances then prevailing, not misleading, the Company will notify the Underwriter so that any use of the Pricing Disclosure Package may cease until it is amended or supplemented.

SECTION 4. COVENANTS OF THE COMPANY. The Company covenants with the Underwriter as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriter 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 Underwriter orally of the issuance of any stop order under the 1933 Act with respect to the Registration Statement, or the institution of any proceedings for that purpose or pursuant to Section 8A of the 1933 Act against the Company or related to the offering, 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 Underwriter sufficient conformed copies of the Registration Statement, the Basic Prospectus, the Pricing Prospectus and the Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) and, from time to time, as many copies of the Basic Prospectus, the Pricing Prospectus and the Final Supplemented Prospectus as the Underwriter may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriter with written or electronic copies of each amendment and supplement to the Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriter may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the 1933 Act) shall be required by law in connection with the sale of any Senior Notes by the Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Underwriter, shall occur, which in the opinion of the Company or of Underwriter's counsel should be set forth in a supplement to or an amendment of the Final Supplemented Prospectus, as the case may be, in order to make the Final Supplemented Prospectus not misleading in the light of the circumstances when it (or in lieu thereof, the notice referred to in Rule 173(a) under the 1933 Act) 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 Final Supplemented Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriter to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriter 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 (or in lieu thereof, the notice referred to in Rule 173(a) under the 1933 Act) is delivered, not misleading or which will effect any other necessary compliance. In case the 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 the Underwriter, will furnish to the Underwriter, at the expense of the 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 Underwriter and Dewey & LeBoeuf LLP.

(c) The Company will endeavor, in cooperation with the Underwriter, 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 Underwriter 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, the Company will file the Final Supplemented Prospectus, in a form approved by the Underwriter, such approval not to be unreasonably withheld, with the Commission and will advise the Underwriter of such filing and will confirm such advice in writing. Furthermore, the Company will make any other required filings pursuant to Rule 433(d)(1) of the 1933 Act within the time required by such Rule.

(f) During a period of 15 days from the date of this Agreement, the Company will not, without the Underwriter'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 and the Series 2009A Floating Rate Senior Notes to be issued pursuant to the Underwriting Agreement dated June 22, 2009 between the Company and the Underwriter (the "June 22, 2009 Agreement")). The Underwriter agrees that commercial paper or other debt securities with scheduled maturities of less than one year are not subject to this Section 4(f). The execution of this Agreement by the Underwriter constitutes the prior written consent of the Underwriter required pursuant to Section 4(f) of the June 22, 2009 Agreement for the Company to issue and sell the Senior Notes.

SECTION 5. 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 4(c) hereof, including filing

fees and the reasonable fees and disbursements of Dewey & LeBoeuf LLP, counsel for the Underwriter, 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 Underwriter of copies of the Registration Statement as originally filed and of each amendment thereto and of the Pricing Prospectus, any Permitted Free Writing Prospectus, the Final Supplemented Prospectus, and any amendments or supplements thereto, (vi) the printing and delivery to the Underwriter of copies of any blue sky survey, (vii) the fee of the Financial Industry Regulatory Authority, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee and Calculation Agent, including the fees and disbursements of counsel for the Trustee and Calculation Agent in connection with the Indenture, the Calculation Agent Agreement 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 10 hereof, the Underwriter 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 & LeBoeuf LLP.

SECTION 6. CONDITIONS OF UNDERWRITER'S OBLIGATIONS. The obligations of the Underwriter 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 or pursuant to Section 8A of the 1933 Act against the Company or related to the offering shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Pricing Prospectus or the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Pricing Prospectus and the Final Supplemented Prospectus, and any such supplement, as applicable, shall have been filed in the manner and within the time period required by Rule 424. The pricing term sheet contemplated by Section 3(b) hereto, and any other material required to be filed by the Company pursuant to Rule 433(d) under the 1933 Act, shall have been filed by the Company with the Commission within the applicable time periods prescribed for such filings by Rule 433.

(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 Underwriter or the Company (but all provisions of such order or orders heretofore entered, copies of which shall be delivered to the Underwriter prior to the Closing Date, are deemed acceptable to the Underwriter and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriter 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 Underwriter 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 III.

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

(3) The opinion, dated the Closing Date, of Emmet, Marvin & Martin, LLP, counsel to the Trustee, substantially in the form attached hereto as Schedule V.

(4) The opinion, dated the Closing Date, of Dewey & LeBoeuf LLP, counsel for the Underwriter, substantially in the form attached hereto as Schedule VI.

(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 Underwriter 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 or pursuant to Section 8A of the 1933 Act against the Company or related to the offering have been initiated or, to the knowledge of the Company, threatened by the Commission.

(e) The Underwriter shall have received on the date hereof and shall receive on the Closing Date from Deloitte & Touche LLP, a letter or letters addressed to the Underwriter (which may refer to letters previously delivered to the Underwriter) dated the respective dates of delivery thereof 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented

Prospectus, as applicable, comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the rules and regulations under the 1934 Act; (C) on the basis of certain limited procedures performed through a specified date not more than three 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) for a review of interim financial statement information as described in Statement on Auditing Standards No. 100, "Interim Financial Information", on the unaudited financial statements, if any, of the Company incorporated by reference in the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable; 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 Underwriter's 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, 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 and Preference Stock and the unaudited Ratio of Earnings to Fixed Charges set forth in the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, 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 three 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 unaudited balance sheet incorporated by reference in the Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, except in each case for changes or decreases which (i) the Registration Statement and the Pricing

Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable, disclose 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 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 and Preference 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 Registration Statement and the Pricing Prospectus or the Registration Statement, the Pricing Prospectus and the Final Supplemented Prospectus, as applicable.

(f) On the Closing Date, counsel for the Underwriter 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 Underwriter and Dewey & LeBoeuf LLP, counsel for the Underwriter.

(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 & LeBoeuf LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of the Underwriter) which, in the reasonable judgment of the Underwriter, shall materially impair the marketability of the 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 Underwriter 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 5, 8 and 10(b) hereof.

SECTION 7. 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 6(a) and in Section 6(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 Underwriter. Any such termination shall be without liability of any party to any other party except as otherwise provided in Sections 5, 8 and 10(b) hereof.

SECTION 8. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless the Underwriter and each person, if any, who controls the 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, the 1934 Act or otherwise, and to reimburse the 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 Basic Prospectus, the Pricing Prospectus, any Permitted Free Writing Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriter 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 Basic Prospectus, the Pricing Prospectus, any Permitted Free Writing Prospectus, the Final Supplemented Prospectus as so amended or supplemented, or in any free writing prospectus used by the Company other than a Permitted Free Writing Prospectus, 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, Basic Prospectus, Pricing Prospectus, Permitted Free Writing Prospectus or Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Underwriter for use therein. The 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 8, to notify the Company in writing of the commencement thereof but the omission of the Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to the Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 8. In case any such action shall be brought against the Underwriter or any such person controlling the Underwriter and the 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, the 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 the 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) The Underwriter agrees 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 8(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Basic Prospectus, the Pricing Prospectus, any Permitted Free Writing 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 the Underwriter for use therein.

SECTION 9. 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 the Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriter.

SECTION 10. TERMINATION OF AGREEMENT.

(a) The Underwriter 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 Underwriter, the offering, sale or delivery of the Senior Notes on the terms and in the manner contemplated by this Agreement and the Final Supplemented Prospectus shall have been materially impaired.

(b) If this Agreement shall be terminated by the Underwriter 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 Underwriter for the reasonable fees and disbursements of Dewey & LeBoeuf LLP and for the out of pocket expenses (in an amount not exceeding $10,000) reasonably incurred by the Underwriter 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 5 and 8 hereof.

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 Underwriter shall be directed to the Underwriter at Morgan Stanley & Co. Incorporated, 1585 Broadway, 29th Floor, New York, New York 10036, Attention: Investment Banking Division; 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., 30 Ivan Allen Jr. Boulevard, N.W., Atlanta, Georgia 30308, Attention: Earl C. Long.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriter, 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 Underwriter and the Company and their respective successors and the controlling persons and officers and directors referred to in Section 8 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 Underwriter and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from the Underwriter shall be deemed to be a successor by reason merely of such purchase. The Company acknowledges and agrees that in connection with all aspects of each transaction contemplated by this Agreement, the Company and the Underwriter have an arms-length business relationship that creates no fiduciary duty on the part of either party and each expressly disclaims any fiduciary or financial advisory relationship.

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 Underwriter and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: 
Name: Philip C. Raymond
Title: Vice President and Chief Financial Officer

CONFIRMED AND ACCEPTED,
as of the date first above written

MORGAN STANLEY & CO.
INCORPORATED

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 Underwriter and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: Philip C. Raymond
Title: Vice President and Chief Financial Officer

CONFIRMED AND ACCEPTED,
as of the date first above written

MORGAN STANLEY & CO.
INCORPORATED

By: _____
Name: Yurij Slyz
Title: Vice President

SCHEDULE I

PRICING TERM SHEET

(To Preliminary Prospectus Supplement dated June 22, 2009)

Issuer:	Gulf Power Company
Security:	Series 2009A Floating Rate Senior Notes due June 28, 2010
Expected Ratings*:	Long Term: A2/A/A (Moody's/Standard & Poor's/Fitch) Short Term: A-1/F1 (Standard & Poor's/Fitch)
Principal Amount:	$15,000,000 (In addition to $125,000,000 aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010 to be issued by Gulf Power Company, as described in the Preliminary Prospectus Supplement and the Pricing Term Sheet dated June 22, 2009)
Public Offering Price:	100%
Maturity Date:	June 28, 2010
Interest:	Floating rate based on three-month LIBOR rate (calculated as described in the Preliminary Prospectus Supplement) plus 0.10%, reset quarterly and payable March 28, June 28, September 28 and December 28 until maturity, commencing September 28, 2009
Format:	SEC Registered
Denominations:	$1,000 and any integral multiple thereof
CUSIP:	402479 BZ1
Trade Date:	June 23, 2009
Expected Settlement Date:	June 26, 2009 (T+3)
Sole Book-Running Manager:	Morgan Stanley & Co. Incorporated

* Note: A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, the issuer, the underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling Gulf Power Company collect at 1-850-444-6111 or Morgan Stanley & Co. Incorporated toll free at 1-866-718-1649.

SCHEDULE II

PRICING DISCLOSURE PACKAGE

1) Prospectus dated March 27, 2008
2) Preliminary Prospectus Supplement dated June 22, 2009 (which shall be deemed to include documents incorporated by reference therein)
3) Permitted Free Writing Prospectuses
    a) Pricing Term Sheet attached as Schedule I hereto

Schedule III

[Letterhead of BEGGS & LANE]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
$15,000,000
Series 2009A Floating Rate Senior Notes
due June 28, 2010

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 $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and amended and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated June 23, 2009 between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as

supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and as supplemented by a prospectus supplement dated June 23, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 23, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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

The Indenture, the Calculation Agent Agreement 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 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 Calculation Agent Agreement and 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 23, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 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 letter is limited to the date hereof. This opinion may not be used, quoted or 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 & LeBoeuf LLP may rely on this opinion in giving their opinions pursuant to

the Underwriting Agreement insofar as such opinions relate to matters of Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule IV

[Letterhead of TROUTMAN SANDERS LLP]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement dated June 23, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009, and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 23, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 23, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 to matters of 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation in the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date and the Final Supplemented Prospectus, as of June 23, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

The attorneys in this firm that are rendering this opinion 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, the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule V

[Letterhead of Emmet, Marvin & Martin LLP]

Note: This opinion can be issued as a combined opinion with the opinion to be issued in connection with the $125,000,000 aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010.

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32520

Gulf Power Company
Series 2009A Floating Rate Senior Notes due June 28, 2010

Ladies and Gentlemen:

We have acted as counsel for The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)) ("BNYM"), in connection with the issuance by Gulf Power Company (the "Company") of $15,000,000 aggregate principal amount of Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes"). The Notes are being issued under the Senior Note Indenture dated as of January 1, 1998 (the "Original Indenture") between the Company and BNYM, as trustee (in such capacity, the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (the "Supplemental Indenture" and, together with the Original Indenture, the "Indenture"), between the Company and the Trustee. Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes.

For purposes of this opinion, we have reviewed the Indenture and the Calculation Agent Agreement and such other documents, records and papers, and satisfied ourselves as to such other matters, as we have deemed necessary or appropriate for this opinion. As to questions of fact material to this opinion, we have relied on certificates of BNYM and of public officials. In such review, 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 the originals of all documents submitted to us as copies or

forms and the authenticity of the originals of such latter documents. We have assumed that BNYM has been duly incorporated and that the Indenture and the Calculation Agent Agreement have been duly authorized, executed and delivered by the Company and constitutes the valid and binding agreement of, and is enforceable in accordance with its terms against, the Company.

Based upon the foregoing and subject to the qualifications below, we are of the opinion that:

1) BNYM is a banking corporation validly existing under the laws of the State of New York with corporate power and authority to enter into and perform its obligations under the Indenture.

2) The Supplemental Indenture and the Calculation Agent Agreement have been duly authorized, executed and delivered by BNYM and constitute valid and binding agreements of BNYM enforceable against BNYM in accordance with their terms, except as may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and general equitable principles (whether considered in a proceeding in equity or at law) and by an implied covenant of reasonableness, good faith and fair dealing.

We are members of the Bar of the State of New York and, for purposes of this opinion, do not hold ourselves out as experts on the laws of any jurisdiction other than the State of New York. The opinions expressed herein are limited to matters governed by the laws of the State of New York.

This opinion is solely for your benefit in connection with the issuance and sale by the Company of the Notes and may not be relied upon by you for any other purpose, or relied upon or furnished to any other person, without our prior written consent.

Very truly yours,

Schedule VI

[Letterhead of DEWEY & LEBOEUF LLP]

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have represented the Underwriter (hereinafter defined) in connection with (i) the issuance and sale by Gulf Power Company (the "Company") of $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture, dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture, dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter of the Notes pursuant to the terms of an Underwriting Agreement dated June 23, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(c)(4) 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 Company's registration statement on Form S-3 (File No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (collectively, the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 23, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 23, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 law of the State of 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 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing

Disclosure Package, 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, on the Effective Date and the Final Supplemented Prospectus, as of June 23, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 laws of the States of Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 6 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 & LEBOEUF LLP

GULF POWER COMPANY

TO

THE BANK OF NEW YORK MELLON, TRUSTEE.

FIFTEENTH SUPPLEMENTAL INDENTURE

DATED AS OF JUNE 26, 2009

SERIES 2009A FLOATING RATE SENIOR NOTES

DUE JUNE 28, 2010

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EXHIBIT A Form of Series 2009A Note

EXHIBIT B Certificate of Authentication

[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 FIFTEENTH SUPPLEMENTAL INDENTURE is made as of the 26th day of June, 2009, by and between GULF POWER COMPANY, a Florida corporation, One Energy Place, Pensacola, Florida 32520-0786 (the "Company"), and THE BANK OF NEW YORK MELLON, a New York banking corporation, 101 Barclay Street, Floor 8W, New York, New York 10286 (the "Trustee").

WITNESSETH:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee, 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 Fifteenth Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established by the Board of Directors of the Company in accordance with the provisions of the Original Indenture and the terms of such series may be described by 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 Fifteenth 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 2009A 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 2009A Floating Rate Senior Notes due June 28, 2010 (the "Series 2009A Notes").

There are to be authenticated and delivered $140,000,000 principal amount of Series 2009A Notes, and such principal amount of the Series 2009A Notes may be increased from time to time pursuant to Section 301 of the Original Indenture. All Series 2009A Notes need not be issued at the same time and such series may be reopened at any time, without the consent of any Holder, for issuances of additional Series 2009A Notes. Any such additional Series 2009A Notes will have the same interest rate, maturity and other terms as those initially issued. No Series 2009A Notes shall be authenticated and delivered in excess of the principal amount as so increased except as provided by Sections 203, 303, 304 or 907 of the Original Indenture. The Series 2009A Notes shall be issued in definitive fully registered form.

The Series 2009A 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 2009A Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series 2009A Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series 2009A 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 2009A Notes will not be redeemable at the option of the Company prior to the Stated 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.

"Calculation Agent" means The Bank of New York Mellon, or its successor appointed by the Company, acting as calculation agent.

"Interest Determination Date" means the second London Business Day immediately preceding the first day of the relevant Interest Period.

"Interest Payment Dates" means the 28th day of March, June, September and December, commencing September 28, 2009 until the Stated Maturity; provided, however, in the event that any Interest Payment Date (other than the Interest Payment Date that is the Stated Maturity) would

otherwise be a day that is not a Business Day, the Interest Payment Date will be the next succeeding Business Day.

"Interest Period" means the period commencing on an Interest Payment Date (or, with respect to the initial Interest Period only, commencing on the Original Issue Date) and ending on the day before the next succeeding Interest Payment Date.

"LIBOR" means, with respect to any Interest Period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that Interest Period and ending on the next Interest Payment Date that appears on Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period. If such rate does not appear on the Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for the Interest Period and in a principal amount of not less than $1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market (which may include affiliates of one of the underwriters of the Series 2009A Notes) selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., London time on the Interest Determination Date for that Interest Period. The Calculation Agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of such quotations. If fewer that two quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of the rates quoted by three major banks in New York City (which may include affiliates of one of the underwriters of the Series 2009A Notes) selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., New York City time, on the first day of that Interest Period for loans in U.S. dollars to leading European banks for that Interest Period and in a principal amount of not less than $1,000,000. However, if fewer than three banks selected by the Calculation Agent to provide quotations are quoting as described above, LIBOR for that Interest Period will be the same as LIBOR as determined for the previous Interest Period.

"London Business Day" means a day that is a Business Day and a day on which dealings in deposits in U. S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"Original Issue Date" means June 26, 2009.

"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.

"Reuters LIBOR01 Page" means the display so designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered rate for U.S. dollar deposits).

"Stated Maturity" means June 28, 2010; provided that if the Stated Maturity is not a Business Day, the principal and interest due on that date will be payable on the next succeeding Business Day, and no interest shall accrue for the intervening period.

SECTION 103. Payment of Principal and Interest. The principal of the Series 2009A Notes shall be due at Stated Maturity. The unpaid principal amount of the Series 2009A Notes shall bear interest at the rates set quarterly pursuant to Section 104 hereof 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 2009A 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 2009A 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 2009A 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 2009A 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 2009A Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series 2009A Notes shall be computed and paid on the basis of the actual number of days elapsed over a 360-day year.

Payment of the principal and interest due at the Stated Maturity of the Series 2009A Notes shall be made upon surrender of the Series 2009A Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series 2009A 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. Determination of Interest. The Series 2009A Notes will bear interest for each Interest Period at a per annum rate determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The interest rate applicable during each Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.10%. Promptly upon such determination, the Calculation Agent will notify the Company and the Trustee, if the Trustee is not then serving as the Calculation Agent, of the interest rate for the new Interest Period. The interest rate determined by the Calculation Agent,

absent manifest error, shall be binding and conclusive upon the beneficial owners and Holders of the Series 2009A Notes, the Company and the Trustee.

Upon the request of a Holder of the Series 2009A Notes, the Calculation Agent will provide to such Holder the interest rate in effect on the date of such request and, if determined, the interest rate for the next Interest Period.

SECTION 105. Denominations. The Series 2009A Notes may be issued in the denominations of $1,000, or any integral multiple thereof.

SECTION 106. Global Securities. The Series 2009A 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 2009A Notes represented by one or more Global Securities will not be exchangeable for, and will not otherwise be issuable as, Series 2009A 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 2009A 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 2009A 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 2009A Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series 2009A Notes registered in such names as the Depositary shall direct.

SECTION 107 Transfer. No service charge will be made for any transfer or exchange of Series 2009A 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 Fifteenth 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 2009A Notes and of this Fifteenth 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 Fifteenth Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 203. Executed in Counterparts. This Fifteenth 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:

GULF POWER COMPANY

By: Terry A. Davis
Terry A. Davis
Assistant Secretary and
Assistant Treasurer

By: Susan D. Ritenour
Susan D. Ritenour
Secretary and Treasurer

ATTEST:

THE BANK OF NEW YORK MELLON, as Trustee

By: _____
Christopher Greene
Vice President

By: _____
L. O'Brien
Vice President

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

ATTEST:

GULF POWER COMPANY

By:_____
Terry A. Davis
Assistant Secretary and
Assistant Treasurer

By:_____
Susan D. Ritenour
Secretary and Treasurer

ATTEST:

THE BANK OF NEW YORK MELLON, as Trustee

By:_____
Christopher Greene
Vice President

By:_____
L. O'Brien
Vice President

EXHIBIT A

FORM OF SERIES 2009A NOTE

NO. __ CUSIP NO. 402479BZ1

GULF POWER COMPANY
SERIES 2009A FLOATING RATE SENIOR NOTE
DUE JUNE 28, 2010

Principal Amount:	$_____
Regular Record Date:	15th calendar day prior to Interest Payment Date, whether or not a Business Day
Original Issue Date:	June 26, 2009
Stated Maturity:	June 28, 2010; provided that if the Stated Maturity is not a Business Day, the principal and interest due on that date will be payable on the next succeeding Business Day, and no interest shall accrue for the intervening period.
Interest Payment Dates:	28th day of March, June, September and December until the Stated Maturity; provided, however, in the event that any Interest Payment Date (other than the Interest Payment Date that is the Stated Maturity) would otherwise be a day that is not a Business Day, the Interest Payment Date will be the next succeeding Business Day
Interest Rate:	LIBOR plus 0.10% per annum, as set on each Interest Determination Date
Interest Determination Dates:	2nd London Business Day immediately preceding the first day of the relevant Interest Period
Authorized Denomination:	$1,000, or any integral multiple thereof

Gulf Power Company, a Florida 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, quarterly in arrears on each Interest Payment Date as specified above, commencing on September 28, 2009, and on the Stated Maturity at the rates per annum determined in accordance with the provisions specified below until the principal hereof is paid or made available for payment and at such rates 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.

The Series 2009A Notes (as defined on the reverse hereof) will bear interest for each Interest Period at a per annum rate determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The interest rate applicable during each Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.10%. Promptly upon such determination, the Calculation Agent will notify the Company and the Trustee, if the Trustee is not then serving as the Calculation Agent, of the interest rate for the new Interest Period. The interest rate determined by the Calculation Agent, absent manifest error, shall be binding and conclusive upon the beneficial owners and Holders of the Series 2009A Notes, the Company and the Trustee.

"Calculation Agent" means The Bank of New York Mellon, or its successor appointed by the Company, acting as calculation agent.

"Interest Determination Date" means the second London Business Day immediately preceding the first day of the relevant Interest Period.

"Interest Period" means the period commencing on an Interest Payment Date (or, with respect to the initial Interest Period only, commencing on the Original Issue Date) and ending on the day before the next succeeding Interest Payment Date.

"LIBOR" means, with respect to any Interest Period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that Interest Period and ending on the next Interest Payment Date that appears on Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period. If such rate does not appear on the Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for the Interest Period and in a principal amount of not less than $1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market (which may include affiliates of one of the underwriters of the Series 2009A Notes) selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., London time on the Interest

Determination Date for that Interest Period. The Calculation Agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of such quotations. If fewer that two quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of the rates quoted by three major banks in New York City (which may include affiliates of one of the underwriters of the Series 2009A Notes) selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., New York City time, on the first day of that Interest Period for loans in U.S. dollars to leading European banks for that Interest Period and in a principal amount of not less than $1,000,000. However, if fewer than three banks selected by the Calculation Agent to provide quotations are quoting as described above, LIBOR for that Interest Period will be the same as LIBOR as determined for the previous Interest Period.

"London Business Day" means a day that is a Business Day and a day on which dealings in deposits in U. S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"Reuters LIBOR01 Page" means the display so designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered rate for U.S. dollar deposits).

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 the actual number of days elapsed over a 360-day year. 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 2009A Notes shall be made upon surrender of the Series 2009A Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series 2009A 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:_____
Name:
Title:

Attest:

_____
Name:
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.

THE BANK OF NEW YORK MELLON,
as Trustee

By:_____
Authorized Signatory

(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 The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (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 2009A Floating Rate Senior Notes due June 28, 2010 (the "Series 2009A 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 2009A Notes will not have a sinking fund.

The Series 2009A 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 rates, 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.

THE BANK OF NEW YORK MELLON,
as Trustee

By:_____
Authorized Signatory

Prospectus Supplement
(To Prospectus dated March 27, 2008)

$125,000,000

GULF POWER
A SOUTHERN COMPANY

Series 2009A Floating Rate Senior Notes due June 28, 2010

Gulf Power Company will pay interest on the Series 2009A Senior Notes on the 28th day of March, June, September and December until maturity, beginning September 28, 2009. The per annum interest rate on the Series 2009A Senior Notes for each quarterly interest period will be reset quarterly based on the three-month LIBOR rate plus 0.10%.

Gulf Power Company may not redeem the Series 2009A Senior Notes prior to maturity.

The Series 2009A Senior Notes will be unsecured and will rank equally with all of Gulf Power Company's other unsecured and unsubordinated indebtedness from time to time outstanding and will be effectively subordinated to all secured indebtedness of Gulf Power Company.

See "Risk Factors" on page S-3 for a description of certain risks associated with investing in the Series 2009A Senior Notes.

The Series 2009A Senior Notes should be delivered on or about June 26, 2009 through the book-entry facilities of The Depository Trust Company.

	Per Senior Note	Total
Public offering price(1)	100.00%	$125,000,000
Underwriting discount	0.20%	$ 250,000
Proceeds, before expenses, to Gulf Power Company(1)	99.80%	$124,750,000

(1) Plus accrued interest, if any, from the date of original issuance of the Series 2009A Senior Notes, which is expected to be June 26, 2009.

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.

MORGAN STANLEY

Prospectus Supplement dated June 22, 2009

In making your investment decision, you should rely only on the information contained or incorporated by reference in this Prospectus Supplement, the accompanying Prospectus and any written communication from Gulf Power Company or the underwriter specifying the final terms of the offering. We have not, and the underwriter has 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 2009A 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, the accompanying Prospectus or any written communication from Gulf Power Company or the underwriter specifying the final terms of the offering, including information incorporated by reference, is accurate as of any date other than its respective date.

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RISK FACTORS

Investing in the Series 2009A 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, 2008, along with disclosure related to the risk factors contained in Gulf Power Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, 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 2009A Senior Notes.

THE COMPANY

Gulf Power Company (the "Company") was 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. Effective as of November 2, 2005, the Company was domesticated as a Florida corporation. Under applicable laws of the State of Florida and the State of Maine, the Company's legal existence was uninterrupted, with only its state of incorporation changed. 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. 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 FINANCIAL INFORMATION

The following selected financial information for the years ended December 31, 2004 through December 31, 2008 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 three months ended March 31, 2009 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. The information set forth below does not reflect the issuance of the Series 2009A Senior Notes offered hereby or the use of proceeds therefrom. See "Use of Proceeds."

	Year Ended December 31					For the Three Months Ended March 31, 2009(1)
	2004	2005	2006	2007	2008	
	(Thousands, except ratios)					
Operating Revenues	$960,131	$1,083,622	$1,203,914	$1,259,808	$1,387,203	$284,284
Earnings Before Income Taxes	108,135	120,951	124,582	135,082	158,651	25,493
Net Income After Dividends on Preferred and Preference Stock	68,223	75,209	75,989	84,118	98,345	16,542
Ratio of Earnings to Fixed Charges(2)	3.93	3.96	3.81	3.95	4.37	3.17

	Capitalization As of March 31, 2009		
	Actual	As Adjusted(3)	
	(Thousands, except percentages)		
Common Stockholders Equity	$ 953,073	$ 953,073	46.9%
Non-Cumulative Preference Stock	97,998	97,998	4.8
Senior Notes	588,700	588,104	29.0
Other Long-Term Debt	381,143	391,073	19.3
Total, excluding amounts due within one year	$2,020,914	$2,030,248	100.0%

(1) Due to seasonal variations in the demand for energy, operating results for the three months ended March 31, 2009 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," "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.

(3) Reflects (i) the reclassification in May 2009 of $9,930,000 of the Company's obligations with respect to pollution control revenue bonds from current to long-term and (ii) redemptions in April 2009 and May 2009 of $596,000 aggregate principal amount of the Company's Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033.

USE OF PROCEEDS

The proceeds from the sale of the Series 2009A Senior Notes will be used by the Company to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $145,183,000 as of June 19, 2009, and for general corporate purposes, including the Company's continuous construction program.

DESCRIPTION OF THE SERIES 2009A SENIOR NOTES

Set forth below is a description of the specific terms of the Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Series 2009A 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 The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Senior Note Indenture Trustee").

General

The Series 2009A Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series 2009A Senior Notes will initially be issued in the aggregate principal amount of $125,000,000. The Company may, without the consent of the holders of the Series 2009A Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Series 2009A Senior Notes, (except for the issue price and issue date and the initial interest accrual date and initial Interest Payment Date (as defined below), if applicable). Any additional notes having such similar terms, together with the Series 2009A Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series 2009A Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on June 28, 2010. The Company will pay the principal of the Series 2009A Senior Notes and interest payable at maturity in immediately available funds at the corporate trust offices of The Bank of New York Mellon, as Paying Agent. The Series 2009A Senior Notes are not subject to any sinking fund provision. The Series 2009A Senior Notes are available for purchase in denominations of $1,000 and any integral multiple thereof.

Interest

Each Series 2009A Senior Note shall bear interest from the date of original issuance, payable quarterly in arrears on the 28th day of March, June, September and December until maturity (each, an "Interest Payment Date") to the person in whose name such Series 2009A Senior Note is registered at the close of business on the fifteenth calendar day prior to such Interest Payment Date, whether or not a Business Day. However, interest payable on the maturity date of the Series 2009A Senior Notes will be paid to the same person to whom principal is payable. The initial Interest Payment Date is September 28, 2009. The amount of interest payable will be computed on the basis of the actual number of days elapsed over a 360-day year. If any Interest Payment Date (other than the maturity date) would otherwise be a day that is not a Business Day, the Interest Payment Date will be the next succeeding Business Day. If the maturity date is not a Business Day, the principal and interest due on that date will be payable on the next succeeding Business Day, and no interest shall accrue for the intervening period.

The Series 2009A Senior Notes will bear interest for each quarterly Interest Period at a per annum rate determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The interest rate applicable during each quarterly Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.10%. Promptly upon such determination, the Calculation Agent will notify the Company and the Senior Note Indenture Trustee, if the Senior Note Indenture Trustee is not then serving as the Calculation Agent, of the interest rate for the new Interest Period. The interest rate determined by the Calculation Agent, absent manifest error, shall be binding and conclusive upon the beneficial owners and holders of the Series 2009A Senior Notes, the Company and the Senior Note Indenture Trustee.

Upon the request of a holder of the Series 2009A Senior Notes, the Calculation Agent will provide to such holder the interest rate in effect on the date of such request and, if determined, the interest rate for the next Interest Period.

The accrued interest for any period is calculated by multiplying the principal amount of a Series 2009A Senior Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the period for which accrued interest is being calculated. The interest factor (expressed as a decimal rounded upwards if necessary) is computed by dividing the interest rate (expressed as a decimal rounded upwards if necessary) applicable to such date by 360.

All percentages resulting from any calculation of the interest rate on the Series 2009A Senior Notes will be rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655) and 9.876544% (or .09876544) being rounded to 9.87654% (or .0987654)), and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upwards).

Certain Definitions

The following definitions apply to the Series 2009A Senior Notes.

"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.

"Calculation Agent" means The Bank of New York Mellon, or its successor appointed by the Company, acting as calculation agent.

"Interest Determination Date" means the second London Business Day immediately preceding the first day of the relevant Interest Period.

"Interest Period" means the period commencing on an Interest Payment Date for the Series 2009A Senior Notes (or, with respect to the initial Interest Period only, commencing on the original issue date for the Series 2009A Senior Notes) and ending on the day before the next succeeding Interest Payment Date for the Series 2009A Senior Notes.

"LIBOR" means, with respect to any Interest Period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that Interest Period and ending on the next Interest Payment Date that appears on Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period. If such rate does not appear on the Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for the Interest Period and in a principal amount of not less than $1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market, which may include affiliates of the Underwriter (as defined below), selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., London time on the Interest Determination Date for that Interest Period. The Calculation Agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of the rates quoted by three major banks in New York City, which may include affiliates of the Underwriter, selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., New York City time, on the first day of that Interest Period for loans in U.S. dollars to leading European banks for that Interest Period and in a principal amount of not less than $1,000,000. However, if fewer than three banks selected by the Calculation Agent to provide quotations are quoting as described above, LIBOR for that Interest Period will be the same as LIBOR as determined for the previous Interest Period. The establishment of LIBOR by the Calculation Agent shall (in the absence of manifest error) be final and binding.

"London Business Day" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"Reuters LIBOR01 Page" means the display so designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered rate for U.S. dollar deposits).

Ranking

The Series 2009A Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other existing and future unsecured and unsubordinated obligations of the Company. The Series 2009A Senior Notes will be effectively subordinated to all existing and future secured debt of the Company to the extent of the collateral securing such debt. The Company had secured debt aggregating approximately $41,000,000 outstanding at March 31, 2009. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

Redemption

The Series 2009A Senior Notes will not be redeemable at the option of the Company prior to maturity.

Book-Entry Only Issuance—The Depository Trust Company

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Series 2009A Senior Notes. The Series 2009A Senior Notes will be issued only as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series 2009A Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series 2009A 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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"). DTC has the highest ratings of Standard & Poor's Ratings Service, a division of The McGraw Hill Companies, Inc.: AAA. 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 and www.dtc.org. The contents of such websites do not constitute part of this Prospectus Supplement.

Purchases of Series 2009A Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009A Senior Notes on DTC's records. The ownership interest of each actual purchaser of each Series 2009A 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. Beneficial Owners are, however, 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 2009A Senior Notes. Transfers of ownership interests in the Series 2009A 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 2009A Senior Notes, except in the event that use of the book-entry system for the Series 2009A Senior Notes is discontinued.

To facilitate subsequent transfers, all Series 2009A 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 2009A 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 2009A Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009A 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 2009A 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 2009A 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 2009A Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2009A 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 2009A Senior Note will not be entitled to receive physical delivery of Series 2009A Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series 2009A 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 2009A Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series 2009A 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 2009A Senior Notes certificates will be required to 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 2009A Senior Notes. In that event, certificates for the Series 2009A Senior Notes will be printed and delivered to the holders of record. 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 2009A Senior Note at the request of each Direct or Indirect Participant. In that event, certificates for the Series 2009A Senior Notes will be printed and delivered to the applicable Direct to 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 neither the Company nor the underwriter takes any responsibility for the accuracy thereof. Neither the Company nor the underwriter has any 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 of an underwriting agreement (the "Underwriting Agreement"), the Company has agreed to sell to Morgan Stanley & Co. Incorporated (the "Underwriter"), and the Underwriter has agreed to purchase from the Company, the entire principal amount of Series 2009A Senior Notes offered hereby. The Underwriter is obligated to purchase all of the Series 2009A Senior Notes offered hereby, if any of the Series 2009A Senior Notes are purchased.

The Underwriter proposes to offer the Series 2009A Senior Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and may offer the Series 2009A Senior Notes to certain securities dealers at such price less a concession not in excess of 0.10% of the principal amount per Series 2009A Senior Note. The Underwriter may allow, and such dealers may reallow, a concession not in excess of 0.05% of the principal amount per Series 2009A Senior Note to certain brokers and dealers. After the initial public offering, the offering price and other selling terms may from time to time be varied by the Underwriter.

The Series 2009A Senior Notes are a new issue of securities with no established trading market. The Series 2009A Senior Notes will not be listed on any securities exchange or on any automated dealer quotation system. The Underwriter may make a market in the Series 2009A Senior Notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series 2009A Senior Notes or that an active public market for the Series 2009A Senior Notes will develop. If an active public trading market for the Series 2009A Senior Notes does not develop, the market price and liquidity of the Series 2009A Senior Notes may be adversely affected.

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

The Company's expenses associated with the offer and sale of the Series 2009A Senior Notes are estimated to be $265,000.

The Company has agreed with the Underwriter, that during the period of 15 days from the date of the Underwriting Agreement, it will not sell, offer to sell, grant any option for the sale of, or otherwise dispose of any Series 2009A Senior Notes, any security convertible into, or exchangeable into or exercisable for Series 2009A Senior Notes or any debt securities substantially similar to the Series 2009A Senior Notes (except for the Series 2009A Senior Notes issued pursuant to the Underwriting Agreement), without the prior written consent of the Underwriter. This agreement does not apply to issuances of commercial paper or other debt securities with scheduled maturities of less than one year.

In order to facilitate the offering of the Series 2009A Senior Notes, the Underwriter may engage in transactions that stabilize, maintain or otherwise affect the price of the Series 2009A Senior Notes. Specifically, the Underwriter may over-allot in connection with this offering, creating short positions in the Series 2009A Senior Notes for its own account. In addition, to cover over-allotments or to stabilize the price of the Series 2009A Senior Notes, the Underwriter may bid for, and purchase, Series 2009A Senior Notes in the open market. The Underwriter may reclaim selling concessions allowed to a dealer for distributing Series 2009A Senior Notes in this offering, if the Underwriter repurchases previously distributed Series 2009A 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 2009A Senior Notes above independent market levels. The Underwriter is not required to engage in these activities and may end any of these activities at any time without notice.

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 the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series 2009A Senior Notes. In addition, neither the Company nor the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

It is expected that delivery of the Series 2009A Senior Notes will be made, against payment for the Series 2009A Senior Notes, on or about June 26, 2009, which will be the fourth business day following the pricing of the Series 2009A 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 otherwise. Accordingly, purchasers of the Series 2009A Senior Notes who wish to trade the Series 2009A Senior Notes on the date of this Prospectus Supplement will be required, because the Series 2009A Senior Notes initially will settle within four business days (T+4), to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Series 2009A Senior Notes who wish to trade on the date of this Prospectus Supplement should consult their own legal advisors.

The Underwriter and its affiliates have engaged and may in the future engage in transactions with, and, from time to time, have performed and may perform investment banking and/or commercial banking 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 financial statements and the related financial statement schedule incorporated in this Prospectus Supplement and the accompanying Prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2008 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein 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.

PROSPECTUS

$500,000,000

Gulf Power Company

Class A Preferred Stock

Preference Stock

Senior Notes

Junior Subordinated Notes

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.

March 27, 2008

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 "Class A Preferred Stock")
- preference stock (the "Preference Stock")
- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

in one or more offerings up to a total dollar amount of $500,000,000. 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, 2007, 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 has 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 to the Registration Statement, 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 Room of the Commission at 100 F Street, N.E., Room 1580, 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.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 has been filed with the Commission pursuant to the 1934 Act and is incorporated by reference in this Prospectus and made a part of this Prospectus.

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; provided, however, the Company is not incorporating any information furnished under Items 2.02 or 7.01 of any Current Report on Form 8-K unless specifically stated otherwise. 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 in this Prospectus by reference (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 was 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. Effective as of November 2, 2005, the Company was domesticated as a Florida corporation. Under applicable laws of the State of Florida and the State of Maine, the Company's legal existence was uninterrupted, with only its state of incorporation changed. 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. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the transmission, 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, 2007	427,663
Generating Capacity at December 31, 2007 (kilowatts)	2,659,400
Sources of Generation during 2007 (kilowatt-hours)	Coal (86%), Gas (14%)

Certain Ratios

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

	Year Ended December 31,				
	2003	2004	2005	2006	2007
Ratio of Earnings to Fixed Charges(1)	3.86	3.93	3.96	3.81	3.95
Ratio of Earnings to Fixed Charges Plus Preferred and Preference Dividend Requirements (Pre-Income Tax Basis)(2)	3.83	3.90	3.85	3.41	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 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. For the year ended December 31, 2007, this ratio includes interest relating to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

(2) In computing this ratio, "Preferred and Preference Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods. For the year ended December 31, 2007, this ratio includes interest relating to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

USE OF PROCEEDS

Except as may be otherwise described in an applicable Prospectus Supplement, the proceeds received by the Company from the sale of the Class A Preferred Stock, the Preference Stock, the Senior Notes or the 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 CLASS A PREFERRED STOCK

Set forth below is a description of the general terms of the Class A Preferred Stock. The statements in this Prospectus concerning the Class A Preferred 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 Amended and 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

Each series of the Class A Preferred Stock, par value $25 per share, is to be created by the Board of Directors of the Company (the "Board of Directors") through an amendment to the Charter, a copy of which will be filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

As of December 31, 2007, there were no outstanding shares of the Class A Preferred Stock or the Company's Preferred Stock, par value $100 per share (the "Preferred Stock"). The Class A Preferred Stock ranks equally with the Preferred Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. The Class A Preferred Stock and the Preferred Stock rank senior to the Preference Stock, the Company's common stock and any other securities the Company may issue in the future that by their terms rank junior to the Class A Preferred Stock and the Preferred Stock, with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. All shares of the Class A Preferred Stock will rank on a parity with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company.

The Class A Preferred Stock will not be subject to further calls or assessment by the Company.

Any proposed listing of the Class A Preferred 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 Class A Preferred Stock will be Southern Company Services, Inc., 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the Class A Preferred 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 Class A Preferred Stock as they appear on the books of the Company on the record dates fixed by the Board of Directors.

So long as any shares of the Preferred Stock or the Class A Preferred Stock are outstanding, no dividends may be declared or paid upon or set apart for the Preference Stock, the Company's common stock or any other class of stock of the Company over which the Preferred Stock and the Class A Preferred Stock have a preference as to the payment of dividends, unless: (1) full dividends on all shares of cumulative Preferred Stock and cumulative Class A Preferred Stock for all past dividend periods have been paid or declared and a sum sufficient for the payment thereof has been set apart and full dividends on such Preferred Stock and Class A Preferred Stock for the then current dividend period have been or concurrently are declared; and (2) full dividends for the then current dividend period on all shares of non-cumulative Preferred Stock and non-cumulative Class A Preferred Stock have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set aside.

The applicable Prospectus Supplement will set forth the dividend rate provisions of the Class A Preferred 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 Class A Preferred Stock will be described in the applicable Prospectus Supplement.

Voting Rights

The applicable Prospectus Supplement will describe the voting rights for each series of the Class A Preferred Stock.

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preferred Stock and the 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 Preference Stock and the Company's common stock. Available assets, if insufficient to pay such amounts to the holders of the Preferred Stock and the 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, if any, 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 Class A Preferred Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

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

DESCRIPTION OF THE PREFERENCE STOCK

Set forth below is a description of the general terms of the Preference Stock. The statements in this Prospectus concerning the Preference 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 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 or incorporated by reference in the Registration Statement, for complete statements and for the definitions of various terms. The general provisions which apply to the Preference Stock of the Company of all classes, which are now or may later be authorized or created, are set forth in the Charter.

General

Each series of the Preference Stock, par value $100 per share, is to be created by the Board of Directors through an amendment to the Charter, a copy of which will be filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

As of December 31, 2007, there were 1,000,000 outstanding shares of the Preference Stock. In addition, as of December 31, 2007, there were no outstanding shares of the Preferred Stock or the Class A Preferred Stock. The Preference Stock ranks junior to the Preferred Stock and the Class A Preferred Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. The Preference Stock ranks senior to the Company's common stock and to any other securities the Company may issue in the future that by their terms rank junior to the Preference Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. All shares of the Preference Stock will rank on a parity with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company.

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

Any proposed listing of the Preference 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 Preference Stock will be Southern Company Services, Inc., 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the Preference 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 Preference Stock as they appear on the books of the Company on the record date fixed by the Board of Directors.

So long as any shares of the Preferred Stock or the Class A Preferred Stock are outstanding, no dividends may be declared or paid upon or set apart for the Preference Stock, the Company's common stock or any other class of stock of the Company over which the Preferred Stock and the Class A Preferred Stock have a preference as to the payment of dividends, unless: (1) full dividends on all shares of cumulative Preferred Stock and cumulative Class A Preferred Stock for all past dividend periods have been paid or declared and a sum sufficient for the payment thereof has been set apart and full dividends on such Preferred Stock and Class A Preferred Stock for the then current dividend period have been or concurrently are declared; and (2) full dividends for the then current dividend period on all shares of non-cumulative Preferred Stock and non-cumulative Class A Preferred Stock have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set aside.

The applicable Prospectus Supplement will set forth the dividend rate provisions of the Preference 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 Preference Stock will be described in the applicable Prospectus Supplement.

Voting Rights

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

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preference Stock of each series, without preference among series, are entitled to receive, out of the Company's assets available for distribution to the holders of the Preference Stock following the satisfaction of all claims ranking senior to the Preference Stock, including the claims of the holders of any outstanding shares of the Preferred Stock or the Class A Preferred Stock, the amount specified as payable on the shares of such series before any distribution of assets may be made to the holders of the Company's common stock. Available assets, if insufficient to pay such amounts to the holders of the Preference 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, if any, 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 Preference Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

The holders of the Preference 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 The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (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 Trust Indenture Act of 1939, as amended (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, aggregating approximately $41,000,000 outstanding at December 31, 2007. 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) issue, 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.

The Bank of New York, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York and certain of its affiliates also serve as trustee under other indentures pursuant to which securities of the Company and certain of its affiliates 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 The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (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 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 such 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 December 31, 2007, Senior Indebtedness of the Company aggregated approximately $792,000,000.

Additional Interest

"Additional Interest" is defined in the Subordinated Note Indenture as 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, 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, or 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) 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.

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 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 to pay principal or premium, if any, or interest, including Additional Interest, on the Junior Subordinated 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 Junior Subordinated Note of such series; or

(d) 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

(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 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.

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.

The Bank of New York, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York and certain of its affiliates also serve as trustee under other indentures pursuant to which securities of the Company and certain of its affiliates 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.

PLAN OF DISTRIBUTION

The Company may sell the Class A Preferred Stock, the Preference Stock, the Senior Notes and the Junior Subordinated Notes 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 Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes will set forth the terms of the offering of such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes, including the name or names of any underwriters or agents, the purchase price of such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes and the proceeds to the Company 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 Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes may be listed.

If underwriters participate in the sale, such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated 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.

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

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

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

LEGAL MATTERS

The validity of the Class A Preferred Stock, the Preference Stock, the Senior Notes, the Junior Subordinated Notes 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 & LeBoeuf LLP, New York, New York. From time to time, Dewey & LeBoeuf LLP acts as counsel to affiliates of the Company for some matters.

EXPERTS

The financial statements and the related financial statement schedule incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein 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.

$125,000,000



Series 2009A Floating Rate Senior Notes due June 28, 2010

PROSPECTUS SUPPLEMENT
June 22, 2009

MORGAN STANLEY

Prospectus Supplement
(To Prospectus dated March 27, 2008)

$15,000,000

GULF POWER
A SOUTHERN COMPANY

Series 2009A Floating Rate Senior Notes due June 28, 2010

Gulf Power Company will pay interest on the Series 2009A Senior Notes on the 28th day of March, June, September and December until maturity, beginning September 28, 2009. On June 22, 2009, Gulf Power Company offered $125,000,000 in aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Original Notes"). Upon the issuance of the Original Notes and the Series 2009A Senior Notes offered hereby, the aggregate principal amount of the Series 2009A Floating Rate Senior Notes due June 28, 2010 outstanding will be $140,000,000. The per annum interest rate on the Series 2009A Senior Notes for each quarterly interest period will be reset quarterly based on the three-month LIBOR rate plus 0.10%.

Gulf Power Company may not redeem the Series 2009A Senior Notes prior to maturity.

The Series 2009A Senior Notes will be unsecured and will rank equally with all of Gulf Power Company's other unsecured and unsubordinated indebtedness from time to time outstanding and will be effectively subordinated to all secured indebtedness of Gulf Power Company.

See "Risk Factors" on page S-3 for a description of certain risks associated with investing in the Series 2009A Senior Notes.

The Series 2009A Senior Notes should be delivered on or about June 26, 2009 through the book-entry facilities of The Depository Trust Company.

	Per Senior Note	Total
Public offering price(1)	100.00%	$15,000,000
Underwriting discount	0.20%	$ 30,000
Proceeds, before expenses, to Gulf Power Company(1)	99.80%	$14,970,000

(1) Plus accrued interest, if any, from the date of original issuance of the Series 2009A Senior Notes, which is expected to be June 26, 2009.

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.

MORGAN STANLEY

Prospectus Supplement dated June 23, 2009

In making your investment decision, you should rely only on the information contained or incorporated by reference in this Prospectus Supplement, the accompanying Prospectus and any written communication from Gulf Power Company or the underwriter specifying the final terms of the offering. We have not, and the underwriter has 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 2009A 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, the accompanying Prospectus or any written communication from Gulf Power Company or the underwriter specifying the final terms of the offering, including information incorporated by reference, is accurate as of any date other than its respective date.

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RISK FACTORS

Investing in the Series 2009A 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, 2008, along with disclosure related to the risk factors contained in Gulf Power Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, 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 2009A Senior Notes.

THE COMPANY

Gulf Power Company (the "Company") was 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. Effective as of November 2, 2005, the Company was domesticated as a Florida corporation. Under applicable laws of the State of Florida and the State of Maine, the Company's legal existence was uninterrupted, with only its state of incorporation changed. 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. 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 FINANCIAL INFORMATION

The following selected financial information for the years ended December 31, 2004 through December 31, 2008 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 three months ended March 31, 2009 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. The information set forth below does not reflect the issuance of the Original Notes or the Series 2009A Senior Notes offered hereby or the use of proceeds therefrom. See "Use of Proceeds."

	Year Ended December 31					For the Three Months Ended March 31,
	2004	2005	2006	2007	2008	2009(1)
	(Thousands, except ratios)					
Operating Revenues	$960,131	$1,083,622	$1,203,914	$1,259,808	$1,387,203	$284,284
Earnings Before Income Taxes	108,135	120,951	124,582	135,082	158,651	25,493
Net Income After Dividends on Preferred and Preference Stock	68,223	75,209	75,989	84,118	98,345	16,542
Ratio of Earnings to Fixed Charges(2)	3.93	3.96	3.81	3.95	4.37	3.17

	Capitalization As of March 31, 2009		
	Actual	As Adjusted(3)	
	(Thousands, except percentages)		
Common Stockholders Equity	$ 953,073	$ 953,073	46.9%
Non-Cumulative Preference Stock	97,998	97,998	4.8
Senior Notes	588,700	588,104	29.0
Other Long-Term Debt	381,143	391,073	19.3
Total, excluding amounts due within one year	$2,020,914	$2,030,248	100.0%

(1) Due to seasonal variations in the demand for energy, operating results for the three months ended March 31, 2009 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," "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.

(3) Reflects (i) the reclassification in May 2009 of $9,930,000 of the Company's obligations with respect to pollution control revenue bonds from current to long-term and (ii) redemptions in April 2009 and May 2009 of $596,000 aggregate principal amount of the Company's Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033.

USE OF PROCEEDS

The proceeds from the sale of the Series 2009A Senior Notes will be used by the Company to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $145,183,000 as of June 19, 2009, and for general corporate purposes, including the Company's continuous construction program.

DESCRIPTION OF THE SERIES 2009A SENIOR NOTES

Set forth below is a description of the specific terms of the Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Series 2009A 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 The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Senior Note Indenture Trustee").

General

The Series 2009A Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series 2009A Senior Notes offered hereby will be part of the same series as the $125,000,000 aggregate principal amount of the Original Notes. Upon the issuance of the Original Notes and the Series 2009A Senior Notes offered hereby, the aggregate principal amount of debt securities of this series outstanding will be $140,000,000. The Company may, without the consent of the holders of the Series 2009A Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Series 2009A Senior Notes, (except for the issue price and issue date and the initial interest accrual date and initial Interest Payment Date (as defined below), if applicable). Any additional notes having such similar terms, together with the Original Notes and the Series 2009A Senior Notes offered hereby, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series 2009A Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on June 28, 2010. The Company will pay the principal of the Series 2009A Senior Notes and interest payable at maturity in immediately available funds at the corporate trust offices of The Bank of New York Mellon, as Paying Agent. The Series 2009A Senior Notes are not subject to any sinking fund provision. The Series 2009A Senior Notes are available for purchase in denominations of $1,000 and any integral multiple thereof.

Interest

Each Series 2009A Senior Note shall bear interest from the date of original issuance, payable quarterly in arrears on the 28th day of March, June, September and December until maturity (each, an "Interest Payment Date") to the person in whose name such Series 2009A Senior Note is registered at the close of business on the fifteenth calendar day prior to such Interest Payment Date, whether or not a Business Day. However, interest payable on the maturity date of the Series 2009A Senior Notes will be paid to the same person to whom principal is payable. The initial Interest Payment Date is September 28, 2009. The amount of interest payable will be computed on the basis of the actual number of days elapsed over a 360-day year. If any Interest Payment Date (other than the maturity date) would otherwise be a day that is not a Business Day, the Interest Payment Date will be the next succeeding Business Day. If the maturity date is not a Business Day, the principal and interest due on that date will be payable on the next succeeding Business Day, and no interest shall accrue for the intervening period.

The Series 2009A Senior Notes will bear interest for each quarterly Interest Period at a per annum rate determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The interest rate applicable during each quarterly Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.10%. Promptly upon such determination, the Calculation Agent will notify the Company and the Senior Note Indenture Trustee, if the Senior Note Indenture Trustee is not then serving as the

Calculation Agent, of the interest rate for the new Interest Period. The interest rate determined by the Calculation Agent, absent manifest error, shall be binding and conclusive upon the beneficial owners and holders of the Series 2009A Senior Notes, the Company and the Senior Note Indenture Trustee.

Upon the request of a holder of the Series 2009A Senior Notes, the Calculation Agent will provide to such holder the interest rate in effect on the date of such request and, if determined, the interest rate for the next Interest Period.

The accrued interest for any period is calculated by multiplying the principal amount of a Series 2009A Senior Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the period for which accrued interest is being calculated. The interest factor (expressed as a decimal rounded upwards if necessary) is computed by dividing the interest rate (expressed as a decimal rounded upwards if necessary) applicable to such date by 360.

All percentages resulting from any calculation of the interest rate on the Series 2009A Senior Notes will be rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655) and 9.876544% (or .09876544) being rounded to 9.87654% (or .0987654)), and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upwards).

Certain Definitions

The following definitions apply to the Series 2009A Senior Notes.

"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.

"Calculation Agent" means The Bank of New York Mellon, or its successor appointed by the Company, acting as calculation agent.

"Interest Determination Date" means the second London Business Day immediately preceding the first day of the relevant Interest Period.

"Interest Period" means the period commencing on an Interest Payment Date for the Series 2009A Senior Notes (or, with respect to the initial Interest Period only, commencing on the original issue date for the Series 2009A Senior Notes) and ending on the day before the next succeeding Interest Payment Date for the Series 2009A Senior Notes.

"LIBOR" means, with respect to any Interest Period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that Interest Period and ending on the next Interest Payment Date that appears on Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period. If such rate does not appear on the Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for the Interest Period and in a principal amount of not less than $1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market, which may include affiliates of the Underwriter (as defined below), selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., London time on the Interest Determination Date for that Interest Period. The Calculation Agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of such quotations. If fewer than two

quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of the rates quoted by three major banks in New York City, which may include affiliates of the Underwriter, selected by the Calculation Agent (after consultation with the Company), at approximately 11:00 a.m., New York City time, on the first day of that Interest Period for loans in U.S. dollars to leading European banks for that Interest Period and in a principal amount of not less than $1,000,000. However, if fewer than three banks selected by the Calculation Agent to provide quotations are quoting as described above, LIBOR for that Interest Period will be the same as LIBOR as determined for the previous Interest Period. The establishment of LIBOR by the Calculation Agent shall (in the absence of manifest error) be final and binding.

"London Business Day" means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

"Reuters LIBOR01 Page" means the display so designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered rate for U.S. dollar deposits).

Ranking

The Series 2009A Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking equally with all other existing and future unsecured and unsubordinated obligations of the Company. The Series 2009A Senior Notes will be effectively subordinated to all existing and future secured debt of the Company to the extent of the collateral securing such debt. The Company had secured debt aggregating approximately $41,000,000 outstanding at March 31, 2009. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

Redemption

The Series 2009A Senior Notes will not be redeemable at the option of the Company prior to maturity.

Book-Entry Only Issuance—The Depository Trust Company

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Series 2009A Senior Notes. The Series 2009A Senior Notes will be issued only as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series 2009A Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series 2009A 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. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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"). DTC has the highest ratings of Standard & Poor's Ratings Service, a division of The McGraw Hill Companies, Inc.: AAA. 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 and www.dtc.org. The contents of such websites do not constitute part of this Prospectus Supplement.

Purchases of Series 2009A Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009A Senior Notes on DTC's records. The ownership interest of each actual purchaser of each Series 2009A 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. Beneficial Owners are, however, 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 2009A Senior Notes. Transfers of ownership interests in the Series 2009A 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 2009A Senior Notes, except in the event that use of the book-entry system for the Series 2009A Senior Notes is discontinued.

To facilitate subsequent transfers, all Series 2009A 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 2009A 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 2009A Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009A 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 2009A 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 2009A 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 2009A Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2009A 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 2009A Senior Note will not be entitled to receive physical delivery of Series 2009A Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series 2009A 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 2009A Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series 2009A 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 2009A Senior Notes certificates will be required to 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 2009A Senior Notes. In that event, certificates for the Series 2009A Senior Notes will be printed and delivered to the holders of record. 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 2009A Senior Note at the request of each Direct or Indirect Participant. In that event, certificates for the Series 2009A Senior Notes will be printed and delivered to the applicable Direct to 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 neither the Company nor the underwriter takes any responsibility for the accuracy thereof. Neither the Company nor the underwriter has any 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 of an underwriting agreement (the "Underwriting Agreement"), the Company has agreed to sell to Morgan Stanley & Co. Incorporated (the "Underwriter"), and the Underwriter has agreed to purchase from the Company, the entire principal amount of Series 2009A Senior Notes offered hereby. The Underwriter is obligated to purchase all of the Series 2009A Senior Notes offered hereby, if any of the Series 2009A Senior Notes are purchased.

The Underwriter proposes to offer the Series 2009A Senior Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and may offer the Series 2009A Senior Notes to certain securities dealers at such price less a concession not in excess of 0.10% of the principal amount per Series 2009A Senior Note. The Underwriter may allow, and such dealers may reallow, a concession not in excess of 0.05% of the principal amount per Series 2009A Senior Note to certain brokers and dealers. After the initial public offering, the offering price and other selling terms may from time to time be varied by the Underwriter.

The Series 2009A Senior Notes are a new issue of securities with no established trading market. The Series 2009A Senior Notes will not be listed on any securities exchange or on any automated dealer quotation system. The Underwriter may make a market in the Series 2009A Senior Notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series 2009A Senior Notes or that an active public market for the Series 2009A Senior Notes will develop. If an active public trading market for the Series 2009A Senior Notes does not develop, the market price and liquidity of the Series 2009A Senior Notes may be adversely affected.

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

The Company's expenses associated with the offer and sale of the Series 2009A Senior Notes offered hereby are estimated to be $175,000.

The Company has agreed with the Underwriter, that during the period of 15 days from the date of the Underwriting Agreement, it will not sell, offer to sell, grant any option for the sale of, or otherwise dispose of any Series 2009A Senior Notes, any security convertible into, or exchangeable into or exercisable for Series 2009A Senior Notes or any debt securities substantially similar to the Series 2009A Senior Notes (except for the Series 2009A Senior Notes issued pursuant to the Underwriting Agreement), without the prior written consent of the Underwriter. This agreement does not apply to issuances of commercial paper or other debt securities with scheduled maturities of less than one year.

In order to facilitate the offering of the Series 2009A Senior Notes, the Underwriter may engage in transactions that stabilize, maintain or otherwise affect the price of the Series 2009A Senior Notes. Specifically, the Underwriter may over-allot in connection with this offering, creating short positions in the Series 2009A Senior Notes for its own account. In addition, to cover over-allotments or to stabilize the price of the Series 2009A Senior Notes, the Underwriter may bid for, and purchase, Series 2009A Senior Notes in the open market. The Underwriter may reclaim selling concessions allowed to a dealer for distributing Series 2009A Senior Notes in this offering, if the Underwriter repurchases previously distributed Series 2009A 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 2009A Senior Notes above independent market levels. The Underwriter is not required to engage in these activities and may end any of these activities at any time without notice.

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 the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series 2009A Senior Notes. In addition, neither the Company nor the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Underwriter and its affiliates have engaged and may in the future engage in transactions with, and, from time to time, have performed and may perform investment banking and/or commercial banking 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 financial statements and the related financial statement schedule incorporated in this Prospectus Supplement and the accompanying Prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2008 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein 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.

PROSPECTUS

$500,000,000

Gulf Power Company

Class A Preferred Stock

Preference Stock

Senior Notes

Junior Subordinated Notes

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.

March 27, 2008

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 "Class A Preferred Stock")
- preference stock (the "Preference Stock")
- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

in one or more offerings up to a total dollar amount of $500,000,000. 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, 2007, 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 has 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 to the Registration Statement, 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 Room of the Commission at 100 F Street, N.E., Room 1580, 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.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 has been filed with the Commission pursuant to the 1934 Act and is incorporated by reference in this Prospectus and made a part of this Prospectus.

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; provided, however, the Company is not incorporating any information furnished under Items 2.02 or 7.01 of any Current Report on Form 8-K unless specifically stated otherwise. 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 in this Prospectus by reference (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 was 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. Effective as of November 2, 2005, the Company was domesticated as a Florida corporation. Under applicable laws of the State of Florida and the State of Maine, the Company's legal existence was uninterrupted, with only its state of incorporation changed. 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. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the transmission, 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, 2007	427,663
Generating Capacity at December 31, 2007 (kilowatts)	2,659,400
Sources of Generation during 2007 (kilowatt-hours)	Coal (86%), Gas (14%)

Certain Ratios

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

	Year Ended December 31,				
	2003	2004	2005	2006	2007
Ratio of Earnings to Fixed Charges(1)	3.86	3.93	3.96	3.81	3.95
Ratio of Earnings to Fixed Charges Plus Preferred and Preference Dividend Requirements (Pre-Income Tax Basis)(2)	3.83	3.90	3.85	3.41	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 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. For the year ended December 31, 2007, this ratio includes interest relating to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

(2) In computing this ratio, "Preferred and Preference Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods. For the year ended December 31, 2007, this ratio includes interest relating to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

USE OF PROCEEDS

Except as may be otherwise described in an applicable Prospectus Supplement, the proceeds received by the Company from the sale of the Class A Preferred Stock, the Preference Stock, the Senior Notes or the 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 CLASS A PREFERRED STOCK

Set forth below is a description of the general terms of the Class A Preferred Stock. The statements in this Prospectus concerning the Class A Preferred 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 Amended and 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

Each series of the Class A Preferred Stock, par value $25 per share, is to be created by the Board of Directors of the Company (the "Board of Directors") through an amendment to the Charter, a copy of which will be filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

As of December 31, 2007, there were no outstanding shares of the Class A Preferred Stock or the Company's Preferred Stock, par value $100 per share (the "Preferred Stock"). The Class A Preferred Stock ranks equally with the Preferred Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. The Class A Preferred Stock and the Preferred Stock rank senior to the Preference Stock, the Company's common stock and any other securities the Company may issue in the future that by their terms rank junior to the Class A Preferred Stock and the Preferred Stock, with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. All shares of the Class A Preferred Stock will rank on a parity with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company.

The Class A Preferred Stock will not be subject to further calls or assessment by the Company.

Any proposed listing of the Class A Preferred 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 Class A Preferred Stock will be Southern Company Services, Inc., 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the Class A Preferred 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 Class A Preferred Stock as they appear on the books of the Company on the record dates fixed by the Board of Directors.

So long as any shares of the Preferred Stock or the Class A Preferred Stock are outstanding, no dividends may be declared or paid upon or set apart for the Preference Stock, the Company's common stock or any other class of stock of the Company over which the Preferred Stock and the Class A Preferred Stock have a preference as to the payment of dividends, unless: (1) full dividends on all shares of cumulative Preferred Stock and cumulative Class A Preferred Stock for all past dividend periods have been paid or declared and a sum sufficient for the payment thereof has been set apart and full dividends on such Preferred Stock and Class A Preferred Stock for the then current dividend period have been or concurrently are declared; and (2) full dividends for the then current dividend period on all shares of non-cumulative Preferred Stock and non-cumulative Class A Preferred Stock have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set aside.

The applicable Prospectus Supplement will set forth the dividend rate provisions of the Class A Preferred 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 Class A Preferred Stock will be described in the applicable Prospectus Supplement.

Voting Rights

The applicable Prospectus Supplement will describe the voting rights for each series of the Class A Preferred Stock.

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preferred Stock and the 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 Preference Stock and the Company's common stock. Available assets, if insufficient to pay such amounts to the holders of the Preferred Stock and the 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, if any, 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 Class A Preferred Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

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

DESCRIPTION OF THE PREFERENCE STOCK

Set forth below is a description of the general terms of the Preference Stock. The statements in this Prospectus concerning the Preference 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 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 or incorporated by reference in the Registration Statement, for complete statements and for the definitions of various terms. The general provisions which apply to the Preference Stock of the Company of all classes, which are now or may later be authorized or created, are set forth in the Charter.

General

Each series of the Preference Stock, par value $100 per share, is to be created by the Board of Directors through an amendment to the Charter, a copy of which will be filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

As of December 31, 2007, there were 1,000,000 outstanding shares of the Preference Stock. In addition, as of December 31, 2007, there were no outstanding shares of the Preferred Stock or the Class A Preferred Stock. The Preference Stock ranks junior to the Preferred Stock and the Class A Preferred Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. The Preference Stock ranks senior to the Company's common stock and to any other securities the Company may issue in the future that by their terms rank junior to the Preference Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. All shares of the Preference Stock will rank on a parity with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company.

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

Any proposed listing of the Preference 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 Preference Stock will be Southern Company Services, Inc., 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the Preference 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 Preference Stock as they appear on the books of the Company on the record date fixed by the Board of Directors.

So long as any shares of the Preferred Stock or the Class A Preferred Stock are outstanding, no dividends may be declared or paid upon or set apart for the Preference Stock, the Company's common stock or any other class of stock of the Company over which the Preferred Stock and the Class A Preferred Stock have a preference as to the payment of dividends, unless: (1) full dividends on all shares of cumulative Preferred Stock and cumulative Class A Preferred Stock for all past dividend periods have been paid or declared and a sum sufficient for the payment thereof has been set apart and full dividends on such Preferred Stock and Class A Preferred Stock for the then current dividend period have been or concurrently are declared; and (2) full dividends for the then current dividend period on all shares of non-cumulative Preferred Stock and non-cumulative Class A Preferred Stock have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set aside.

The applicable Prospectus Supplement will set forth the dividend rate provisions of the Preference 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 Preference Stock will be described in the applicable Prospectus Supplement.

Voting Rights

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

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preference Stock of each series, without preference among series, are entitled to receive, out of the Company's assets available for distribution to the holders of the Preference Stock following the satisfaction of all claims ranking senior to the Preference Stock, including the claims of the holders of any outstanding shares of the Preferred Stock or the Class A Preferred Stock, the amount specified as payable on the shares of such series before any distribution of assets may be made to the holders of the Company's common stock. Available assets, if insufficient to pay such amounts to the holders of the Preference 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, if any, 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 Preference Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

The holders of the Preference 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 The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (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 Trust Indenture Act of 1939, as amended (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, aggregating approximately $41,000,000 outstanding at December 31, 2007. 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) issue, 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.

The Bank of New York, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York and certain of its affiliates also serve as trustee under other indentures pursuant to which securities of the Company and certain of its affiliates 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 The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (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 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 such 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 December 31, 2007, Senior Indebtedness of the Company aggregated approximately $792,000,000.

Additional Interest

"Additional Interest" is defined in the Subordinated Note Indenture as 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, 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, or 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) 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.

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 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 to pay principal or premium, if any, or interest, including Additional Interest, on the Junior Subordinated 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 Junior Subordinated Note of such series; or

(d) 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

(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 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.

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.

The Bank of New York, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York and certain of its affiliates also serve as trustee under other indentures pursuant to which securities of the Company and certain of its affiliates 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.

PLAN OF DISTRIBUTION

The Company may sell the Class A Preferred Stock, the Preference Stock, the Senior Notes and the Junior Subordinated Notes 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 Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes will set forth the terms of the offering of such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes, including the name or names of any underwriters or agents, the purchase price of such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes and the proceeds to the Company 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 Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes may be listed.

If underwriters participate in the sale, such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated 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.

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

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

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

LEGAL MATTERS

The validity of the Class A Preferred Stock, the Preference Stock, the Senior Notes, the Junior Subordinated Notes 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 & LeBoeuf LLP, New York, New York. From time to time, Dewey & LeBoeuf LLP acts as counsel to affiliates of the Company for some matters.

EXPERTS

The financial statements and the related financial statement schedule incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein 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.

$15,000,000



Series 2009A Floating Rate Senior Notes due June 28, 2010

PROSPECTUS SUPPLEMENT
June 23, 2009

MORGAN STANLEY

BEGGS & LANE
A REGISTERED LIMITED LIABILITY PARTNERSHIP
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W. SPENCER MITCHEM
OF COUNSEL

E. DIXIE BEGGS
1908-2001

BERT H. LANE
1917-1981

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
$125,000,000
Series 2009A Floating Rate Senior Notes
due June 28, 2010

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 $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and amended and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated June 22, 2009 between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and as supplemented by a prospectus supplement dated June 22, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 22, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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

The Indenture, the Calculation Agent Agreement 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 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 & LeBoeuf 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 Florida, is duly qualified to carry on

its business as a foreign corporation under the laws of the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 Calculation Agent Agreement and 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 22, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 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 letter is limited to the date hereof. This opinion may not be used,

quoted or 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 & LeBoeuf LLP may rely on this opinion in giving their opinions pursuant to the Underwriting Agreement insofar as such opinions relate to matters of Florida and Mississippi law.

Yours very truly,



BEGGS & LANE

BEGGS & LANE

A REGISTERED LIMITED LIABILITY PARTNERSHIP

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W. SPENCER MITCHEM
OF COUNSEL

E. DIXIE BEGGS
(1908-2001)

BERT H. LANE
(1917-1981)

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
$15,000,000
Series 2009A Floating Rate Senior Notes
due June 28, 2010

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 $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and amended and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") dated June 23, 2009 between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and as supplemented by a prospectus supplement dated June 23, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 23, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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

The Indenture, the Calculation Agent Agreement 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 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 Calculation Agent Agreement and 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 23, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 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 letter is limited to the date hereof. This opinion may not be used, quoted or 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 &

LeBoeuf LLP may rely on this opinion in giving their opinions pursuant to the Underwriting Agreement insofar as such opinions relate to matters of Florida and Mississippi law.

Yours very truly,



BEGGS & LANE

TROUTMAN SANDERS

TROUTMAN SANDERS LLP
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Bank of America Plaza
600 Peachtree Street, NE, Suite 5200
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June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement dated June 22, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act 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, 2008, the Quarterly Report on Form 10-

Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 22, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 22, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 to matters of 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation in the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 22, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

The attorneys in this firm that are rendering this opinion 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, the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

TROUTMAN SANDERS

TROUTMAN SANDERS LLP
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June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter (as defined herein) of the Notes pursuant to the terms of an Underwriting Agreement dated June 23, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(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 No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K

of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 23, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 23, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 to matters of 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 & LeBoeuf 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 Florida, is duly qualified to carry on its business as a foreign corporation in the States of 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 the sale of the Notes; the issuance and the 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 23, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A Senior Notes — Book-Entry Only Issuance — The Depository Trust Company."

The attorneys in this firm that are rendering this opinion 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, the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey & LeBoeuf LLP may rely on this opinion in giving its opinion pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, NY 10019-6092

tel (212) 259-8000
fax (212) 259-6333

DEWEY & LEBOEUF

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have represented the Underwriter (hereinafter defined) in connection with (i) the issuance and sale by Gulf Power Company (the "Company") of $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture, dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture, dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter of the Notes pursuant to the terms of an Underwriting Agreement dated June 22, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(c)(4) 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 Company's registration statement on Form S-3 (File No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing

Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (collectively, the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 22, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 22, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 law of the State of 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 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the

States of 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 22, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 laws of the States of Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 6 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 & LeBoeuf LLP

DEWEY & LEBOEUF LLP

Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, NY 10019-6092

tel (212) 259-8000
fax (212) 259-6333

DEWEY & LEBOEUF

June 26, 2009

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036

GULF POWER COMPANY
Series 2009A Floating Rate Senior Notes
due June 28, 2010

Ladies and Gentlemen:

We have represented the Underwriter (hereinafter defined) in connection with (i) the issuance and sale by Gulf Power Company (the "Company") of $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Notes") pursuant to a Senior Note Indenture, dated as of January 1, 1998, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Fifteenth Supplemental Indenture, dated as of June 26, 2009 (collectively, the "Indenture"); and (ii) the purchase by the Underwriter of the Notes pursuant to the terms of an Underwriting Agreement dated June 23, 2009 (the "Underwriting Agreement"), between the Company and you (the "Underwriter"). Pursuant to a Calculation Agent Agreement, dated as of June 15, 2009 (the "Calculation Agent Agreement"), between the Company and The Bank of New York Mellon, as calculation agent thereunder (the "Calculation Agent"), the Company has engaged the Calculation Agent to perform certain services with respect to the floating interest rate on the Notes. This opinion is being delivered to you pursuant to Section 6(c)(4) 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 Company's registration statement on Form S-3 (File No. 333-149664) pertaining to the Notes and certain other securities filed by the Company under the Securities Act of 1933, as amended (the "Act"), as it became effective under the Act (the "Registration Statement"); the Company's prospectus dated March 27, 2008 (the "Basic Prospectus") as supplemented by a preliminary prospectus supplement dated June 22, 2009 (the "Pricing

Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Securities and Exchange Commission (the "Commission") under the Act, 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, 2008, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2009 and the Current Reports on Form 8-K of the Company dated January 22, 2009, March 16, 2009 and March 31, 2009 (collectively, the "Pricing Exchange Act Documents"), and a prospectus supplement dated June 23, 2009 (together with the Basic Prospectus, the "Final Supplemented Prospectus"), filed by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act, which, pursuant to Form S-3, incorporates by reference the Pricing Exchange Act Documents and the Current Report on Form 8-K of the Company dated June 22, 2009 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and the Indenture. We have also examined the free writing prospectus prepared by the Company and filed with the Commission on June 23, 2009 pursuant to Rule 433 of the Act (the "Permitted Free Writing Prospectus"). The documents listed in Schedule II to the Underwriting Agreement, taken together, are collectively referred to as the "Pricing Disclosure Package."

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, the Calculation Agent Agreement 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 law of the State of 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 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 Florida, is duly qualified to carry on its business as a foreign corporation under the laws of the

States of 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. Each of the Calculation Agent Agreement and the Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Calculation Agent and the Trustee, respectively, 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 and the Calculation Agent Agreement 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 Pricing Disclosure Package and 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 Underwriter 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 Pricing Disclosure Package and 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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 Pricing Disclosure Package, 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, on the Effective Date, and the Final Supplemented Prospectus, as of June 23, 2009, 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 each Exchange Act Document, as of its date 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 (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) we confirm to you that nothing came to our attention which gives us reason to believe that the Registration Statement, on the 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, that the Pricing Disclosure Package, as of the Applicable Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, 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 belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in (or omitted from) the Registration Statement, the Pricing Disclosure Package, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Pricing Prospectus and the Final Supplemented Prospectus under the caption "Description of the Series 2009A 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 laws of the States of Florida, Georgia and Mississippi.

This opinion is rendered solely to you in connection with the above matter. This opinion letter is limited to the date hereof. This opinion may not be used, quoted or 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 6 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 & LeBoeuf LLP

DEWEY & LEBOEUF LLP

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) June 22, 2009

Commission File Number	**Registrant, State of Incorporation, Address and Telephone Number**	**I.R.S. Employer Identification No.**
0-2429	Gulf Power Company (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810

The address of the registrant has not changed since the last report.

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On June 22, 2009, Gulf Power Company (the "Company") entered into an Underwriting Agreement covering the issue and sale by the Company of $125,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Original Senior Notes") and on June 23, 2009, the Company entered into an Underwriting Agreement covering the issue and sale by the Company of $15,000,000 aggregate principal amount of its Series 2009A Floating Rate Senior Notes due June 28, 2010 (the "Additional Senior Notes," together with the Original Senior Notes, the "Senior Notes"). The Senior Notes were registered under the Securities Act of 1933, as amended, pursuant to the shelf registration statement (Registration No. 333-149664) of the Company.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

1.3(a)	Underwriting Agreement, dated June 22, 2009, relating to the Original Senior Notes between the Company and Morgan Stanley & Co. Incorporated.
1.3(b)	Underwriting Agreement, dated June 23, 2009, relating to the Additional Senior Notes between the Company and Morgan Stanley & Co. Incorporated.
4.2	Fifteenth Supplemental Indenture to Senior Note Indenture dated as of June 26, 2009, providing for the issuance of the Senior Notes.
4.9	Form of Senior Note (included in Exhibit 4.2 above).
5.2	Opinion of Troutman Sanders LLP relating to the Senior Notes.
12.1	Computation of ratio of earnings to fixed charges.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 26, 2009

GULF POWER COMPANY

By /s/Wayne Boston
Wayne Boston
Assistant Secretary

As filed with the Securities and Exchange Commission on March 12, 2008.
Subject to Amendment. Registration No. 333-149664

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Gulf Power Company	Florida	59-0276810
(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 32520
(850) 444-6111
(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

SUSAN D. RITENOUR
Secretary and Treasurer
Gulf Power Company
One Energy Place
Pensacola, Florida 32520
(850) 444-6111
(Name, address, including zip code, and telephone number, including area code, of agent for service of the registrant)

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

W. PAUL BOWERS	MELISSA K. CAEN	ERIC A. KOONTZ
Executive Vice President and	Vice President and Associate	TROUTMAN SANDERS LLP
Chief Financial Officer	General Counsel	600 Peachtree Street, N.E.
THE SOUTHERN COMPANY	SOUTHERN COMPANY SERVICES, INC.	Suite 5200
30 Ivan Allen, Jr. Blvd., N.W.	30 Ivan Allen, Jr. Blvd., N.W.	Atlanta, Georgia 30308-2216
Atlanta, Georgia 30308	Atlanta, Georgia 30308	

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 this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ☐

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, 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 Company Class A Preferred Stock				
Gulf Power Company Preference Stock				
Gulf Power Company Senior Notes				
Gulf Power Company Junior Subordinated Notes				
Total	$455,000,000	100%	$455,000,000	$17,882

(1) There are being registered hereunder such presently indeterminate number of shares of Preference Stock and Class A Preferred Stock of Gulf Power Company 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 $455,000,000. 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 dividends, if any.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The within Prospectus contains the information required by Rule 429 of the Commission under the Securities Act of 1933 with respect to the $45,000,000 of securities remaining unsold under Registration Statement No. 333-138480.

Information contained 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 we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 12, 2008

PROSPECTUS

$500,000,000

Gulf Power Company

Class A Preferred Stock

Preference Stock

Senior Notes

Junior Subordinated Notes

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.

, 2008

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 "Class A Preferred Stock")
- preference stock (the "Preference Stock")
- senior notes (the "Senior Notes")
- junior subordinated notes (the "Junior Subordinated Notes")

in one or more offerings up to a total dollar amount of $500,000,000. 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, 2007, 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 has 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 to the Registration Statement, 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 Room of the Commission at 100 F Street, N.E., Room 1580, 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.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 has been filed with the Commission pursuant to the 1934 Act and is incorporated by reference in this Prospectus and made a part of this Prospectus.

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; provided, however, the Company is not incorporating any information furnished under Items 2.02 or 7.01 of any Current Report on Form 8-K unless specifically stated otherwise. 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 in this Prospectus by reference (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 was 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. Effective as of November 2, 2005, the Company was domesticated as a Florida corporation. Under applicable laws of the State of Florida and the State of Maine, the Company's legal existence was uninterrupted, with only its state of incorporation changed. 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. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the transmission, 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, 2007	427,663
Generating Capacity at December 31, 2007 (kilowatts)	2,659,400
Sources of Generation during 2007 (kilowatt-hours)	Coal (86%), Gas (14%)

Certain Ratios

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

	Year Ended December 31,				
	2003	2004	2005	2006	2007
Ratio of Earnings to Fixed Charges(1)	3.86	3.93	3.96	3.81	3.95
Ratio of Earnings to Fixed Charges Plus Preferred and Preference Dividend Requirements (Pre-Income Tax Basis)(2)	3.83	3.90	3.85	3.41	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 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. For the year ended December 31, 2007, this ratio includes interest relating to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.*

(2) In computing this ratio, "Preferred and Preference Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods. For the year ended December 31, 2007, this ratio includes interest relating to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.*

USE OF PROCEEDS

Except as may be otherwise described in an applicable Prospectus Supplement, the proceeds received by the Company from the sale of the Class A Preferred Stock, the Preference Stock, the Senior Notes or the 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 CLASS A PREFERRED STOCK

Set forth below is a description of the general terms of the Class A Preferred Stock. The statements in this Prospectus concerning the Class A Preferred 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 Amended and 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

Each series of the Class A Preferred Stock, par value $25 per share, is to be created by the Board of Directors of the Company (the "Board of Directors") through an amendment to the Charter, a copy of which will be filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

As of December 31, 2007, there were no outstanding shares of the Class A Preferred Stock or the Company's Preferred Stock, par value $100 per share (the "Preferred Stock"). The Class A Preferred Stock ranks equally with the Preferred Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. The Class A Preferred Stock and the Preferred Stock rank senior to the Preference Stock, the Company's common stock and any other securities the Company may issue in the future that by their terms rank junior to the Class A Preferred Stock and the Preferred Stock, with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. All shares of the Class A Preferred Stock will rank on a parity with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company.

The Class A Preferred Stock will not be subject to further calls or assessment by the Company.

Any proposed listing of the Class A Preferred 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 Class A Preferred Stock will be Southern Company Services, Inc., 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the Class A Preferred 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 Class A Preferred Stock as they appear on the books of the Company on the record dates fixed by the Board of Directors.

So long as any shares of the Preferred Stock or the Class A Preferred Stock are outstanding, no dividends may be declared or paid upon or set apart for the Preference Stock, the Company's common stock or any other class of stock of the Company over which the Preferred Stock and the Class A Preferred Stock have a preference as to the payment of dividends, unless: (1) full dividends on all shares of cumulative Preferred Stock and cumulative Class A Preferred Stock for all past dividend periods have been paid or declared and a sum sufficient for the payment thereof has been set apart and full dividends on such Preferred Stock and Class A Preferred Stock for the then current dividend period have been or concurrently are declared; and (2) full dividends for the then current dividend period on all shares of non-cumulative Preferred Stock and non-cumulative Class A Preferred Stock have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set aside.

The applicable Prospectus Supplement will set forth the dividend rate provisions of the Class A Preferred 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 Class A Preferred Stock will be described in the applicable Prospectus Supplement.

Voting Rights

The applicable Prospectus Supplement will describe the voting rights for each series of the Class A Preferred Stock.

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preferred Stock and the 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 Preference Stock and the Company's common stock. Available assets, if insufficient to pay such amounts to the holders of the Preferred Stock and the 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, if any, 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 Class A Preferred Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

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

DESCRIPTION OF THE PREFERENCE STOCK

Set forth below is a description of the general terms of the Preference Stock. The statements in this Prospectus concerning the Preference 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 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 or incorporated by reference in the Registration Statement, for complete statements and for the definitions of various terms. The general provisions which apply to the Preference Stock of the Company of all classes, which are now or may later be authorized or created, are set forth in the Charter.

General

Each series of the Preference Stock, par value $100 per share, is to be created by the Board of Directors through an amendment to the Charter, a copy of which will be filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

As of December 31, 2007, there were 1,000,000 outstanding shares of the Preference Stock. In addition, as of December 31, 2007, there were no outstanding shares of the Preferred Stock or the Class A Preferred Stock. The Preference Stock ranks junior to the Preferred Stock and the Class A Preferred Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. The Preference Stock ranks senior to the Company's common stock and to any other securities the Company may issue in the future that by their terms rank junior to the Preference Stock with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company. All shares of the Preference Stock will rank on a parity with respect to dividends and amounts payable upon liquidation, dissolution or winding up of the Company.

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

Any proposed listing of the Preference 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 Preference Stock will be Southern Company Services, Inc., 30 Ivan Allen Jr. Blvd., N.W., Atlanta, Georgia 30308, which will also serve as the registrar.

Dividend Rights and Provisions

Dividends on the Preference 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 Preference Stock as they appear on the books of the Company on the record date fixed by the Board of Directors.

So long as any shares of the Preferred Stock or the Class A Preferred Stock are outstanding, no dividends may be declared or paid upon or set apart for the Preference Stock, the Company's common stock or any other class of stock of the Company over which the Preferred Stock and the Class A Preferred Stock have a preference as to the payment of dividends, unless: (1) full dividends on all shares of cumulative Preferred Stock and cumulative Class A Preferred Stock for all past dividend periods have been paid or declared and a sum sufficient for the payment thereof has been set apart and full dividends on such Preferred Stock and Class A Preferred Stock for the then current dividend period have been or concurrently are declared; and (2) full dividends for the then current dividend period on all shares of non-cumulative Preferred Stock and non-cumulative Class A Preferred Stock have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set aside.

The applicable Prospectus Supplement will set forth the dividend rate provisions of the Preference 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 Preference Stock will be described in the applicable Prospectus Supplement.

Voting Rights

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

Liquidation Rights

Upon voluntary or involuntary liquidation, the holders of the Preference Stock of each series, without preference among series, are entitled to receive, out of the Company's assets available for distribution to the holders of the Preference Stock following the satisfaction of all claims ranking senior to the Preference Stock, including the claims of the holders of any outstanding shares of the Preferred Stock or the Class A Preferred Stock, the amount specified as payable on the shares of such series before any distribution of assets may be made to the holders of the Company's common stock. Available assets, if insufficient to pay such amounts to the holders of the Preference 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, if any, 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 Preference Stock will be set forth in the applicable Prospectus Supplement.

Other Rights

The holders of the Preference 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 The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (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 Trust Indenture Act of 1939, as amended (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, aggregating approximately $41,000,000 outstanding at December 31, 2007. 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) issue, 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.

The Bank of New York, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York and certain of its affiliates also serve as trustee under other indentures pursuant to which securities of the Company and certain of its affiliates 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 The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (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 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 such 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 December 31, 2007, Senior Indebtedness of the Company aggregated approximately $792,000,000.

Additional Interest

"Additional Interest" is defined in the Subordinated Note Indenture as 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, 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, or 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) 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.

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 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 to pay principal or premium, if any, or interest, including Additional Interest, on the Junior Subordinated 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 Junior Subordinated Note of such series; or

(d) 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

(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 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.

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.

The Bank of New York, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York and certain of its affiliates also serve as trustee under other indentures pursuant to which securities of the Company and certain of its affiliates 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.

PLAN OF DISTRIBUTION

The Company may sell the Class A Preferred Stock, the Preference Stock, the Senior Notes and the Junior Subordinated Notes 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 Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes will set forth the terms of the offering of such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes, including the name or names of any underwriters or agents, the purchase price of such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes and the proceeds to the Company 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 Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated Notes may be listed.

If underwriters participate in the sale, such Class A Preferred Stock, Preference Stock, Senior Notes or Junior Subordinated 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.

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

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

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

LEGAL MATTERS

The validity of the Class A Preferred Stock, the Preference Stock, the Senior Notes, the Junior Subordinated Notes 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 & LeBoeuf LLP, New York, New York. From time to time, Dewey & LeBoeuf LLP acts as counsel to affiliates of the Company for some matters.

EXPERTS

The financial statements and the related financial statement schedule incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein 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.

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	$ 17,882
Fees and expenses of trustees and/or Transfer Agent and Registrar	30,000
Listing fees of New York Stock Exchange	88,600
Printing expenses	120,000
Rating Agency fees	520,000
Services of Southern Company Services, Inc.	120,000
Fees and expenses of counsel	360,000
Blue sky fees and expenses	30,000
Fees of accountants	350,000
Miscellaneous expenses	113,518
Total	$1,750,000

* 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.***

The Florida Business Corporation Act, as amended (the "FBCA"), provides that a corporation may indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation) by reason of the fact that he or she 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, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. In the case of proceedings by or in the right of the corporation, the FBCA provides that, in general, a corporation may indemnify any person who was or is a party to such proceeding by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation against expenses and amounts paid in settlement actually and reasonably incurred in connection with the defense or settlement of such proceeding, including the appeal thereof, provided that such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of the corporation, and provided further that no indemnification shall be made in respect of any claim as to which such person is adjudged liable unless a court of competent jurisdiction determines upon application that such person is fairly and reasonably entitled to indemnity. To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in the defense of any of the proceedings described above, the FBCA provides that the corporation is required to indemnify such director, officer, employee or agent of the corporation against expenses actually and reasonably incurred in connection therewith. The FBCA provides that expenses incurred by an officer or director in defending a civil or criminal proceeding may be paid by the corporation in advance of the final disposition of such proceeding upon receipt of an undertaking by such officer or director to repay such amounts if he or she is ultimately found not to be entitled to indemnification. The FBCA provides that a corporation may make any other or further indemnification or advancement of expenses of any of its officers, directors, agents or employees under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, provided that indemnification or advancement of expenses is not permitted if a judgment or final adjudication establishes that his or her actions, or omissions to act, were material to the cause of action and constitute: (i) a violation of criminal law, unless the director, officer, employee or agent had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe his or her conduct was unlawful; (ii) a transaction from which the director, officer, employee or agent

derived an improper personal benefit; (iii) in the case of a director, a circumstance under which the director is liable for an unlawful distribution under the FBCA; or (iv) willful misconduct or conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation.

Section 20 of the Bylaws of the Company provides in pertinent part as follows:

To the fullest extent permitted by law, the Company shall indemnify any 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 formal or informal, by reason of the fact that he 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 manager) or any such person is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against all expenses and liabilities reasonably incurred in connection with such claim, action, suit or proceeding, including any appeal thereof, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Such person shall also be entitled to advancement of expenses incurred in defending a proceeding in advance of its final disposition to the full extent permitted by law, subject to the conditions imposed by law and subject to providing the Company a written undertaking by or on behalf of such person to pay amounts advanced if it shall be ultimately determined that such person was not entitled to be indemnified by the Company under this Section or otherwise. Nothing herein shall restrict the power of the Company to provide indemnification or advancement of expenses to other employees or agents of the Company as otherwise permitted by law.

The right of indemnification under this Section shall be a contract right inuring to the benefit of the person entitled to be indemnified hereunder and no amendment or repeal of this Section shall adversely affect any right of such person existing at the time of such amendment or repeal. The indemnification provided hereunder shall inure to the benefit of the heirs, executors, personal and legal representatives, and administrators or a person entitled to indemnification hereunder.

The right of indemnification under this Section shall be in addition to and not exclusive of all other rights to which persons entitled to indemnification hereunder may be entitled. Nothing contained in this Section shall affect any rights to indemnification to which persons may be entitled by contract or otherwise under law.

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 the Class A Preferred Stock.*
1.2	—Form of Underwriting Agreement relating to the Preference Stock.*
1.3	—Form of Underwriting Agreement relating to the Senior Notes.*
1.4	—Form of Underwriting Agreement relating to the Junior Subordinated Notes.*
4.1	—Senior Note Indenture between Gulf Power Company and The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee (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, 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, Form 8-K, dated April 6, 2004, File No. 0-2429, as Exhibit 4.1, in Form 8-K, dated August 11, 2005, File No. 0-2429, as Exhibit 4.1, in Form 8-K dated October 27, 2005, File No. 0-2429, as Exhibit 4.1, in Form 8-K dated November 28, 2006, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated June 5, 2007, File No. 0-2429, as Exhibit 4.2).
4.2	—Form of Supplemental Indenture to Senior Note Indenture to be used in connection with the issuance of Senior Notes.*
4.3	—Subordinated Note Indenture between Gulf Power Company and The Bank of New York (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee (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).
4.4	—Form of Supplemental Indenture to Subordinated Note Indenture to be used in connection with the issuance of Junior Subordinated Notes.*
4.5	—Amended and restated Articles of Incorporation of Gulf Power Company and amendments thereto. (Designated in Form 8-K dated October 27, 2005, File No. 0-2429, as Exhibit 3.1, in Form 8-K dated November 9, 2005, File No. 0-2429, as Exhibit 4.7 and in Form 8-K dated October 16, 2007, File No. 0-2429, as Exhibit 4.5).
4.6	—Form of Articles of Amendment to Charter establishing a series of the Class A Preferred Stock.*
4.7	—Form of Articles of Amendment to Charter establishing a series of the Preference Stock.*
4.8	—By-laws of Gulf Power Company as amended effective November 2, 2005, and as presently in effect. (Designated in Form 8-K dated October 27, 2005, File No. 0-2429, as Exhibit 3.2).
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).
5.1	—Opinion of Beggs & Lane, a Registered Limited Liability Partnership.
5.2	—Opinion of Troutman Sanders LLP.
12.1	—Computation of ratio of earnings to fixed charges.
12.2	—Computation of ratio of earnings to fixed charges plus preferred and preference dividend requirements (pre-income tax basis).
23.1	—Consent of Deloitte & Touche LLP.
23.2	—Consent of Beggs & Lane, a Registered Limited Partnership (included in Exhibit 5.1 above).
23.3	—Consent of Troutman Sanders LLP (included in Exhibit 5.2 above).
24.1	—Powers of Attorney and Resolution.
25.1	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Bank of New York, as Senior Note Indenture Trustee.
25.2	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Bank of New York, as Subordinated Note Indenture Trustee.

Exhibits listed above which have heretofore been filed with the Commission and which were designated as noted above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

* To be subsequently filed or incorporated by reference.

Item 17. ***Undertakings.***

(a) Undertaking related to Rule 415 offering:

The undersigned registrant hereby undertakes:

(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 percent 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), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in 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, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of 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.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter,

such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) Undertaking related to filings incorporating subsequent Securities Exchange Act of 1934 documents by reference:

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant'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 registrant pursuant to the foregoing provisions or otherwise, the registrant has 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 registrant of expenses incurred or paid by a director, officer or controlling person of the registrant 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 registrant will, unless in the opinion of its 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.

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 12th day of March, 2008.

GULF POWER COMPANY

By: SUSAN N. STORY,
President and Chief Executive Officer

By: /s/ WAYNE BOSTON,
Attorney-in-fact

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
SUSAN N. STORY	President, Chief Executive Officer and Director (Principal Executive Officer)	
RONNIE R. LABRATO	Vice President and Chief Financial Officer (Principal Financial Officer)	
CONSTANCE J. ERICKSON	Comptroller (Principal Accounting Officer)	
C. LEDON ANCHORS WILLIAM C. CRAMER, JR. FRED C. DONOVAN, SR. WILLIAM A. PULLUM WINSTON E. SCOTT	Directors	

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

March 12, 2008

EXHIBIT G.9.

Description of Holder

$140,000,000 Series 2009A Floating Rate
Senior Notes

Name of Underwriter	**Principal Amount of Notes**
Morgan Stanley & Co. Incorporated 1585 Broadway New York, New York 10036	$140,000,000

Underwriters Fees: $280,000.00

GULF POWER COMPANY

EXHIBIT G.10.

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $140,000,000 Principal Amount
Series 2009A Floating Rate Senior Notes

Item Number	Issuance Expenses For:	Amount $
1	Shelf Registration-Securities & Exchange Commission	21,895.15
2	Charges of Trustee	3,000.00
3	Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc.	15,913.82
4	Fees and Expenses of Counsel	25,261.04
5	Fees of Accountants	74,900.00
6	Rating Fee Allocation	63,272.67
7	Miscellaneous Expenses	1,481.22
	Total Expenses of Issue	205,723.90
	Unamortized Discount Expense	280,000.00
	Total Cost of Issue	$485,723.90

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, 2009
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) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-0690070
1-3164	**Alabama Power Company** (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	**Georgia Power Company** (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
0-2429	**Gulf Power Company** (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
001-11229	**Mississippi Power Company** (A Mississippi Corporation) 2992 West Beach Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
333-98553	**Southern Power Company** (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-2598670

Further Inquiries Contact:
Susan Ritenour, Secretary
Gulf Power Company
One Energy Place
Pensacola FL 32520-0780

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DEFINITIONS

When used in Items 1 through 5 and Items 9A through 15, the following terms will have the meanings indicated.

Term	Meaning
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	Dalton Utilities
DOE	United States Department of Energy
Duke Energy	Duke Energy Corporation
Energy Act of 1992	Energy Policy Act of 1992
Energy Act of 2005	Energy Policy Act of 2005
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FMPA	Florida Municipal Power Agency
FP&L	Florida Power & Light Company
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
Hampton	City of Hampton, Georgia
IBEW	International Brotherhood of Electrical Workers
IIC	Intercompany Interchange Contract
IPP	Independent Power Producer
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
KUA	Kissimmee Utility Authority
MEAG Power	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
power pool	The operating arrangement whereby the integrated generating resources of the traditional operating companies and Southern Power are subject to joint commitment and dispatch in order to serve their combined load obligations
PowerSouth	PowerSouth Energy Cooperative (formerly, Alabama Electric Cooperative, Inc.)
PPA	Power Purchase Agreement
Progress Energy Carolinas	Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.
Progress Energy Florida	Florida Power Corporation, 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, and Southern Power Company

DEFINITIONS
(*continued*)

Term	Meaning
RFP	Request for Proposal
RUS	Rural Utilities Service (formerly Rural Electrification Administration)
S&P	Standard and Poor's, a division of The McGraw-Hill Companies
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 system	Southern Company, the traditional operating companies, Southern Power, SEGCO, Southern Nuclear, SCS, SouthernLINC Wireless, 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 Renewable Energy	Southern Renewable Energy, Inc.
Stone & Webster	Stone & Webster, Inc.
traditional operating companies	Alabama Power Company, Georgia Power Company, Gulf Power Company, and Mississippi Power Company
TVA	Tennessee Valley Authority
Westinghouse	Westinghouse Electric Company LLC

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 the wholesale business, retail sales, customer growth, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings, dividend payout ratios, access to sources of capital, projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impacts of adoption of new accounting rules, potential exemptions from ad valorem taxation of the Kemper IGCC project, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts and other substances, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, IRS audits, and Mirant matters;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of Southern Company's employee benefit plans and nuclear decommissioning trusts;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on Southern Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on Southern Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports filed by the registrants from time to time with the SEC.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes _ No X (Response applicable to all registrants.)

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 whether the registrants have submitted electronically and posted on their corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes X No___(Response applicable only to The Southern Company at this time.)

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. (X)

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

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

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

Aggregate market value of The Southern Company's common stock held by non-affiliates of The Southern Company at June 30, 2009: $24.8 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, 2010
The Southern Company	Par Value $5 Per Share	820,372,722
Alabama Power Company	Par Value $40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	3,642,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value $0.01 Per Share	1,000

Documents incorporated by reference: specified portions of The Southern Company's Definitive Proxy Statement on Schedule 14A relating to the 2010 Annual Meeting of Stockholders are incorporated by reference into PART III. In addition, specified portions of the Definitive Information Statements on Schedule 14C of Alabama Power Company, Georgia Power Company, and Mississippi Power Company relating to each of their respective 2010 Annual Meetings of Shareholders are incorporated by reference into PART III.

Southern Power Company 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), (c), and (d) 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, 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.

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**
Class A preferred, cumulative, $25 stated capital			**Alabama Power Company**
5.20% Series	5.83% Series		
5.30% Series			
Senior Notes			
5 5/8% Series AA	5.875% Series II		
5 7/8% Series GG	6.375% Series JJ		
5.875% Series 2007B			
Class A Preferred Stock, non-cumulative, Par value $25 per share			**Georgia Power Company**
6 1/8% Series			
Senior Notes			
5.90% Series O	6% Series R	5.70% Series X	
5.75% Series T	6% Series W	5.75% Series G[2]	
6.375% Series 2007D	8.20% Series 2008C		
Long-term debt payable to affiliated trusts, $25 liquidation amount			
5 7/8% Trust Preferred Securities[3]			
Senior Notes			**Gulf Power Company**
5.25% Series H	5.75% Series I		
5.875% Series J			

1 As of December 31, 2009.

2 Assumed by Georgia Power Company in connection with its merger with Savannah Electric and Power Company, effective July 1, 2006.

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

Senior Notes 5 5/8% Series E	**Mississippi Power Company**
Depositary preferred shares, each representing one-fourth of a share of preferred stock, cumulative, $100 par value 5.25% Series	

Securities registered pursuant to Section 12(g) of the Act:[4]

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	
Preferred stock, cumulative, $100 par value			**Mississippi Power Company**
4.40% Series	4.60% Series		
4.72% Series			

4 As of December 31, 2009.

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 of the outstanding common stock of Alabama Power, Georgia Power, Gulf Power, and Mississippi Power, each of which is an operating public utility company. The traditional operating companies supply electric service in the states of Alabama, Georgia, Florida, and Mississippi. More particular information relating to each of the traditional 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 been in continuous existence since its incorporation in 1906.

Georgia Power was incorporated under the laws of the State of Georgia on June 26, 1930 and was admitted to do business in Alabama on September 15, 1948.

Gulf Power is a Florida corporation that has had a continuous existence since it was originally organized under the laws of the State of Maine on November 2, 1925. Gulf Power was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976, and in Georgia on November 20, 1984. Gulf Power became a Florida corporation after being domesticated under the laws of the State of Florida on November 2, 2005.

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.

In addition, Southern Company owns all of the common stock of Southern Power, which is also an operating public utility company. Southern Power constructs, acquires, owns, and manages 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 was admitted to do business in the States of Alabama, Florida, and Georgia on January 10, 2001, in the State of Mississippi on January 30, 2001, and in the State of North Carolina on February 19, 2007.

Southern Company also owns all of the outstanding common stock or membership interests of SouthernLINC Wireless, Southern Nuclear, SCS, Southern Holdings, Southern Renewable Energy, and other direct and indirect subsidiaries. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and markets these services to the public and also provides wholesale fiber optic solutions to telecommunication providers in the Southeast. Southern Nuclear operates and provides services to Alabama Power's and Georgia Power's nuclear plants and is currently developing new nuclear generation at Plant Vogtle. SCS is the system service company providing, at cost, specialized services to Southern Company and its subsidiary companies. Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in leveraged leases. Southern Renewable Energy was formed in January 2010 to acquire, own, and construct renewable generation assets.

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 one 230,000 volt transmission line extending from Plant Gaston to the Georgia state line at which point connection is made with the Georgia Power

transmission line system.

Southern Company's segment information is included in Note 12 to the financial statements of Southern Company in Item 8 herein.

The registrants' Annual Reports 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 www.southerncompany.com.

The Southern Company System

Traditional Operating Companies

The traditional operating companies own generation, transmission, and distribution facilities. See PROPERTIES in Item 2 herein for additional information on the traditional operating companies' generating facilities. Each company's transmission facilities are connected to the respective company's own generating plants and other sources of power (including certain generating plants owned by Southern Power) and are interconnected with the transmission facilities of the other traditional operating companies and SEGCO. For information on the State of Georgia's integrated transmission system, see "Territory Served by the Traditional Operating Companies and Southern Power" herein.

Agreements in effect with principal neighboring utility systems provide for capacity and energy transactions that may be entered into from time to time for reasons related to reliability or economics. Additionally, the traditional operating companies have entered into voluntary reliability agreements with the subsidiaries of Entergy Corporation, Florida Electric Power Coordinating Group, and TVA and with Progress Energy Carolinas, Duke Energy, 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 traditional operating companies have joined with other utilities in the Southeast (including some of those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the traditional operating companies are represented on the National Electric Reliability Council.

The utility assets of the traditional operating companies and certain utility assets of Southern Power are operated as a single integrated electric system, or power pool, pursuant to the IIC. Activities under the IIC are administered by SCS, which acts as agent for the traditional operating companies and Southern Power. The fundamental purpose of the power pool is to provide for the coordinated operation of the electric facilities in an effort to achieve the maximum possible economies consistent with the highest practicable reliability of service. Subject to service requirements and other operating limitations, system resources are committed and controlled through the application of centralized economic dispatch. Under the IIC, each traditional operating company and Southern Power retains its lowest cost energy resources for the benefit of its own customers and delivers any excess energy to the power pool for use in serving customers of other traditional operating companies or Southern Power or for sale by the power pool to third parties. The IIC provides for the recovery of specified costs associated with the affiliated operations thereunder, as well as the proportionate sharing of costs and revenues resulting from power pool transactions with third parties.

Southern Company, each traditional operating company, Southern Power, Southern Nuclear, SEGCO, and other subsidiaries have contracted with SCS 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, digital wireless communications, and other services with respect to business and operations and power pool transactions. Southern Power and SouthernLINC Wireless have also secured from the traditional operating companies certain services which are furnished at cost and, in the case of Southern Power which is subject to FERC regulations, in compliance with such regulations.

Alabama Power and Georgia Power each have a contract with Southern Nuclear to operate Plant Farley and Plants Hatch and Vogtle, respectively. In addition, Georgia Power has a contract with Southern Nuclear to develop, construct, license, and operate additional generating units at Plant Vogtle. See "Regulation – Nuclear Regulation" herein for additional information.

Southern Power

Southern Power is an electric wholesale generation subsidiary with market-based rate authority from the FERC. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based prices in the wholesale market. Southern Power's business activities are not subject to traditional state regulation like the traditional operating companies 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 its PPAs. However, Southern Power's future earnings will depend on the parameters of the wholesale market, federal regulation, and the efficient operation of its wholesale generating assets. For additional information on Southern Power's business activities, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Business Activities" of Southern Power in Item 7 herein.

In June 2008, Southern Power completed construction on Plant Franklin Unit 3 which added 659 megawatts to the Southern Company system generating capacity. In December 2008, Southern Power announced plans to construct a 720 megawatt electric generating plant in North Carolina. This new plant is expected to go into commercial operation in 2012.

On October 8, 2009, Southern Power acquired all of the outstanding membership interests of Nacogdoches Power LLC from American Renewables LLC, the original developer of the project. Nacogdoches Power LLC is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 megawatts. The generating plant will be fueled from wood waste. Construction began in late 2009 and the plant is expected to begin commercial operation in 2012. The total estimated cost of the project is expected to be between $475 million and $500 million. The output of the plant is contracted under a PPA with Austin Energy that begins in 2012 and expires in 2032.

On December 17, 2009, Southern Power acquired all of the outstanding membership interests of West Georgia Generating Company, LLC (West Georgia) from Broadway Gen Funding, LLC, an affiliate of LS Power. West Georgia was merged into Southern Power as of the acquisition date and Southern Power now owns a dual-fueled generating plant near Thomaston, Georgia with nameplate capacity of approximately 669 megawatts. The plant consists of four combustion turbine natural gas generating units with oil back-up. The output from two units is contracted under PPAs with MEAG Power and the Georgia Energy Cooperative (GEC). The MEAG Power PPA began in 2009 and expires in 2029. The GEC PPA begins in 2010 and expires in 2030.

As of December 31, 2009, Southern Power had 7,880 megawatts of nameplate capacity in commercial operation.

Other Businesses

Southern Holdings is an intermediate holding subsidiary for Southern Company's investments in leveraged leases.

SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and markets its services to non-affiliates within the Southeast. SouthernLINC Wireless delivers multiple wireless communication options including push to talk, cellular service, text messaging, wireless internet access, and wireless data. Its system covers approximately 127,000 square miles in the Southeast. SouthernLINC Wireless also provides wholesale fiber optic solutions to telecommunication providers in the Southeast under the name Southern Telecom.

On January 25, 2010, Southern Renewable Energy was formed to acquire, own, and construct renewable generation assets.

These 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.

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. For estimated construction and environmental expenditures for the periods 2010 through 2012, see Note 7 to the financial statements of Southern Company and each traditional operating company under "Construction Program" and Note 7 to the financial statements of Southern Power under "Expansion Program" in Item 8 herein. Estimated construction costs in 2010 are expected to be apportioned approximately as follows: (in millions)

	Southern Company System*	Alabama Power	Georgia Power	Gulf Power	Mississippi Power	Southern Power
New generation	$2,188	$ -	$1,254	$ 3	$341	$ 590
Environmental	545	136	259	113	11	-
Other generating facilities, including associated plant substations	528	228	154	54	39	37
New business	435	169	218	25	23	-
Transmission	461	119	265	45	32	-
Distribution	290	137	110	25	18	-
Nuclear fuel	258	111	147	-	-	-
General plant	231	85	89	6	8	-
	$4,936	$ 985	$2,496	$ 271	$472	$ 627

*These amounts include the traditional operating companies and Southern Power (as detailed in the table above) as well as the amounts for the other subsidiaries. See "Other Businesses" herein for additional information.

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

Under Georgia law, Georgia Power is required to file an IRP for approval by the Georgia PSC. Through the IRP process, the Georgia PSC must pre-certify the construction of new power plants and new PPAs. See "Rate Matters – Integrated Resource Planning" herein for additional information.

See "Regulation – Environmental Statutes and Regulations" 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 and Note 6 to the financial statements of each registrant in Item 8 herein for information concerning financing programs.

Fuel Supply

The traditional 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. See MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATION – "Fuel and Purchased Power Expenses" of Southern Company and each traditional operating company in Item 7 herein for information regarding the electricity generated and the average cost of fuel in cents per net kilowatt-hour generated for the years 2007 through 2009.

The traditional operating companies have agreements in place from which they expect to receive approximately 98% of their coal burn requirements in 2010. These agreements have terms ranging between one and eight years. In 2009, the weighted average sulfur content of all coal burned by the traditional operating companies was 74% sulfur. This sulfur level, along with banked and purchased sulfur dioxide allowances, allowed the traditional operating companies to remain within limits set by the Phase II acid rain requirements of the Clean Air Act. In 2009, the Southern Company system purchased approximately $18.3 million of sulfur dioxide and nitrogen oxide emissions allowances to be used in current and future periods. As additional environmental regulations are proposed that impact the utilization of coal, the traditional operating companies' fuel mix will be monitored to ensure that the traditional operating companies remain in compliance with applicable laws and regulations. Additionally, Southern Company and the traditional operating companies will continue to evaluate the need to purchase additional emissions allowances and the timing of capital expenditures for emissions control equipment. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company and each traditional operating company in Item 7 herein for information on the Clean Air Act and global climate issues.

SCS, acting on behalf of the traditional operating companies and Southern Power, has agreements in place for the natural gas burn requirements of the Southern Company system. For 2010, SCS has contracted for 207.5 billion cubic feet of natural gas supply under agreements with remaining terms up to 11 years. In addition to gas supply, SCS has 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 traditional operating companies are generally reflected in fuel adjustment clauses contained in rate schedules. See "Rate Matters – Rate Structure and Cost Recovery Plans" herein for additional information. Southern Power's PPAs generally provide that the counterparty is responsible for substantially all of the cost of fuel.

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 of them are for 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 United States, acting through the DOE, that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent 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. See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under "Nuclear Fuel Disposal Costs" in Item 8 herein for additional information.

Territory Served by the Traditional Operating Companies and Southern Power

The territory in which the traditional 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 traditional operating companies. The territory has an area of approximately 120,000 square miles and an estimated population of approximately 13 million. Southern Power sells electricity at market-based prices in the wholesale market to investor-owned utilities, IPPs, municipalities, and electric cooperatives.

Alabama Power is engaged, within the State of Alabama, in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity at retail in over 650 communities (including Anniston, Birmingham, Gadsden, Mobile, Montgomery, and Tuscaloosa), as well as in rural areas, 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 owns coal reserves near its Plant Gorgas 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 (including Athens, Atlanta, Augusta, Columbus, Macon, Rome, and Savannah), as well as in rural areas, and at wholesale currently to OPC, MEAG Power, Dalton, Hampton, and various electric membership corporations.

Gulf Power is engaged, within the northwestern portion of Florida, in the generation and purchase of electricity and the transmission, 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 transmission, distribution, and sale of such electricity within 23 counties in 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.

For information relating to kilowatt-hour sales by customer classification for the traditional operating companies, see MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATIONS of each traditional operating company in Item 7 herein. Also, for information relating to the sources of revenues for Southern Company, each traditional operating company, and Southern Power, reference is made to Item 7 herein.

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 traditional operating companies provide electric service at retail or wholesale.

One of these organizations, PowerSouth, is a generating and transmitting cooperative selling power to several distributing cooperatives, municipal systems, and other customers in south Alabama and northwest Florida. PowerSouth 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. PowerSouth's facilities were financed with RUS loans secured by long-term contracts requiring distributing cooperatives to take their requirements from PowerSouth to the extent such energy is available.

Alabama Power and Gulf Power have entered into separate agreements with PowerSouth involving interconnection between their respective systems. The delivery of capacity and energy from PowerSouth to certain distributing cooperatives in the service areas of Alabama Power and Gulf Power is governed by the Southern Company/PowerSouth Network Transmission Service Agreement. The rates for this service to PowerSouth are on file with the FERC. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for details of Alabama Power's joint-ownership with PowerSouth of a portion of Plant Miller.

Four electric cooperative associations, financed by the RUS, operate within Gulf Power's service area. These cooperatives purchase their full requirements from PowerSouth 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.

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 also 65 municipally-owned electric distribution systems operating in the territory in which the traditional operating companies provide electric service at retail or wholesale.

Forty-eight municipally-owned electric distribution systems and one county-owned system receive their requirements through MEAG Power, which was established by a Georgia state statute in 1975. MEAG Power 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. MEAG Power also has a pseudo

scheduling and services agreement with Georgia Power. Dalton serves its requirements from self-owned generation facilities, some of which are acquired and jointly-owned with Georgia Power, and through purchases from Georgia Power and Southern Power through a service agreement. In addition, Georgia Power serves the full requirements of Hampton's electric distribution system under a market-based contract. 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 Power, and Dalton providing for the establishment of an integrated transmission system to carry the power and energy of all parties. 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.

Southern Power has PPAs with some of the traditional operating companies and with other investor-owned utilities, IPPs, municipalities, and electric cooperatives. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" of Southern Power in Item 7 herein for additional information concerning Southern Power's PPAs.

SCS, acting on behalf of the traditional operating companies, also has a contract with SEPA providing for the use of the traditional operating 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 Territorial Electric Service Act of 1973. Pursuant to the provisions of this Act, all areas within existing municipal limits were assigned to the primary electric supplier therein. 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 this 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, this Act provides that any new customer locating outside of 1973 municipal limits and having a connected load of at least 900 kilowatts may exercise a one-time choice for the life of the premises to receive electric service from the supplier of its choice. See "Competition" 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 325,000 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 of 1992 which allowed IPPs to access a utility's transmission network in order to sell electricity to other utilities.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements, service, and reliability. These factors are, in turn, affected by, among other influences, regulatory, political, and environmental considerations, taxation, and supply.

Generally, the traditional 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 below) by customers and other factors. See also "Territory Served by the Traditional Operating Companies and Southern Power" herein for additional information concerning suppliers of electricity operating within or near the areas served at retail by the traditional operating companies.

Southern Power competes with investor owned utilities, IPPs, and others for wholesale energy sales primarily in the Southeastern United States wholesale market. The needs of this market are driven by the demands of end users in the Southeast and the generation available. Southern Power's success in wholesale energy sales is influenced by various factors including reliability and availability of Southern Power's plants, availability of transmission to serve the demand, price, and Southern Power's ability to contain costs.

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 2009, Alabama Power purchased approximately 232 million kilowatt-hours from such companies at a cost of $16.5 million.

Georgia Power currently has contracts in effect with nine small power producers whereby Georgia Power purchases their excess generation. During 2009, Georgia Power purchased 14.7 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 2009, Georgia Power purchased 42.3 million kilowatt-hours at a cost of $19.7 million from these facilities.

Also during 2009, Georgia Power purchased energy from eight customer-owned generating facilities. Seven of the eight customers provide only energy to Georgia Power. These seven customers make no capacity commitment and are not dispatched by Georgia Power. Georgia Power does have a contract with the remaining customer for eight megawatts of dispatchable capacity and energy. During 2009, Georgia Power purchased a total of 56.3 million kilowatt-hours from the eight customers at a cost of approximately $1.9 million.

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 2009, Gulf Power purchased 76 million kilowatt-hours from such companies for approximately $4.3 million.

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 2009, Mississippi Power did not purchase any excess generation from this customer.

Seasonality

The demand for electric power generation is affected by seasonal differences in the weather. At the traditional operating companies and Southern Power, the demand for power peaks during the summer months, with market prices reflecting the demand of power and available generating resources at that time. Power demand peaks can also be recorded during the winter. As a result, the overall operating results of Southern Company, the traditional operating companies, and Southern Power in the future may fluctuate substantially on a seasonal basis. In addition, Southern Company, the traditional operating companies, and Southern Power have historically sold less power when weather conditions are milder.

Regulation

State Commissions

The traditional operating companies are subject to the jurisdiction of their respective state PSCs. The PSCs 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 the Mississippi PSC, in part, retail service territories. See "Territory Served by the Traditional Operating Companies and Southern Power" and "Rate Matters" herein for additional information.

Federal Power Act

The traditional operating companies, Southern Power and its generation subsidiaries, and SEGCO are all public utilities engaged in wholesale sales of energy in interstate commerce and therefore are subject to the rate, financial, and accounting jurisdiction of the FERC under the Federal Power Act. The FERC must approve certain financings and allows an "at cost standard" for services rendered by system service companies such as SCS. The FERC is also authorized to establish regional reliability organizations which are authorized to enforce reliability standards, to address impediments to the construction of transmission, and to prohibit manipulative energy trading 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 1,087,296 kilowatts.

In May 2008, the FERC issued a new 30-year license for the Morgan Falls project, located on the Chattahoochee River near Atlanta, with an effective start date of March 1, 2009. In 2007, Georgia Power began the relicensing process for Bartlett's Ferry which is located on the Chattahoochee River near Columbus, Georgia. The current Bartlett's Ferry license expires in 2014 and the application for a new license is expected to be submitted to the FERC in 2012. In July 2005, Alabama Power filed two applications with the FERC for new 50-year licenses for its seven hydroelectric developments on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan, and Bouldin) and for the Lewis Smith and Bankhead developments on the Warrior River. The FERC licenses for all of these nine developments expired in July and August 2007. The FERC issued an annual license for the Coosa developments in August 2007 and issued an annual license for the Warrior developments in September 2007. Both of these licenses were automatically renewed in 2008 and 2009 pursuant to FERC regulations. These annual licenses provide the FERC with additional time to complete its review of the license applications. In 2006, Alabama Power initiated the process of developing an application to relicense the Martin hydroelectric project located on the Tallapoosa River. The current Martin license will expire in 2013 and the application for a new license is expected to be filed with the FERC in 2011. In 2010, Alabama Power plans to initiate the process of developing an application to relicense the Holt hydroelectric project located on Warrior River. The current Holt license will expire in August 2015 and the application for a new license is expected to be filed prior to that time. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Alabama Power in Item 7 herein for additional information.

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

Licenses for all projects, excluding those discussed above, expire in the period 2023-2034 in the case of Alabama Power's projects and in the period 2014-2039 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, plus reasonable damages to other property of the licensee resulting from the severance therefrom of the property. If the FERC does not act on the new license application prior to the expiration of the existing license, the FERC is required to issue annual licenses, under the same terms and conditions of the existing license, until a new license is issued.

Nuclear Regulation

Alabama Power, Georgia Power, and Southern Nuclear are subject to regulation by the NRC. The NRC is responsible for licensing and regulating nuclear facilities and materials and for conducting research in support of the licensing and regulatory process, as mandated by the Atomic Energy Act of 1954, as amended; the Energy Reorganization Act of 1974, as amended; and the Nuclear Nonproliferation Act of 1978; and in accordance with the

National Environmental Policy Act of 1969, as amended, and other applicable statutes. These responsibilities also include protecting public health and safety, protecting the environment, protecting and safeguarding nuclear materials and nuclear power plants in the interest of national security, and assuring conformity with antitrust laws.

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. In May 2005, the NRC granted Alabama Power a 20-year extension of the licenses for both units at Plant Farley which permits operation of units 1 and 2 until 2037 and 2041, respectively. On June 3, 2009, the NRC approved 20-year extensions of the licenses for the operation of Plant Vogtle Units 1 and 2 to 2047 and 2049, respectively.

On August 26, 2009, the NRC issued an Early Site Permit and Limited Work Authorization to Southern Nuclear, on behalf of Georgia Power, OPC, MEAG Power, and Dalton (collectively, Owners), related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license for Plant Vogtle Units 3 and 4, which, if licensed by the NRC, are scheduled to be placed in service in 2016 and 2017, respectively. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Construction - Nuclear" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power - Nuclear Construction" and Georgia Power under "Construction - Nuclear" in Item 8 herein for additional information.

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.

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 existing environmental requirements involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions or market-based rates for Southern Power. There is no assurance, however, that all such costs will 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, each traditional operating company, Southern Power, and SEGCO. In addition, existing environmental laws and regulations may be changed or new laws and regulations may be adopted or otherwise become applicable to Southern Company, the traditional operating companies, Southern Power, or SEGCO, including laws and regulations designed to address global climate change, air quality, water quality, management of waste materials and coal combustion byproducts, including coal ash, or other environmental, public health, and welfare concerns. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company and each of the traditional operating companies in Item 7 herein for additional information about the Clean Air Act and other environmental issues, including, but not limited to, the litigation brought by the EPA under the New Source Review provisions of the Clean Air Act, possible additional and/or revised regulations related to air and water quality, possible climate change legislation and regulation, and possible regulation of coal combustion byproducts. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Power in Item 7 herein for information about the environmental issues and possible climate change legislation and regulation.

Southern Company, the traditional 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 requirements pertaining to climate change, air quality, water quality, and management of waste materials and coal combustion byproducts, including coal ash, 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 affect unit retirement and replacement decisions and 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 and Cost Recovery Plans

The rates and service regulations of the traditional 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, Alabama Power, Gulf Power, and Mississippi Power are generally allowed by their respective state PSCs to negotiate the terms and cost of service to large customers. Such terms and cost of service, however, are subject to final state PSC approval.

Fuel and net purchased energy costs are recovered through specific fuel cost recovery provisions at the traditional operating companies. These fuel cost recovery provisions are adjusted to reflect increases or decreases in such costs as needed. Gulf Power's and Mississippi Power's fuel cost recovery provisions are adjusted annually to reflect increases or decreases in such costs. Georgia Power filed for an adjustment to its fuel cost recovery rate on December 15, 2009. If approved by the Georgia PSC, the adjustment would be effective on April 1, 2010. Alabama Power's fuel clause is adjusted as required. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates.

Approved environmental compliance and storm damage costs are recovered at Alabama Power and Mississippi Power through cost recovery provisions approved by their respective state PSCs. Within limits approved by their respective PSCs, these rates are adjusted to reflect increases or decreases in such costs as required.

Georgia Power's environmental compliance costs are recovered in base rates. Under the 2007 retail rate plan, an environmental compliance cost recovery tariff was implemented effective January 1, 2008 to allow recovery of environmental costs mandated by state and federal regulation. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Retail Rate Plans" and Georgia Power under "Retail Regulatory Matters – Rate Plans" in Item 8 herein for additional information.

See "Integrated Resource Planning" herein for a discussion of Georgia PSC certification of new demand-side or supply-side resources for Georgia Power. In addition, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Construction – Nuclear" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and Georgia Power under "Construction – Nuclear" in Item 8 herein for a discussion of the Georgia Nuclear Financing Act and the Georgia PSC certification of Plant Vogtle Units 3 and 4, which allow Georgia Power to recover financing costs for construction of the new nuclear units during the construction period beginning in 2011.

Alabama Power recovers the cost of certificated new plant and purchased power capacity through cost recovery provisions which are approved annually. Gulf Power files a rate clause request annually with the Florida PSC to recover costs associated with purchased power capacity, energy conservation, and environmental compliance. Revenues are adjusted for differences between recoverable costs and amounts actually recovered in current rates.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters" of Southern Company and each of the traditional operating companies in Item 7 herein and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters" and Note 3 to the financial statements of each of the traditional operating companies under "Retail Regulatory Matters" in Item 8 herein for a discussion of rate matters. Also, see Note 1 to the financial statements of Southern Company and each of the traditional operating companies in Item 8 herein for a discussion of recovery of fuel costs, storm damage costs, and environmental compliance costs through rates.

The traditional operating companies and Southern Power are authorized by the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with

respect to a market-based contract with an affiliate.

Integrated Resource Planning

Georgia Power

Triennially, Georgia Power must file an IRP with the Georgia PSC that specifies how it intends to meet the future electrical needs of its customers through a combination of demand-side and supply-side resources. The Georgia PSC, under state law, must certify any new demand-side or supply-side resources for Georgia Power to get cost recovery. Once certified, the lesser of actual or certified construction costs and purchased power costs will be recoverable through rates.

On August 31, 2009, Georgia Power filed with the Georgia PSC its first semi-annual construction monitoring report for Plant Vogtle Units 3 and 4 for the period ended June 30, 2009, which did not include any proposed change to the estimated construction cost as certified by the Georgia PSC in March 2009. On February 25, 2010, the Georgia PSC approved the expenditures made by Georgia Power pursuant to the certification through June 30, 2009. The Georgia PSC also ordered that in its future semi-annual construction monitoring reports, Georgia Power will report against a total certified cost of approximately $6.1 billion, which is the effective certified amount after giving effect to the Georgia Nuclear Energy Financing Act. Georgia Power will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

In connection with its approval of the updated IRP on March 17, 2009, the Georgia PSC also approved Georgia Power's plan for the installation of emissions controls at its Plant Branch Units 1 – 4 and Plant Yates Units 6 and 7. However, Georgia Power has suspended further engineering and construction activity on the emissions control projects at Plant Branch Units 1 and 2 and Plant Yates Units 6 and 7 until more information is available from the rulemaking and legislative process, thereby mitigating the risk related to significant capital expenditures associated with those projects. Georgia Power continues to review the economic feasibility of installing controls at Plant Branch Units 3 and 4. Georgia Power intends to continue to operate these units in the near term and reevaluate the economics of installing emissions controls on these units as more information becomes available.

Georgia Power plans to convert the 155-megawatt coal-fired Plant Mitchell Unit 3 to a renewable biomass facility fueled primarily with wood chips. Georgia Power filed a request for approval of the certification of the Plant Mitchell biomass conversion with the Georgia PSC in August 2008. On March 17, 2009, the Georgia PSC approved Georgia Power's request for certification of the Plant Mitchell biomass conversion. Georgia Power filed an air permit application for the conversion with the Georgia Environmental Protection Division in December 2008. Georgia Power expects to be granted an air permit in 15 to 18 months from the filing date. With the uncertainty of how future EPA regulations might affect allowable industrial boiler emissions, Georgia Power has decided to delay the conversion of Plant Mitchell Unit 3 to biomass until the EPA rules are better defined, which is expected in April 2010. Georgia Power had originally planned to begin retrofit construction at Plant Mitchell in April 2011 with the unit becoming operational in June 2012. A new project schedule has yet to be determined.

On January 29, 2010, Georgia Power filed its 2010 IRP for approval by the Georgia PSC. The 2010 IRP projected that Georgia Power's current supply-side and demand-side resources are sufficient to provide a cost effective and reliable source of capacity and energy at least through 2014. The 2010 IRP identifies potential regulations relating to coal combustion byproducts and maximum achievable control technology for hazardous air pollutants, as well as potential legislation or regulations that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts," and "Environmental Matters – Global Climate Issues" of Georgia Power in Item 7 herein. While neither proposed nor final EPA regulations have been released at this time with respect to hazardous air pollutants or coal combustion byproducts, Georgia Power currently estimates that compliance would be required by about January 2015. The 2010 IRP includes preliminary retirement studies under a variety of potential scenarios for units at seven of Georgia Power's coal-fired generating plants. These studies indicated that, depending on the final requirements in both of these anticipated EPA regulations and any legislation or regulation relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Georgia Power may conclude that it is more economical to retire certain coal-fired generating units than to install the required controls

and/or that Georgia Power may not be able to complete installation of required controls on all such units by 2015 where such installation is determined to be more economical. Given the uncertainty and the amount of capacity at risk of retirement, Georgia Power has restarted its 2015 RFP for 1,000 megawatts of capacity and energy. However, Georgia Power's capacity needs could change significantly depending on the final requirements resulting from these environmental regulations.

The Georgia PSC certified the construction of Plant McDonough Units 4, 5, and 6 (natural gas-fired units) and the retirement of Plant McDonough Units 1 and 2 (coal-fired units) in 2007. On August 10, 2009, Georgia Power filed its quarterly construction monitoring report for Plant McDonough Units 4, 5, and 6 for the quarter ended June 30, 2009. On September 30, 2009, Georgia Power amended the report. As amended, the report includes a request for an increase in the certified costs to construct Plant McDonough. The Georgia PSC held a hearing in December 2009 and is scheduled to render its decision on March 16, 2010.

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

See Note 3 to the financial statements of Southern Company and Georgia Power in Item 8 herein for additional information regarding the proposed Plant Vogtle Units 3 and 4.

Gulf Power

Annually by April 1, Gulf Power must file a 10-year site plan with the Florida PSC containing Gulf Power's estimate of its power-generating needs in the period and the general location of its proposed power plant sites. The 10-year site plans submitted by the state's electric utilities are reviewed by the Florida PSC and subsequently classified as either "suitable" or "unsuitable." The Florida PSC then reports its findings along with any suggested revisions to the Florida Department of Environmental Protection for its consideration at any subsequent electrical power plant site certification proceedings. Under Florida law, any 10-year site plans submitted by an electric utility are considered tentative information for planning purposes only and may be amended at any time at the discretion of the utility with written notification to the Florida PSC. At least every five years, the Florida PSC must conduct proceedings to establish numerical goals for all investor-owned electric utilities and certain municipal or cooperative electric utilities in the state to reduce the growth rates of weather-sensitive peak demand, to reduce and control the growth rates of electric consumption, and to increase the conservation of expensive resources, such as petroleum fuels. Overall residential kilowatts and kilowatt hours goals and overall commercial/industrial kilowatt and kilowatt hours goals for each utility are set by the Florida PSC for each year over a 10-year period. The goals are to be based on an estimate of the total cost effective kilowatts and kilowatt hours savings reasonably achievable through demand-side management in each utility's service area over a 10-year period. Once goals have been set, each affected utility must develop and submit plans and programs to meet the overall goals within its service area to the Florida PSC for review and approval. Once approved, the utilities are required to submit periodic reports which the Florida PSC then uses to prepare its annual report to the Governor and Legislature of the goals that have been established and the progress towards meeting those goals.

Gulf Power's most recent 10-year site plan was classified by the Florida PSC as "suitable" in December 2009. Gulf Power's most recent 10-year site plan and environmental compliance plan identify potential environmental regulations relating to maximum achievable control technology for hazardous air pollutants and potential legislation or regulation that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts," and "Environmental Matters – Global Climate Issues" of Gulf Power in Item 7 herein. The site plan and environmental compliance plan include preliminary retirement studies under a variety of potential scenarios for units at each of Gulf Power's coal-fired generating plants. These studies indicate that, depending on the final requirements in these anticipated EPA regulations and any legislation or regulations relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Gulf Power may conclude that it is more economical to retire certain of its coal-fired generating units prior to 2020 and to replace such units with new or purchased capacity.

Also in December 2009, the Florida PSC adopted new numerical conservation goals for Gulf Power along with other electric utilities in the state. The Florida PSC adopted more aggressive goals due in part to the consideration

of possible greenhouse gas emissions costs incurred in connection with possible climate change legislation and a change in the manner in which the Florida PSC considers the effect of so-called "free-riders" on the level of conservation reasonably achievable through utility programs. Gulf Power's plans and programs to meet the new goals are scheduled to be submitted to the Florida PSC for review by the end of the first quarter 2010. The costs of implementing Gulf Power's conservation plans and programs are recovered through specific conservation recovery rates set annually by the Florida PSC.

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

Mississippi Power

On December 7, 2009, Mississippi Power filed its 2010 IRP with the Mississippi PSC. The filing was made in connection with the Mississippi PSC certification proceedings relating to the proposed Kemper County IGCC project. In the 2010 IRP, Mississippi Power projected that it will have a need for new capacity in the 2013 to 2015 timeframe. The 2010 IRP indicated a need range of approximately 200 megawatts to 300 megawatts in 2014, which reflects growth in load and the anticipated retirement of older gas steam units Plant Eaton Units 1 through 3 and Plant Watson Units 1 through 3 in 2012 and 2013, respectively. In addition, due to potential retirements of existing coal units, the Mississippi PSC found a need in 2015 that ranges from 304 megawatts to 1,276 megawatts.

The range of needs for 2015 is based on potential environmental regulations relating to maximum achievable control technology for hazardous air pollutants, as well as potential legislation or regulations that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" and "Environmental Matters – Global Climate Issues" of Mississippi Power in Item 7 herein. Depending on the final requirements in the anticipated EPA regulations and any legislation or regulation relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Mississippi Power may conclude that it is more economical to discontinue burning coal at certain coal-fired generating units than to install the required controls.

Mississippi Power's 2010 IRP indicated that Mississippi Power plans to construct the Kemper County IGCC to meet its identified needs, to add environmental controls at Plant Daniel Units 1 and 2, to defer environmental controls at Plant Watson Units 4 and 5, and to continue operation of the combined cycle Plant Daniel Units 3 and 4.

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

Mississippi Base Load Construction Legislation

In the 2008 regular session of the Mississippi legislature, a bill was passed and signed by the Governor in May 2008 to enhance the Mississippi PSC's authority to facilitate development and construction of base load generation in the State of Mississippi (Baseload Act). The Baseload Act authorizes, but does not require, the Mississippi PSC to adopt a cost recovery mechanism that includes in retail base rates, prior to and during construction, all or a portion of the prudently incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. Prior to the passage of the Baseload Act, such costs would traditionally be recovered only after the plant was placed in service. The Baseload Act also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the Baseload Act authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant. The effect of this legislation on Southern Company and Mississippi Power cannot now be determined.

On January 16, 2009, Mississippi Power filed for a Certificate of Public Convenience and Necessity with the Mississippi PSC to allow construction of a new electric generating plant located in Kemper County, Mississippi. This certificate, if approved by the Mississippi PSC, would authorize Mississippi Power to acquire, construct, and operate the Kemper IGCC and related facilities. The Kemper IGCC, subject to federal and state reviews and certain regulatory approvals, is expected to begin commercial operation in May 2014. See Note 3 to the financial statements of Southern Company and Mississippi Power in Item 8 herein for additional information.

Employee Relations

The Southern Company system had a total of 26,112 employees on its payroll at December 31, 2009.

	Employees at December 31, 2009
Alabama Power	6,842
Georgia Power	8,599
Gulf Power	1,365
Mississippi Power	1,285
SCS	4,184
Southern Holdings*	-
Southern Nuclear	3,485
Southern Power**	-
Other	352
Total	26,112

* Southern Holdings has agreements with SCS whereby all employee services are rendered at cost.
** Southern Power has no employees. Southern Power has agreements with SCS and the traditional operating companies whereby employee services are rendered at amounts in compliance with FERC regulations.

The traditional 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.

On August 15, 2009, a five-year labor agreement between Alabama Power and nine local unions with the IBEW expired. Prior to the expiration of this agreement, Alabama Power and the IBEW entered into a new five-year labor agreement with a ratification date of May 29, 2009. Parts of this new agreement took effect on August 15, 2009, when the original agreement expired, and the remainder took effect on January 1, 2010. The new agreement expires on August 15, 2014.

Georgia Power has an agreement with the IBEW covering wages and working conditions, which is in effect through June 30, 2011. 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.

The agreement between Gulf Power and the IBEW covering wages and working conditions was scheduled to expire on October 15, 2009. The agreement has not been terminated by either party and remains in effect through October 14, 2010. Negotiations for a new agreement began in September 2009 and are on-going.

Mississippi Power has an agreement with the IBEW covering wages and working conditions, which is in effect until August 16, 2010. 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.

Southern Nuclear and the IBEW ratified a labor agreement for certain employees at Plants Hatch and Vogtle on May 21, 2009. The agreement is effective through June 30, 2011. A five-year agreement between Southern Nuclear and the IBEW representing certain employees at Plant Farley was ratified on July 8, 2009. The agreement became effective on August 15, 2009 and will remain in effect through August 15, 2014.

The agreements also make the terms of the pension plans for the companies discussed above subject to collective bargaining with the unions at either a five-year or a 10-year cycle, depending upon union and company actions.

Item 1A. RISK FACTORS

In addition to the other information in this Form 10-K, including MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL in Item 7 of each registrant, 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.

Risks Related to the Energy Industry

Southern Company and its subsidiaries are 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 and its subsidiaries.

Southern Company and its subsidiaries, including the traditional operating companies and Southern Power, are 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 rates and charges, 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 traditional operating companies and by Southern Power must be approved by the FERC. These wholesale rates could be affected absent the ability to conduct business pursuant to FERC market-based rate authority. Additionally, the respective state PSCs must approve the traditional operating companies' requested rates for retail customers. While the retail rates of the traditional operating companies are designed to provide for the full recovery of costs (including a reasonable return on invested capital), there can be no assurance that a state PSC, in a future rate proceeding, will not attempt to alter the timing or amount of certain costs for which recovery is sought or to modify the current authorized rate of return.

Southern Company and its subsidiaries believe the necessary permits, approvals, and certificates have been obtained for their respective existing operations and that their respective businesses are conducted in accordance with applicable laws; however, 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 the operating environment of Southern Company and its subsidiaries and may result in substantial costs.

Risks Related to Environmental and Climate Change Legislation and Regulation

Southern Company's, the traditional operating companies', and Southern Power's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws, including laws and regulations designed to address global climate change, renewable energy standards, air quality, coal combustion byproducts, and other matters and the incurrence of environmental liabilities could affect unit retirement decisions and negatively impact the net income, cash flows, and financial condition of Southern Company, the traditional operating companies, or Southern Power.

Southern Company, the traditional operating companies, and Southern Power are subject to extensive federal, state, and local environmental requirements which, among other things, regulate air emissions, water usage and discharges, and the management of hazardous and solid waste in order to adequately protect the environment. Compliance with these legal requirements requires Southern Company, the traditional operating companies, and Southern Power to commit significant expenditures for installation of pollution control equipment, environmental monitoring, emissions fees, and permits at all of their respective facilities. These expenditures are significant and Southern Company, the traditional operating companies, and Southern Power expect that they will increase in the future. Through 2009, Southern Company had invested approximately $7.5 billion in capital projects to comply with these requirements, with annual totals of $1.3 billion, $1.6 billion, and $1.5 billion for 2009, 2008, and 2007, respectively. Southern Company expects that capital expenditures to assure compliance with existing and new statutes and regulations will be an additional $545 million, $721 million, and $1.2 billion for 2010, 2011, and 2012,

respectively. Because the compliance strategy is impacted by changes to existing environmental laws, statutes, and regulations, the cost, availability, and existing inventory of emissions allowances, and the fuel mix, the ultimate outcome cannot be determined at this time.

If Southern Company, any traditional operating company, or Southern Power 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. The EPA has filed civil actions against Alabama Power and Georgia Power and issued notices of violation to Gulf Power and Mississippi Power alleging violations of the new source review provisions of the Clean Air Act. Southern Company is a party to suits alleging emissions of carbon dioxide, a greenhouse gas, contribute to global warming. An adverse outcome in any of these matters could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect unit retirement and replacement decisions, and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates or market-based rates for Southern Power.

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent.

Existing environmental laws and regulations may be revised or new laws and regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns may be adopted or become applicable to Southern Company, the traditional operating companies, and Southern Power. For example, federal legislative proposals that would impose mandatory requirements on greenhouse gas emissions and renewable energy standards continue to be actively considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009, which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. Similar legislation is being considered by the Senate. In 2007, the U. S. Supreme Court ruled that the EPA has authority to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. The EPA has stated that finalization of this rule will cause carbon dioxide and other greenhouse gases to become regulated pollutants under certain provisions of the Clean Air Act applicable to stationary sources, including power plants. On October 27, 2009, the EPA published a proposed rule governing how these programs would be applied to such sources. The EPA has stated that it expects to finalize these proposed rules in March 2010.

In addition, the EPA is expected to issue additional regulations and designations with respect to air quality under the Clean Air Act, including eight-hour ozone standards, sulfur dioxide standards, a replacement Clean Air Interstate Rule relating to nitrogen oxide and sulfur dioxide emissions, and a Maximum Achievable Control Technology rule for coal and oil-fired electric generating units, which will likely address numerous hazardous air pollutants, including mercury.

In addition, the EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions.

The cost impact of such legislation, regulation, new interpretations, or international negotiations would depend upon the specific requirements enacted and cannot be determined at this time. For example, the impact of currently proposed legislation relating to greenhouse gas emissions would depend on a variety of factors, including the

specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates or market-based rates for Southern Power.

Although the outcome cannot be determined at this time, legislation or regulation related to greenhouse gas emissions, renewable energy standards, air quality, coal combustion byproducts and other matters, individually or together, are likely to result in significant and additional compliance costs, including significant capital expenditures, and could result in additional operating restrictions. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units of the traditional operating companies. Additional compliance costs and costs related to potential unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered from customers. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

General Risks Related to Operation of Southern Company's Utility Subsidiaries

The regional power market in which Southern Company and its utility subsidiaries compete may have changing transmission regulatory structures, which could affect the ownership of these assets and related revenues and expenses.

The traditional 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. Current FERC efforts that may potentially change the regulatory and/or operational structure of transmission include rules related to the standardization of generation interconnection. The financial condition, net income, and cash flows of Southern Company and its utility subsidiaries could be adversely affected by future changes in the federal regulatory or operational structure of transmission.

The net income of Southern Company, the traditional operating companies, and Southern Power could be negatively impacted by competitive activity in the wholesale electricity markets.

Competition at the wholesale level continues to expand and evolve in the electricity markets. As a result of changes in federal law and regulatory policy, competition in the wholesale electricity markets has increased due to greater participation by traditional electricity suppliers, non-utility generators, IPPs, wholesale power marketers, and brokers. FERC rules related to transmission are designed to facilitate competition in the wholesale market on a nationwide basis by providing greater flexibility and more choices to wholesale power customers, including initiatives designed to promote and encourage the integration of renewable sources of supply. Moreover, along with transactions contemplating physical delivery of energy, futures contracts and derivatives are traded on various commodities exchanges. Southern Company, the traditional operating companies, and Southern Power cannot predict the impact of these and other such developments, nor can they predict the effect of changes in levels of wholesale supply and demand, which are typically driven by factors beyond their control.

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. Substantially all of Southern Company's consolidated assets are held by subsidiaries. Southern Company's ability to meet its financial obligations and to pay dividends on its common stock is primarily dependent on the net income 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 regulatory restrictions and financial obligations that must be satisfied, including among others, debt service and preferred and preference stock

dividends. Southern Company's subsidiaries are separate legal entities and have no obligation to provide Southern Company with funds for its payment obligations.

The financial performance of Southern Company and its subsidiaries may be adversely affected if they are unable to successfully operate their facilities or perform certain corporate functions.

The financial performance of Southern Company and its subsidiaries depends on the successful operation of its subsidiaries' electric generating, transmission, and distribution facilities. Operating these facilities involves many risks, including:

- operator error or failure of equipment or processes;
- operating limitations that may be imposed by environmental or other regulatory requirements;
- labor disputes;
- terrorist attacks;
- fuel or material supply interruptions;
- compliance with mandatory reliability standards, including mandatory cyber security standards;
- information technology system failure;
- cyber intrusion; and
- catastrophic events such as fires, earthquakes, explosions, floods, droughts, hurricanes, pandemic health events such as influenzas, or other similar occurrences.

A severe drought could reduce the availability of water and restrict or prevent the operation of certain generating facilities. A decrease or elimination of revenues from the electric generation, transmission, or distribution facilities or an increase in the cost of operating the facilities would reduce the net income and cash flows and could adversely impact the financial condition of the affected traditional operating company or Southern Power and of Southern Company.

The traditional operating companies could be subject to higher costs and penalties as a result of mandatory reliability standards.

As a result of the Energy Policy Act of 2005, owners and operators of bulk power transmission systems, including the traditional operating companies, are subject to mandatory reliability standards enacted by the North American Reliability Corporation and enforced by the FERC. Compliance with the mandatory reliability standards may subject the traditional operating companies and Southern Company to higher operating costs and may result in increased capital expenditures. If any traditional operating company is found to be in noncompliance with the mandatory reliability standards, the traditional operating company could be subject to sanctions, including substantial monetary penalties.

The revenues of Southern Company, the traditional operating companies, and Southern Power 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 the net income and cash flows of the affected traditional operating company or Southern Power and of Southern Company.

Most of Southern Power's generating capacity has been sold to purchasers under PPAs. In addition, the traditional operating companies enter into PPAs with non-affiliated parties. Revenues are dependent on the continued performance by the purchasers of their obligations under these PPAs. Even though Southern Power and the traditional operating companies have a rigorous credit evaluation process, the failure of one of the purchasers to perform its obligations could have a negative impact on the net income and cash flows of the affected traditional

operating company or Southern Power and of Southern Company. Although these credit evaluations take into account the possibility of default by a purchaser, actual exposure to a default by a purchaser may be greater than the credit evaluation predicts. Additionally, neither Southern Power nor any traditional operating company 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, the traditional operating companies, and Southern Power may incur additional costs or delays in the construction of new plants or other facilities and may not be able to recover their investments. The facilities of the traditional operating companies and Southern Power require ongoing capital expenditures.

The businesses of the registrants require substantial capital expenditures for investments in new facilities and capital improvements to transmission, distribution, and generation facilities, including those to meet environmental standards. Certain of the traditional operating companies and Southern Power are in the process of constructing new generating facilities and adding environmental controls equipment at existing generating facilities. Southern Company intends to continue its strategy of developing and constructing other new facilities, including new nuclear generating units, combined cycle units, including the proposed integrated coal gasification combined cycle facility, and the proposed biomass generating units, expanding existing facilities, and adding environmental control equipment. These types of projects are long-term in nature and may involve facility designs that have not been finalized or previously constructed. The completion of these types of projects without delays or significant cost overruns is subject to substantial risks, including:

- shortages and inconsistent quality of equipment, materials, and labor;
- work stoppages;
- contractor or supplier non-performance under construction or other agreements;
- delays in or failure to receive necessary permits, approvals, and other regulatory authorizations;
- impacts of new and existing laws and regulations, including environmental laws and regulations;
- continued public and policymaker support for such projects;
- adverse weather conditions;
- unforeseen engineering problems;
- changes in project design or scope;
- environmental and geological conditions;
- delays or increased costs to interconnect facilities to transmission grids;
- unanticipated cost increases, including materials and labor; and
- attention to other projects.

In addition, with respect to the construction of new nuclear units, a major incident at a nuclear facility anywhere in the world could cause the NRC to delay or prohibit construction of new nuclear units. If a traditional operating company or Southern Power is unable to complete the development or construction of a facility or decides to delay or cancel construction of a facility, it may not be able to recover its investment in that facility and may incur substantial cancellation payments under equipment purchase orders or construction contracts. Even if a construction project is completed, the total costs may be higher than estimated and there is no assurance that the traditional operating company will be able to recover such expenditures through regulated rates. In addition, construction

delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect the net income and financial position of a traditional operating company or Southern Power and of Southern Company. Furthermore, if construction projects are not completed according to specification, a traditional operating company or Southern Power and Southern Company may incur liabilities and suffer reduced plant efficiency, higher operating costs, and reduced net income.

Once facilities come into commercial operation, ongoing capital expenditures are required to maintain reliable levels of operation. Significant portions of the traditional 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 owned by the traditional operating companies and Southern Power less competitive.

A key element of the business model of Southern Company, the traditional operating companies, and Southern Power is that generating power at central station power plants achieves economies of scale and produces power at a competitive cost. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines, 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 station power electric production. If this were to happen and if these technologies achieved economies of scale, the market share of Southern Company, the traditional operating companies, and Southern Power could be eroded, and the value of their respective electric generating facilities could be reduced. It is also possible that rapid advances in central station power generation technology could reduce the value of the current electric generating facilities owned by Southern Company, the traditional operating companies, and Southern Power. Changes in technology could also alter the channels through which electric customers buy or utilize power, which could reduce the revenues or increase the expenses of Southern Company, the traditional operating companies, or Southern Power.

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 owned by Alabama Power or Georgia Power and which may present potential exposures in excess of insurance coverage.

Alabama Power owns, and contracts for the operation of, two nuclear units and Georgia Power holds undivided interests in, and contracts for the operation of, four existing nuclear units and the construction of Plant Vogtle Units 3 and 4. The six existing units are operated by Southern Nuclear and represent approximately 3,680 megawatts, or 8.6%, of Southern Company's generation capacity as of December 31, 2009. 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. Alabama Power and Georgia Power maintain 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 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 any unit, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or regulations related to increased security measures and any future safety requirements promulgated by the NRC could require Alabama Power and Georgia Power to make substantial operating and capital expenditures at their nuclear plants. In addition, although Alabama Power, Georgia Power, and Southern Company have no reason to anticipate a serious nuclear incident at their plants, if an incident did occur, it could result in substantial costs to Alabama Power or Georgia Power and 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.

In addition, potential terrorist threats and increased public scrutiny of utilities could result in increased nuclear licensing or compliance costs that are difficult or impossible to predict.

The generation operations and energy marketing operations of Southern Company, the traditional operating companies, and Southern Power are subject to risks, many of which are beyond their control, including changes in power prices and fuel costs, that may reduce Southern Company's, the traditional operating companies', and Southern Power's revenues and increase costs.

The generation operations and energy marketing operations of Southern Company, the traditional operating companies, and Southern Power are subject to changes in power prices or fuel costs, which could increase the cost of producing power or decrease the amount Southern Company, the traditional operating companies, and Southern Power receive from the sale of power. The market prices for these commodities may fluctuate significantly over relatively short periods of time. Southern Company, the traditional operating companies, and Southern Power attempt to mitigate risks associated with fluctuating fuel costs by passing these costs on to customers through the traditional operating companies' fuel cost recovery clauses or through PPAs. Among the factors that could influence power prices and fuel costs are:

- prevailing market prices for coal, natural gas, uranium, fuel oil, and other fuels used in the generation facilities of the traditional operating companies and Southern Power 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 the Southern Company system, its competitors, or third party providers;
- the financial condition of market participants;
- the economy in the service territory, the nation, and worldwide, including the impact of economic conditions on industrial and commercial demand for electricity and the worldwide demand for fuels;
- 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 the expenses of the traditional operating companies or Southern Power and Southern Company. For the traditional operating companies, such increases may not be fully recoverable through rates. Other of these factors could reduce the revenues of the traditional operating companies or Southern Power and Southern Company.

Historically, the traditional operating companies from time to time have experienced underrecovered fuel cost balances and deficits in their storm cost recovery reserve balances and may experience such balances in the future. While the traditional operating companies are generally authorized to recover underrecovered fuel costs through fuel cost recovery clauses and storm recovery costs through special rate provisions administered by the respective PSCs, recovery may be denied if costs are deemed to be imprudently incurred and delays in the authorization of such recovery could negatively impact the cash flows of the affected traditional operating company and Southern Company.

A downgrade in the credit ratings of Southern Company, the traditional operating companies, or Southern Power could negatively affect their ability to access capital at reasonable costs and/or could require Southern Company, the traditional operating companies, or Southern Power to post collateral or replace certain indebtedness.

There are a number of factors that rating agencies evaluate to arrive at credit ratings for Southern Company, the traditional operating companies, and Southern Power, including capital structure, regulatory environment, the ability to cover liquidity requirements, and other commitments for capital. Southern Company, the traditional operating companies, and Southern Power could experience a downgrade in their ratings if any of the rating agencies conclude that the level of business or financial risk of the industry or Southern Company, the traditional operating companies, or Southern Power has deteriorated. Changes in ratings methodologies by the agencies could also have a negative impact on credit ratings. If one or more rating agencies downgrade Southern Company, the traditional operating companies, or Southern Power, borrowing costs would increase, its pool of investors and funding sources would likely decrease, and, particularly for any downgrade to below investment grade, collateral requirements may be triggered in a number of contracts.

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 net income of Southern Company and its subsidiaries.

Southern Company and its subsidiaries, including the traditional operating companies and Southern Power, use derivative instruments, such as swaps, options, futures, and forwards, to manage their commodity and interest rate exposures 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. These risks are managed through risk management policies, limits, and procedures. These risk management policies, limits, and procedures might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, derivative contracts entered for hedging purposes might not off-set the underlying exposure being hedged as expected resulting in financial losses. 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. The factors used in the valuation of these instruments become more difficult to predict and the calculations become less reliable the further into the future these estimates are made. 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.

The traditional operating companies and Southern Power may not be able to obtain adequate fuel supplies, which could limit their ability to operate their facilities.

The traditional operating companies and Southern Power purchase fuel, including coal, natural gas, uranium, and fuel oil, from a number of suppliers. Disruption in the delivery of fuel, including disruptions as a result of, among other things, transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting any of these fuel suppliers, could limit the ability of the traditional operating companies and Southern Power to operate their respective facilities, and thus reduce the net income of the affected traditional operating company or Southern Power and Southern Company.

The traditional operating companies are dependent on coal for much of their electric generating capacity. Each traditional 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 traditional operating companies. The suppliers under these agreements may experience financial or technical problems which inhibit their ability to fulfill their obligations to the traditional operating companies. In addition, the suppliers under these agreements may not be required to supply coal to the traditional operating companies under certain circumstances, such as in the event of a natural disaster. If the traditional operating companies are unable to obtain their coal requirements under these contracts, the traditional operating companies may be required to purchase their coal requirements at higher prices, which may not be fully recoverable through rates.

In addition, Southern Power in particular, and the traditional operating companies to a lesser extent, are dependent

on natural gas for a portion of their electric generating capacity. Natural gas supplies can be subject to disruption in the event production or distribution is curtailed, such as in the event of a hurricane.

In addition, world market conditions for fuels can impact the availability of natural gas, coal, and uranium.

Demand for power could exceed supply capacity, resulting in increased costs for purchasing capacity in the open market or building additional generation capabilities.

Through the traditional operating companies and Southern Power, Southern Company is currently obligated to supply power to retail customers 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 the traditional operating companies or Southern Power purchase capacity on the open market or build additional generation capabilities. Because regulators may not permit the traditional operating companies to pass all of these purchase or construction costs on to their customers, the traditional 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 traditional 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. These situations could have negative impacts on net income and cash flows for the affected traditional operating company or Southern Power and Southern Company.

Demand for power could decrease or fail to grow at expected rates, resulting in stagnant or reduced revenues, limited growth opportunities, and potentially stranded generation assets.

Southern Company, the traditional operating companies, and Southern Power each engage in a long-term planning process to determine the optimal mix and timing of new generation assets required to serve future load obligations. This planning process must look many years into the future in order to accommodate the long lead times associated with the permitting and construction of new generation facilities. Inherent risk exists in predicting demand this far into the future as these future loads are dependent on many uncertain factors, including regional economic conditions, customer usage patterns, efficiency programs, and customer technology adoption. Because regulators may not permit the traditional operating companies to adjust rates to recover the costs of new generation assets while such assets are being constructed, the traditional operating companies may not be able to fully recover these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of additional capacity and the traditional operating companies' recovery in customers' rates. Under Southern Power's model of selling capacity and energy at negotiated market-based rates under long-term PPAs, Southern Power might not be able to fully execute its business plan if market prices drop below original forecasts. Southern Power may not be able to extend its existing PPAs or to find new buyers for existing generation assets as existing PPAs expire, or it may be forced to market these assets at prices lower than originally intended. These situations could have negative impacts on net income and cash flows for the affected traditional operating company or Southern Power and Southern Company.

The operating results of Southern Company, the traditional operating companies, and Southern Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis. In addition, significant weather events, such as hurricanes, tornadoes, floods, and droughts, or a terrorist attack could result in substantial damage to or limit the operation of the properties of the traditional operating companies and Southern Power and could negatively impact results of operation, financial condition, and liquidity.

Electric power supply is generally a seasonal business. In many parts of the country, demand for power peaks during the summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, the overall operating results of Southern Company, the traditional operating companies, and Southern Power in the future may fluctuate substantially on a seasonal basis. In addition, the traditional operating companies and Southern Power have historically sold less power when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net income, available cash, and borrowing ability of Southern Company, the traditional operating companies, and Southern Power.

In addition, volatile or significant weather events or a terrorist attack could result in substantial damage to the transmission and distribution lines of the traditional operating companies and the generating facilities of the

traditional operating companies and Southern Power. The traditional operating companies and Southern Power have significant investments in the Atlantic and Gulf Coast regions which could be subject to major storm activity. Further, severe drought conditions can reduce the availability of water and restrict or prevent the operation of certain generating facilities.

Each traditional operating company maintains a reserve for property damage to cover the cost of damages from weather events to its transmission and distribution lines and the cost of uninsured damages to its generating facilities and other property. In the event a traditional operating company experiences any of these weather events or any natural disaster, or other catastrophic event, such as a terrorist attack, recovery of costs in excess of reserves and insurance coverage is subject to the approval of its state PSC. While the traditional operating companies generally are entitled to recover prudently incurred costs incurred in connection with such an event, any denial by the applicable state PSC or delay in recovery of any portion of such costs could have a material negative impact on a traditional operating company's and Southern Company's results of operations, financial condition, and liquidity.

In addition, damages resulting from significant weather events within the service territory of any traditional operating company or affecting Southern Power's customers may result in the loss of customers and reduced demand for electricity. For example, Hurricane Katrina hit the Gulf Coast of Mississippi in August 2005 and caused substantial damage within Mississippi Power's service territory. As of December 31, 2009, Mississippi Power had approximately 4.6% fewer retail customers as compared to pre-storm levels. Any significant loss of customers or reduction in demand for electricity could have a material negative impact on a traditional operating company's, Southern Power's, and Southern Company's results of operations, financial condition, and liquidity.

Failure to attract and retain an appropriately qualified workforce could negatively impact Southern Company's and its subsidiaries' results of operations.

Events such as an aging workforce without appropriate replacements, mismatch of skillset to future needs, or unavailability of contract resources may lead to operating challenges or increased costs. Such operating challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development, especially with the workforce needs associated with new nuclear construction. Failure to hire and adequately obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect Southern Company and its subsidiaries' ability to manage and operate their businesses. If Southern Company and its subsidiaries, including the traditional operating companies, are unable to successfully attract and retain an appropriately qualified workforce, results of operations could be negatively impacted.

Risks Related to Market and Economic Volatility

The business of Southern Company, the traditional operating companies, and Southern Power is dependent on their ability to successfully access funds through capital markets and financial institutions. The inability of Southern Company, any traditional operating company, or Southern Power to access funds may limit its ability to execute its business plan by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional operating companies, or Southern Power may otherwise rely on to achieve future earnings and cash flows.

Southern Company, the traditional operating companies, and Southern Power rely 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 their respective operations. If Southern Company, any traditional operating company, or Southern Power is not able to access capital at competitive rates, its ability to implement its business plan will be limited by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional operating companies, or Southern Power may otherwise rely on to achieve future earnings and cash flows. In addition, Southern Company, the traditional operating companies, and Southern Power rely on committed bank lending agreements as back-up liquidity which allows them to access low cost money markets. Each of Southern Company, the traditional operating companies, and Southern Power believes that it will maintain sufficient access to these financial markets based upon current credit ratings. However, certain market disruptions may increase its cost of borrowing or adversely affect its ability to raise capital through the issuance of securities or other borrowing arrangements or its ability to secure committed bank lending agreements used as back-up sources of

capital. Such disruptions could include:

- an economic downturn or uncertainty;
- the bankruptcy of an unrelated energy company or financial institution;
- capital markets volatility and interruption;
- financial institution distress;
- market prices for electricity and gas;
- terrorist attacks or threatened attacks on Southern Company's facilities or unrelated energy companies' facilities;
- war or threat of war; or
- the overall health of the utility and financial institution industries.

Market performance and other changes may decrease the value of benefit plans and decommissioning trust assets or may increase medical costs, which then could require significant additional funding.

The performance of the capital markets affects the values of the assets held in trust under Southern Company's pension and postretirement benefit plans and the assets held in trust to satisfy obligations to decommission Alabama Power's and Georgia Power's nuclear plants. Southern Company, Alabama Power, and Georgia Power have significant obligations in these areas and hold significant assets in these trusts. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below projected return rates. A decline in the market value of these assets, as has been experienced in prior periods, may increase the funding requirements relating to Southern Company's benefit plan liabilities and Alabama Power's and Georgia Power's decommissioning obligations. Additionally, changes in interest rates affect the liabilities under Southern Company's pension and postretirement benefit plans; as interest rates decrease, the liabilities increase, potentially requiring additional funding. Further, changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions, may also increase the funding requirements of the obligations related to the pension benefit plans. Southern Company and its subsidiaries are also facing rising medical benefit costs, including the current costs for active and retired employees. It is possible that these costs may increase at a rate that is significantly higher than anticipated. If Southern Company is unable to successfully manage benefit plan assets and medical benefit costs and Alabama Power and Georgia Power are unable to successfully manage the decommissioning trust funds, results of operations and financial position could be negatively affected. Additionally, Southern Company and its subsidiaries may also be affected by the potential passage of healthcare legislation.

Southern Company, the traditional operating companies, and Southern Power are subject to risks associated with a changing economic environment, which could impact their ability to obtain adequate insurance and the financial stability of the customers of the traditional operating companies and Southern Power.

The financial condition of some insurance companies, the threat of terrorism, and the hurricanes that affected the Gulf Coast, among other things, have had disruptive effects on the insurance industry. The availability of insurance covering risks that Southern Company, the traditional operating companies, Southern Power, and their respective competitors typically insure against may decrease, and the insurance that Southern Company, the traditional operating companies, and Southern Power are able to obtain may have higher deductibles, higher premiums, and more restrictive policy terms.

Additionally, Southern Company, the traditional operating companies, and Southern Power are exposed to risks related to general economic conditions in their applicable service territory and are thus impacted by the economic cycles of the customers each serves. Any economic downturn or disruption of financial markets could negatively affect the financial stability of the customers and counterparties of the traditional operating companies and Southern

Power. As territories served by the traditional operating companies and Southern Power experience economic downturns, energy consumption patterns may change and revenues may be negatively impacted. Additionally, customers could voluntarily reduce their consumption of electricity in response to decreases in their disposable income or individual conservation efforts. If commercial and industrial customers experience economic downturns, their consumption of electricity may decline. As a result, revenues may be negatively impacted.

Further, the results of operations of the traditional operating companies and Southern Power are affected by customer growth in their applicable service territory. Customer growth and customer usage can be affected by economic factors in the service territory of the traditional operating companies and Southern Power and elsewhere, including, for example, job and income growth, housing starts, and new home prices. A population decline and/or business closings in the territory served by the traditional operating companies or Southern Power or slower than anticipated customer growth as a result of the current recession or otherwise could also have a negative impact on revenues and could result in greater expense for uncollectible customer balances.

As with other parts of the country, the territories served by the traditional operating companies and Southern Power have been impacted by the current economic recession. The traditional operating companies have experienced some decline in the rate of residential and commercial sales growth, and also have experienced declining sales to commercial and industrial customers due to the economic recession. Southern Power is expected to experience reduced future revenues for its requirements customers due to the economic recession. The timing and extent of the recovery cannot be predicted.

These and the other factors discussed above could adversely affect Southern Company's, the traditional operating companies', and Southern Power's level of future net income.

Energy conservation and energy price increases could negatively impact financial results.

A number of regulatory and legislative bodies have proposed or introduced requirements and/or incentives to reduce energy consumption by certain dates. Conservation programs could impact the financial results of Southern Company, the traditional operating companies, and Southern Power in different ways. To the extent conservation results in reduced energy demand or significantly slows the growth in demand, the value of wholesale generation assets of the traditional operating companies and Southern Power and other unregulated business activities could be adversely impacted. In addition, conservation could negatively impact the traditional operating companies depending on the regulatory treatment of the associated impacts. If any traditional operating company is required to invest in conservation measures that result in reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact on such traditional operating company and Southern Company. Southern Company, the traditional operating companies, and Southern Power could also be impacted if any future energy price increases result in a decrease in customer usage. Southern Company, the traditional operating companies, and Southern Power are unable to determine what impact, if any, conservation and increases in energy prices will have on financial condition or results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES

Electric Properties – The Electric Utilities

The traditional operating companies, Southern Power, and SEGCO, at December 31, 2009, owned and/or operated 34 hydroelectric generating stations, 34 fossil fuel generating stations, three nuclear generating stations, and 12 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
Kraft	Port Wentworth, GA	281,136
McDonough (4)	Atlanta, GA	490,000
McIntosh	Effingham County, GA	163,117
McManus	Brunswick, GA	115,000
Mitchell	Albany, GA	125,000
Scherer	Macon, GA	750,924 (5)
Wansley	Carrollton, GA	925,550 (6)
Yates	Newnan, GA	1,250,000
Georgia Power Total		9,600,427
Crist	Pensacola, FL	970,000
Daniel	Pascagoula, MS	500,000 (7)
Lansing Smith	Panama City, FL	305,000
Scholz	Chattahoochee, FL	80,000
Scherer Unit 3	Macon, GA	204,500 (5)
Gulf Power Total		2,059,500
Daniel	Pascagoula, MS	500,000 (7)
Eaton	Hattiesburg, MS	67,500
Greene County	Demopolis, AL	200,000 (2)
Sweatt	Meridian, MS	80,000
Watson	Gulfport, MS	1,012,000
Mississippi Power Total		1,859,500
Gaston Units 1-4	Wilsonville, AL	
SEGCO Total		1,000,000 (8)
Total Fossil Steam		21,097,965

Generating Station	Location	Nameplate Capacity (1) (Kilowatts)
NUCLEAR STEAM		
Farley	Dothan, AL	
Alabama Power Total		1,720,000
Hatch	Baxley, GA	899,612 (9)
Vogtle	Augusta, GA	1,060,240 (10)
Georgia Power Total		1,959,852
Total Nuclear Steam		3,679,852
COMBUSTION TURBINES		
Greene County	Demopolis, AL	
Alabama Power Total		720,000
Boulevard	Savannah, GA	59,100
Bowen	Cartersville, GA	39,400
Intercession City	Intercession City, FL	47,667 (11)
Kraft	Port Wentworth, GA	22,000
McDonough	Atlanta, GA	78,800
McIntosh Units 1 through 8	Effingham County, GA	640,000
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		2,025,689
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 (12)
Sweatt	Meridian, MS	39,400

Generating Station	Location	Nameplate Capacity (1) (Kilowatts)
Watson	Gulfport, MS	39,360
Mississippi Power Total		226,052
Dahlberg	Jackson County, GA	756,000
Oleander	Cocoa, FL	791,301
Rowan	Salisbury, NC	455,250
West Georgia	Thomaston, GA	668,800
Southern Power Total		2,671,351
Gaston (SEGCO)	Wilsonville, AL	19,680 (8)
Total Combustion Turbines		5,717,172
COGENERATION		
Washington County	Washington County, AL	123,428
GE Plastics Project	Burkeville, AL	104,800
Theodore	Theodore, AL	236,418
Total Cogeneration		464,646
COMBINED CYCLE		
Barry	Mobile, AL	
Alabama Power Total		1,070,424
McIntosh Units 10&11	Effingham County, GA	
Georgia Power Total		1,318,920
Smith	Lynn Haven, FL	
Gulf Power Total		545,500
Daniel (Leased)	Pascagoula, MS	
Mississippi Power Total		1,070,424
Franklin	Smiths, AL	1,857,820
Harris	Autaugaville, AL	1,318,920
Rowan	Salisbury, NC	530,550
Stanton Unit A	Orlando, FL	428,649 (13)
Wansley	Carrollton, GA	1,073,000
Southern Power Total		5,208,939
Total Combined Cycle		9,214,207
HYDROELECTRIC FACILITIES		
Bankhead	Holt, AL	53,985
Bouldin	Wetumpka, AL	225,000
Harris	Wedowee, AL	132,000
Henry	Ohatchee, AL	72,900
Holt	Holt, AL	46,944
Jordan	Wetumpka, AL	100,000
Lay	Clanton, AL	177,000
Lewis Smith	Jasper, AL	157,500
Logan Martin	Vincent, AL	135,000
Martin	Dadeville, AL	182,000
Mitchell	Verbena, AL	170,000
Thurlow	Tallassee, AL	81,000
Weiss	Leesburg, AL	87,750
Yates	Tallassee, AL	47,000
Alabama Power Total		1,668,079
Barnett Shoals (Leased)	Athens, GA	2,800
Bartletts Ferry	Columbus, GA	173,000
Goat Rock	Columbus, GA	38,600
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 (14)
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		1,090,336
Total Hydroelectric Facilities		2,758,415
Total Generating Capacity		42,932,257

Notes:

(1) See "Jointly-Owned Facilities" 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) McDonough Units 1 and 2 are scheduled to be retired in October 2011 and October 2010, respectively.

(5) 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.

(6) Capacity shown is Georgia Power's portion (53.5%) of total plant capacity.

(7) Represents 50% of the plant which is owned as tenants in common by Gulf Power and Mississippi Power.

(8) SEGCO is jointly-owned by Alabama Power and Georgia Power. See BUSINESS in Item 1 herein for additional information.

(9) Capacity shown is Georgia Power's portion (50.1%) of total plant capacity.

(10) Capacity shown is Georgia Power's portion (45.7%) of total plant capacity.

(11) 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. Progress Energy Florida operates the unit.

(12) Generation is dedicated to a single industrial customer.

(13) Capacity shown is Southern Power's portion (65%) of total plant capacity.

(14) Capacity shown is Georgia Power's portion (25.4%) of total plant capacity. OPC operates the plant.

Except as discussed below under "Titles to Property," the principal plants and other important units of the traditional 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, 2009, the unamortized portion of this cost was approximately $21 million.

In 2009, the maximum demand on the traditional operating companies, Southern Power, and SEGCO was 34,471,000 kilowatts and occurred on June 22, 2009. The all-time maximum demand of 38,777,000 kilowatts on the traditional operating companies, Southern Power, and SEGCO occurred on August 22, 2007. These amounts exclude demand served by capacity retained by MEAG Power, OPC, and SEPA. The reserve margin for the traditional operating companies, Southern Power, and SEGCO in 2009 was 26.4%. 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:

		Percentage Ownership										
	Total Capacity	Alabama Power	Power South	Georgia Power	OPC	MEAG Power	Dalton	Progress Energy Florida	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 five percent interest in Plant Vogtle Units 1 and 2 owned by MEAG Power that are in effect until the later of retirement of the plant or the latest stated maturity date of MEAG Power'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 Units 1 and 2 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. Also see Note 7 to the financial statements of Georgia Power under "Commitments – Purchased Power Commitments" in Item 8 herein for additional information.

Titles to Property

The traditional 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 pursuant to pollution control revenue bonds of Alabama Power and Gulf Power on specific pollution control facilities. See Note 6 to the financial statements of Southern Company, Alabama Power, and Gulf Power 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 traditional operating companies own the fee interests in certain of their principal plants as tenants in common. See "Jointly-Owned Facilities" 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 (United States District Court for the Northern District of Georgia)

See Note 3 to the financial statements of Southern Company and each traditional operating company under "Environmental Matters – New Source Review Actions" in Item 8 herein for information.

(2) Environmental Remediation

See Note 3 to the financial statements of Southern Company, Georgia Power, Gulf Power, and Mississippi Power under "Environmental Matters – Environmental Remediation" and Note 3 to the financial statements of Mississippi Power under "Retail Regulatory Matters – Environmental Compliance Overview Plan" in Item 8 herein for information related to environmental remediation.

(3) Right of Way Litigation

See Note 3 to the financial statements of Southern Company and Mississippi Power under "Right of Way Litigation" in Item 8 herein for information.

See Note 3 to the financial statements of each registrant 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.

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

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, 2009.

David M. Ratcliffe
Chairman, President, Chief Executive Officer, and Director
Age 61
Elected in 1999. President since April 2004; Chairman and Chief Executive Officer since July 2004.

W. Paul Bowers
Executive Vice President and Chief Financial Officer
Age 53
Elected in 2001. Executive Vice President and Chief Financial Officer since February 2008 and Executive Vice President since May 2007. Previously served as President of Southern Company Generation, a business unit of Southern Company, and Executive Vice President of SCS from May 2001 through January 2008; and President and Chief Executive Officer of Southern Power from May 2001 through March 2005.

Thomas A. Fanning
Executive Vice President and Chief Operating Officer
Age 52
Elected in 2003. Executive Vice President and Chief Operating Officer since February 2008. Previously served as Executive Vice President and Chief Financial Officer from May 2007 through January 2008 and Executive Vice President, Chief Financial Officer, and Treasurer from April 2003 to May 2007.

Michael D. Garrett
Executive Vice President
Age 60
Elected in 2004. Executive Vice President since January 2004. He also serves as Chief Executive Officer, President, and Director of Georgia Power since April 2004.

G. Edison Holland, Jr.
Executive Vice President, General Counsel, and Secretary
Age 57
Elected in 2001. Executive Vice President and General Counsel since April 2001.

C. Alan Martin
Executive Vice President
Age 61
Elected in 2008. Executive Vice President since February 2008. He also serves as President and Chief Executive Officer of SCS since February 2008. Previously served as Executive Vice President of the Customer Service Organization at Alabama Power from May 2001 through January 2008.

Charles D. McCrary
Executive Vice President
Age 58
Elected in 1998. Executive Vice President since February 2002. He also serves as Chief Executive Officer, President, and Director of Alabama Power since October 2001.

James H. Miller, III
President and Chief Executive Officer of Southern Nuclear
Age 60
Elected in 2008. President and Chief Executive Officer of Southern Nuclear since August 27, 2008. Previously served as Senior Vice President and General Counsel of Georgia Power from March 2004 through August 2008.

Susan N. Story
President and Chief Executive Officer of Gulf Power
Age 49
Elected in 2003. President and Chief Executive Officer of Gulf Power since April 2003.

Anthony J. Topazi
President and Chief Executive Officer of Mississippi Power
Age 59
Elected in 2003. President and Chief Executive Officer of Mississippi Power since January 2004.

Christopher C. Womack
Executive Vice President
Age 51
Elected in 2008. Executive Vice President and President of External Affairs since January 1, 2009. Previously served as Executive Vice President of External Affairs of Georgia Power from March 2006 through December 2008 and Senior Vice President of Fossil and Hydro Generation and Senior Production Officer of Georgia Power from December 2001 to February 2006.

The officers of Southern Company were elected for a term running from the first meeting of the directors following the last annual meeting (May 27, 2009) 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, 2009.

Charles D. McCrary
President, Chief Executive Officer, and Director
Age 58
Elected in 2001. President, Chief Executive Officer, and Director since October 2001; Executive Vice President of Southern Company since February 2002.

Art P. Beattie
Executive Vice President, Chief Financial Officer, and Treasurer
Age 55
Elected in 2004. Executive Vice President, Chief Financial Officer, and Treasurer since February 2005. Previously served as Vice President and Comptroller of Alabama Power from 1998 through January 2005.

Mark A. Crosswhite
Executive Vice President
Age 47
Elected in 2008. Executive Vice President of External Affairs since February 1, 2008. Previously served as Senior Vice President and Counsel of Alabama Power from July 2006 through January 2008; Senior Vice President, General Counsel, and Assistant Secretary of Southern Power from March 2004 through January 2005; and Vice President of SCS from March 2004 through January 2008.

Steven R. Spencer
Executive Vice President
Age 54
Elected in 2001. Executive Vice President of the Customer Service Organization since February 1, 2008. Previously served as Executive Vice President of External Affairs from 2001 through January 2008.

Jerry L. Stewart
Senior Vice President
Age 60
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 meeting of the directors held on April 24, 2009 for one year or until their successors are elected and have qualified.

EXECUTIVE OFFICERS OF GEORGIA POWER

(Identification of executive officers of Georgia Power is inserted in Part I in accordance with Regulation S-K, Item 401(b). Instruction 3.) The ages of the officers set forth below are as of December 31, 2009.

Michael D. Garrett
President, Chief Executive Officer, and Director
Age 60
Elected in 2003. President, Chief Executive Officer, and Director of Georgia Power since April 2004.

Mickey A. Brown
Executive Vice President
Age 62
Elected in 2001. Executive Vice President of the Customer Service Organization since January 2005.

Ronnie R. Labrato
Executive Vice President, Chief Financial Officer, and Treasurer
Age 56
Elected in 2009. Executive Vice President, Chief Financial Officer, and Treasurer since April 2009. Previously served as Vice President of Internal Auditing at SCS from April 2008 to March 2009 and Vice President and Chief Financial Officer of Gulf Power from July 2001 to March 2008.

Joseph A. Miller
Executive Vice President
Age 48
Elected in 2009. Executive Vice President of Nuclear Development since May 2009. Also serves as Executive Vice President of Nuclear Development at Southern Nuclear since February 2006. Previously served as Vice President of Government Relations at SCS from May 1999 to January 2006.

W. Craig Barrs
Executive Vice President
Age 52
Elected in 2008. Executive Vice President of External Affairs since January 2010. Previously served as Senior Vice President of External Affairs from January 2009 to January 2010, Vice President of Governmental and Regulatory Affairs from April 2008 to December 2008, Vice President of the Coastal Region from August 2006 to March 2008, President and Chief Executive Officer of Savannah Electric and Power Company from January 2006 until its merger with and into Georgia Power which was completed in July 2006, and Vice President of Community and Economic Development from November 2002 to December 2005.

Douglas E. Jones
Senior Vice President
Age 51
Elected in 2005. Senior Vice President of Fossil and Hydro Generation since March 2006. Previously served as Senior Vice President of Customer Service and Sales from January 2005 to February 2006 and Executive Vice President of Southern Power from January 2004 to January 2005.

Thomas P. Bishop
Senior Vice President, Chief Compliance Officer, and General Counsel
Age 49
Elected in 2008. Senior Vice President, Chief Compliance Officer, and General Counsel since September 2008. Previously served as Vice President and Associate General Counsel for SCS from July 2004 to September 2008.

The officers of Georgia Power were elected for a term running from the meeting of the directors held on May 20, 2009 for one year or until their successors are elected and have qualified.

EXECUTIVE OFFICERS OF MISSISSIPPI POWER

(Identification of executive officers of Mississippi Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2009.

Anthony J. Topazi
President, Chief Executive Officer, and Director
Age 59
Elected in 2003. President, Chief Executive Officer, and Director since January 1, 2004.

Thomas O. Anderson, IV
Vice President
Age 50
Elected in 2009. Vice President of Generation Development since July 2009. Previously served as Project Director, Mississippi Power Generation Development from March 2008 to July 2009; Project Manager, Southern Power Generation from June 2007 to March 2008; and Generation Development Manager, SCS Generation Development from September 1998 to June 2007.

John W. Atherton
Vice President
Age 49
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.

Kimberly D. Flowers
Vice President
Age 45
Elected in 2005. Vice President and Senior Production Officer since March 2005. Previously served as Plant Manager, Plant Bowen, Georgia Power from November 2000 until March 2005.

Donald R. Horsley
Vice President
Age 55
Elected in 2006. Vice President of Customer Services and Retail Marketing since April 2006. Previously served as Vice President of Transmission at Alabama Power from March 2005 to March 2006 and Manager, Transmission Lines at Alabama Power from February 2001 to March 2005.

Frances Turnage
Vice President, Treasurer, and
Chief Financial Officer
Age 61
Elected in 2005. Vice President, Treasurer, and Chief Financial Officer since March 2005. Previously served as Comptroller from 1993 to March 2005.

The officers of Mississippi Power were elected for a term running from the meeting of the directors held on April 8, 2009 for one year or until their successors are elected and have qualified.

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PART II

Item 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a)(1) The common stock of Southern Company is listed and traded on the New York Stock Exchange. The common stock is also traded on regional exchanges across the United States. The high and low stock prices as reported on the New York Stock Exchange for each quarter of the past two years were as follows:

	High	Low
2009		
First Quarter	$ 37.62	$26.48
Second Quarter	32.05	27.19
Third Quarter	32.67	30.27
Fourth Quarter	34.47	30.89
2008		
First Quarter	$ 40.60	$33.71
Second Quarter	37.81	34.28
Third Quarter	40.00	34.46
Fourth Quarter	38.18	29.82

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

(a)(2) Number of Southern Company's common stockholders of record at January 31, 2010: 92,374

Each of the other registrants have one common stockholder, Southern Company.

(a)(3) 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 traditional operating companies to their stockholder(s) for the past two years were as follows:

Registrant	Quarter	2009	2008
		(in thousands)	
Southern Company	First	$ 326,780	$ 307,960
	Second	343,446	322,634
	Third	348,702	323,844
	Fourth	350,538	325,681
Alabama Power	First	130,700	122,825
	Second	130,700	122,825
	Third	130,700	122,825
	Fourth	130,700	122,825
Georgia Power	First	184,725	180,300
	Second	184,725	180,300
	Third	184,725	180,300
	Fourth	184,725	180,300
Gulf Power	First	22,350	20,425
	Second	22,300	20,425
	Third	22,325	20,425
	Fourth	22,325	20,425
Mississippi Power	First	17,125	17,100
	Second	17,125	17,100
	Third	17,125	17,100
	Fourth	17,125	17,100

In 2009 and 2008, Southern Power paid dividends to Southern Company as follows:

Registrant	Quarter	2009	2008
		(in millions)	
Southern Power	First	$26.525	$23.63
	Second	26.525	23.63
	Third	26.525	23.63
	Fourth	26.525	23.63

The dividend paid per share of Southern Company's common stock was 40.25¢ for the first quarter of 2008 and 42¢ for the second, third, and fourth quarters of 2008. In 2009, Southern Company paid a dividend per share of 42¢ in the first quarter of 2009 and 43.75¢ for the second, third, and fourth quarters of 2009.

The traditional operating companies and Southern Power can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Southern Power's credit facility and senior note indenture contain potential limitations on the payment of common stock dividends. At December 31, 2009, Southern Power was in compliance with the conditions of this credit facility and thus had no restrictions on its ability to pay common stock dividends. See Note 8 to the financial statements of Southern Company under "Common Stock Dividend Restrictions" and Note 6 to the financial statements of Southern Power under "Dividend Restrictions" in Item 8 herein for additional information regarding these restrictions.

(a)(4) Securities authorized for issuance under equity compensation plans.

See Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters under the heading "Equity Compensation Plan Information" herein.

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

None.

Item 6. SELECTED FINANCIAL DATA

Southern Company. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA," contained herein at pages II-95 and II-96.

Alabama Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-167 and II-168.

Georgia Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-242 and II-243.

Gulf Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-308 and II-309.

Mississippi Power. See "SELECTED FINANCIAL AND OPERATING DATA," contained herein at pages II-382 and II-383.

Southern Power. See "SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA," contained herein at page II-430.

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

Southern Company. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-11 through II-39.

Alabama Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-100 through II-122.

Georgia Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-172 through II-195.

Gulf Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-247 through II-267.

Mississippi Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-313 through II-338.

Southern Power. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," contained herein at pages II-387 through II-406.

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 under "Financial Instruments" in Item 8 herein. See also Note 10 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 9 to the financial statements of Gulf Power and Mississippi Power, and Note 8 to the financial statements of Southern Power in Item 8 herein.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls And Procedures.

As of the end of the period covered by this annual report, Southern Company conducted an evaluation under the supervision and with the participation of Southern 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 this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective.

Internal Control Over Financial Reporting.

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

Southern Company's Management's Report on Internal Control Over Financial Reporting is included on page II-9 of this Form 10-K.

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

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

(c) Changes in internal controls.

There have been no changes in Southern Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fourth quarter 2009 that have materially affected or are reasonably likely to materially affect Southern Company's internal control over financial reporting other than as described in the next paragraph.

In October 2009, Georgia Power implemented a new general ledger system. The implementation of this system provides additional operational and internal control benefits including system security and automation of previously manual controls. This process improvement initiative was not in response to an identified internal control deficiency.

Item 9A(T). CONTROLS AND PROCEDURES

Disclosure Controls And Procedures.

As of the end of the period covered by this annual report, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power conducted separate evaluations under the supervision and with the participation of each company's management, including the Chief Executive Officer and 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.

Internal Control Over Financial Reporting.

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

Alabama Power's Management's Report on Internal Control Over Financial Reporting is included on page II-98 of this Form 10-K.

Georgia Power's Management's Report on Internal Control Over Financial Reporting is included on page II-170 of this Form 10-K.

Gulf Power's Management's Report on Internal Control Over Financial Reporting is included on page II-245 of this Form 10-K.

Mississippi Power's Management's Report on Internal Control Over Financial Reporting is included on page II-311 of this Form 10-K.

Southern Power's Management's Report on Internal Control Over Financial Reporting is included on page II-385 of this Form 10-K.

(b) Changes in internal controls.

There have been no changes in Alabama 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 2009 that have materially affected or are reasonably likely to materially affect Alabama Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting.

There have been no changes in Georgia 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 2009 that have materially affected or are reasonably likely to materially affect Georgia Power's internal control over financial reporting, other than as described in the next sentence. In October 2009, Georgia Power implemented a new general ledger system. The implementation of this system provides additional operational and internal control benefits including system security and automation of previously manual controls. This process improvement initiative was not in response to an identified internal control deficiency.

Item 9B. OTHER INFORMATION

Georgia Power

On February 23, 2010, Georgia Power, acting for itself and as agent for OPC, MEAG Power, and Dalton (collectively, Owners), and a consortium consisting of Westinghouse and Stone & Webster (collectively, Consortium) entered into an amendment (Amendment) to the Engineering, Procurement, and Construction Agreement, dated as of April 8, 2008 (Agreement), between the Owners and the Consortium, relating to Plant Vogtle Units 3 and 4. Under the Agreement, the Owners agreed to pay a purchase price that will be subject to certain price escalation and adjustments, including certain index-based adjustments, as well as adjustments for change orders, and performance bonuses. The Amendment, which is subject to the approval of the Georgia PSC, replaces certain of the index-based adjustments to the purchase price with fixed escalation amounts.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Construction – Nuclear" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Georgia Power under "Construction – Nuclear" in Item 8 herein for information regarding Georgia Power's construction of Plant Vogtle Units 3 and 4.

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THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

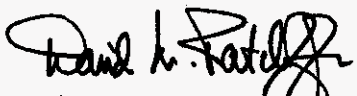
FINANCIAL SECTION

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. Based on this evaluation, management concluded that Southern Company's internal control over financial reporting was effective as of December 31, 2009.

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of Southern Company's financial statements, has issued an attestation report on the effectiveness of Southern Company's internal control over financial reporting as of December 31, 2009. Deloitte & Touche LLP's report on Southern Company's internal control over financial reporting is included herein.



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



W. Paul Bowers
Executive Vice President and Chief Financial Officer

February 25, 2010

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, 2009 and 2008, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, 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 these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (page II-9). Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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, the consolidated financial statements (pages II-40 to II-93) referred to above present fairly, in all material respects, the financial position of Southern Company and Subsidiary Companies as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

OVERVIEW

Business Activities

The primary business of Southern Company (the Company) is electricity sales in the Southeast by the traditional operating companies – Alabama Power, Georgia Power, Gulf Power, and Mississippi Power – and Southern Power. The four traditional operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market.

Many factors affect the opportunities, challenges, and risks of Southern Company's electricity business. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. Each of the traditional operating companies has various regulatory mechanisms that operate to address cost recovery. Appropriately balancing required costs and capital 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. The Company continues to face regulatory challenges related to transmission issues at the national level. Southern Power continues to execute its strategy through a combination of acquiring and constructing new power plants and by entering into power purchase agreements (PPAs) with investor owned utilities, independent power producers, municipalities, and electric cooperatives.

Southern Company's other business activities include investments in leveraged lease projects, renewable energy projects, and telecommunications. Management continues to evaluate the contribution of 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 cost-effective energy to more than four million customers, Southern Company continues to focus on several key indicators. These indicators include customer satisfaction, plant availability, system reliability, and earnings per share (EPS), excluding the MC Asset Recovery, LLC (MC Asset Recovery) litigation settlement discussed below. 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 customer satisfaction surveys and reliability indicators to evaluate the Company's results.

Peak season equivalent forced outage rate (Peak Season EFOR) is an indicator of fossil/hydro and nuclear 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. The fossil/hydro 2009 Peak Season EFOR of 1.44% was better than the target. The nuclear 2009 Peak Season EFOR of 2.61% was slightly better than the target. Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance, expected weather conditions, and expected capital expenditures. The performance for 2009 was better than the target for these reliability measures.

Southern Company entered into a settlement agreement with MC Asset Recovery to resolve a complaint alleging that Southern Company caused Mirant Corporation (Mirant) to engage in certain fraudulent transfers and to pay illegal dividends to Southern Company prior to the spin-off of Mirant in 2001. Pursuant to the settlement, Southern Company recorded a charge of $202 million in 2009. The settlement has been completed and resolves all claims by MC Asset Recovery against Southern Company. Southern Company management uses the non-GAAP (defined below) measure of EPS, excluding the MC Asset Recovery litigation settlement, to evaluate the performance of Southern Company's ongoing business activities. Southern Company believes the presentation of this non-GAAP measure of earnings and EPS excluding the MC Asset Recovery litigation settlement is useful for investors because it provides earnings information that is consistent with the historical and ongoing business activities of the Company. The presentation of this information is not meant to be considered a substitute for financial measures prepared in accordance with generally accepted accounting principles (GAAP).

Southern Company's 2009 results compared with its targets for some of these key indicators are reflected in the following chart:

Key Performance Indicator	2009 Target Performance	2009 Actual Performance
Customer Satisfaction	Top quartile in customer surveys	Top quartile
Peak Season EFOR - fossil/hydro	2.75% or less	1.44%
Peak Season EFOR - nuclear	2.75% or less	2.61%
Basic EPS	$2.30 – $2.45	$2.07
EPS, excluding the MC Asset Recovery litigation settlement	–	$2.32

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The performance achieved in 2009 reflects the continued emphasis 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 net income after dividends on preferred and preference stock of subsidiaries was $1.64 billion in 2009, a decrease of $99 million from the prior year. This decrease was primarily the result of a litigation settlement with MC Asset Recovery, a decrease in revenues from lower kilowatt-hour (KWH) demand across all customer classes, a decrease in revenues from market-response rates to large commercial and industrial customers, higher depreciation and amortization, higher interest expense, and unfavorable weather. The 2009 decrease was partially offset by an increase in revenues from customer charges at Alabama Power, increased recognition of environmental compliance cost recovery (ECCR) revenues at Georgia Power in accordance with its retail rate plan for the years 2008 through 2010 (2007 Retail Rate Plan), lower operations and maintenance expenses, an increase in allowance for funds used during construction (AFUDC) equity, which is not taxable, a 2008 charge related to the tax treatment of leveraged lease investments, and a gain on the early retirement of two international leveraged lease investments. Net income after dividends on preferred and preference stock of subsidiaries was $1.74 billion in 2008 and $1.73 billion in 2007. Basic EPS was $2.07 in 2009, $2.26 in 2008, and $2.29 in 2007. Diluted EPS, which factors in additional shares related to stock-based compensation, was $2.06 in 2009, $2.25 in 2008, and $2.28 in 2007.

Dividends

Southern Company has paid dividends on its common stock since 1948. Dividends paid per share of common stock were $1.7325 in 2009, $1.6625 in 2008, and $1.595 in 2007. In January 2010, Southern Company declared a quarterly dividend of 43.75 cents per share. This is the 249th consecutive quarter that Southern Company has paid a dividend equal to or higher than the previous quarter. The Company targets a dividend payout ratio of approximately 65% to 70% of net income. For 2009, the actual payout ratio was 83.3% while the payout ratio of net income excluding the MC Asset Recovery litigation settlement was 74.2%.

RESULTS OF OPERATIONS

Electricity Business

Southern Company's electric utilities generate and sell electricity to retail and wholesale customers in the Southeast. A condensed statement of income for the electricity business follows:

	Amount	Increase (Decrease) from Prior Year		
	2009	2009	2008	2007
		(in millions)		
Electric operating revenues	$ 15,642	$ (1,358)	$ 1,860	$ 1,052
Fuel	5,952	(865)	973	701
Purchased power	474	(341)	300	(28)
Other operations and maintenance	3,401	(183)	111	183
Depreciation and amortization	1,476	62	199	51
Taxes other than income taxes	816	22	56	23
Total electric operating expenses	12,119	(1,305)	1,639	930
Operating income	3,523	(53)	221	122
Other income (expense), net	199	53	26	66
Interest expense, net of amounts capitalized	834	61	10	46
Income taxes	988	(49)	87	1
Net income	1,900	(12)	150	141
Dividends on preferred and preference stock of subsidiaries	65	-	17	13
Net income after dividends on preferred and preference stock of subsidiaries	$ 1,835	$ (12)	$ 133	$ 128

Electric Operating Revenues

Details of electric operating revenues were as follows:

	Amount		
	2009	2008	2007
		(in millions)	
Retail – prior year	$ 14,055	$ 12,639	$ 11,801
Estimated change in –			
Rates and pricing	144	668	161
Sales growth (decline)	(208)	-	60
Weather	(21)	(106)	54
Fuel and other cost recovery	(663)	854	563
Retail – current year	13,307	14,055	12,639
Wholesale revenues	1,802	2,400	1,988
Other electric operating revenues	533	545	513
Electric operating revenues	$ 15,642	$ 17,000	$ 15,140
Percent change	(8.0%)	12.3%	7.5%

Retail revenues decreased $748 million, increased $1.4 billion, and increased $838 million in 2009, 2008, and 2007, respectively. The significant factors driving these changes are shown in the preceding table. The increase in rates and pricing in 2009 was primarily due to an increase in revenues from customer charges at Alabama Power and increased recognition of ECCR revenues at Georgia Power in accordance with its 2007 Retail Rate Plan, partially offset by a decrease in revenues from market-response rates to large commercial and industrial customers at Georgia Power. The 2008 increase in rates and pricing when compared to the prior year was primarily due to Alabama Power's increase under its Rate Stabilization and Equalization Plan (Rate RSE), as ordered by the Alabama Public Service Commission (PSC), and Georgia Power's increase under its 2007 Retail Rate Plan, as ordered by the Georgia PSC. Also contributing to the 2008 increase was an increase in revenues from market-response rates to large commercial and industrial customers. The 2007 increase in rates and pricing when compared to the prior year was primarily due to Alabama Power's increase under its Rate RSE, as ordered by the Alabama PSC. Partially offsetting the 2007 increase was a decrease in revenues from market-response rates to large commercial and industrial customers. See "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes related to sales growth (decline) and weather.

Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power, and do not affect net income. The traditional operating companies may also have one or more regulatory mechanisms to recover other costs such as environmental, storm damage, new plants, and PPAs.

Wholesale revenues consist of PPAs with investor-owned utilities and electric cooperatives, unit power sales contracts, and short-term opportunity sales. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Company's variable cost to produce the energy.

In 2009, wholesale revenues decreased $598 million. Wholesale fuel revenues, which are generally offset by wholesale fuel expenses and do not affect net income, decreased $603 million in 2009. Excluding wholesale fuel revenues, wholesale revenues increased $5 million primarily due to additional revenues associated with a new PPA at Southern Power's Plant Franklin Unit 3 which began in January 2009, partially offset by fewer short-term opportunity sales due to lower gas prices and reduced margins on short-term opportunity sales.

In 2008, wholesale revenues increased $412 million primarily as a result of a 21.8% increase in the average cost of fuel per net KWH generated, as well as revenues resulting from new and existing PPAs and revenues derived from contracts for Southern Power's Plant Oleander Unit 5 and Plant Franklin Unit 3 placed in operation in December 2007 and June 2008, respectively. The 2008 increase was partially offset by a decrease in short-term opportunity sales and weather-related generation load reductions.

In 2007, wholesale revenues increased $166 million primarily as a result of a 9.5% increase in the average cost of fuel per net KWH generated. Excluding fuel, wholesale revenues were flat when compared to the prior year.

Revenues associated with PPAs and opportunity sales were as follows:

	2009	2008	2007
		(in millions)	
Other power sales –			
Capacity and other	$ 575	$ 538	$ 533
Energy	735	1,319	989
Total	$ 1,310	$ 1,857	$ 1,522

Capacity revenues under unit power sales contracts, principally sales to Florida utilities, reflect the recovery of fixed costs and a return on investment. Unit power KWH sales decreased 7.5%, 2.1%, and 0.8% in 2009, 2008, and 2007, respectively. Fluctuations in oil and natural gas prices, which are the primary fuel sources for unit power sales contracts, influence changes in these sales. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power" herein for additional information regarding the termination of certain unit power sales contracts in 2010. However, because the energy is generally sold at variable cost, these fluctuations have a minimal effect on earnings. The capacity and energy components of the unit power sales contracts were as follows:

	2009	2008	2007
		(in millions)	
Unit power sales –			
Capacity	$ 225	$ 223	$ 202
Energy	267	320	264
Total	$ 492	$ 543	$ 466

Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2009 and the percent change by year were as follows:

	KWHs	Percent Change		
	2009	2009	2008	2007
	(in billions)			
Residential	51.7	(1.1)%	(2.0)%	1.8%
Commercial	53.5	(1.7)	(0.4)	3.2
Industrial	46.4	(11.8)	(3.7)	(0.7)
Other	1.0	2.0	(2.9)	4.4
Total retail	152.6	(4.8)	(2.1)	1.4
Wholesale	33.5	(14.9)	(3.4)	5.9
Total energy sales	186.1	(6.8)	(2.3)	2.3

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers. Retail energy sales decreased 7.7 billion KWHs in 2009 primarily as a result of lower usage by industrial customers due to the recessionary economy. Reduced demand in the primary metal, chemical, and textile sectors, as well as the stone, clay, and glass sector, contributed most significantly to the decrease in industrial KWH sales. Unfavorable weather also contributed to lower KWH sales across all customer classes. The number of customers in 2009 was flat compared to 2008. Retail energy sales in 2008 decreased 3.4 billion KWHs as a result of a 1.4% decrease in electricity usage mainly due to a slowing economy that worsened during the fourth quarter. The 2008 decrease in residential sales resulted primarily from lower home occupancy rates in Southern Company's service area when compared to 2007. Throughout the year, reduced demand in the textile sector, the lumber sector, and the stone, clay, and glass sector contributed to the decrease in 2008 industrial sales. Additional weakness in the fourth quarter 2008 affected all major industrial segments. Significantly less favorable weather in 2008 when compared to 2007 also contributed to the 2008 decrease in retail energy sales. These decreases were partially offset by customer growth of 0.6%. Retail energy sales in 2007 increased 2.3 billion KWHs as a result of 1.3% customer growth and favorable weather in 2007 when compared to 2006. The 2007 decrease in industrial sales primarily resulted from reduced demand and closures within the textile sector, as well as decreased demand in the primary metals sector and the stone, clay, and glass sector.

Wholesale energy sales decreased by 5.9 billion KWHs in 2009, decreased by 1.4 billion KWHs in 2008, and increased by 2.3 billion KWHs in 2007. The decrease in wholesale energy sales in 2009 was primarily related to fewer short-term opportunity sales driven by lower gas prices and fewer uncontracted generating units at Southern Power available to sell electricity on the wholesale market. The decrease in wholesale energy sales in 2008 was primarily related to longer planned maintenance outages at a fossil unit in 2008 as compared to 2007 which reduced the availability of this unit for wholesale sales. Lower short-term opportunity sales primarily related to higher coal prices also contributed to the 2008 decrease. These decreases were partially offset by Plant Oleander Unit 5 and Plant Franklin Unit 3 being placed in operation in December 2007 and June 2008, respectively. The increase in wholesale energy sales in 2007 was primarily related to new PPAs acquired by Southern Company through the acquisition of Plant Rowan in September 2006, as well as new contracts with EnergyUnited Electric Membership Corporation that commenced in September 2006 and January 2007. An increase in KWH sales under existing PPAs also contributed to the 2007 increase.

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. Additionally, the electric utilities purchase a portion of their electricity needs from the wholesale market. Details of electricity generated and purchased by the electric utilities were as follows:

	2009	2008	2007
Total generation *(billions of KWHs)*	**187**	198	206
Total purchased power *(billions of KWHs)*	**8**	11	8
Sources of generation *(percent)* –			
Coal	**57**	68	70
Nuclear	**16**	15	14
Gas	**23**	16	15
Hydro	**4**	1	1
Cost of fuel, generated *(cents per net KWH)* –			
Coal	**3.70**	3.27	2.61
Nuclear	**0.55**	0.50	0.50
Gas	**4.58**	7.58	6.64
Average cost of fuel, generated *(cents per net KWH)**	**3.38**	3.52	2.89
Average cost of purchased power *(cents per net KWH)*	**6.37**	7.85	7.20

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

In 2009, fuel and purchased power expenses were $6.4 billion, a decrease of $1.2 billion or 15.8% below 2008 costs. This decrease was primarily the result of an $839 million decrease related to the total KWHs generated and purchased due primarily to lower customer demand. Also contributing to this decrease was a $367 million reduction in the average cost of fuel and purchased power resulting primarily from a 39.6% decrease in the cost of gas per KWH generated.

In 2008, fuel and purchased power expenses were $7.6 billion, an increase of $1.3 billion or 20.0% above 2007 costs. This increase was primarily the result of a $1.3 billion net increase in the average cost of fuel and purchased power partially resulting from a 25.3% increase in the cost of coal per net KWH generated and a 14.2% increase in the cost of gas per net KWH generated.

In 2007, fuel and purchased power expenses were $6.4 billion, an increase of $673 million or 11.8% above 2006 costs. This increase was primarily the result of a $543 million net increase in the average cost of fuel and purchased power partially resulting from a 51.4% decrease in hydro generation as a result of a severe drought. Also contributing to this increase was a $130 million increase related to higher net KWHs generated and purchased.

Coal prices continued to be influenced by worldwide demand from developing countries, as well as increased mining and fuel transportation costs. While coal prices reached unprecedented high levels in 2008, the recessionary economy pushed prices downward in 2009. However, the lower prices did not fully offset the higher priced coal already in inventory and under long-term contract. Demand for natural gas in the United States also was affected by the recessionary economy leading to significantly lower natural gas prices. During 2009, uranium prices continued to moderate from the highs set during 2007. Worldwide production levels increased in 2009; however, secondary supplies and inventories were still required to meet worldwide reactor demand.

Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the traditional operating companies' fuel cost recovery provisions. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information. Likewise, Southern Power's PPAs generally provide that the purchasers are responsible for substantially all of the cost of fuel.

Other Operations and Maintenance Expenses

Other operations and maintenance expenses were $3.4 billion, $3.6 billion, and $3.5 billion, decreasing $183 million, increasing $111 million, and increasing $183 million in 2009, 2008, and 2007, respectively. Discussion of significant variances for components of other operations and maintenance expenses follows.

Other production expenses at fossil, hydro, and nuclear plants decreased $70 million, increased $63 million, and increased $128 million in 2009, 2008, and 2007, respectively. Production expenses fluctuate from year to year due to variations in outage schedules and normal changes in the cost of labor and materials. Other production costs decreased in 2009 mainly due to a $104 million decrease related to less planned spending on outages and maintenance, as well as other cost containment activities, which were the results of efforts to offset the effects of the recessionary economy. The 2009 decrease was partially offset by a $6 million increase related to new facilities, a $5 million loss on the transfer of Southern Power's Plant Desoto in 2009, a $6 million gain recognized in 2008 by Southern Power on the sale of an undeveloped tract of land to the Orlando Utilities Commission (OUC), and a $17 million increase in nuclear refueling costs. See Note 1 to the financial statements under "Property, Plant, and Equipment" for additional information regarding nuclear refueling costs. Other production expenses increased in 2008 primarily due to a $64 million increase related to expenses incurred for maintenance outages at generating units and a $30 million increase related to labor and materials expenses, partially offset by a $15 million decrease in nuclear refueling costs. The 2008 increase was also partially offset by a $24 million decrease related to new facilities, mainly lower costs associated with the 2007 write-off of Southern Power's integrated coal gasification combined cycle (IGCC) project with the OUC. Other production expenses increased in 2007 primarily due to a $40 million increase related to expenses incurred for maintenance outages at generating units and a $29 million increase related to new facilities, mainly costs associated with the write-off of Southern Power's IGCC project and the acquisitions of Plants DeSoto and Rowan by Southern Power in June and September 2006, respectively. A $25 million increase related to labor and materials expenses and a $22 million increase in nuclear refueling costs also contributed to the 2007 increase.

Transmission and distribution expenses decreased $41million, increased $4 million, and increased $21 million in 2009, 2008, and 2007, respectively. Transmission and distribution expenses fluctuate from year to year due to variations in maintenance schedules and normal changes in the cost of labor and materials. Transmission and distribution expenses decreased in 2009 primarily related to lower planned spending, as well as other cost containment activities. The 2008 increase in transmission and distribution expenses was not material when compared to the prior year. Transmission and distribution expenses increased in 2007 primarily as a result of increases in labor and materials costs and maintenance associated with additional investment to meet customer growth.

Customer sales and service expenses decreased $42 million, increased $32 million, and increased $7 million in 2009, 2008, and 2007, respectively. Customer sales and service expenses decreased in 2009 primarily as a result of a $12 million decrease in customer service expenses, an $8 million decrease in meter reading expenses, a $10 million decrease in sales expenses, and a $7 million decrease in customer records related expenses. The 2008 increase in customer sales and service expenses was primarily a result of an increase in customer service expenses, including a $13 million increase in uncollectible accounts expense, a $9 million increase in meter reading expenses, and an $8 million increase for customer records and collections. The 2007 increase in customer sales and service expenses was not material when compared to the prior year.

Administrative and general expenses decreased $30 million, increased $12 million, and increased $27 million in 2009, 2008, and 2007, respectively. The 2009 decrease in administrative and general expenses was primarily the result of cost containment activities which were the results of efforts to offset the effects of the recessionary economy. The 2008 increase in administrative and general expenses was not material when compared to 2007. Administrative and general expenses increased in 2007 primarily as a result of a $16 million increase in legal costs and expenses associated with an increase in employees. Also contributing to the 2007 increase was a $14 million increase in accrued expenses for the litigation and workers' compensation reserve, partially offset by an $8 million decrease in property damage expense.

Depreciation and Amortization

Depreciation and amortization increased $62 million in 2009 primarily as a result of an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power and the completion of Southern Power's Plant Franklin Unit 3, as well as an increase in depreciation rates at Southern Power. Partially offsetting the 2009 increase was a decrease associated with the amortization of the regulatory liability related to the cost of removal obligations as authorized by the Georgia PSC. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Cost of Removal" for additional information regarding Georgia Power's cost of removal amortization.

Depreciation and amortization increased $199 million in 2008 primarily as a result of an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power and generation projects at Georgia Power. An increase in depreciation rates at Georgia Power and Southern Power also contributed to the 2008 increase, as well as the expiration of a rate order previously allowing Georgia Power to levelize certain purchased power capacity costs and the completion of Plant Oleander Unit 5 in December 2007 and Plant Franklin Unit 3 in June 2008.

Depreciation and amortization increased $51 million in 2007 primarily as a result of an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power. An increase in the amortization expense of a regulatory liability recorded in 2003 in connection with the Mississippi PSC's accounting order on Plant Daniel capacity also contributed to the 2007 increase. Partially offsetting the 2007 increase was a reduction in amortization expense due to a Georgia Power regulatory liability related to the levelization of certain purchased power capacity costs as ordered by the Georgia PSC under the terms of the retail rate order effective January 1, 2005. See Note 1 to the financial statements under "Depreciation and Amortization" for additional information.

Taxes Other Than Income Taxes

Taxes other than income taxes increased $22 million in 2009 primarily as a result of increases in the bases of state and municipal public utility license taxes at Alabama Power and an increase in franchise fees at Gulf Power. Increases in franchise fees are associated with increases in revenues from energy sales. Taxes other than income taxes increased $56 million in 2008 primarily as a result of increases in franchise fees and municipal gross receipt taxes associated with increases in revenues from energy sales, as well as increases in property taxes associated with property tax actualizations and additional plant in service. Taxes other than income taxes increased $23 million in 2007 primarily as a result of increases in franchise and municipal gross receipts taxes associated with increases in revenues from energy sales, partially offset by a decrease in property taxes resulting from the resolution of a dispute with Monroe County, Georgia.

Other Income (Expense), Net

Other income (expense), net increased $53 million in 2009 primarily due to an increase in AFUDC equity as a result of environmental projects at Alabama Power and Gulf Power and additional investments in transmission and distribution projects at Alabama Power. In addition, during 2009, Southern Power recognized a $13 million profit under a construction contract with the OUC whereby Southern Power provided engineering, procurement, and construction services to build a combined cycle unit. Other income (expense), net increased $26 million in 2008 primarily as a result of an increase in AFUDC equity related to additional investments in environmental equipment at generating plants at Alabama Power, Georgia Power, and Gulf Power, as well as additional investments in transmission and distribution projects mainly at Alabama Power and Georgia Power. Other income (expense), net increased $66 million in 2007 primarily as a result of an increase in AFUDC equity related to additional investments in environmental equipment at generating plants and transmission and distribution projects mainly at Alabama Power and Georgia Power.

Interest Expense, Net of Amounts Capitalized

Total interest charges and other financing costs increased by $61 million in 2009 primarily as a result of a $100 million increase associated with $1.4 billion in additional debt outstanding at December 31, 2009 compared to December 31, 2008. Also contributing to the 2009 increase was $16 million in other interest costs. The 2009 increase was partially offset by $42 million related to lower average interest rates on existing variable rate debt and $13 million of additional capitalized interest as compared to 2008.

Total interest charges and other financing costs increased by $10 million in 2008 primarily as a result of a $65 million increase associated with $1.8 billion in additional debt outstanding at December 31, 2008 compared to December 31, 2007. Also contributing to the 2008 increase was $5 million in other interest costs. The 2008 increase was partially offset by $55 million related to lower average interest rates on existing variable rate debt and $7 million of additional capitalized interest as compared to 2007.

Total interest charges and other financing costs increased by $46 million in 2007 primarily as a result of a $59 million increase associated with $703 million in additional debt outstanding at December 31, 2007 compared to December 31, 2006 and higher interest rates associated with the issuance of new long-term debt. Also contributing to the 2007 increase was $7 million related to higher average interest rates on existing variable rate debt and $19 million in other interest costs. The 2007 increase was partially offset by $38 million of additional capitalized interest as compared to 2006.

Income Taxes

Income taxes decreased $49 million in 2009 primarily due to lower pre-tax earnings as compared to 2008, an increase in AFUDC equity, which is not taxable, and an increase in the Internal Revenue Code of 1986, as amended (Internal Revenue Code), Section 199 production activities deduction. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Income taxes increased $87 million in 2008 primarily due to higher pre-tax earnings as compared to 2007 and a 2007 deduction for a Georgia Power land donation. The 2008 increase was partially offset by an increase in AFUDC equity, which is not taxable.

Income taxes were relatively flat in 2007 as higher pre-tax earnings as compared to 2006 were largely offset due to a deduction for a Georgia Power land donation; an increase in AFUDC equity, which is not taxable; and an increase in the Section 199 production activities deduction.

Dividends on Preferred and Preference Stock of Subsidiaries

Dividends on preferred and preference stock of subsidiaries for 2009 were flat compared to the prior year.

Dividends on preferred and preference stock of subsidiaries increased $17 million in 2008 primarily as a result of issuances of $320 million and $150 million of preference stock in the third and fourth quarters of 2007, respectively, partially offset by the redemption of $125 million of preferred stock in January 2008.

Dividends on preferred and preference stock of subsidiaries increased $13 million in 2007 primarily as a result of a $470 million increase associated with additional preference stock outstanding at December 31, 2007 compared to December 31, 2006.

Other Business Activities

Southern Company's other business activities include the parent company (which does not allocate operating expenses to business units), investments in leveraged lease projects, and telecommunications. Southern Company's investment in synthetic fuel projects ended at December 31, 2007. These businesses are classified in general categories and may comprise one or more of the following subsidiaries: Southern Company Holdings invests in various projects, including leveraged lease projects; SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast.

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

	Amount	Increase (Decrease) from Prior Year		
	2009	2009	2008	2007
		(in millions)		
Operating revenues	$ 101	$ (26)	$ (86)	$ (55)
Other operations and maintenance	125	(40)	(44)	(29)
MC Asset Recovery litigation settlement	202	202	-	-
Depreciation and amortization	27	(2)	(1)	(6)
Taxes other than income taxes	2	(1)	-	-
Total operating expenses	356	159	(45)	(35)
Operating income (loss)	(255)	(185)	(41)	(20)
Equity in income (losses) of unconsolidated subsidiaries	(1)	(11)	35	35
Leveraged lease income (losses)	40	125	(125)	(29)
Other income (expense), net	3	(8)	(31)	74
Interest expense	71	(22)	(30)	(26)
Income taxes	(92)	30	(7)	53
Net income (loss)	$ (192)	$ (87)	$(125)	$ 33

Operating Revenues

Southern Company's non-electric operating revenues from these other businesses decreased $26 million in 2009 primarily as a result of a $25 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry. The $86 million decrease in 2008 primarily resulted from a $60 million decrease associated with Southern Company terminating its investment in synthetic fuel projects at December 31, 2007 and a $21 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to

increased competition in the industry. Also contributing to the 2008 decrease was a $5 million decrease in revenues from Southern Company's energy-related services business. The $55 million decrease in 2007 primarily resulted from a $14 million decrease in fuel procurement service revenues following a contract termination, a $13 million decrease in revenues at SouthernLINC Wireless related to lower average revenue per subscriber and fewer subscribers due to increased competition in the industry, and an $11 million decrease in revenues from Southern Company's energy-related services business.

Other Operations and Maintenance Expenses

Other operations and maintenance expenses for these other businesses decreased $40 million in 2009 primarily as a result of a $15 million decrease in salary and wages, advertising, equipment, and network costs at SouthernLINC Wireless; a $10 million decrease in expenses associated with leveraged lease litigation costs; and a $6 million decrease in parent company expenses associated with the MC Asset Recovery litigation. Other operations and maintenance expenses decreased $44 million in 2008 primarily as a result of $11 million of lower coal expenses related to Southern Company terminating its investment in synthetic fuel projects at December 31, 2007; $9 million of lower sales expenses at SouthernLINC Wireless related to lower sales volume; and $5 million of lower parent company expenses related to advertising, litigation, and property insurance costs. Other operations and maintenance expenses decreased $29 million in 2007 primarily as a result of $11 million of lower production expenses related to the termination of Southern Company's membership interest in one of the synthetic fuel entities and $8 million attributed to the wind-down of one of the Company's energy-related services businesses.

MC Asset Recovery Litigation Settlement

On March 31, 2009, Southern Company entered into a litigation settlement agreement with MC Asset Recovery which resulted in a charge of $202 million and requires MC Asset Recovery to release Southern Company and certain other designated avoidance actions assigned to MC Asset Recovery in connection with Mirant's plan of reorganization, as well as to release all actions against current or former officers and directors of Mirant and Southern Company that have or could have been filed. Pursuant to the settlement, Southern Company recorded a charge in the first quarter 2009 of $202 million, which was paid in the second quarter 2009. The settlement has been completed and resolves all claims by MC Asset Recovery against Southern Company. On June 29, 2009, the case was dismissed with prejudice.

Equity in Income (Losses) of Unconsolidated Subsidiaries

Southern Company made investments in two synthetic fuel production facilities that generated operating losses. These investments allowed Southern Company to claim federal income tax credits that offset these operating losses and made the projects profitable. Equity in income (losses) of unconsolidated subsidiaries decreased $11 million in 2009 as a result of an $11 million gain recognized in 2008 related to the dissolution of a partnership that was associated with these synthetic fuel production facilities. Equity in income (losses) of unconsolidated subsidiaries increased $35 million in 2008 primarily as a result of Southern Company terminating its investment in synthetic fuel projects at December 31, 2007. Equity in income (losses) of unconsolidated subsidiaries increased $35 million in 2007 primarily as a result of terminating Southern Company's membership interest in one of the synthetic fuel entities which reduced the amount of the Company's share of the losses and, therefore, the funding obligation for the year. Also contributing to the 2007 decrease were adjustments to the phase-out of the related federal income tax credits, partially offset by higher operating expenses due to idled production in 2006 and decreased production in 2007 in anticipation of exiting the business.

Leveraged Lease Income (Losses)

Southern Company has several leveraged lease agreements which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Leveraged lease income (losses) increased $125 million in 2009 primarily as a result of the application in 2008 of certain accounting standards related to leveraged leases, as well as a $26 million gain recorded in the second quarter 2009 associated with the early termination of two international leveraged lease investments. The proceeds from the termination were required to be used to extinguish all debt related to leveraged lease investments, a portion of which had make-whole redemption provisions. This resulted in a $17 million loss and partially offset the 2009 increase. Leveraged lease income (losses) decreased $125 million in 2008 as a result of Southern Company's decision to participate in a settlement with the Internal Revenue Service (IRS) related to deductions for several sale-in-lease-out transactions and the resulting application of certain accounting standards related to leveraged leases. Leveraged lease income (losses) decreased $29 million in 2007 as a result of the adoption of certain accounting standards related to leveraged leases, as well as an expected decline in leveraged lease income over the terms of the leases.

Other Income (Expense), Net

The 2009 change in other income (expense), net for these other businesses when compared to the prior year was not material. Other income (expense), net decreased $31 million in 2008 primarily as a result of the 2007 gain on a derivative transaction in the synthetic fuel business which settled on December 31, 2007. Other income (expense), net increased $74 million in 2007 primarily as a result of a $60 million increase related to changes in the value of derivative transactions in the synthetic fuel business and a $16 million increase related to the 2006 impairment of investments in the synthetic fuel entities, partially offset by the release of $6 million in certain contractual obligations associated with these investments in 2006.

Interest Expense

Total interest charges and other financing costs for these other businesses decreased $22 million in 2009 primarily as a result of $26 million associated with lower average interest rates on existing variable rate debt and a $2 million decrease attributed to other interest charges. The 2009 decrease was partially offset by a $4 million increase associated with $63 million in additional debt outstanding at December 31, 2009 compared to December 31, 2008. Total interest charges and other financing costs decreased $30 million in 2008 primarily as a result of $29 million associated with lower average interest rates on existing variable rate debt and a $4 million decrease attributed to lower interest rates associated with new debt issued to replace maturing securities. At December 31, 2008, these other businesses had $92 million in additional debt outstanding compared to December 31, 2007. The 2008 decrease was partially offset by a $5 million increase in other interest costs. Total interest charges and other financing costs decreased by $26 million in 2007 primarily as a result of $16 million of losses on debt that was reacquired in 2006. Also contributing to the 2007 decrease was $97 million less debt outstanding at December 31, 2007 compared to December 31, 2006, lower interest rates associated with the issuance of new long-term debt, and a $4 million decrease in other interest costs.

Income Taxes

Income taxes for these other businesses increased $30 million in 2009 excluding the effects of the $202 million charge resulting from the litigation settlement with MC Asset Recovery in the first quarter 2009. The 2009 increase was primarily due to the application in 2008 of certain accounting standards related to leveraged leases and income taxes. Partially offsetting this increase was lower tax expense associated with the early termination of two international leveraged lease investments and the extinguishment of the associated debt discussed previously under "Leveraged Lease Income (Losses)." Income taxes decreased $7 million in 2008 primarily as a result of leveraged lease losses discussed previously under "Leveraged Lease Income (Losses)," partially offset by a $36 million decrease in net synthetic fuel tax credits as a result of Southern Company terminating its investment in synthetic fuel projects at December 31, 2007. Income taxes increased $53 million in 2007 primarily as a result of a $30 million decrease in net synthetic fuel tax credits as a result of terminating Southern Company's membership interest in one of the synthetic fuel entities in 2006 and increasing the synthetic fuel tax credit reserves due to an anticipated phase-out of synthetic fuel tax credits due to higher oil prices. See Note 5 to the financial statements under "Effective Tax Rate" for further information.

Effects of Inflation

The traditional operating companies are subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Southern Power is party to long-term contracts reflecting market-based rates, including inflation expectations. Any adverse effect of inflation on Southern Company's results of operations has not been substantial.

FUTURE EARNINGS POTENTIAL

General

The four traditional operating companies operate as vertically integrated utilities providing electricity to customers within their service areas in the Southeastern United States. Prices for electricity provided to retail customers are set by state PSCs under cost-based regulatory principles. Prices for wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the Federal Energy Regulatory Commission (FERC). Retail rates and earnings are reviewed and may be adjusted periodically within certain limitations. Southern Power continues to focus on long-term capacity contracts, optimized by limited energy trading activities. 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 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 traditional operating companies' ability to maintain a constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Other major factors include the profitability of the competitive wholesale supply business and federal regulatory policy which may impact Southern Company's level of participation in this market. Southern Company continues to face regulatory challenges related to transmission issues at the national level. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service area. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of customers, total generating capacity available in the Southeast, future acquisitions and construction of generating facilities, and the successful remarketing of capacity as current contracts expire. Recessionary conditions have negatively impacted sales for the traditional operating companies, particularly to industrial and commercial customers, and have negatively impacted wholesale capacity revenues at Southern Power. The timing and extent of the economic recovery will impact future earnings.

Southern Company system generating capacity increased 325 megawatts due to Southern Power's acquisition of West Georgia Generating Company, LLC and divestiture of DeSoto County Generating Company, LLC in December 2009. In general, Southern Company has constructed or acquired 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. See FUTURE EARNINGS POTENTIAL – "Construction Program" herein and Note 7 to the financial statements for additional information.

As part of its ongoing effort to adapt to changing market conditions, Southern Company continues to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, partnerships, acquisitions involving other utility or non-utility businesses or properties, disposition of certain assets, internal restructuring, 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, risks, and financial condition of Southern Company.

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may exceed amounts estimated. Some of the factors driving the potential for such an increase are higher commodity costs, market demand for labor, and scope additions and clarifications. The timing, specific requirements, and estimated costs could also change as environmental statutes and regulations are adopted or modified. See Note 3 to the financial statements under "Environmental Matters" for additional information.

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 certain coal-fired generating facilities. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including facilities co-owned by Mississippi Power and Gulf Power. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The EPA concurrently issued notices of violation to Gulf Power and Mississippi Power relating to Gulf Power's Plant Crist and Mississippi Power's Plant Watson. In early 2000, the EPA filed a motion to amend its complaint to add Gulf Power and Mississippi Power as defendants based on the allegations in the notices of violation. However, in March 2001, the court denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

Southern Company believes that the traditional 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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to

assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but the traditional operating companies and Southern Power were named as defendants in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

The electric utilities' 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. Applicable statutes 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; the Endangered Species Act; and related federal and state regulations. 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. Through 2009, the electric utilities had invested approximately $7.5 billion in capital projects to comply with these requirements, with annual totals of $1.3 billion, $1.6 billion, and $1.5 billion for 2009, 2008, and 2007, respectively. The Company expects that capital expenditures to assure compliance with existing and new statutes and regulations will be an additional $545 million, $721 million, and $1.2 billion for 2010, 2011, and 2012, respectively. The Company's compliance strategy can be affected by changes to existing environmental laws, statutes, and regulations; the cost, availability, and existing inventory of emissions allowances; and the Company's fuel mix. 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.

Compliance with any new federal or state legislation or regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns could also significantly affect Southern Company. Although new or revised environmental legislation or regulations could affect many areas of Southern Company's operations, the full impact of any such changes cannot be determined at this time.

Air Quality

Compliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for Southern Company. Through 2009, the electric utilities have spent approximately $6.6 billion in reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_x) emissions and in monitoring emissions pursuant to the Clean Air Act. Additional controls are currently being installed at several plants to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

The EPA regulates ground level ozone through implementation of an eight-hour ozone air quality standard. A 20-county area within metropolitan Atlanta is the only location within Southern Company's service area that is currently designated as nonattainment for the standard, which could require additional reductions in NO_x emissions from power plants. In March 2008, however, the EPA issued a final rule establishing a more stringent eight-hour ozone standard, and on January 6, 2010, the EPA proposed further reductions in the standard. The EPA is expected to finalize the revised standard in August 2010 and require state implementation plans for any nonattainment areas by December 2013. The revised eight-hour ozone standard is expected to result in designation of new nonattainment areas within Southern Company's service territory.

During 2005, the EPA's annual fine particulate matter nonattainment designations became effective for several areas within Southern Company's service area in Alabama and Georgia. State plans for addressing the nonattainment designations for this standard could require further reductions in SO_2 and NO_x emissions from power plants. In September 2006, the EPA published a final rule which increased the stringency of the 24-hour average fine particulate matter air quality standard. The Birmingham, Alabama area has been designated as nonattainment for the 24-hour standard, and a state implementation plan for this nonattainment area is due in December 2012.

On December 8, 2009, the EPA also proposed revisions to the National Ambient Air Quality Standard for SO_2. The EPA is expected to finalize the revised SO_2 standard in June 2010.

Twenty-eight eastern states, including each of the states within Southern Company's service area, are subject to the requirements of the Clean Air Interstate Rule (CAIR). The rule calls for additional reductions of NO_x and/or SO_2 to be achieved in two phases, 2009/2010 and 2015. In July 2008 and December 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued

decisions invalidating certain aspects of CAIR, but left CAIR compliance requirements in place while the EPA develops a revised rule. States in the Southern Company service territory have completed plans to implement CAIR, and emissions reductions are being accomplished by the installation of emissions controls at coal-fired facilities of the electric utilities and/or by the purchase of emissions allowances. The EPA is expected to issue a proposed CAIR replacement rule in July 2010.

The Clean Air Visibility Rule was finalized in July 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977, and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each ten-year period thereafter. For power plants, the Clean Air Visibility Rule allows states to determine that CAIR satisfies BART requirements for SO_2 and NO_x, and no additional controls beyond CAIR are anticipated to be necessary at any of the traditional operating companies' facilities. States have completed or are currently completing implementation plans for BART compliance and other measures required to achieve the first phase of reasonable progress.

The EPA is currently developing a Maximum Achievable Control Technology (MACT) rule for coal and oil-fired electric generating units, which will likely address numerous Hazardous Air Pollutants, including mercury. In March 2005, the EPA issued the Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR. In a separate proceeding in the U.S. District Court for the District of Columbia, the EPA entered into a proposed consent decree that requires the EPA to issue a proposed MACT rule by March 16, 2011 and a final rule by November 16, 2011.

In February 2004, the EPA finalized the Industrial Boiler (IB) MACT rule, which imposed limits on hazardous air pollutants from industrial boilers, including biomass boilers. Compliance with the final rule was scheduled to begin in September 2007; however, in response to challenges to the final rule, the U.S. Court of Appeals for the District of Columbia Circuit vacated the IB MACT rule in its entirety in July 2007 and ordered the EPA to develop a new IB MACT rule. In September 2009, the deadline to promulgate a proposed rule was extended from July 15, 2009 to April 15, 2010, with a final rule required by December 16, 2010. The EPA is currently developing the new rule and may change the methodology to determine the MACT limits for industrial boilers.

The impacts of the eight-hour ozone standards, the fine particulate matter nonattainment designations, and future revisions to CAIR, the SO_2 standard, the Clean Air Visibility Rule, and the MACT rules for electric generating units and industrial boilers on the Company cannot be determined at this time and will depend on the specific provisions of the final rules, resolution of any legal challenges, and the development and implementation of rules at the state level. However, these additional regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

The Company has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the continuing and new environmental requirements discussed above. As part of this strategy, the Company has already installed a number of SO_2 and NO_x emissions controls and plans to install additional controls within the next several years to ensure continued compliance with applicable air quality requirements. In addition, most units in Georgia are required to install specific emissions controls according to a schedule set forth in the state's Multipollutant Rule, which is designed to reduce emissions of SO_2, NO_x, and mercury in Georgia.

Water Quality

In July 2004, the EPA published final regulations under the Clean Water Act to reduce impingement and entrainment of fish, shellfish, and other forms of aquatic life at existing power plant cooling water intake structures. The use of cost-benefit analysis in the rule was ultimately appealed to the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing intake structures. The EPA is now in the process of revising the regulations. While the U.S. Supreme Court's decision may ultimately result in greater flexibility for demonstrating compliance with the standards, the full scope of the regulations will depend on further rulemaking by the EPA and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

On December 28, 2009, the EPA announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and proposed a plan to adopt such revisions by 2013. New wastewater treatment requirements are expected and may result in the installation of additional controls on certain Southern Company system facilities. The impact of revised guidelines will depend on the studies conducted in connection with the rulemaking, as well as the specific requirements of the final rule, and, therefore, cannot be determined at this time.

Environmental Remediation

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 traditional operating companies could incur substantial costs to clean up properties. The traditional 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 traditional 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.

Coal Combustion Byproducts

The EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA has collected information from the electric utility industry on surface impoundment safety and conducted on-site inspections at three facilities of Alabama Power and Georgia Power as part of its evaluation. The traditional operating companies have a routine and robust inspection program in place to ensure the integrity of their respective coal ash surface impoundments. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010. The impact of these additional regulations on the Company will depend on the specific provisions of the final rule and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the traditional operating companies' management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March 2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.

Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units. See Item 1 – BUSINESS – "Rate Matters – Integrated Resource Planning" for additional information. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the electric utilities were approximately 142 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 121 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company is actively evaluating and developing electric generating technologies with lower greenhouse gas emissions. These include new nuclear generation, including two additional generating units at Plant Vogtle in Georgia; proposed construction of an advanced IGCC unit with approximately 65% carbon capture in Kemper County, Mississippi; and renewables investments, including the construction of a biomass plant in Sacul, Texas. The Company is currently considering additional projects and is pursuing research into the costs and viability of other renewable technologies for the Southeast.

PSC Matters

Alabama Power

Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4% per year and any annual adjustment is limited to 5%. Retail rates remain unchanged when the retail return on common equity (ROE) is projected to be between 13% and 14.5%. If Alabama Power's actual retail ROE is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail ROE fall below the allowed equity return range.

On December 1, 2009, Alabama Power made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2010. The Rate RSE increase for 2010 is 3.2%, or $152 million annually, and was effective in January 2010. The revenue adjustment under the Rate RSE is largely attributable to the costs associated with fossil capacity which is currently dedicated to certain long-term wholesale contracts that expire during 2010. Retail cost of service for 2010 reflects the cost for that portion of the year in which this capacity is no longer committed to wholesale. The termination of these long-term wholesale contracts will result in a significant decrease in unit power sales capacity revenues. In an Alabama PSC order dated January 5, 2010, the Alabama PSC acknowledged that a full calendar year of costs for such capacity would be reflected in the Rate RSE calculation beginning in 2011 and thereafter. Under the terms of Rate RSE, the maximum increase for 2011 cannot exceed 4.76%.

The Alabama PSC has also approved a rate mechanism that provides for adjustments to recognize the cost of placing new generating facilities in retail service and for the recovery of retail costs associated with certificated PPAs under a Rate Certificated New Plant (Rate CNP). There was no adjustment to Rate CNP in April 2007, 2008, or 2009. Effective April 2010, Rate CNP will be reduced approximately $70 million annually, primarily due to the expiration on May 31, 2010 of the PPA with Southern Power covering the capacity of Plant Harris Unit 1. Rate CNP also allows for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on invested capital.

On December 1, 2009, Alabama Power made its Rate CNP environmental submission to the Alabama PSC of projected data for calendar year 2010. The Rate CNP environmental increase for 2010 is 4.3%, or $195 million annually, based upon projected billings. Under the terms of the rate mechanism, the adjustment became effective in January 2010. The Rate CNP environmental adjustment is primarily attributable to scrubbers being placed in service during 2010 at four of Alabama Power's generating plants. See Note 3 to the financial statements under "Retail Regulatory Matters – Alabama Power – Retail Rate Plans" for further information.

Georgia Power

In December 2007, the Georgia PSC approved the 2007 Retail Rate Plan. Under the 2007 Retail Rate Plan, Georgia Power's earnings are evaluated against a retail ROE range of 10.25% to 12.25%. Retail base rates increased by approximately $100 million effective January 1, 2008 to provide for cost recovery of transmission, distribution, generation, and other investments, as well as increased operating costs. In addition, the ECCR tariff was implemented to allow for the recovery of costs related to environmental projects mandated by state and federal regulations. The ECCR tariff increased rates by approximately $222 million effective January 1, 2008.

In connection with the 2007 Retail Rate Plan, Georgia Power agreed that it would not file for a general base rate increase during this period unless its projected retail ROE falls below 10.25%. The economic recession has significantly reduced Georgia Power's revenues upon which retail rates were set under the 2007 Retail Rate Plan. In June 2009, despite stringent efforts to reduce expenses, Georgia Power's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of filing to increase customer rates as allowed under the 2007 Retail Rate Plan, on June 29, 2009, Georgia Power filed a request with the Georgia PSC for an accounting order that would allow Georgia Power to amortize up to $324 million of its regulatory liability related to other cost of removal obligations.

On August 27, 2009, the Georgia PSC approved the accounting order. Under the terms of the accounting order, Georgia Power was entitled to amortize up to one-third of the regulatory liability ($108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail ROE. For the year ended December 31, 2009, Georgia Power amortized $41 million of the regulatory liability. In addition, Georgia Power may amortize up to two-thirds of the regulatory liability ($216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE. Georgia Power is required to file a general rate case by July 1, 2010, in response to which the Georgia PSC would be expected to determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Retail Rate Plans" for additional information.

Fuel Cost Recovery

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. In previous years, the traditional operating companies experienced higher than expected fuel costs for coal, natural gas, and uranium. These higher fuel costs have resulted in total under recovered fuel costs included in the balance sheets of Georgia Power and Gulf Power of approximately $667 million at December 31, 2009. During the third quarter 2009, Alabama Power and Mississippi Power collected all previously under recovered fuel costs and, as of December 31, 2009, have a total over recovered fuel balance of $229 million. The total under recovered fuel costs included in the balance sheets of the traditional operating companies at December 31, 2008 was $1.2 billion. The traditional operating companies continuously monitor the under or over recovered fuel cost balances.

Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, changing the billing factor has no significant effect on the Company's revenues or net income, but does impact annual cash flow. See Note 1 to the financial statements under "Revenues" and Note 3 to the financial statements under "Retail Regulatory Matters – Alabama Power – Fuel Cost Recovery" and "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" for additional information.

Legislation

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives, which could have a significant impact on the future cash flow and net income of Southern Company. Southern Company's cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA was approximately $250 million. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of Southern Company.

On October 27, 2009, Southern Company and its subsidiaries received notice that an award of $165 million had been granted under the ARRA grant application for transmission and distribution automation and modernization projects pending final negotiations. Southern Company continues to assess the other financial implications of the ARRA.

The U.S. House of Representatives and the U.S. Senate have passed separate bills related to healthcare reform. Both bills include a provision that would make Medicare Part D subsidy reimbursements taxable. If enacted into law, this provision could have a

significant negative impact on Southern Company's net income. See Note 2 to the financial statements under "Other Postretirement Benefits" for additional information.

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

Income Tax Matters

Georgia State Income Tax Credits

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power has also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. An unrecognized tax benefit has been recorded related to these credits. See Note 5 to the financial statements under "Unrecognized Tax Benefits" for additional information. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Southern Company's net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Southern Company's cash flow. The ultimate outcome of this matter cannot now be determined.

Internal Revenue Code Section 199 Domestic Production Deduction

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Construction Program

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Southern Company intends to continue its strategy of developing and constructing new generating facilities, including units at Southern Power, proposed new nuclear units, and a proposed IGCC facility, as well as adding environmental control equipment and expanding the transmission and distribution systems. For the traditional operating companies, major generation construction projects are subject to state PSC approvals in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. See Note 7 to the financial statements under "Construction Program" for estimated construction expenditures for the next three years. In addition, see Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Retail Regulatory Matters – Integrated Coal Gasification Combined Cycle" for additional information.

Other Matters

Southern Company and its subsidiaries are involved in various other matters being litigated, regulatory matters, and certain tax-related issues that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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. 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 traditional operating companies, which comprised approximately 97% of Southern Company's total operating revenues for 2009, are subject to retail regulation by their respective state PSCs and wholesale regulation by the FERC. These regulatory agencies set the rates the traditional operating companies are permitted to charge customers based on allowable costs. As a result, the traditional operating companies apply accounting standards which require 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 the accounting standards 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 traditional 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 and accounting principles generally accepted in the United States. 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, in accordance with GAAP, records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. 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, coal combustion byproducts, including coal ash, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in IRS or state revenue department 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 new or existing matters through the legislative process, the court systems, the IRS, state revenue departments, the FERC, or the EPA.

Unbilled Revenues

Revenues related to the retail 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, 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.

Pension and Other Postretirement Benefits

Southern Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, health care cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining Southern Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on Southern Company's investment strategy, historical experience, and expectations for long-term rates of return that considers external actuarial advice.

Southern Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to Southern Company's target asset allocation. Southern Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

The following table illustrates the sensitivity to changes in Southern Company's long-term assumptions with respect to the expected long-term rate of return on plan assets and the assumed discount rate:

Change in Assumption	Increase/(Decrease) in Total Benefit Expense for 2010	Increase/(Decrease) in Projected Obligation for Pension Plan at December 31, 2009	Increase/(Decrease) in Projected Obligation for Other Postretirement Benefit Plans at December 31, 2009
		(in millions)	
25 basis point change in discount rate	$11/$(8)	$226/$(214)	$53/$(51)
25 basis point change in salary assumption	$9/$(8)	$58/$(55)	N/M
25 basis point change in long-term return on plan assets	$19/$(19)	N/M	N/M

N/M – Not meaningful

New Accounting Standards

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. Southern Company adopted this new guidance effective January 1, 2010, with no material impact on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Company's financial condition remained stable at December 31, 2009. Throughout the turmoil in the financial markets, Southern Company has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper programs and variable rate pollution control revenue bonds. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit have increased, and Southern Company and its subsidiaries have been and expect to continue to be subject to higher costs as existing facilities are replaced or renewed. Total committed credit fees for Southern Company and its subsidiaries currently average less than ½ of 1% per year. See "Sources of Capital" and "Financing Activities" herein for additional information.

Southern Company's investments in pension and nuclear decommissioning trust funds remained stable in value as of December 31, 2009. Southern Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant; however, projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Southern Company does not expect any changes to funding obligations to the nuclear decommissioning trusts prior to 2011.

Net cash provided from operating activities in 2009 totaled $3.3 billion, a decrease of $201 million from the corresponding period in 2008. Significant changes in operating cash flow for 2009 as compared to the corresponding period in 2008 include a reduction to net income as previously discussed, increased levels of coal inventory, and increased cash outflows for tax payments. These uses of funds were partially offset by increased cash inflows as a result of higher fuel cost recovery rates included in customer billings. Net cash provided from operating activities in 2008 totaled $3.5 billion, an increase of $30 million as compared to 2007. Significant changes in operating cash flow for 2008 included a $264 million increase in the use of funds for fossil fuel inventory as compared to the corresponding period in 2007. This use of funds was offset by an increase in cash of $312 million in accrued taxes primarily due to a difference between the periods in payments for federal taxes and property taxes. Net cash provided from operating activities in 2007 totaled $3.4 billion, an increase of $583 million as compared to the corresponding period in 2006. The increase was primarily due to an increase in net income as previously discussed, an increase in cash collections from previously deferred fuel and storm damage costs, and a reduction in cash outflows compared to the previous year in fossil fuel inventory.

Net cash used for investing activities in 2009 totaled $4.3 billion primarily due to property additions to utility plant of $4.7 billion, partially offset by approximately $340 million in cash received from the early termination of two leveraged lease investments. Net cash used for investing activities in 2008 totaled $4.1 billion primarily due to property additions to utility plant of $4.0 billion. In 2007, net cash used for investing activities was $3.7 billion primarily due to property additions to utility plant of $3.5 billion.

Net cash provided from financing activities totaled $1.3 billion in 2009 primarily due to the issuance of new long-term debt and common stock issuances, partially offset by cash outflows for repayments of long-term debt and dividend payments. Net cash provided from financing activities totaled $878 million in 2008 primarily due to long-term debt issuances. Net cash provided from financing activities totaled $309 million in 2007 primarily due to replacement of short-term debt with longer term financing and cash raised from common stock programs.

Significant balance sheet changes in 2009 include an increase of $3.4 billion in total property, plant, and equipment for the installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Other

significant changes include an increase in long-term debt, excluding amounts due within one year, of $1.3 billion used primarily for construction expenditures and general corporate purposes and $1.6 billion of additional equity.

At the end of 2009, the closing price of Southern Company's common stock was $33.32 per share, compared with book value of $18.15 per share. The market-to-book value ratio was 184% at the end of 2009, compared with 217% at year-end 2008.

Southern Company, each of the traditional operating companies, and Southern Power have received investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and/or preference stock. Southern Company Services, Inc. has an investment grade corporate credit rating. See "Credit Rating Risk" herein for additional information.

Sources of Capital

Southern Company intends to meet its future capital needs through internal cash flow and external security issuances. Equity capital can be provided from any combination of the Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised in 2010, as well as in subsequent years, will be contingent on Southern Company's investment opportunities.

The traditional operating companies and Southern Power plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, security issuances, term loans, short-term borrowings, and equity contributions from Southern Company. However, the type and timing of any financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. In addition, on February 16, 2010, the U.S. Department of Energy (DOE) offered Georgia Power a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately $3.4 billion, and are expected to be funded by the Federal Financing Bank. Georgia Power has 90 days to accept the conditional commitment, including obtaining any necessary regulatory approvals. Georgia Power will work with the DOE to finalize loan guarantees. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the combined construction and operating license for Plant Vogtle Units 3 and 4 from the Nuclear Regulatory Commission (NRC), negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for Georgia Power.

The issuance of securities by the traditional operating companies is generally subject to the approval of the applicable state PSC. The issuance of all securities by Mississippi Power and Southern Power and short-term securities by Georgia Power is generally subject to regulatory approval by the FERC. Additionally, with respect to the public offering of securities, Southern Company and certain of its subsidiaries 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 appropriate regulatory authorities, as well as the amounts, if any, registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

Southern Company, each traditional operating company, and Southern Power obtain financing separately without credit support from any affiliate. 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.

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

At December 31, 2009, Southern Company and its subsidiaries had approximately $690 million of cash and cash equivalents and $4.8 billion of unused credit arrangements with banks, of which $1.5 billion expire in 2010, $25 million expire in 2011, and $3.2 billion expire in 2012. Approximately $81 million of the credit facilities expiring in 2010 allow for the execution of term loans for an additional two-year period, and $517 million allow for the execution of one-year term loans. Most of these arrangements contain covenants that limit debt levels and typically contain cross default provisions that are restricted only to the indebtedness of the individual company. Southern Company and its subsidiaries are currently in compliance with all such covenants. A portion of the unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control

revenue bonds. The amount of variable rate pollution control revenue bonds requiring liquidity support as of December 31, 2009 was approximately $1.6 billion. Subsequent to December 31, 2009, two remarketings of pollution control revenue bonds increased that amount to $1.8 billion. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

Financing Activities

During 2009, Southern Company issued $350 million of Series 2009A 4.15% Senior Notes due May 15, 2014 and $300 million of Series 2009B Floating Rate Senior Notes due October 21, 2011, and its subsidiaries issued $1.8 billion of senior notes and incurred obligations of $625 million related to the issuance of pollution control revenue bonds. A portion of the proceeds of the newly issued pollution control revenue bonds were used to retire $327 million of outstanding pollution control revenue bonds. Southern Company also issued 22.6 million shares of common stock for $673 million through the Southern Investment Plan and employee and director stock plans. In addition, Southern Company issued 19.9 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of $613 million, net of $6 million in fees and commissions. The proceeds were primarily used to redeem or repay at maturity $1.2 billion of long-term debt, to fund ongoing construction projects, to repay short-term and long-term indebtedness, and for general corporate purposes.

Also during 2009, Georgia Power and Gulf Power entered into forward starting interest rate swaps to mitigate exposure to interest rate changes related to anticipated debt issuances. The notional amounts of the swaps totaled $200 million and $100 million, respectively. Georgia Power had net realized losses of $19 million upon termination of $300 million of interest rate hedges during 2009. The effective portion of these losses has been deferred in other comprehensive income and is being amortized to interest expense over the life of the original interest rate hedge.

In 2009, Southern Company used a portion of the cash received from the early termination of two leveraged lease investments to extinguish $253 million of debt which included all debt related to these leveraged lease investments and to pay make-whole redemption premiums of $17 million associated with such debt.

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

Off-Balance Sheet Financing Arrangements

In 2001, Mississippi Power began the initial 10-year term of a lease agreement for a combined cycle generating facility built at Plant Daniel for 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% 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% 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. In April 2010, 18 months prior to the end of the initial lease term, Mississippi Power may elect to renew for 10 years. See Note 7 to the financial statements under "Operating Leases" for additional information.

Credit Rating Risk

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation facilities. At December 31, 2009, the maximum potential collateral requirements under these contracts at a BBB and Baa2 rating were approximately $9 million and at a BBB- and/or Baa3 rating were approximately $467 million. At December 31, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $2.3 billion. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Southern Company's ability to access capital markets, particularly the short-term debt market.

On September 2, 2009, Moody's Investors Service (Moody's) affirmed the credit ratings of Southern Company's senior unsecured notes and commercial paper of A3/P-1, respectively, and revised the rating outlook for Southern Company to negative. On September 4, 2009, Fitch Ratings, Inc. affirmed Southern Company's long-term and commercial paper credit ratings of A/F1, respectively, and maintained its stable rating outlook. On October 6, 2009, Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (S&P) affirmed the credit ratings of Southern Company's senior unsecured notes and commercial paper of A-/A-1, respectively, and maintained a stable rating outlook.

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, where possible, 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 future exposure to a change in interest rates, the Company enters into forward starting interest rate swaps and other derivatives that have been designated as hedges. Derivatives outstanding at December 31, 2009 have a notional amount of $976 million and are related to anticipated debt issuances and various floating rate obligations over the next year. The weighted average interest rate on $2.7 billion of long-term variable interest rate exposure that has not been hedged at January 1, 2010 was 0.76%. 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 $27 million at January 1, 2010. For further information, see Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements.

Due to cost-based rate regulation, the traditional operating companies continue to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, into financial hedge contracts for natural gas purchases. The traditional operating companies continue to manage fuel-hedging programs implemented per the guidelines of their respective state PSCs.

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

	2009 Changes	2008 Changes
	Fair Value	
	(in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	**$(285)**	$ 4
Contracts realized or settled	**367**	(150)
Current period changes[a]	**(260)**	(139)
Contracts outstanding at the end of the period, assets (liabilities), net	**$(178)**	$(285)

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

The change in the fair value positions of the energy-related derivative contracts for the year ended December 31, 2009 was an increase of $107 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and prices of natural gas. At December 31, 2009, Southern Company had a net hedge volume of 154 million mmBtu (includes location basis of 2 million mmBtu) with a weighted average contract cost approximately $1.17 per mmBtu above market prices, compared to 149 million mmBtu (includes location basis of 2 million mmBtu) at December 31, 2008 with a weighted average contract cost approximately $1.97 per mmBtu above market prices. The majority of the natural gas hedges are recorded through the traditional operating companies' fuel cost recovery clauses.

At December 31, the net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as assets/(liabilities) as follows:

Asset (Liability) Derivatives	2009	2008
	(in millions)	
Regulatory hedges	**$(175)**	$(288)
Cash flow hedges	**(2)**	(1)
Not designated	**(1)**	4
Total fair value	**$(178)**	$(285)

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

Total net unrealized pre-tax gains (losses) recognized in the statements of income for the years ended December 31, 2009, 2008, and 2007 for energy-related derivative contracts that are not hedges were $(5) million, $1 million, and $3 million, respectively.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	December 31, 2009 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
		(in millions)		
Level 1	$ -	$ -	$ -	$ -
Level 2	(178)	(113)	(65)	-
Level 3	-	-	-	-
Fair value of contracts outstanding at end of period	$(178)	$(113)	$(65)	$ -

Southern Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note 10 to the financial statements for further discussion on fair value measurement.

Southern Company is exposed to market price risk in the event of nonperformance by counterparties to energy-related and interest rate derivative contracts. Southern Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P 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 Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements.

Southern Company performs periodic reviews of its leveraged lease transactions, both domestic and international and the creditworthiness of the lessees, including a review of the value of the underlying leased assets and the credit ratings of the lessees. Southern Company's domestic lease transactions generally do not have any credit enhancement mechanisms; however, the lessees in its international lease transactions have pledged various deposits as additional security to secure the obligations. The lessees in the Company's international lease transactions are also required to provide additional collateral in the event of a credit downgrade below a certain level.

During 2007, Southern Company had derivatives in place to reduce its exposure to a phase-out of certain income tax credits related to synthetic fuel production in 2007. In accordance with Internal Revenue Code Section 45K, these tax credits were subject to limitation as the annual average price of oil increased. Because these transactions were not designated as hedges, the gains and losses were recognized in the statements of income as incurred. These derivatives settled on January 1, 2008 and thus there was no income statement impact for the years ended December 31, 2008 and 2009. For 2007, the unrealized fair value gain recognized in other income to mark the transactions to market was $27 million.

Capital Requirements and Contractual Obligations

The construction program of Southern Company is currently estimated to be $4.9 billion for 2010, $5.3 billion for 2011, and $6.2 billion for 2012. These estimates include costs for new generation construction. Environmental expenditures included in these estimated amounts are $545 million, $721 million, and $1.2 billion for 2010, 2011, and 2012, respectively. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Retail Regulatory Matters – Integrated Coal Gasification Combined Cycle" and Note 7 to the financial statements under "Construction Program" for additional information.

As a result of NRC requirements, Alabama Power and Georgia Power have external trust funds for nuclear decommissioning costs; however, Alabama Power currently has no additional funding requirements. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning."

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 traditional operating companies' respective regulatory commissions.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, 7, and 11 to the financial statements for additional information.

Contractual Obligations

	2010	2011-2012	2013-2014	After 2014	Uncertain Timing[d]	Total
			(in millions)			
Long-term debt[a] –						
Principal	$ 1,092	$ 2,880	$1,361	$13,836	$ -	$19,169
Interest	894	1,732	1,455	11,905	-	15,986
Preferred and preference stock dividends[b]	65	130	130	-	-	325
Other derivative obligations[c] –						
Energy-related	119	66	-	-	-	185
Operating leases	144	192	99	124	-	559
Capital leases	21	26	11	40	-	98
Unrecognized tax benefits and interest[d]	184	-	-	-	36	220
Purchase commitments[e] –						
Capital[f]	4,665	11,160	-	-	-	15,825
Limestone[g]	37	72	76	110	-	295
Coal	4,490	4,707	1,913	2,508	-	13,618
Nuclear fuel	271	323	231	297	-	1,122
Natural gas[h]	1,349	2,192	1,504	4,153	-	9,198
Biomass fuel[i]	-	17	35	128	-	180
Purchased power	253	524	502	2,742	-	4,021
Long-term service agreements[j]	103	251	263	1,738	-	2,355
Trusts –						
Nuclear decommissioning[k]	3	7	7	53	-	70
Postretirement benefits[l]	43	76	-	-	-	119
Total	$13,733	$24,355	$7,587	$37,634	$ 36	$83,345

(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, 2010, as reflected in the statements of capitalization. Fixed rates include, where applicable, the effects of interest rate derivatives employed to manage interest rate risk. Excludes capital lease amounts (shown separately).

(b) Preferred and preference stock do not mature; therefore, amounts are provided for the next five years only.

(c) For additional information, see Notes 1 and 11 to the financial statements.

(d) The timing related to the realization of $36 million in unrecognized tax benefits and interest payments in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Notes 3 and 5 to the financial statements for additional information.

(e) Southern Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for 2009, 2008, and 2007 were $3.5 billion, $3.8 billion, and $3.7 billion, respectively.

(f) 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 nuclear fuel. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program.

(g) As part of Southern Company's program to reduce sulfur dioxide emissions from its coal plants, the traditional operating companies have entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment.

(h) 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, 2009.

(i) Biomass fuel commitments are based on minimum committed tonnage of wood waste purchases.

(j) Long-term service agreements include price escalation based on inflation indices.

(k) Projections of nuclear decommissioning trust contributions are based on the 2007 Retail Rate Plan and are subject to change in Georgia Power's 2010 retail rate case.

(l) Southern Company forecasts postretirement trust contributions over a three-year period. Southern Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant; however, projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Therefore, no amounts related to the pension trust fund are included in the table. 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 Southern Company's corporate assets.

Cautionary Statement Regarding Forward-Looking Statements

Southern Company's 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning the strategic goals for the wholesale business, retail sales, customer growth, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings, dividend payout ratios, access to sources of capital, projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, impacts of adoption of new accounting rules, potential exemptions from ad valorem taxation of the Kemper IGCC project, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts and other substances, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, IRS audits, and Mirant matters;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of Southern Company's employee benefit plans and nuclear decommissioning trusts;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on Southern Company's business resulting from terrorist incidents and the threat of terrorist incidents;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on Southern Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the 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, 2009, 2008, and 2007

Southern Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007
		(in millions)	
Operating Revenues:			
Retail revenues	**$13,307**	$14,055	$12,639
Wholesale revenues	**1,802**	2,400	1,988
Other electric revenues	**533**	545	513
Other revenues	**101**	127	213
Total operating revenues	**15,743**	17,127	15,353
Operating Expenses:			
Fuel	**5,952**	6,818	5,856
Purchased power	**474**	815	515
Other operations and maintenance	**3,526**	3,748	3,670
MC Asset Recovery *litigation settlement*	**202**	-	-
Depreciation and amortization	**1,503**	1,443	1,245
Taxes other than income taxes	**818**	797	741
Total operating expenses	**12,475**	13,621	12,027
Operating Income	**3,268**	3,506	3,326
Other Income and (Expense):			
Allowance for equity funds used during construction	**200**	152	106
Interest income	**23**	33	45
Equity in (losses) income of unconsolidated subsidiaries	**(1)**	11	(24)
Leveraged lease income (losses)	**31**	(85)	40
Gain on disposition of lease termination	**26**	-	-
Loss on extinguishment of debt	**(17)**	-	-
Interest expense, net of amounts capitalized	**(905)**	(866)	(886)
Other income (expense), net	**(21)**	(29)	10
Total other income and (expense)	**(664)**	(784)	(709)
Earnings Before Income Taxes	**2,604**	2,722	2,617
Income taxes	**896**	915	835
Consolidated Net Income	**1,708**	1,807	1,782
Dividends on Preferred and Preference Stock of Subsidiaries	**65**	65	48
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	**$ 1,643**	$ 1,742	$ 1,734
Common Stock Data:			
Earnings per share (EPS)–			
Basic EPS	**$2.07**	$2.26	$2.29
Diluted EPS	**2.06**	2.25	2.28
Average number of shares of common stock outstanding – (in millions)			
Basic	**795**	771	756
Diluted	**796**	775	761
Cash dividends paid per share of common stock	**$1.7325**	$1.6625	$1.595

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008, and 2007

Southern Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007
		(in millions)	
Operating Activities:			
Consolidated net income	$ 1,708	$ 1,807	$ 1,782
Adjustments to reconcile consolidated net income to net cash provided from operating activities --			
Depreciation and amortization, total	1,788	1,704	1,486
Deferred income taxes	25	215	7
Deferred revenues	(54)	120	(2)
Allowance for equity funds used during construction	(200)	(152)	(106)
Equity in (income) losses of unconsolidated subsidiaries	1	(11)	24
Leveraged lease (income) losses	(31)	85	(40)
Gain on disposition of lease termination	(26)	-	-
Loss on extinguishment of debt	17	-	-
Pension, postretirement, and other employee benefits	(3)	21	39
Stock based compensation expense	23	20	28
Hedge settlements	(19)	15	10
Other, net	79	(97)	80
Changes in certain current assets and liabilities --			
-Receivables	585	(176)	165
-Fossil fuel stock	(432)	(303)	(39)
-Materials and supplies	(39)	(23)	(71)
-Other current assets	(47)	(36)	-
-Accounts payable	(125)	(74)	105
-Accrued taxes	(95)	293	(19)
-Accrued compensation	(226)	36	(40)
-Other current liabilities	334	20	25
Net cash provided from operating activities	3,263	3,464	3,434
Investing Activities:			
Property additions	(4,670)	(3,961)	(3,546)
Investment in restricted cash from pollution control revenue bonds	(55)	(96)	(157)
Distribution of restricted cash from pollution control revenue bonds	119	69	78
Nuclear decommissioning trust fund purchases	(1,234)	(720)	(783)
Nuclear decommissioning trust fund sales	1,228	712	775
Proceeds from property sales	340	34	33
Cost of removal, net of salvage	(119)	(123)	(108)
Change in construction payables	215	83	38
Other investing activities	(143)	(124)	(39)
Net cash used for investing activities	(4,319)	(4,126)	(3,709)
Financing Activities:			
Decrease in notes payable, net	(306)	(314)	(669)
Proceeds --			
Long-term debt issuances	3,042	3,687	3,826
Preferred and preference stock	-	-	470
Common stock issuances	1,286	474	538
Redemptions --			
Long-term debt	(1,234)	(1,469)	(2,565)
Redeemable preferred stock	-	(125)	-
Payment of common stock dividends	(1,369)	(1,280)	(1,205)
Payment of dividends on preferred and preference stock of subsidiaries	(65)	(66)	(40)
Other financing activities	(25)	(29)	(46)
Net cash provided from financing activities	1,329	878	309
Net Change in Cash and Cash Equivalents	273	216	34
Cash and Cash Equivalents at Beginning of Year	417	201	167
Cash and Cash Equivalents at End of Year	$ 690	$ 417	$ 201

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

At December 31, 2009 and 2008

Southern Company and Subsidiary Companies 2009 Annual Report

Assets	2009	2008
	(in millions)	
Current Assets:		
Cash and cash equivalents	**$ 690**	$ 417
Restricted cash and cash equivalents	**43**	103
Receivables --		
Customer accounts receivable	**953**	1,054
Unbilled revenues	**394**	320
Under recovered regulatory clause revenues	**333**	646
Other accounts and notes receivable	**375**	301
Accumulated provision for uncollectible accounts	**(25)**	(26)
Fossil fuel stock, at average cost	**1,447**	1,018
Materials and supplies, at average cost	**794**	757
Vacation pay	**145**	140
Prepaid expenses	**508**	302
Other regulatory assets, current	**167**	275
Other current assets	**49**	51
Total current assets	**5,873**	5,358
Property, Plant, and Equipment:		
In service	**53,588**	50,618
Less accumulated depreciation	**19,121**	18,286
Plant in service, net of depreciation	**34,467**	32,332
Nuclear fuel, at amortized cost	**593**	510
Construction work in progress	**4,170**	3,036
Total property, plant, and equipment	**39,230**	35,878
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	**1,070**	864
Leveraged leases	**610**	897
Miscellaneous property and investments	**283**	227
Total other property and investments	**1,963**	1,988
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**1,047**	973
Unamortized debt issuance expense	**208**	208
Unamortized loss on reacquired debt	**255**	271
Deferred under recovered regulatory clause revenues	**373**	606
Other regulatory assets, deferred	**2,702**	2,636
Other deferred charges and assets	**395**	429
Total deferred charges and other assets	**4,980**	5,123
Total Assets	**$52,046**	$48,347

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

At December 31, 2009 and 2008

Southern Company and Subsidiary Companies 2009 Annual Report

Liabilities and Stockholders' Equity	2009	2008
	(in millions)	
Current Liabilities:		
Securities due within one year	**$ 1,113**	$ 617
Notes payable	**639**	953
Accounts payable	**1,329**	1,250
Customer deposits	**331**	302
Accrued taxes --		
Accrued income taxes	**13**	197
Unrecognized tax benefits	**166**	131
Other accrued taxes	**398**	396
Accrued interest	**218**	196
Accrued vacation pay	**184**	179
Accrued compensation	**248**	447
Liabilities from risk management activities	**125**	261
Other regulatory liabilities, current	**528**	78
Other current liabilities	**292**	219
Total current liabilities	**5,584**	5,226
Long-Term Debt (See accompanying statements)	**18,131**	16,816
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**6,455**	6,080
Deferred credits related to income taxes	**248**	259
Accumulated deferred investment tax credits	**448**	455
Employee benefit obligations	**2,304**	2,057
Asset retirement obligations	**1,201**	1,183
Other cost of removal obligations	**1,091**	1,321
Other regulatory liabilities, deferred	**278**	262
Other deferred credits and liabilities	**346**	330
Total deferred credits and other liabilities	**12,371**	11,947
Total Liabilities	**36,086**	33,989
Redeemable Preferred Stock of Subsidiaries (See accompanying statements)	**375**	375
Total Stockholders' Equity (See accompanying statements)	**15,585**	13,983
Total Liabilities and Stockholders' Equity	**$52,046**	$48,347
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

At December 31, 2009 and 2008

Southern Company and Subsidiary Companies 2009 Annual Report

		2009	2008	2009	2008
		(in millions)		*(percent of total)*	
Long-Term Debt:					
Long-term debt payable to affiliated trusts --					
Maturity	Interest Rates				
2044	5.88%	**$ 206**	$ 206		
Variable rate (3.35% at 1/1/10) due 2042		**206**	206		
Total long-term debt payable to affiliated trusts		**412**	412		
Long-term senior notes and debt --					
Maturity	Interest Rates				
2009	4.10% to 7.00%	**-**	128		
2010	4.70%	**102**	102		
2011	4.00% to 5.57%	**304**	303		
2012	4.85% to 6.25%	**1,778**	1,778		
2013	4.35% to 6.00%	**936**	936		
2014	4.15% to 4.90%	**425**	75		
2015 through 2048	4.25% to 8.20%	**9,847**	8,362		
Adjustable rates (at 1/1/10):					
2009	2.3288% to 2.36%	**-**	440		
2010	0.35% to 0.97%	**990**	1,034		
2011	0.68% to 2.95%	**790**	490		
Total long-term senior notes and debt		**15,172**	13,648		
Other long-term debt --					
Pollution control revenue bonds --					
Maturity	Interest Rates				
2016 through 2048	1.40% to 6.00%	**1,973**	2,030		
Variable rates (at 1/1/10):					
2011 through 2049	0.18% to 0.44%	**1,612**	1,257		
Total other long-term debt		**3,585**	3,287		
Capitalized lease obligations		**98**	106		
Unamortized debt (discount), net		**(23)**	(20)		
Total long-term debt (annual interest requirement -- $ 894 million)		**19,244**	17,433		
Less amount due within one year		**1,113**	617		
Long-term debt excluding amount due within one year		**18,131**	16,816	**53.2%**	53.9%

CONSOLIDATED STATEMENTS OF CAPITALIZATION (continued)

At December 31, 2009 and 2008

Southern Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2009	2008
	(in millions)		*(percent of total)*	
Redeemable Preferred Stock of Subsidiaries:				
Cumulative preferred stock				
$100 par or stated value -- 4.20% to 5.44%				
Authorized - 20 million shares				
Outstanding - 1 million shares	**81**	81		
$1 par value -- 4.95% to 5.83%				
Authorized - 28 million shares				
Outstanding - 12 million shares: $25 stated value	**294**	294		
Total redeemable preferred stock of subsidiaries (annual dividend requirement -- $ 20 million)	**375**	**375**	**1.1**	1.2
Common Stockholders' Equity:				
Common stock, par value $5 per share --	**4,101**	3,888		
Authorized - 1 billion shares				
Issued -- 2009: 820 million shares				
-- 2008: 778 million shares				
Treasury -- 2009: 0.5 million shares				
-- 2008: 0.4 million shares				
Paid-in capital	**2,995**	1,893		
Treasury, at cost	**(15)**	(12)		
Retained earnings	**7,885**	7,612		
Accumulated other comprehensive income (loss)	**(88)**	(105)		
Total common stockholders' equity	**14,878**	13,276	**43.6**	42.6
Preferred and Preference Stock of Subsidiaries:				
Non-cumulative preferred stock				
$25 par value -- 6.00% to 6.13%				
Authorized - 60 million shares				
Outstanding - 2 million shares	**45**	45		
Preference stock				
Authorized - 65 million shares				
Outstanding - $1 par value -- 5.63% to 6.50%	**343**	343		
- 14 million shares (non-cumulative)				
- $100 par or stated value -- 6.00% to 6.50%	**319**	319		
- 3 million shares (non-cumulative)				
Total preferred and preference stock of subsidiaries (annual dividend requirement -- $ 45 million)	**707**	707	**2.1**	2.3
Total stockholders' equity	**15,585**	13,983		
Total Capitalization	**$34,091**	$31,174	**100.0%**	100.0%

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2009, 2008, and 2007

Southern Company and Subsidiary Companies 2009 Annual Report

	Number of Common Shares		Common Stock				Accumulated Other Comprehensive	Preferred and Preference	
	Issued	Treasury	Par Value	Paid-In Capital	Treasury	Retained Earnings	Income (Loss)	Stock of Subsidiaries	Total
	(in thousands)					*(in millions)*			
Balance at December 31, 2006	751,864	(5,594)	$3,759	$1,096	$(192)	$6,765	$ (57)	$246	$11,61
Net income after dividends on preferred and preference stock of subsidiaries	-	-	-	-	-	1,734	-	-	1,73
Other comprehensive income	-	-	-	-	-	-	27	-	2
Cumulative effect of new accounting standards (a)	-	-	-	-	-	(140)	-	-	(14
Stock issued	11,639	5,255	58	356	183	-	-	461	1,05
Cash dividends	-	-	-	-	-	(1,204)	-	-	(1,20
Other	-	(60)	-	2	(2)	-	-	-	
Balance at December 31, 2007	763,503	(399)	3,817	1,454	(11)	7,155	(30)	707	13,09
Net income after dividends on preferred and preference stock of subsidiaries	-	-	-	-	-	1,742	-	-	1,74
Other comprehensive income	-	-	-	-	-	-	(75)	-	(7
Stock issued	14,113	-	71	438	-	-	-	-	50
Cash dividends	-	-	-	-	-	(1,279)	-	-	(1,27
Other	-	(25)	-	1	(1)	(6)	-	-	
Balance at December 31, 2008	**777,616**	**(424)**	**3,888**	**1,893**	**(12)**	**7,612**	**(105)**	**707**	**13,98**
Net income after dividends on preferred and preference stock of subsidiaries	-	-	-	-	-	**1,643**	-	-	**1,64**
Other comprehensive income	-	-	-	-	-	-	**17**	-	1
Stock issued	**42,536**	-	**213**	**1,100**	-	-	-	-	**1,31**
Cash dividends	-	-	-	-	-	**(1,369)**	-	-	**(1,36**
Other	-	**(81)**	-	**2**	**(3)**	**(1)**	-	-	
Balance at December 31, 2009	**820,152**	**(505)**	**$4,101**	**$2,995**	**$(15)**	**$7,885**	**$(88)**	**$707**	**$15,58**

The accompanying notes are an integral part of these financial statements.

(a) In 2007 Southern Company recorded two adjustments net of tax in respect of new accounting guidance; a $125 million adjustment in respect of leverage lea transactions and a $15 million adjustment in respect of uncertain tax positions.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Southern Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007
		(in millions)	
Consolidated Net Income	**$1,708**	$1,807	$1,782
Other comprehensive income:			
Qualifying hedges:			
Changes in fair value, net of tax of $(3), $(19), and $(3), respectively	**(4)**	(30)	(5)
Reclassification adjustment for amounts included in net income, net of tax of $18, $7, and $6, respectively	**28**	11	9
Marketable securities:			
Change in fair value, net of tax of $1, $(4), and $3, respectively	**4**	(7)	4
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, and $-, respectively	**-**	-	(1)
Pension and other postretirement benefit plans:			
Benefit plan net gain (loss),net of tax of $(8), $(32), and $13, respectively	**(12)**	(51)	20
Additional prior service costs from amendment to non-qualified plans, net of tax of $-, $-, and $(2), respectively	**-**	-	(2)
Reclassification adjustment for amounts included in net income, net of tax of $1, $1, and $1, respectively	**1**	2	2
Total other comprehensive income (loss)	**17**	(75)	27
Dividends on preferred and preference stock of subsidiaries	**(65)**	(65)	(48)
Consolidated Comprehensive Income	**$1,660**	$1,667	$1,761

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Southern Company (the Company) is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies, Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power), are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in leveraged leases. 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 entities 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 transactions have been eliminated in consolidation. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

The traditional operating companies, Southern Power, and certain of their subsidiaries are subject to regulation by the Federal Energy Regulatory Commission (FERC) and the traditional 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 purchased synthetic fuel from Alabama Fuel Products, LLC (AFP), an entity in which Southern Holdings held a 30% ownership interest until July 2006, when its ownership interest was terminated. Synfuel Services, Inc. (SSI), another subsidiary of Southern Holdings, provided fuel transportation services to AFP that were ultimately reflected in the cost of the synthetic fuel billed to Alabama Power and Georgia Power. Subsequent to the termination of Southern Company's membership interest in AFP, Alabama Power and Georgia Power continued to purchase an additional $6 million and $750 million in fuel from AFP in 2008 and 2007, respectively. SSI continued to provide fuel transportation services of $131 million in 2007, which were eliminated against fuel expense in the financial statements. SSI also provided other additional services to AFP and a related party of AFP totaling $47 million in 2007. The synthetic fuel investments and related party transactions were terminated on December 31, 2007.

Regulatory Assets and Liabilities

The traditional operating companies are subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate 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:

	2009	2008	Note
	(in millions)		
Deferred income tax charges	**$ 1,048**	$ 972	(a)
Asset retirement obligations-asset	**125**	236	(a,i)
Asset retirement obligations-liability	**(47)**	(5)	(a,i)
Other cost of removal obligations	**(1,307)**	(1,321)	(a)
Deferred income tax credits	**(249)**	(260)	(a)
Loss on reacquired debt	**255**	271	(b)
Vacation pay	**145**	140	(c,i)
Under recovered regulatory clause revenues	**40**	432	(d)
Over recovered regulatory clause revenues	**(218)**	(3)	(d)
Building leases	**47**	49	(f)
Generating plant outage costs	**39**	45	(d)
Under recovered storm damage costs	**22**	27	(d)
Property damage reserves	**(157)**	(97)	(h)
Fuel hedging-asset	**187**	314	(d)
Fuel hedging-liability	**(2)**	(10)	(d)
Other assets	**156**	163	(d)
Environmental remediation-asset	**68**	67	(h,i)
Environmental remediation-liability	**(13)**	(19)	(h)
Environmental compliance cost recovery	**(96)**	(135)	(g)
Other liabilities	**(51)**	(43)	(j)
Underfunded retiree benefit plans	**2,268**	2,068	(e,i)
Total assets (liabilities), net	**$ 2,260**	$ 2,891	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal assets and liabilities are recorded, deferred income tax assets are recovered, other cost of removal, and deferred tax liabilities are amortized over the related property lives, which may range up to 65 years. Asset retirement and removal assets and liabilities will be settled and trued up following completion of the related activities. Other cost of removal obligations include $216 million at Georgia Power that may be amortized during 2010 in accordance with the August 27, 2009 Georgia PSC order. See Note 3 under "Retail Regulatory Matters – Georgia Power – Cost of Removal" for additional information.
(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) Recorded and recovered or amortized as approved by the appropriate state PSCs over periods not exceeding 10 years.
(e) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 2 for additional information.
(f) Recovered over the remaining lives of the buildings through 2026.
(g) This balance represents deferred revenue associated with Georgia Power's environmental compliance cost recovery (ECCR) tariff established in its retail rate plan for the years 2008 through 2010 (2007 Retail Rate Plan). The recovery of the forecasted environmental compliance costs was levelized to collect equal annual amounts between January 1, 2008 and December 31, 2010 under the tariff.
(h) Recovered as storm restoration or environmental remediation expenses are incurred.
(i) Not earning a return as offset in rate base by a corresponding asset or liability.
(j) Recorded and recovered or amortized as approved by the appropriate state PSC over periods up to the life of the plant or the remaining life of the original issue or, if refinanced, over the life of the new issue which may range up to 50 years.

In the event that a portion of a traditional operating company's operations is no longer subject to applicable accounting rules for rate regulation, such company would be required to write off or reclassify to accumulated other comprehensive income related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the traditional 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 values. All regulatory assets and liabilities are to be reflected in rates. See Note 3 under "Retail Regulatory Matters – Alabama Power," "Retail Regulatory Matters – Georgia Power," and "Retail Regulatory Matters – Integrated Coal Gasification Combined Cycle" for additional information.

Revenues

Wholesale 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 related to retail sales are accrued at the end of each fiscal period. Electric rates for the traditional 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 these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered or returned to customers through adjustments to the billing factors.

Retail fuel cost recovery mechanisms vary by each traditional operating company, but in general, the process requires periodic filings with the appropriate state PSC. Alabama Power continuously monitors the under/over recovered balance and files for a revised fuel rate when management deems appropriate. Georgia Power filed a new fuel case on December 15, 2009. The new rates are expected to become effective April 1, 2010. Gulf Power is required to notify the Florida PSC if the projected fuel cost over or under recovery exceeds 10% of the projected fuel revenue applicable for the period and indicate if an adjustment to the fuel cost recovery factor is being requested. Mississippi Power is required to file for an adjustment to the fuel cost recovery factor annually. See Note 3 under "Retail Regulatory Matters – Alabama Power – Fuel Cost Recovery" and "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" for additional information.

Southern Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense generally includes the cost of purchased emissions 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. See Note 3 under "Nuclear Fuel Disposal Costs" for additional information.

Income and Other 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. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with regulatory requirements, deferred investment tax credits (ITCs) for the traditional operating companies 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 $24 million in 2009, $23 million in 2008, and $23 million in 2007. At December 31, 2009, all ITCs available to reduce federal income taxes payable had been utilized.

Under the American Recovery and Reinvestment Act of 2009, certain renewable projects at Southern Company's non-regulated subsidiaries are eligible for ITCs or cash grants. These non-regulated companies have elected to receive ITCs. The credits are recorded as a deferred credit, which will be amortized over the life of the asset, and the tax basis of the asset is reduced by 50% of the credits received, resulting in a deferred tax asset. The non-regulated companies have elected to recognize the tax benefit of this basis difference as a reduction to income tax expense as costs are incurred during the construction period. This basis difference will reverse and be recorded to income tax expense over the useful life of the asset once placed in service.

In accordance with accounting standards related to the uncertainty in income taxes, Southern Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

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.

Southern Company's property, plant, and equipment consisted of the following at December 31:

	2009	2008
	(in millions)	
Generation	**$28,204**	$26,154
Transmission	**7,380**	7,085
Distribution	**14,335**	13,856
General	**2,917**	2,750
Plant acquisition adjustment	**43**	43
Utility plant in service	**52,879**	49,888
IT equipment and software	**182**	240
Communications equipment	**423**	450
Other	**104**	40
Other plant in service	**709**	730
Total plant in service	**$53,588**	$50,618

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 nuclear refueling costs in advance of the unit's next refueling outage. Georgia Power defers and amortizes nuclear 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 a Georgia PSC order, Georgia Power also 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.

Depreciation and Amortization

Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.2% in 2009, 3.2% in 2008, and 3.0% in 2007. Depreciation studies are conducted periodically to update the composite rates. These studies are filed with the respective state PSC for the traditional operating companies. Accumulated depreciation for utility plant in service totaled $18.7 billion and $17.9 billion at December 31, 2009 and 2008, respectively. 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 Georgia Power's retail rate plan for the three years ended December 31, 2007 (2004 Retail Rate Plan), Georgia Power was ordered to recognize Georgia PSC-certified capacity costs in rates evenly over the three years covered by the 2004 Retail Rate Plan. Georgia Power recorded credits to amortization of $19 million in 2007. The 2007 Retail Rate Plan did not include a similar order. On August 27, 2009, the Georgia PSC approved an accounting order allowing Georgia Power to amortize up to $324 million of its regulatory liability related to other cost of removal obligations. See Note 3 under "Retail Regulatory Matters – Georgia Power – Cost of Removal" for additional information.

In May 2004, the Mississippi PSC approved Mississippi Power's request to reclassify 266 megawatts (MWs) 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 amortized the related regulatory liability, pursuant to the Mississippi PSC's order, by $6 million in 2007 resulting in an increase to earnings in that year.

Depreciation of the original cost of other plant in service is provided primarily on a straight-line basis over estimated useful lives ranging from three to 30 years. Accumulated depreciation for other plant in service totaled $419 million and $433 million at December 31, 2009 and 2008, respectively.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are 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. The Company has received accounting guidance from the various state PSCs allowing the continued accrual of

other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability. See Note 3 under "Retail Regulatory Matters – Georgia Power – Cost of Removal" for additional information related to Georgia Power's cost of removal regulatory liability.

The liability recognized to retire long-lived assets primarily relates to the Company's nuclear facilities, Plants Farley, Hatch, and Vogtle. The fair value of assets legally restricted for settling retirement obligations related to nuclear facilities as of December 31, 2009 was $1.1 billion. In addition, the Company has retirement obligations related to various landfill sites, underground storage tanks, asbestos removal, and disposal of polychlorinated biphenyls in certain transformers. The Company also has identified retirement obligations related to certain transmission and distribution facilities, co-generation facilities, certain wireless communication towers, and certain structures authorized by the U.S. Army Corps of Engineers. However, liabilities for the removal of these assets have not been recorded because the range of time over which the Company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income allowed removal costs in accordance with its regulatory treatment. Any differences between costs recognized in accordance with accounting standards related to asset retirement and environmental obligations, and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the various state PSCs, 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:

	2009	2008
	(in millions)	
Balance beginning of year	**$1,185**	$1,203
Liabilities incurred	**2**	4
Liabilities settled	**(10)**	(4)
Accretion	**77**	75
Cash flow revisions	**(48)**	(93)
Balance end of year	**$1,206**	$1,185

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 (the Funds) to comply with the NRC's regulations. Use of the Funds is restricted to nuclear decommissioning activities and the Funds 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). The Funds are required to be held by one or more trustees with an individual net worth of at least $100 million. The FERC requires the Funds' managers to exercise the standard of care in investing that a "prudent investor" would use in the same circumstances. The FERC regulations also require, except for investments tied to market indices or other mutual funds, that the Funds' managers may not invest in any securities of the utility for which it manages funds or its affiliates. In addition, the NRC prohibits investments in securities of power reactor licensees. While Southern Company is allowed to prescribe an overall investment policy to the Funds' managers, neither Southern Company nor its subsidiaries or affiliates are allowed to engage in the day-to-day management of the Funds or to mandate individual investment decisions. Day-to-day management of the investments in the Funds is delegated to unrelated third party managers with oversight by Southern Company, Alabama Power, and Georgia Power management. The Funds' managers are authorized, within broad limits, to actively buy and sell securities at their own discretion in order to maximize the investment return on the Funds' investments. The Funds are invested in a tax-efficient manner in a diversified mix of equity and fixed income securities and are reported as trading securities.

Southern Company records the investment securities held in the Funds at fair value, as disclosed in Note 10. Gains and losses, whether realized, unrealized, or identified as other-than-temporary, are recorded in the regulatory liability for asset retirement obligations in the balance sheets and are not included in net income or other comprehensive income. Fair value adjustments, realized gains, and other-than-temporary impairment losses are determined on a specific identification basis.

At December 31, 2009, investment securities in the Funds totaled $1.1 billion consisting of equity securities of $774 million, debt securities of $272 million, and $22 million of other securities. At December 31, 2008, investment securities in the Funds totaled $862 million consisting of equity securities of $518 million, debt securities of $323 million, and $21 million of other securities. These amounts exclude receivables related to investment income and pending investment sales, and payables related to pending investment purchases.

Sales of the securities held in the Funds resulted in cash proceeds of $1.2 billion, $712 million, and $775 million in 2009, 2008, and 2007, respectively, all of which were reinvested. For 2009, fair value increases, including reinvested interest and dividends and excluding expenses, were $215 million, of which $198 million related to securities held in the Funds at December 31, 2009. For 2008, fair value reductions, including reinvested interest and dividends and excluding expenses, were $(278) million. Realized gains and other-than-temporary impairment losses were $78 million and $(76) million, respectively, in 2007. While the investment securities held in the Funds are reported as trading securities, the Funds continue to be managed with a long-term focus. Accordingly, all purchases and sales within the Funds are presented separately in the statement of cash flows as investing cash flows, consistent with the nature of and purpose for which the securities were acquired.

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. Alabama Power and Georgia Power have filed plans with the NRC designed to ensure that, over time, the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

At December 31, 2009, the accumulated provisions for decommissioning were as follows:

	Plant Farley	Plant Hatch	Plant Vogtle
		(in millions)	
External trust funds	$490	$360	$206
Internal reserves	25	-	-
Total	$515	$360	$206

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, which were performed in 2008 for Plant Farley and in 2009 for the Georgia Power plants, were as follows for Alabama Power's Plant Farley and Georgia Power's ownership interests in Plants Hatch and Vogtle:

	Plant Farley	Plant Hatch	Plant Vogtle
Decommissioning periods:			
Beginning year	2037	2034	2047
Completion year	2065	2063	2067
		(in millions)	
Site study costs:			
Radiated structures	$1,060	$583	$500
Non-radiated structures	72	46	71
Total	$1,132	$629	$571

The decommissioning periods and site study costs for Plant Vogtle reflect the extended operating license approved by the NRC on June 3, 2009. 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.

For ratemaking purposes, Alabama Power's decommissioning costs are based on the site study, and Georgia Power's decommissioning costs are based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2006. The estimates used in current rates are $531 million and $366 million for Plants Hatch and Vogtle, respectively. Amounts expensed were $3 million annually for 2009 and 2008 and $7 million for 2007 for Plant Vogtle. Significant assumptions used to determine these costs for ratemaking were an inflation rate of 4.5% and 2.9% for Alabama Power and Georgia Power, respectively, and a trust earnings rate of 7.0% and 4.9% for Alabama Power and Georgia Power, respectively. As a result of license extensions, amounts previously contributed to the external trust funds for Plants Hatch and Farley are currently projected to be adequate to meet the decommissioning obligations.

Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized

In accordance with regulatory treatment, the traditional operating companies record AFUDC, which 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. The equity component of AFUDC is not included in calculating taxable income. Interest related to the construction of new facilities not included in the traditional operating companies' regulated rates is capitalized in accordance with

standard interest capitalization requirements. AFUDC and interest capitalized, net of income taxes were 15.3%, 11.2%, and 8.4% of net income for 2009, 2008, and 2007, respectively.

Cash payments for interest totaled $788 million, $787 million, and $798 million in 2009, 2008, and 2007, respectively, net of amounts capitalized of $84 million, $71 million, and $64 million, respectively.

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 loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

Storm Damage Reserves

Each traditional operating company maintains a reserve to cover the cost of damages from major storms to its transmission and distribution lines and generally the cost of uninsured damages to its generation facilities and other property. In accordance with their respective state PSC orders, the traditional operating companies accrued $44 million in 2009. Alabama Power, Gulf Power, and Mississippi Power also have discretionary authority from their state PSCs to accrue certain additional amounts as circumstances warrant. In 2009, such additional accruals totaled $40 million. There were no material accruals for 2008 or 2007.

Leveraged Leases

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

Southern Company's net investment in domestic leveraged leases consists of the following at December 31:

	2009	2008
	(in millions)	
Net rentals receivable	$487	$492
Unearned income	(218)	(230)
Investment in leveraged leases	269	262
Deferred taxes from leveraged leases	(211)	(189)
Net investment in leveraged leases	$ 58	$ 73

A summary of the components of income from domestic leveraged leases was as follows:

	2009	2008	2007
		(in millions)	
Pretax leveraged lease income	$12	$14	$16
Income tax expense	(5)	(6)	(7)
Net leveraged lease income	$ 7	$ 8	$ 9

Southern Company's net investment in international leveraged leases consists of the following at December 31:

	2009	2008
	(in millions)	
Net rentals receivable	$ 734	$1,298
Unearned income	(393)	(663)
Investment in leveraged leases	341	635
Current taxes payable	-	(120)
Deferred taxes from leveraged leases	(40)	(117)
Net investment in leveraged leases	$ 301	$ 398

A summary of the components of income from international leveraged leases was as follows:

	2009	2008	2007
		(in millions)	
Pretax leveraged lease income (loss)	$19	$(99)	$24
Income tax benefit (expense)	(7)	35	(8)
Net leveraged lease income (loss)	$12	$(64)	$16

The Company terminated two international leveraged lease investments during 2009. The proceeds were used to extinguish all debt related to leveraged lease investments, a portion of which had make-whole redemption provisions. This resulted in a $17 million loss which partially offset a $26 million gain on the terminations.

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, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the average costs of oil, coal, natural gas, and emissions allowances. Fuel is charged to inventory when purchased and then expensed as used and recovered by the traditional operating companies through fuel cost recovery rates approved by each state PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero cost.

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 (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 10 for additional information. Substantially all of Southern Company's bulk energy purchases and sales contracts that meet the definition of a derivative are excluded from fair value accounting requirements because they qualify for the "normal" scope exception, and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions or are recoverable through the traditional operating companies' fuel hedging programs. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges is recognized currently in net income. Other derivative contracts, including derivatives related to synthetic fuel investments, are marked to market through current period income and are recorded on a net basis in the statements of income. See Note 11 for additional information.

The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. At December 31, 2009, the amount included in "Accounts payable" in the balance sheets that the Company has recognized for the obligation to return cash collateral arising from derivative instruments was not material.

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.

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, certain changes in pension and other postretirement benefit plans, and reclassifications for amounts included in net income.

Accumulated other comprehensive income (loss) balances, net of tax effects, were as follows:

	Qualifying Hedges	Marketable Securities	Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Income (Loss)
			(in millions)	
Balance at December 31, 2008	$(73)	$ 6	$(38)	$(105)
Current period change	24	4	(11)	17
Balance at December 31, 2009	**$(49)**	**$10**	**$(49)**	**$ (88)**

Variable Interest Entities

The primary beneficiary of a variable interest entity must consolidate the related assets and liabilities. Certain of the traditional operating companies have established certain wholly-owned trusts to issue preferred securities. See Note 6 under "Long-Term Debt Payable to Affiliated Trusts" for additional information. However, Southern Company and the applicable traditional operating companies are not considered 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 included in Long-term Debt in the balance sheets.

2. RETIREMENT BENEFITS

Southern Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the plan are expected for the year ending December 31, 2010. Southern Company also provides certain defined benefit pension plans for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, Southern Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The traditional operating companies fund related trusts to the extent required by their respective regulatory commissions. For the year ending December 31, 2010, postretirement trust contributions are expected to total approximately $43 million.

The measurement date for plan assets and obligations for 2009 and 2008 was December 31 while the measurement date for prior years was September 30. Pursuant to accounting standards related to defined postretirement benefit plans, Southern Company was required to change the measurement date for its defined postretirement benefit plans from September 30 to December 31 beginning with the year ended December 31, 2008. As permitted, Southern Company adopted the measurement date provisions effective January 1, 2008, resulting in an increase in long-term liabilities of $28 million and an increase in prepaid pension costs of approximately $16 million.

Pension Plans

The total accumulated benefit obligation for the pension plans was $6.3 billion in 2009 and $5.5 billion in 2008. Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the projected benefit obligations and the fair value of plan assets were as follows:

	2009	2008
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$5,879**	$5,660
Service cost	**146**	182
Interest cost	**387**	435
Benefits paid	**(282)**	(324)
Actuarial loss (gain)	**628**	(74)
Balance at end of year	**6,758**	5,879
Change in plan assets		
Fair value of plan assets at beginning of year	**5,093**	7,624
Actual return (loss) on plan assets	**792**	(2,234)
Employer contributions	**24**	27
Benefits paid	**(282)**	(324)
Fair value of plan assets at end of year	**5,627**	5,093
Accrued liability	**$(1,131)**	$ (786)

At December 31, 2009, the projected benefit obligations for the qualified and non-qualified pension plans were $6.3 billion and $0.4 billion, respectively. All pension plan assets are related to the qualified pension plan.

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). In 2009, in determining the optimal asset allocation for the pension fund, the Company performed an extensive study based on projections of both assets and liabilities over a 10-year forward horizon. The primary goal of the study was to maximize plan funded status. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's pension plan assets as of December 31, 2009 and 2008, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	29%	**33%**	34%
International equity	28	**29**	23
Fixed income	15	**15**	14
Special situations	3	**-**	-
Real estate investments	15	**13**	19
Private equity	10	**10**	10
Total	100%	**100%**	100%

The investment strategy for plan assets related to the Company's defined benefit plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of pension plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$1,117	$462	$-	$1,579
International equity*	1,444	144	-	1,588
Fixed income:				
U.S. Treasury, government, and agency bonds	-	416	-	416
Mortgage- and asset-backed securities	-	113	-	113
Corporate bonds	-	279	-	279
Pooled funds	-	10	-	10
Cash equivalents and other	3	341	-	344
Special situations	-	-	-	-
Real estate investments	174	-	547	721
Private equity	-	-	555	555
Total	$2,738	$1,765	$1,102	$5,605
Liabilities:				
Derivatives	(5)	(1)	-	(6)
Total	$2,733	$1,764	$1,102	$5,599

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

As of December 31, 2008:	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in millions)		
Assets:				
Domestic equity*	$1,049	$427	$-	$1,476
International equity*	944	87	-	1,031
Fixed income:				
U.S. Treasury, government, and agency bonds	-	441	-	441
Mortgage- and asset-backed securities	-	209	-	209
Corporate bonds	-	286	-	286
Pooled funds	-	3	-	3
Cash equivalents and other	22	202	-	224
Special situations	-	-	-	-
Real estate investments	144	-	839	983
Private equity	-	-	490	490
Total	$2,159	$1,655	$1,329	$5,143
Liabilities:				
Derivatives	(8)	-	-	(8)
Total	$2,151	$1,655	$1,329	$5,135

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	Private Equity	Real Estate Investments	Private Equity
		(in millions)		
Beginning balance	$ 839	$490	$1,045	$ 520
Actual return on investments:				
Related to investments held at year end	(240)	37	(170)	(141)
Related to investments sold during the year	(65)	10	4	25
Total return on investments	(305)	47	(166)	(116)
Purchases, sales, and settlements	13	18	(40)	86
Transfers into/out of Level 3	-	-	-	-
Ending balance	$ 547	$555	$ 839	$ 490

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the consolidated balance sheets related to the Company's pension plans consist of the following:

	2009	2008
	(in millions)	
Other regulatory assets, deferred	**$ 1,894**	$1,579
Other current liabilities	**(25)**	(23)
Employee benefit obligations	**(1,106)**	(763)
Accumulated other comprehensive income	**74**	54

Presented below are the amounts included in accumulated other comprehensive income and regulatory assets at December 31, 2009 and 2008 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	**Net (Gain)Loss**
	(in millions)	
Balance at December 31, 2009:		
Accumulated other comprehensive income	**$ 10**	**$ 64**
Regulatory assets	**188**	**1,706**
Total	**$198**	**$1,770**
Balance at December 31, 2008:		
Accumulated other comprehensive income	$ 12	$ 42
Regulatory assets	220	1,359
Total	$232	$1,401
Estimated amortization in net periodic pension cost in 2010:		
Accumulated other comprehensive income	$ 1	$ 1
Regulatory assets	31	9
Total	$32	$10

The components of other comprehensive income, along with the changes in the balances of regulatory assets and regulatory liabilities, related to the defined benefit pension plans for the year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Accumulated Other Comprehensive Income	Regulatory Assets	Regulatory Liabilities
		(in millions)	
Balance at December 31, 2007	$ (26)	$ 188	$(1,288)
Net loss	83	1,412	1,322
Change in prior service costs	-	-	-
Reclassification adjustments:			
Amortization of prior service costs	(2)	(10)	(34)
Amortization of net gain	(1)	(11)	-
Total reclassification adjustments	(3)	(21)	(34)
Total change	80	1,391	1,288
Balance at December 31, 2008	54	1,579	-
Net loss	**21**	**355**	-
Change in prior service costs	-	**1**	-
Reclassification adjustments:			
Amortization of prior service costs	**(1)**	**(34)**	-
Amortization of net gain	-	**(7)**	-
Total reclassification adjustments	**(1)**	**(41)**	-
Total change	**20**	**315**	-
Balance at December 31, 2009	**$ 74**	**$1,894**	**$ -**

Components of net periodic pension cost were as follows:

	2009	2008	2007
		(in millions)	
Service cost	**$ 146**	$ 146	$147
Interest cost	**387**	348	324
Expected return on plan assets	**(541)**	(525)	(481)
Recognized net loss	7	9	10
Net amortization	**35**	37	35
Net periodic pension cost	**$ 34**	$ 15	$ 35

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

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, 2009, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2010	$ 323
2011	341
2012	360
2013	383
2014	417
2015 to 2019	2,456

Other Postretirement Benefits

Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the accumulated postretirement benefit obligations (APBO) and in the fair value of plan assets were as follows:

	2009	2008
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$1,733**	$1,797
Service cost	**26**	36
Interest cost	**113**	138
Benefits paid	**(93)**	(108)
Actuarial loss (gain)	**34**	(139)
Plan amendments	**(59)**	-
Retiree drug subsidy	**5**	9
Balance at end of year	**1,759**	1,733
Change in plan assets		
Fair value of plan assets at beginning of year	**631**	820
Actual return (loss) on plan assets	**127**	(232)
Employer contributions	**72**	142
Benefits paid	**(87)**	(99)
Fair value of plan assets at end of year	**743**	631
Accrued liability	**$(1,016)**	$(1,102)

Other postretirement benefit 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. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's other postretirement benefit plan assets as of the end of the year, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	42%	**37%**	34%
International equity	19	**24**	18
Fixed income	30	**32**	38
Special situations	1	**-**	-
Real estate investments	5	**4**	7
Private equity	3	**3**	3
Total	100%	**100%**	100%

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Trust-owned life insurance.*** Some of the Company's taxable trusts invest in these investments in order to minimize the impact of taxes on the portfolio.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.

- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of other postretirement benefit plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$149	$42	$-	$191
International equity*	62	36	-	98
Fixed income:				
U.S. Treasury, government, and agency bonds	-	22	-	22
Mortgage- and asset-backed securities	-	5	-	5
Corporate bonds	-	12	-	12
Pooled funds	-	18	-	18
Cash equivalents and other	-	54	-	54
Trust-owned life insurance	-	270	-	270
Special situations	-	-	-	-
Real estate investments	7	-	24	31
Private equity	-	-	24	24
Total	$218	$459	$48	$725

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$114	$ 47	$ -	$161
International equity*	41	24	-	65
Fixed income:				
U.S. Treasury, government, and agency bonds	-	23	-	23
Mortgage- and asset-backed securities	-	9	-	9
Corporate bonds	-	12	-	12
Pooled funds	-	9	-	9
Cash equivalents and other	1	73	-	74
Trust-owned life insurance	-	215	-	215
Special situations	-	-	-	-
Real estate investments	6	-	36	42
Private equity	-	-	21	21
Total	$162	$412	$57	$631

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	Private Equity	Real Estate Investments	Private Equity
		(in millions)		
Beginning balance	$36	$21	$44	$22
Actual return on investments:				
Related to investments held at year end	(10)	2	(6)	(6)
Related to investments sold during the year	(3)	-	-	1
Total return on investments	(13)	2	(6)	(5)
Purchases, sales, and settlements	1	1	(2)	4
Transfers into/out of Level 3	-	-	-	-
Ending balance	$24	$24	$36	$21

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's other postretirement benefit plans consist of the following:

	2009	2008
	(in millions)	
Other regulatory assets, deferred	$ 374	$ 489
Other current liabilities	-	(3)
Employee benefit obligations	(1,016)	(1,099)
Accumulated other comprehensive income	5	8

Presented below are the amounts included in accumulated other comprehensive income and regulatory assets at December 31, 2009 and 2008 related to the other postretirement benefit plans that had not yet been recognized in net periodic postretirement benefit cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	Net (Gain) Loss	Transition Obligation
		(in millions)	
Balance at December 31, 2009:			
Accumulated other comprehensive income	$ -	$ 5	$ -
Regulatory assets	41	298	35
Total	$41	$303	$35
Balance at December 31, 2008:			
Accumulated other comprehensive income	$ 3	$ 5	$ -
Regulatory assets	88	335	66
Total	$91	$340	$66
Estimated amortization as net periodic postretirement benefit cost in 2010:			
Accumulated other comprehensive income	$ -	$ -	$ -
Regulatory assets	5	5	10
Total	$5	$5	$10

The components of other comprehensive income, along with the changes in the balance of regulatory assets, related to the other postretirement benefit plans for the plan year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Accumulated Other Comprehensive Income	Regulatory Assets
	(in millions)	
Balance at December 31, 2007	$8	$ 360
Net loss	1	166
Change in prior service costs/transition obligation	-	-
Reclassification adjustments:		
Amortization of transition obligation	-	(18)
Amortization of prior service costs	(1)	(11)
Amortization of net gain	-	(8)
Total reclassification adjustments	(1)	(37)
Total change	-	129
Balance at December 31, 2008	8	489
Net loss (gain)	-	**(33)**
Change in prior service costs/transition obligation	**(3)**	**(56)**
Reclassification adjustments:		
Amortization of transition obligation	-	**(13)**
Amortization of prior service costs	-	**(8)**
Amortization of net gain	-	**(5)**
Total reclassification adjustments	-	**(26)**
Total change	**(3)**	**(115)**
Balance at December 31, 2009	**$5**	**$374**

Components of the other postretirement benefit plans' net periodic cost were as follows:

	2009	2008	2007
		(in millions)	
Service cost	**$ 26**	$ 28	$ 27
Interest cost	**113**	111	107
Expected return on plan assets	**(61)**	(59)	(52)
Net amortization	**25**	31	38
Net postretirement cost	**$103**	$111	$120

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act) provides a 28% prescription drug subsidy for Medicare eligible retirees. The effect of the subsidy reduced Southern Company's expenses for the years ended December 31, 2009, 2008, and 2007 by approximately $33 million, $35 million, and $35 million, respectively.

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)	
2010	$107	$ (8)	$ 99
2011	117	(9)	108
2012	123	(11)	112
2013	129	(12)	117
2014	134	(14)	120
2015 to 2019	722	(93)	629

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2006 for the 2007 plan year using a discount rate of 6.00% and an annual salary increase of 3.50%.

	2009	2008	2007
Discount rate:			
Pension plans	**5.93%**	6.75%	6.30%
Other postretirement benefit plans	**5.83**	6.75	6.30
Annual salary increase	**4.18**	3.75	3.75
Long-term return on plan assets:			
Pension plans	**8.50**	8.50	8.50
Other postretirement benefit plans	**7.51**	7.59	7.58

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the APBO was a weighted average medical care cost trend rate of 8.50% for 2010, decreasing gradually to 5.25% through the year 2016 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2009 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$115	$102
Service and interest costs	9	9

Employee Savings Plan

Southern Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides an 85% matching contribution up to 6% of an employee's base salary. Total matching contributions made to the plan for 2009, 2008, and 2007 were $78 million, $76 million, and $73 million, respectively.

3. CONTINGENCIES AND REGULATORY MATTERS

General Litigation Matters

Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. In addition, the business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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 Matters

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

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

Under the terms of the separation agreements entered into in connection with the spin-off, Mirant agreed to indemnify Southern Company for certain costs. As a result of Mirant's bankruptcy, Southern Company sought reimbursement as an unsecured creditor in Mirant's Chapter 11 proceeding. If Southern Company's claims for indemnification with respect to these costs are allowed, then Mirant's indemnity obligations to Southern Company would constitute unsecured claims against Mirant entitled to stock in Reorganized Mirant. As a result of the $202 million settlement on March 31, 2009 of another suit related to Mirant (MC Asset Recovery litigation), the maximum amount Southern Company can assert by proof of claim in the Mirant bankruptcy is capped at $9.5 million. See Note 5 under "Effective Tax Rate" for more information regarding the MC Asset Recovery settlement. The final outcome of this matter cannot now be determined.

Environmental Matters

New Source Review Actions

In November 1999, the EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including facilities co-owned by Mississippi Power and Gulf Power. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The EPA concurrently issued notices of violation to Gulf Power and Mississippi Power relating to Gulf Power's Plant Crist and Mississippi Power's Plant Watson. In early 2000, the EPA filed a motion to amend its complaint to add Gulf Power and Mississippi Power as defendants based on the allegations in the notices of violation. However, in March 2001, the court denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

Southern Company believes that the traditional 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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

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

and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but the traditional operating companies and Southern Power were named as defendants in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Remediation

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

Georgia Power's environmental remediation liability as of December 31, 2009 was $12.5 million. Georgia Power has been designated or identified as a potentially responsible party (PRP) at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), including a large site in Brunswick, Georgia on the CERCLA National Priorities List (NPL). The parties have completed the removal of wastes from the Brunswick site as ordered by the EPA. Additional claims for recovery of natural resource damages at this site or for the assessment and potential cleanup of other sites on the Georgia Hazardous Sites Inventory and CERCLA NPL are anticipated.

By letter dated September 30, 2008, the EPA advised Georgia Power that it has been designated as a PRP at the Ward Transformer Superfund site located in Raleigh, North Carolina. Numerous other entities have also received notices from the EPA. Georgia Power, along with other named PRPs, is negotiating with the EPA to address cleanup of the site and reimbursement for past expenditures related to work performed at the site. In addition, on April 30, 2009, two PRPs filed separate actions in the U.S. District Court for the Eastern District of North Carolina against numerous other PRPs, including Georgia Power, seeking contribution from the defendants for expenses incurred by the plaintiffs related to work performed at a portion of the site. The ultimate outcome of these matters will depend upon further environmental assessment and the ultimate number of PRPs and cannot be determined at this time; however, it is not expected to have a material impact on Southern Company's financial statements.

Gulf Power's environmental remediation liability includes estimated costs of environmental remediation projects of approximately $65.2 million as of December 31, 2009. These estimated costs relate to site closure criteria by the Florida Department of Environmental Protection (FDEP) for potential impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of the remediation projects will be subject to FDEP approval. The projects have been approved by the Florida PSC for recovery through Gulf Power's environmental cost recovery clause; therefore, there was no impact on net income as a result of these estimates.

The final outcome of these matters cannot now be determined. However, based on the currently known conditions at these sites and the nature and extent of activities relating to these sites, management does not believe that additional liabilities, if any, at these sites would be material to the financial statements.

FERC Matters

Market-Based Rate Authority

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

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

On December 23, 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that any subsidiary of Southern Company possesses or has exercised any market power. The agreement likewise does not require Southern Company to make any refunds related to sales during the 15-month refund period. The agreement does provide for the traditional operating companies and Southern Power to donate a total of $1.7 million to nonprofit organizations in the states in which they operate for the purpose of offsetting the electricity bills of low-income retail customers. The agreement is subject to review and approval by the FERC.

Intercompany Interchange Contract

The Company's generation fleet in its retail service territory is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies, Southern Power, and SCS, as agent, under the terms of which the power pool of Southern Company is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining Southern Power as a "system company" rather than a "marketing affiliate" is just and reasonable. In connection with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

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

Right of Way Litigation

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

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

In addition, in late 2001, certain subsidiaries of Southern Company, including Mississippi Power, were named as defendants in a lawsuit brought in Troup County, Georgia, Superior Court by Interstate Fibernet, Inc., a subsidiary of telecommunications company ITC DeltaCom, Inc. 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. In January 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments.

The final outcome of these matters cannot now be determined.

Nuclear Fuel Disposal Costs

Alabama Power and Georgia Power have contracts with the United States, acting through the U.S. Department of Energy (DOE), which 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.

In July 2007, the U.S. Court of Federal Claims awarded Georgia Power approximately $30 million, based on its ownership interests, and awarded Alabama Power approximately $17 million, representing substantially all of the direct costs of the expansion of spent nuclear fuel storage facilities at Plants Farley, Hatch, and Vogtle from 1998 through 2004. In November 2007, the government's motion for reconsideration was denied. In January 2008, the government filed an appeal and, in February 2008, filed a motion to stay the appeal. In April 2008, the U.S. Court of Appeals for the Federal Circuit granted the government's motion to stay the appeal pending the court's decisions in three other similar cases already on appeal. Those cases were decided in August 2008. The U.S. Court of Appeals for the Federal Circuit has left the stay of appeals in place pending the decision in an appeal of another case involving spent nuclear fuel contracts.

In April 2008, a second claim against the government was filed for damages incurred after December 31, 2004 (the court-mandated cut-off in the original claim), due to the government's alleged continuing breach of contract. In October 2008, the U.S. Court of Appeals for the Federal Circuit denied a similar request by the government to stay this proceeding. The complaint does not contain any specific dollar amount for recovery of damages. Damages will continue to accumulate until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of December 31, 2009 for either claim. The final outcome of these matters cannot be determined at this time, but no material impact on net income is expected as any damage amounts collected from the government are expected to be returned to customers.

Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2014. 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 Plants Hatch and Farley, on-site dry storage facilities are operational and can be expanded to accommodate spent fuel through the expected life of each plant.

Income Tax Matters

Georgia Power's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. Georgia Power has also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, Georgia Power filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. An unrecognized tax benefit has been recorded related to these credits. See Note 5 under "Unrecognized Tax Benefits" for additional information. If Georgia Power prevails, these claims could have a significant, and possibly material, positive effect on Southern Company's net income. If Georgia Power is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on Southern Company's cash flow. The ultimate outcome of this matter cannot now be determined.

Retail Regulatory Matters

Alabama Power

Retail Rate Plans

Alabama Power operates under a Rate Stabilization and Equalization Plan (Rate RSE) approved by the Alabama PSC. Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4% per year and any annual adjustment is limited to 5%. Retail rates remain unchanged when the retail return on common equity (ROE) is projected to be between 13% and 14.5%. If Alabama Power's actual retail ROE is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail ROE fall below the allowed equity return range. In October 2008, the Alabama PSC approved a corrective rate package effective January 2009, that primarily provides for adjustments associated with customer charges to certain existing rate structures. Alabama Power agreed to a moratorium on any increase in rates in 2009 under Rate RSE. On December 1, 2009, Alabama Power made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2010. The Rate RSE increase for 2010 is 3.2%, or $152 million annually, and became effective in January 2010. The revenue adjustment under the Rate RSE is largely attributable to the costs associated with fossil capacity which is currently dedicated to certain long-term wholesale contracts that expire during 2010. Retail cost of service for 2010 reflects the costs for that portion of the year in which this capacity is no longer committed to wholesale. In an Alabama PSC order dated January 5, 2010, the Alabama PSC acknowledged that a full calendar year of costs for such capacity would be reflected in the Rate RSE calculation beginning in 2011 and thereafter. Under the terms of Rate RSE, the maximum increase for 2011 cannot exceed 4.76%.

The Alabama PSC has also approved a rate mechanism that provides for adjustments to recognize the cost of placing new generating facilities in retail service and for the recovery of retail costs associated with certificated power purchase agreements (PPAs) under a Rate Certificated New Plant (Rate CNP). There was no adjustment to Rate CNP in April 2007, 2008, or 2009. Effective April 2010, Rate CNP will be reduced approximately $70 million annually, primarily due to the expiration on May 31, 2010 of the PPA with Southern Power covering the capacity of Plant Harris Unit 1. Rate CNP also allows for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on invested capital. Retail rates increased approximately 2.4% in January 2008 and 0.6% in January 2007 due to environmental costs. In October 2008, Alabama Power agreed to defer collection during 2009 of any increase in rates under this portion of Rate CNP which permits recovery of costs associated with environmental laws and regulations until 2010. The deferral of the retail rate adjustments had an immaterial impact on annual cash flows, and had no significant effect on Southern Company's revenues or net income in 2009. On December 1, 2009, Alabama Power made its Rate CNP environmental submission to the Alabama PSC of projected data for calendar year 2010. The Rate CNP environmental increase for 2010 is 4.3%, or $195 million annually, based upon projected billings. Under the terms of the rate mechanism, the adjustment became effective in January 2010. The Rate CNP environmental adjustment is primarily attributable to scrubbers being placed in service during 2010 at four of Alabama Power's generating plants.

Fuel Cost Recovery

Alabama Power has established fuel cost recovery rates under an energy cost recovery clause (Rate ECR) approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. In June 2007, the Alabama PSC approved Alabama Power's request to increase the retail energy cost recovery rate to 3.100 cents per kilowatt hour (KWH), effective with billings beginning July 2007. In October 2008, the Alabama PSC approved an increase in Alabama Power's Rate ECR factor to 3.983 cents per KWH effective with billings beginning October 2008. On June 2, 2009, the Alabama PSC approved a decrease in Alabama Power's Rate ECR factor to 3.733 cents per KWH for billings beginning June 9, 2009. On December 1, 2009, the Alabama PSC approved a decrease in Alabama Power's Rate ECR factor to 2.731 cents per KWH for billings beginning January 2010 through December 2011. The Alabama PSC further approved an additional reduction in the Rate ECR factor of 0.328 cents per KWH for the billing months of January 2010 through December 2010 resulting in a Rate ECR factor of 2.403 cents per KWH for such 12-month period. For billing months beginning January 2012, the Rate ECR factor shall be 5.910 cents per KWH, absent a contrary order by the Alabama PSC. Rate ECR revenues, as recorded on the financial statements, are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, the approved decreases in the Rate ECR factor will have no significant effect on Southern Company's net income, but will decrease operating cash flows related to fuel cost recovery in 2010 when compared to 2009. As of December 31, 2009, Alabama Power had an over recovered fuel balance of approximately $200 million, of which approximately $22 million is included in other regulatory liabilities, deferred in the balance sheets. Alabama Power, along with the Alabama PSC, will continue to monitor the over recovered fuel cost balance to determine whether an additional adjustment to billing rates is required.

Georgia Power

Retail Rate Plans

In December 2004, the Georgia PSC approved the 2004 Retail Rate Plan. Under the terms of the 2004 Retail Rate Plan, Georgia Power's earnings were evaluated against a retail ROE range of 10.25% to 12.25%. Two-thirds of any earnings above 12.25% were applied to rate refunds, with the remaining one-third retained by Georgia Power. Retail rates and customer fees 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. In 2007, Georgia Power refunded 2005 earnings above 12.25% retail ROE. There were no refunds related to earnings for 2007.

In December 2007, the Georgia PSC approved the 2007 Retail Rate Plan. Under the 2007 Retail Rate Plan, Georgia Power's earnings are evaluated against a retail ROE range of 10.25% to 12.25%. Retail base rates increased by approximately $100 million effective January 1, 2008 to provide for cost recovery of transmission, distribution, generation, and other investments, as well as increased operating costs. In addition, the ECCR tariff was implemented to allow for the recovery of costs related to environmental projects mandated by state and federal regulations. The ECCR tariff increased rates by approximately $222 million effective January 1, 2008. In connection with the 2007 Retail Rate Plan, Georgia Power agreed that it would not file for a general base rate increase during this period unless its projected retail ROE falls below 10.25%. Georgia Power is required to file a general rate case by July 1, 2010, in response to which the Georgia PSC would be expected to determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued.

Cost of Removal

The economic recession has significantly reduced Georgia Power's revenues upon which retail rates were set under the 2007 Retail Rate Plan. In June 2009, despite stringent efforts to reduce expenses, Georgia Power's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of filing to increase customer rates as allowed under the 2007 Retail Rate Plan, on June 29, 2009, Georgia Power filed a request with the Georgia PSC for an accounting order that would allow Georgia Power to amortize up to $324 million of its regulatory liability related to other cost of removal obligations.

On August 27, 2009, the Georgia PSC approved the accounting order. Under the terms of the accounting order, Georgia Power was entitled to amortize up to one-third of the regulatory liability ($108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail ROE. For the year ended December 31, 2009, Georgia Power amortized $41 million of the regulatory liability. In addition, Georgia Power may amortize up to two-thirds of the regulatory liability ($216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE.

Fuel Cost Recovery

Georgia Power has established fuel cost recovery rates approved by the Georgia PSC. The Georgia PSC approved increases in Georgia Power's total annual billings of approximately $383 million effective March 1, 2007 and approximately $222 million effective June 1, 2008. On December 15, 2009, Georgia Power filed for a fuel cost recovery increase with the Georgia PSC. On February 22, 2010, Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and three customer groups entered into a stipulation to resolve the case, subject to approval by the Georgia PSC (the Stipulation). Under the terms of the Stipulation, Georgia Power's annual fuel cost recovery billings will increase by approximately $425 million. In addition, Georgia Power will implement an interim fuel rider, which would allow Georgia Power to adjust its fuel cost recovery rates prior to the next fuel case if the under recovered fuel balance exceeds budget by more than $75 million. Georgia Power is required to file its next fuel case by March 1, 2011. The Georgia PSC is scheduled to vote on the Stipulation on March 11, 2010 with the new fuel rates to become effective April 1, 2010. The ultimate outcome of this matter cannot be determined at this time.

As of December 31, 2009, Georgia Power's under recovered fuel balance totaled approximately $665 million, which if the Stipulation is approved, Georgia Power will recover over 32 months beginning April 1, 2010. Therefore, approximately $373 million of the under recovered regulatory clause revenues for Georgia Power is included in deferred charges and other assets at December 31, 2009.

Fuel cost recovery revenues as recorded in the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, a change in the billing factor has no significant effect on Southern Company's revenues or net income, but does impact annual cash flow.

Nuclear Construction

On August 26, 2009, the NRC issued an Early Site Permit and Limited Work Authorization to Southern Nuclear, on behalf of Georgia Power, Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia (MEAG Power), and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light and Sinking Fund Commissioners (collectively, Owners), related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). See Note 4 for additional information on these co-owners. In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license for the new units. If licensed by the NRC, Plant Vogtle Units 3 and 4 are scheduled to be placed in service in 2016 and 2017, respectively.

In April 2008, Georgia Power, acting for itself and as agent for the Owners, and a consortium consisting of Westinghouse Electric Company LLC (Westinghouse) and Stone & Webster, Inc. (collectively, Consortium) entered into an engineering, procurement, and construction agreement to design, engineer, procure, construct, and test two AP1000 nuclear units with electric generating capacity of approximately 1,100 MWs each and related facilities, structures, and improvements at Plant Vogtle (Vogtle 3 and 4 Agreement).

The Vogtle 3 and 4 Agreement is an arrangement whereby the Consortium supplies and constructs the entire facility with the exception of certain items provided by the Owners. Under the terms of the Vogtle 3 and 4 Agreement, the Owners agreed to pay a purchase price that will be subject to certain price escalations and adjustments, including certain index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Consortium under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%.

On February 23, 2010, Georgia Power, acting for itself and as agent for the Owners, and the Consortium entered into an amendment to the Vogtle 3 and 4 Agreement. The amendment, which is subject to the approval of the Georgia PSC, replaces certain of the index-based adjustments to the purchase price with fixed escalation amounts.

On March 17, 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 at an in-service cost of $6.4 billion. In addition, the Georgia PSC voted to approve inclusion of the related construction work in progress accounts in rate base.

On April 21, 2009, the Governor of the State of Georgia signed into law the Georgia Nuclear Energy Financing Act that will allow Georgia Power to recover financing costs for nuclear construction projects by including the related construction work in progress accounts in rate base during the construction period. The cost recovery provisions will become effective on January 1, 2011. With respect to Plant Vogtle Units 3 and 4, this legislation allows Georgia Power to recover projected financing costs of approximately $1.7 billion during the construction period beginning in 2011, which reduces the projected in-service cost to approximately $4.4 billion.

On June 15, 2009, an environmental group filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Energy Financing Act. Georgia Power believes there is no meritorious basis for this petition and intends to vigorously defend against the requested actions.

On August 27, 2009, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors and expressing concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. Georgia Power is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

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

On August 31, 2009, Georgia Power filed with the Georgia PSC its first semi-annual construction monitoring report for Plant Vogtle Units 3 and 4 for the period ended June 30, 2009 which did not include any proposed change to the estimated construction cost as certified by the Georgia PSC in March 2009. On February 25, 2010, the Georgia PSC approved the expenditures made by Georgia Power pursuant to the certification through June 30, 2009. The Georgia PSC also ordered that in its future semi-annual construction monitoring reports, Georgia Power will report against a total certified cost of approximately $6.1 billion, which is the effective certified amount after giving effect to the Georgia Nuclear Energy Financing Act as described above. Georgia Power will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

The ultimate outcome of these matters cannot now be determined.

Integrated Coal Gasification Combined Cycle (IGCC)

On January 16, 2009, Mississippi Power filed for a Certificate of Public Convenience and Necessity with the Mississippi PSC to allow construction of a new electric generating plant located in Kemper County, Mississippi. The plant would utilize an advanced integrated coal gasification combined cycle technology with an output capacity of 582 MWs. The Kemper IGCC will use locally mined lignite from a proposed mine adjacent to the plant as fuel. This certificate, if approved by the Mississippi PSC, would authorize Mississippi Power to acquire, construct and operate the Kemper IGCC and related facilities. The Kemper IGCC, subject to federal and state reviews and certain regulatory approvals, is expected to begin commercial operation in May 2014. The Mississippi PSC has issued orders allowing Mississippi Power to defer the costs associated with the generation resource planning, evaluation, and screening activities as a regulatory asset. As of December 31, 2009, Mississippi Power had spent a total of $73.5 million of such costs including regulatory filing costs.

On November 9, 2009, the Mississippi PSC issued an order that found Mississippi Power has a demonstrated need for additional capacity. Hearings to determine the appropriate resource to fill the need were held in February 2010 with a decision due by May 2010.

The ultimate outcome of this matter cannot now be determined.

4. JOINT OWNERSHIP AGREEMENTS

Alabama Power owns an undivided interest in units 1 and 2 of Plant Miller and related facilities jointly with Power South Energy Cooperative, Inc. Georgia Power owns undivided interests in Plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with OPC, MEAG Power, 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 Plant Stanton Unit A and related facilities jointly with the Orlando Utilities Commission, Kissimmee Utility Authority, and Florida Municipal Power Agency.

At December 31, 2009, 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:

	Percent Ownership	Amount of Investment	Accumulated Depreciation
		(in millions)	
Plant Vogtle (nuclear) Units 1 and 2	45.7%	$3,285	$1,916
Plant Hatch (nuclear)	50.1	937	522
Plant Miller (coal) Units 1 and 2	91.8	1,063	449
Plant Scherer (coal) Units 1 and 2	8.4	133	70
Plant Wansley (coal)	53.5	696	195
Rocky Mountain (pumped storage)	25.4	175	106
Intercession City (combustion turbine)	33.3	12	3
Plant Stanton (combined cycle) Unit A	65.0	151	20

At December 31, 2009, the portion of total construction work in progress related to Plants Miller, Scherer, Wansley, and Vogtle Units 3 and 4 was $244 million, $247 million, $5 million, and $611 million, respectively. Construction at Plants Miller, Wansley, and Scherer relates primarily to environmental projects. See Note 3 under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" for information on Plant Vogtle Units 3 and 4.

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 and each company is responsible for providing its own financing.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and combined state income tax returns for the States of Alabama, Georgia, and Mississippi. Under a joint consolidated income tax allocation agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2009	2008	2007
		(in millions)	
Federal –			
Current	**$771**	$628	$715
Deferred	**40**	177	11
	811	805	726
State –			
Current	**100**	72	114
Deferred	**(15)**	38	(5)
	85	110	109
Total	**$896**	$915	$835

Net cash payments for income taxes in 2009, 2008, and 2007 were $975 million, $537 million, and $732 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:

	2009	2008
		(in millions)
Deferred tax liabilities –		
Accelerated depreciation	**$5,938**	$5,356
Property basis differences	**986**	968
Leveraged lease basis differences	**251**	306
Employee benefit obligations	**384**	364
Under recovered fuel clause	**271**	516
Premium on reacquired debt	**100**	107
Regulatory assets associated with employee benefit obligations	**939**	869
Regulatory assets associated with asset retirement obligations	**486**	480
Other	**216**	132
Total	**9,571**	9,098
Deferred tax assets –		
Federal effect of state deferred taxes	**302**	354
State effect of federal deferred taxes	**108**	105
Employee benefit obligations	**1,435**	1,325
Over recovered fuel clause	**119**	-
Other property basis differences	**132**	144
Deferred costs	**65**	99
Cost of removal	**109**	-
Unbilled revenue	**96**	100
Other comprehensive losses	**81**	82
Asset retirement obligations	**486**	480
Other	**458**	279
Total	**3,391**	2,968
Total deferred tax liabilities, net	**6,180**	6,130
Portion included in prepaid expenses (accrued income taxes), net	**229**	(90)
Deferred state tax assets	**105**	103
Valuation allowance	**(59)**	(63)
Accumulated deferred income taxes	**$6,455**	$6,080

At December 31, 2009, Southern Company had a State of Georgia net operating loss (NOL) carryforward totaling $1.0 billion, which could result in net state income tax benefits of $55 million, if utilized. However, Southern Company has established a valuation allowance for the potential $55 million tax benefit due to the remote likelihood that the tax benefit will be realized. These NOLs expire between 2010 and 2021. During 2009, Southern Company utilized $4 million in available NOLs, which resulted in a $0.2 million state income tax benefit. The State of Georgia allows the filing of a combined return, which should substantially reduce any additional NOL carryforwards.

At December 31, 2009, the tax-related regulatory assets and liabilities were $1.05 billion and $249 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.

Effective Tax Rate

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 and preference dividends of subsidiaries, as a result of the following:

	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**2.1**	2.6	2.7
Synthetic fuel tax credits	**-**	-	(1.4)
Employee stock plans dividend deduction	**(1.4)**	(1.3)	(1.3)
Non-deductible book depreciation	**0.9**	0.8	0.9
Difference in prior years' deferred and current tax rate	**(0.1)**	(0.2)	(0.2)
AFUDC-Equity	**(2.7)**	(1.9)	(1.4)
Production activities deduction	**(0.7)**	(0.4)	(0.8)
Leveraged lease termination	**(0.9)**	-	-
MC Asset Recovery	**2.7**	-	-
Donations	**(0.4)**	-	(0.8)
Other	**(0.1)**	(1.0)	(0.8)
Effective income tax rate	**34.4%**	33.6%	31.9%

Southern Company's 2009 effective tax rate increased from 2008 primarily due to the $202 million charge recorded for the MC Asset Recovery litigation settlement, which completed and resolved all claims by MC Asset Recovery against Southern Company. Southern Company is currently evaluating potential recovery of the settlement payment through various means. The degree to which any recovery is realized will determine, in part, the final income tax treatment of the settlement payment. The ultimate outcome of any such recovery and/or income tax treatment cannot be determined at this time. The increase in Southern Company's effective tax rate was partially offset by the gain on the early termination of an international leveraged lease investment and the increase in AFUDC related to increased construction expenditures.

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U. S. production activities as defined in the Internal Revenue Code Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, Southern Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements.

For 2009, Georgia Power donated 5,111 acres of land to the State of Georgia. In 2007, Georgia Power donated 2,200 acres of land in the Tallulah Gorge State Park to the State of Georgia. The estimated value of the donations lowered the effective income tax rate for the years ended December 31, 2009 and December 31, 2007.

Unrecognized Tax Benefits

For 2009, the total amount of unrecognized tax benefits increased by $53 million, resulting in a balance of $199 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	2009	2008	2007
		(in millions)	
Unrecognized tax benefits at beginning of year	**$146**	$264	$211
Tax positions from current periods	**53**	49	46
Tax positions from prior periods	**2**	130	7
Reductions due to settlements	**-**	(297)	-
Reductions due to expired statute of limitations	**(2)**	-	-
Balance at end of year	**$199**	$146	$264

The tax positions from current periods increase for 2009 relate primarily to the Georgia state tax credits litigation, the production activities deduction tax position, and other miscellaneous uncertain tax positions. The tax positions increase from prior periods for 2009 relates primarily to the production activities deduction tax position. See Note 3 under "Income Tax Matters" for additional information.

Impact on Southern Company's effective tax rate, if recognized, is as follows:

	2009	2008	2007
		(in millions)	
Tax positions impacting the effective tax rate	**$199**	$143	$96
Tax positions not impacting the effective tax rate	**-**	3	168
Balance of unrecognized tax benefits	**$199**	$146	$264

The tax positions impacting the effective tax rate primarily relate to Georgia state tax credit litigation at Georgia Power and the production activities deduction tax position. See Note 3 under "Income Tax Matters" for additional information.

Accrued interest for unrecognized tax benefits was as follows:

	2009	2008	2007
		(in millions)	
Interest accrued at beginning of year	**$15**	$31	$27
Interest reclassified due to settlements	**-**	(49)	-
Interest accrued during the year	**6**	33	4
Balance at end of year	**$21**	$15	$31

Southern Company classifies interest on tax uncertainties as interest expense. The net amount of interest accrued during 2009 was primarily associated with the Georgia state tax credit litigation.

Southern Company did not accrue any penalties on uncertain tax positions.

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

The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

6. FINANCING

Long-Term Debt Payable to Affiliated Trusts

Certain of the traditional operating companies have 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 applicable traditional operating company through the issuance of junior subordinated notes totaling $412 million, which constitute substantially all of the assets of these trusts and are reflected in the balance sheets as "Long-term Debt." Such traditional 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, 2009, preferred securities of $400 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities.

Securities Due Within One Year

A summary of scheduled maturities and redemptions of securities due within one year at December 31 was as follows:

	2009	2008
	(in millions)	
Capitalized leases	$ 21	$ 20
Senior notes	1,090	565
Other long-term debt	2	32
Total	$ 1,113	$ 617

Maturities through 2014 applicable to total long-term debt are as follows: $1.1 billion in 2010; $1.1 billion in 2011; $1.8 billion in 2012; $941 million in 2013; and $430 million in 2014.

Bank Term Loans

Certain of the traditional operating companies have entered into bank term loan agreements. In 2008, Georgia Power borrowed $300 million under a three-year term loan agreement. In 2008, Gulf Power borrowed $110 million under a three-year loan agreement. Mississippi Power also borrowed $80 million under a three-year term loan agreement in 2008. The proceeds of these loans were used to repay maturing long-term and short-term indebtedness and for other general corporate purposes.

Senior Notes

Southern Company and its subsidiaries issued a total of $2.4 billion of senior notes in 2009. Southern Company issued $650 million, and the traditional operating companies' combined issuances totaled $1.8 billion. The proceeds of these issuances were used to repay long-term and short-term indebtedness and for other general corporate purposes.

At December 31, 2009 and 2008, Southern Company and its subsidiaries had a total of $14.7 billion and $12.9 billion, respectively, of senior notes outstanding. At December 31, 2009 and 2008, Southern Company had a total of $1.8 billion and $1.1 billion, respectively, of senior notes outstanding.

Pollution Control Revenue Bonds

Pollution control obligations represent loans to the traditional operating companies from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control and solid waste disposal facilities. The traditional operating companies have $3.6 billion of outstanding pollution control revenue bonds and are required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. Proceeds from certain issuances are restricted until qualifying expenditures are incurred.

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. Alabama Power and Gulf Power have granted one or more liens on certain of their respective property in connection with the issuance of certain pollution control revenue bonds with an outstanding principal amount of $194 million. 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 December 31, 2009, unused credit arrangements with banks totaled $4.8 billion, of which $1.5 billion expires during 2010, $25 million expires in 2011, and $3.2 billion expires in 2012. The following table outlines the credit arrangements by company:

			Executable Term-Loans		Expires		
Company	Total	Unused	One Year	Two Years	2010	2011	2012
			(in millions)				
Southern Company	$ 950	$ 950	$ -	$ -	$ -	$ -	$ 950
Alabama Power	1,271	1,271	372	-	481	25	765
Georgia Power	1,715	1,703	-	40	595	-	1,120
Gulf Power	220	220	70	-	220	-	-
Mississippi Power	156	156	15	41	156	-	-
Southern Power	400	400	-	-	-	-	400
Other	60	60	60	-	60	-	-
Total	$4,772	$4,760	$517	$81	$1,512	$25	$3,235

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 average approximately ½ of 1% or less for Southern Company, the traditional operating companies, and Southern Power. Compensating balances are not legally restricted from withdrawal.

Most of the credit arrangements with banks have covenants that limit debt levels to 65% of total capitalization, as defined in the agreements. For purposes of these definitions, debt excludes the long-term debt payable to affiliated trusts and, in certain arrangements, other hybrid securities. At December 31, 2009, Southern Company, Southern Power, and the traditional 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. The cross default provisions are restricted only to the indebtedness, including any guarantee obligations, of the company that has such credit arrangements. Southern Company and its subsidiaries are currently in compliance with all such covenants.

A portion of the $4.8 billion unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control revenue bonds. The amount of variable rate pollution control revenue bonds requiring liquidity support as of December 31, 2009 was approximately $1.6 billion. Subsequent to December 31, 2009, two remarketings of pollution control revenue bonds increased the total requiring liquidity support to $1.8 billion.

Southern Company, the traditional operating companies, and Southern Power make short-term borrowings primarily through commercial paper programs that have the liquidity support of committed bank credit arrangements. Southern Company and the traditional operating companies may also borrow through various other arrangements with banks. The amounts of commercial paper outstanding and included in notes payable in the balance sheets at December 31, 2009 and December 31, 2008 were $638 million and $794 million, respectively. The amounts of short-term bank loans included in notes payable in the balance sheets at December 31, 2008 were $150 million. There were no short term-bank loans included in notes payable in the balance sheet at December 31, 2009.

During 2009, the peak amount outstanding for short-term debt was $1.4 billion, and the average amount outstanding was $956 million. The average annual interest rate on short-term debt was 0.4% for 2009 and 2.7% for 2008.

Changes in Redeemable Preferred Stock of Subsidiaries

Each of the traditional operating companies has issued preferred and/or preference stock. The preferred stock of Alabama Power and Mississippi Power contains a feature that allows the holders to elect a majority of such subsidiary's board of directors if dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of Alabama Power and Mississippi Power, this preferred stock is presented as "Redeemable Preferred Stock of Subsidiaries" in a manner consistent with temporary equity under applicable accounting standards. The preferred and preference stock at Georgia Power and the preference stock at Alabama Power and Gulf Power do not contain such a provision that would allow the holders to elect a majority of such subsidiary's board. As a result, under applicable accounting standards, the preferred and preference stock at Georgia Power and the preference stock at Alabama Power and Gulf Power are required to be shown as "noncontrolling interest," separately presented as a component of "Stockholders' Equity" on Southern Company's consolidated balance sheets, consolidated statements of capitalization, and consolidated statements of stockholders' equity.

The following table presents changes during the year in redeemable preferred stock of subsidiaries for Southern Company:

	Redeemable Preferred Stock of Subsidiaries
	(in millions)
Balance at December 31, 2006	$498
Issued	-
Redeemed	-
Balance at December 31, 2007	$498
Issued	-
Redeemed	(125)
Other	2
Balance at December 31, 2008	$375
Issued	-
Redeemed	-
Balance at December 31, 2009	**$375**

7. COMMITMENTS

Construction Program

Southern Company is engaged in continuous construction programs, currently estimated to total $4.9 billion in 2010, $5.3 billion in 2011, and $6.2 billion in 2012. These amounts include $271 million, $157 million, and $166 million in 2010, 2011, and 2012, respectively, for construction expenditures related to contractual purchase commitments for nuclear fuel 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 these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. At December 31, 2009, significant purchase commitments were outstanding in connection with the ongoing construction program, which includes new facilities and capital improvements to transmission, distribution, and generation facilities, including those to meet environmental standards. See Note 3 under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Retail Regulatory Matters – Integrated Coal Gasification Combined Cycle" for additional information.

Long-Term Service Agreements

The traditional operating companies and Southern Power have entered into Long-Term Service Agreements (LTSAs) with General Electric (GE), Alstom Power, Inc., Mitsubishi Power Systems Americas, Inc., and Siemens AG for the purpose of securing maintenance support for the combined cycle and combustion turbine generating facilities owned or under construction by the subsidiaries. The LTSAs cover all planned inspections on the covered equipment, which generally includes the cost of all labor and materials. The LTSAs are also obligated to cover the costs of unplanned maintenance on the covered equipment subject to limits and scope specified in each contract.

In general, these LTSAs are in effect through two major inspection cycles per unit. Scheduled payments under the LTSAs, which are subject to price escalation, are made at various intervals based on actual operating hours or number of gas turbine starts of the respective units. Total remaining payments under these agreements for facilities owned are currently estimated at $2.4 billion over the remaining life of the agreements, which are currently estimated to range up to 24 years. However, the LTSAs contain various cancellation provisions at the option of the purchasers.

Georgia Power has also entered into an LTSA with GE through 2014 for neutron monitoring system parts and electronics at Plant Hatch. Total remaining payments to GE under this agreement are currently estimated at $8 million. The contract contains cancellation provisions at the option of Georgia Power.

Payments made under the LTSAs prior to the performance of any work are recorded as a prepayment in the balance sheets. All work performed is capitalized or charged to expense (net of any joint owner billings), as appropriate based on the nature of the work.

Limestone Commitments

As part of Southern Company's program to reduce sulfur dioxide emissions from its coal plants, the traditional operating companies have entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment. Limestone contracts are structured with tonnage minimums and maximums in order to account for fluctuations in coal burn and sulfur content. Southern Company has a minimum contractual obligation of 7.0 million tons, equating to approximately $295 million, through 2019. Estimated expenditures (based on minimum contracted obligated dollars) over the next five years are $37 million in 2010, $36 million in 2011, $37 million in 2012, $38 million in 2013, and $39 million in 2014.

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, biomass fuel, 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 and nitrogen oxide emissions allowances. 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, 2009. Also, Southern Company has entered into various long-term commitments for the purchase of capacity and electricity. Total estimated minimum long-term obligations at December 31, 2009 were as follows:

	Commitments				
	Natural Gas	Coal	Nuclear Fuel	Biomass Fuel	Purchased Power*
			(in millions)		
2010	$1,349	$ 4,490	$ 271	$ -	$ 253
2011	1,266	3,135	157	-	258
2012	926	1,572	166	17	266
2013	816	1,063	148	17	235
2014	688	850	83	18	267
2015 and thereafter	4,153	2,508	297	128	2,742
Total	$9,198	$13,618	$1,122	$180	$4,021

*Certain PPAs reflected in the table are accounted for as operating leases.

Additional commitments for fuel will be required to supply Southern Company's future needs. Total charges for nuclear fuel included in fuel expense amounted to $160 million in 2009, $147 million in 2008, and $144 million in 2007.

Operating Leases

In 2001, Mississippi Power began the initial 10-year term of a lease agreement for a combined cycle generating facility built at Plant Daniel for approximately $370 million. In 2003, the generating facility was acquired by Juniper Capital L.P. (Juniper), whose partners are unaffiliated with Mississippi Power. Simultaneously, Juniper entered into a restructured lease agreement with Mississippi Power. Juniper has also entered into leases with other parties unrelated to Mississippi Power. The assets leased by Mississippi Power comprise less than 50% 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% of the initial acquisition cost over the initial lease term. In April 2010, 18 months prior to the end of the initial lease term, Mississippi Power must notify Juniper if the lease will be terminated. Mississippi Power may elect to renew the lease for 10 years. If the lease is renewed, the agreement calls for Mississippi Power to amortize an additional 17% 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. If Mississippi Power does not exercise either its purchase option or its renewal option, Mississippi Power could lose its rights to some or all of the 1,064 MWs of capacity at that time.

The lease provides for a residual value guarantee, approximately 73% 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 $3 million, $5 million, and $7 million for the fair market value of this residual value guarantee is included in the balance sheets as of December 31, 2009, 2008, and 2007, respectively.

Southern Company also has other operating lease agreements with various terms and expiration dates. Total operating lease expenses were $186 million, $184 million, and $187 million for 2009, 2008, and 2007, respectively. Southern Company includes any step rents, escalations, and lease concessions in its computation of minimum lease payments, which are recognized on a straight-line basis over the minimum lease term.

At December 31, 2009, estimated minimum lease payments for noncancelable operating leases were as follows:

	Minimum Lease Payments			
	Plant Daniel	Barges & Rail Cars	Other	Total
		(in millions)		
2010	$28	$ 70	$ 46	$144
2011	28	57	38	123
2012	-	40	29	69
2013	-	32	22	54
2014	-	27	18	45
2015 and thereafter	-	28	96	124
Total	$56	$254	$249	$559

For the traditional operating companies, a majority of the barge and 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 2010, 2011, and 2013, and the maximum obligations are $61 million, $40 million, and $19 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. However, due to the recessionary economy, it is possible that the fair market value of the leased property would not eliminate the payments under the residual value obligations on the leases expiring in 2010.

Guarantees

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

In 2009, Southern Company issued 22.6 million shares of common stock for $673 million through the Southern Investment Plan and employee and director stock plans. In addition, Southern Company issued 19.9 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of $613 million, net of $6 million in fees and commissions. In 2008, Southern Company raised $474 million from the issuance of 14.1 million new common shares through the Southern Investment Plan and employee and director stock plans.

Shares Reserved

At December 31, 2009, a total of 91 million shares were reserved for issuance pursuant to the Southern Investment Plan, the Employee Savings Plan, the Outside Directors Stock Plan, and the Omnibus Incentive Compensation Plan (which includes the stock option plan discussed below).

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, 2009, there were 7,563 current and former employees participating in the stock option plan, and there were 21 million shares of common stock remaining available for awards under this plan. 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. Southern Company generally recognizes stock option expense on a straight-line basis over the vesting period which equates to the requisite service period; however, for employees who are eligible for retirement, the total cost is expensed at the grant date. 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. For certain stock option awards, a change in control will provide accelerated vesting.

The estimated fair values of stock options granted in 2009, 2008, and 2007 were derived using the Black-Scholes stock option pricing model. Expected volatility was based on historical volatility of Southern Company's stock over a period equal to the expected term. Southern Company used historical exercise data to estimate the expected term that represents the period of time that options granted to employees are expected to be outstanding. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant that covers the expected term of the stock options. The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of stock options granted:

Year Ended December 31	2009	2008	2007
Expected volatility	**15.6%**	13.1%	14.8%
Expected term *(in years)*	**5.0**	5.0	5.0
Interest rate	**1.9%**	2.8%	4.6%
Dividend yield	**5.4%**	4.5%	4.3%
Weighted average grant-date fair value	**$1.80**	$2.37	$4.12

Southern Company's activity in the stock option plan for 2009 is summarized below:

	Shares Subject To Option	Weighted Average Exercise Price
Outstanding at December 31, 2008	36,941,273	$32.09
Granted	12,292,239	31.38
Exercised	(879,555)	21.97
Cancelled	(106,638)	32.48
Outstanding at December 31, 2009	**48,247,319**	**$32.10**
Exercisable at December 31, 2009	**30,209,272**	**$31.57**

The number of stock options vested, and expected to vest in the future, as of December 31, 2009 was not significantly different from the number of stock options outstanding at December 31, 2009 as stated above. As of December 31, 2009, the weighted average remaining contractual term for the options outstanding and options exercisable was 6 years and 5 years, respectively, and the aggregate intrinsic value for the options outstanding and options exercisable was $100 million and $77 million, respectively.

As of December 31, 2009, there was $6 million of total unrecognized compensation cost related to stock option awards not yet vested. That cost is expected to be recognized over a weighted-average period of approximately 10 months.

For the years ended December 31, 2009, 2008, and 2007, total compensation cost for stock option awards recognized in income was $23 million, $20 million, and $28 million, respectively, with the related tax benefit also recognized in income of $9 million, $8 million, and $11 million, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $9 million, $45 million, and $81 million, respectively. The actual tax benefit realized by the Company for the tax deductions from stock option exercises totaled $4 million, $17 million, and $31 million, respectively, for the years ended December 31, 2009, 2008, and 2007.

Southern Company has a policy of issuing shares to satisfy share option exercises. Cash received from issuances related to option exercises under the share-based payment arrangements for the years ended December 31, 2009, 2008, and 2007 was $19 million, $113 million, and $195 million, respectively.

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		
	2009	2008	2007
		(in thousands)	
As reported shares	**794,795**	771,039	756,350
Effect of options	**1,620**	3,809	4,666
Diluted shares	**796,415**	774,848	761,016

The reduction in the effect of options for the years ended December 31, 2009 and 2008 compared to 2007 is primarily due to the anti-dilutive nature of certain stock options outstanding that have an exercise price that exceeds the average stock price of Southern Company shares in the year ended December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, there were 37.7 million and 6.8 million stock options outstanding, respectively, that were not included in the diluted earnings per share calculation because they were anti-dilutive. Assuming an average stock price of $38.01 (the highest exercise price of the anti-dilutive options outstanding), the effect of options for the years ended December 31, 2009 and 2008 would have increased by 3.4 million and 0.3 million shares, respectively.

Common Stock Dividend Restrictions

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 2009, consolidated retained earnings included $5.6 billion of undistributed retained earnings of the subsidiaries. Southern Power's credit facility contains potential limitations on the payment of common stock dividends; as of December 31, 2009, Southern Power was in compliance with all such requirements.

9. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act (Act), 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 $12.6 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 $375 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 commercial nuclear reactors. A company could be assessed up to $117.5 million per incident for each licensed reactor it operates but not more than an aggregate of $17.5 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 $235 million and $237 million, respectively, per incident, but not more than an aggregate of $35 million per company to be paid for each incident in any one year. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due no later than October 29, 2013.

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. In the event of a loss, the amount of insurance available may not be adequate to cover property damage and other incurred expenses.

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 deductible 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 $38 million and $50 million, respectively.

Claims resulting from terrorist acts are covered under both the ANI and NEIL policies (subject to normal policy limits). The aggregate, however, that NEIL will pay for all claims resulting from terrorist acts in any 12-month period is $3.2 billion plus such additional amounts NEIL can recover through reinsurance, indemnity, or other sources.

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. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

As of December 31, 2009, assets and liabilities measured at fair value on a recurring basis during the period, together with the level of the fair value hierarchy in which they fall, are as follows:

	Fair Value Measurements Using			
As of December 31, 2009:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in millions)		
Assets:				
Energy-related derivatives	$ -	$ 7	$ -	$ 7
Interest rate derivatives	-	3	-	3
Nuclear decommissioning trusts:[a]				
Domestic equity	724	50	-	774
U.S. Treasury and government agency securities	11	36	-	47
Municipal bonds	-	23	-	23
Corporate bonds	-	137	-	137
Mortgage and asset backed securities	-	65	-	65
Other	-	22	-	22
Cash equivalents and restricted cash	623	-	-	623
Other	3	48	35	86
Total	$1,361	$391	$ 35	$1,787
Liabilities:				
Energy-related derivatives	$-	$185	$-	$185
Interest rate derivatives	-	6	-	6
Total	$-	$191	$-	$191

(a) Excludes receivables related to investment income, pending investment sales, and payables related to pending investment purchases.

Energy-related derivatives and interest rate derivatives primarily consist of over-the-counter contracts. See Note 11 for additional information. The nuclear decommissioning trust funds are invested in a diversified mix of equity and fixed income securities. See Note 1 under "Nuclear Decommissioning" for additional information. The cash equivalents and restricted cash consist of securities with original maturities of 90 days or less. "Other" represents marketable securities and certain deferred compensation funds also invested in various marketable securities. All of these financial instruments and investments are valued primarily using the market approach.

As of December 31, 2009, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

As of December 31, 2009:	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in millions)			
Nuclear decommissioning trusts:				
Corporate bonds – commingled funds	$ 14	None	Daily	1 to 3 days
Other – commingled funds	13	None	Daily	Not applicable
Trust owned life insurance	78	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	623	None	Daily	Not applicable
Other:				
Deferred compensation - money market funds	3	None	Daily	Not applicable

The commingled funds in the nuclear decommissioning trusts invest primarily in a diversified portfolio of investment high grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements, and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The commingled funds will, however, maintain a dollar-weighted average portfolio maturity of 90 days or less. The assets may be longer term investment grade fixed income obligations having a maximum five year final maturity with put features or floating rates with a reset rate date of 13 months or less. The primary objective for the commingled funds is a high level of current income consistent with stability of principal and liquidity.

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

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

Changes in the fair value measurement of the Level 3 items using significant unobservable inputs for Southern Company at December 31, 2009 and 2008 are as follows:

	Level 3
	Other
	(in millions)
Beginning balance at December 31, 2008	$35
Total gains (losses) - realized/unrealized:	
Included in earnings	(3)
Included in other comprehensive income	3
Ending balance at December 31, 2009	$35

Unrealized losses of $3 million were included in earnings during 2009 relating to assets still held at December 31, 2009 and are recorded in "depreciation and amortization."

As of December 31, 2009, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
2009	**$19,145**	**$19,567**
2008	$17,327	$17,114

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

11. DERIVATIVES

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

Energy-Related Derivatives

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

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

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

- *Regulatory Hedges* – Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the traditional operating companies' fuel hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the respective fuel cost recovery clauses.
- *Cash Flow Hedges* – Gains and losses on energy-related derivatives designated as cash flow hedges are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income (OCI) before being recognized in income in the same period as the hedged transactions are reflected in earnings.
- *Not Designated* – Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

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

At December 31, 2009, the net volume of energy-related derivative contracts for power and natural gas positions for Southern Company, together with the longest hedge date over which it is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

Power			Gas		
Net Sold Megawatt-hours	Longest Hedge Date	Longest Non-Hedge Date	Net Purchased mmBtu	Longest Hedge Date	Longest Non-Hedge Date
(in millions)			*(in millions)*		
2.6	2010	2010	154*	2014	2014

* Includes location basis of 2 million British thermal units (mmBtu).

For cash flow hedges, the amounts expected to be reclassified from OCI to revenue and fuel expense for the next 12-month period ending December 31, 2010 are immaterial.

Interest Rate Derivatives

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

For cash flow hedges, the fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings.

At December 31, 2009, Southern Company had a total of $976 million notional amount of interest rate derivatives outstanding with net fair value losses of $3 million as follows:

	Notional Amount	Variable Rate Received	Weighted Average Fixed Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) December 31, 2009
	(in millions)				*(in millions)*
Cash flow hedges of existing debt					
	$576	SIFMA* Index	2.69%	February 2010	$ (4)
	300	1-month LIBOR	2.43%	April 2010	(2)
Cash flow hedges on forecasted debt					
	100	3-month LIBOR	3.79%	April 2020	3
Total	$976				$(3)

* Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA)

For the year ended December 31, 2009, the Company had realized net losses of $19 million upon termination of certain interest rate derivatives at the same time the related debt was issued. The effective portion of these losses has been deferred in OCI and is being amortized to interest expense over the life of the original interest rate derivative, reflecting the period in which the forecasted hedged transaction affects earnings.

The estimated pre-tax losses that will be reclassified from OCI to interest expense for the next 12-month period ending December 31, 2010 is $25 million. The Company has deferred gains and losses that are expected to be amortized into earnings through 2037.

Derivative Financial Statement Presentation and Amounts

At December 31, 2009 and 2008, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in millions)			*(in millions)*	
Derivatives designated as hedging instruments for regulatory purposes						
Energy-related derivatives:	Other current assets	**$1**	$10	Liabilities from risk management activities	**$111**	$215
	Other deferred charges and assets	**1**	-	Other deferred credits and liabilities	**66**	83
Total derivatives designated as hedging instruments for regulatory purposes		**$2**	$10		**$177**	$298
Derivatives designated as hedging instruments in cash flow hedges						
Energy-related derivatives:	Other current assets	**$3**	$-	Liabilities from risk management activities	**$ 5**	$ 1
Interest rate derivatives:	Other current assets	**3**	-	Liabilities from risk management activities	**6**	37
	Other deferred charges and assets	-	-	Other deferred credits and liabilities	-	3
Total derivatives designated as hedging instruments in cash flow hedges		**$6**	$ -		**$11**	$41
Derivatives not designated as hedging instruments						
Energy-related derivatives:	Other current assets	**$ 2**	$12	Liabilities from risk management activities	**$ 3**	$ 8
Total		**$10**	$22		**$191**	$347

All derivative instruments are measured at fair value. See Note 10 for additional information.

At December 31, 2009 and 2008, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheets were as follows:

	Unrealized Losses			Unrealized Gains		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in millions)			*(in millions)*	
Energy-related derivatives:	Other regulatory assets, current	**$(111)**	$(215)	Other regulatory liabilities, current	**$1**	$10
	Other regulatory assets, deferred	**(66)**	(83)	Other regulatory liabilities, deferred	**1**	-
Total energy-related derivative gains (losses)		**$(177)**	$(298)		**$2**	$10

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
					Amount		
Derivative Category	**2009**	2008	2007	**Statements of Income Location**	**2009**	2008	2007
		(in millions)				*(in millions)*	
Energy-related derivatives	**$(2)**	$(1)	$(2)	Fuel	**$ -**	$ -	$ -
Interest rate derivatives	**(5)**	(47)	(7)	Interest expense	**(46)**	(19)	(15)
Total	**$(7)**	$(48)	$(9)		**$(46)**	$(19)	$(15)

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

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

Derivatives not Designated as Hedging Instruments	Unrealized Gain (Loss) Recognized in Income			
			Amount	
Derivative Category	**Statements of Income Location**	**2009**	2008	2007
			(in millions)	
Energy-related derivatives:	Wholesale revenues	**$ 5**	$ (2)	$ -
	Fuel	**(6)**	5	-
	Purchased power	**(4)**	(2)	-
	Other income (expense), net	-	-	30 *
Total		**$(5)**	$ 1	$30

* Includes a $27 million unrealized gain related to derivatives in place to reduce exposure to a phase-out of certain income tax credits related to synthetic fuel production in 2007.

Contingent Features

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 derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain Southern Company subsidiaries. At December 31, 2009, the fair value of derivative liabilities with contingent features was $33 million.

At December 31, 2009, the Company had no collateral posted with their derivative counterparties. The maximum potential collateral requirement arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is $33 million. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to its debt.

12. SEGMENT AND RELATED INFORMATION

Southern Company's reportable business segments are the sale of electricity in the Southeast by the four traditional operating companies and Southern Power. Southern Power's revenues from sales to the traditional operating companies were $544 million, $638 million, and $547 million in 2009, 2008, and 2007, respectively. The "All Other" column includes parent Southern Company, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include investments in telecommunications and leveraged lease projects. Also included are investments in synthetic fuels for 2007. 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:

	Electric Utilities						
	Traditional Operating Companies	Southern Power	Eliminations	Total	All Other	Eliminations	Consolidated
				(in millions)			
2009							
Operating revenues	**$15,304**	**$ 947**	**$(609)**	**$15,642**	**$ 165**	**$(64)**	**$15,743**
Depreciation and amortization	**1,378**	**98**	**-**	**1,476**	**27**	**-**	**1,503**
Interest income	**21**	**-**	**-**	**21**	**3**	**(1)**	**23**
Interest expense	**749**	**85**	**-**	**834**	**71**	**-**	**905**
Income taxes	**902**	**86**	**-**	**988**	**(92)**	**-**	**896**
Segment net income (loss)*	**1,679**	**156**	**-**	**1,835**	**(193)**	**1**	**1,643**
Total assets	**48,403**	**3,043**	**(143)**	**51,303**	**1,223**	**(480)**	**52,046**
Gross property additions	**4,568**	**331**	**-**	**4,899**	**14**	**-**	**4,913**
2008							
Operating revenues	$16,521	$ 1,314	$(835)	$17,000	$ 182	$ (55)	$17,127
Depreciation and amortization	1,325	89	-	1,414	29	-	1,443
Interest income	32	1	-	33	-	-	33
Interest expense	689	83	-	772	94	-	866
Income taxes	944	93	-	1,037	(122)	-	915
Segment net income (loss)*	1,703	144	-	1,847	(104)	(1)	1,742
Total assets	44,794	2,813	(139)	47,468	1,407	(528)	48,347
Gross property additions	4,058	50	-	4,108	14	-	4,122
2007							
Operating revenues	$14,851	$ 972	$(683)	$15,140	$ 380	$(167)	$15,353
Depreciation and amortization	1,141	74	-	1,215	30	-	1,245
Interest income	31	1	-	32	14	(1)	45
Interest expense	685	79	-	764	122	-	886
Income taxes	866	84	-	950	(115)	-	835
Segment net income (loss)*	1,582	132	-	1,714	22	(2)	1,734
Total assets	41,812	2,769	(122)	44,459	1,767	(437)	45,789
Gross property additions	3,465	184	(4)	3,645	13	-	3,658

*After dividends on preferred and preference stock of subsidiaries

Products and Services

	Electric Utilities' Revenues			
Year	Retail	Wholesale	Other	Total
		(in millions)		
2009	**$13,307**	**$1,802**	**$533**	**$15,642**
2008	14,055	2,400	545	17,000
2007	12,639	1,988	513	15,140

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2009 and 2008 are as follows:

			Consolidated Net Income After Dividends on Preferred and	Per Common Share			
						Trading Price Range	
Quarter Ended	Operating Revenues	Operating Income	Preference Stock of Subsidiaries	Basic Earnings	Dividends	High	Low
		(in millions)					
March 2009	**$3,666**	**$490**	**$126***	**$0.16***	**$0.4200**	**$37.62**	**$26.48**
June 2009	**3,885**	**886**	**478**	**0.61**	**0.4375**	**32.05**	**27.19**
September 2009	**4,682**	**1,415**	**790**	**0.99**	**0.4375**	**32.67**	**30.27**
December 2009	**3,510**	**477**	**249**	**0.31**	**0.4375**	**34.47**	**30.89**
March 2008	$3,683	$ 708	$359	$0.47	$0.4025	$40.60	$33.71
June 2008	4,215	924	417	0.54	0.4200	37.81	34.28
September 2008	5,427	1,405	780	1.01	0.4200	40.00	34.46
December 2008	3,802	469	186	0.24	0.4200	38.18	29.82

Southern Company's business is influenced by seasonal weather conditions.

* Southern Company's MC Asset Recovery litigation settlement reduced earnings by $202 million, or 25 cents per share, during the first quarter of 2009.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

For the Periods Ended December 2005 through 2009

Southern Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in millions)	**$15,743**	$17,127	$15,353	$14,356	$13,554
Total Assets (in millions)	**$52,046**	$48,347	$45,789	$42,858	$39,877
Gross Property Additions (in millions)	**$4,913**	$4,122	$3,658	$3,072	$2,476
Return on Average Common Equity (percent)	**11.67**	13.57	14.60	14.26	15.17
Cash Dividends Paid Per Share of Common Stock	**$1.7325**	$1.6625	$1.595	$1.535	$1.475
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries (in millions)	**$1,643**	$1,742	$1,734	$1,573	$1,591
Earnings Per Share --					
Basic	**$2.07**	$2.26	$2.29	$2.12	$2.14
Diluted	**2.06**	2.25	2.28	2.10	2.13
Capitalization (in millions):					
Common stock equity	**$14,878**	$ 13,276	$12,385	$ 11,371	$ 10,689
Preferred and preference stock of subsidiaries	**707**	707	707	246	98
Redeemable preferred stock of subsidiaries	**375**	375	373	498	498
Long-term debt	**18,131**	16,816	14,143	12,503	12,846
Total (excluding amounts due within one year)	**$34,091**	$31,174	$27,608	$24,618	$24,131
Capitalization Ratios (percent):					
Common stock equity	**43.6**	42.6	44.9	46.2	44.3
Preferred and preference stock of subsidiaries	**2.1**	2.3	2.6	1.0	0.4
Redeemable preferred stock of subsidiaries	**1.1**	1.2	1.3	2.0	2.1
Long-term debt	**53.2**	53.9	51.2	50.8	53.2
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0	100.0
Other Common Stock Data:					
Book value per share	**$18.15**	$17.08	$16.23	$15.24	$14.42
Market price per share:					
High	**$37.62**	$40.60	$39.35	$37.40	$36.47
Low	**26.48**	29.82	33.16	30.48	31.14
Close (year-end)	**33.32**	37.00	38.75	36.86	34.53
Market-to-book ratio (year-end) (percent)	**183.6**	216.6	238.8	241.9	239.5
Price-earnings ratio (year-end) (times)	**16.1**	16.4	16.9	17.4	16.1
Dividends paid (in millions)	**$1,369**	$1,279	$1,204	$1,140	$1,098
Dividend yield (year-end) (percent)	**5.2**	4.5	4.1	4.2	4.3
Dividend payout ratio (percent)	**83.3**	73.5	69.5	72.4	69.0
Shares outstanding (in thousands):					
Average	**794,795**	771,039	756,350	743,146	743,927
Year-end	**819,647**	777,192	763,104	746,270	741,448
Stockholders of record (year-end)	**92,799**	97,324	102,903	110,259	118,285
Traditional Operating Company Customers (year-end) (in thousands):					
Residential	**3,798**	3,785	3,756	3,706	3,642
Commercial	**580**	594	600	596	586
Industrial	**15**	15	15	15	15
Other	**9**	8	6	5	5
Total	**4,402**	4,402	4,377	4,322	4,248
Employees (year-end)	**26,112**	27,276	26,472	26,091	25,554

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA
For the Periods Ended December 2005 through 2009
Southern Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in millions):					
Residential	**$ 5,481**	$ 5,476	$ 5,045	$4,716	$4,376
Commercial	**4,901**	5,018	4,467	4,117	3,904
Industrial	**2,806**	3,445	3,020	2,866	2,785
Other	**119**	116	107	102	100
Total retail	**13,307**	14,055	12,639	11,801	11,165
Wholesale	**1,802**	2,400	1,988	1,822	1,667
Total revenues from sales of electricity	**15,109**	16,455	14,627	13,623	12,832
Other revenues	**634**	672	726	733	722
Total	**$15,743**	$17,127	$15,353	$14,356	$13,554
Kilowatt-Hour Sales (in millions):					
Residential	**51,690**	52,262	53,326	52,383	51,082
Commercial	**53,526**	54,427	54,665	52,987	51,857
Industrial	**46,422**	52,636	54,662	55,044	55,141
Other	**953**	934	962	920	996
Total retail	**152,591**	160,259	163,615	161,334	159,076
Wholesale sales	**33,503**	39,368	40,745	38,460	37,072
Total	**186,094**	199,627	204,360	199,794	196,148
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**10.60**	10.48	9.46	9.00	8.57
Commercial	**9.16**	9.22	8.17	7.77	7.53
Industrial	**6.04**	6.54	5.52	5.21	5.05
Total retail	**8.72**	8.77	7.72	7.31	7.02
Wholesale	**5.38**	6.10	4.88	4.74	4.50
Total sales	**8.12**	8.24	7.16	6.82	6.54
Average Annual Kilowatt-Hour Use Per Residential Customer	**13,607**	13,844	14,263	14,235	14,084
Average Annual Revenue Per Residential Customer	**$1,443**	$1,451	$1,349	$1,282	$1,207
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**42,932**	42,607	41,948	41,785	40,509
Maximum Peak-Hour Demand (megawatts):					
Winter	**33,519**	32,604	31,189	30,958	30,384
Summer	**34,471**	37,166	38,777	35,890	35,050
System Reserve Margin (at peak) (percent)	**26.4**	15.3	11.2	17.1	14.4
Annual Load Factor (percent)	**60.6**	58.7	57.6	60.8	60.2
Plant Availability (percent):					
Fossil-steam	**91.3**	90.5	90.5	89.3	89.0
Nuclear	**90.1**	91.3	90.8	91.5	90.5
Source of Energy Supply (percent):					
Coal	**54.7**	64.0	67.1	67.2	67.4
Nuclear	**14.9**	14.0	13.4	14.0	14.0
Hydro	**3.9**	1.4	0.9	1.9	3.1
Oil and gas	**22.5**	15.4	15.0	12.9	10.9
Purchased power	**4.0**	5.2	3.6	4.0	4.6
Total	**100.0**	100.0	100.0	100.0	100.0

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ALABAMA POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Alabama Power Company 2009 Annual Report

The management of Alabama Power Company (the "Company") 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 the 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. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.



Charles D. McCrary
President and Chief Executive Officer



Art P. Beattie
Executive Vice President, Chief Financial Officer, and Treasurer

February 25, 2010

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 (the "Company") (a wholly owned subsidiary of Southern Company) as of December 31, 2009 and 2008, 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, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion o 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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, o a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used an 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-123 to II-166) present fairly, in all material respects, the financial position of Alabama Power Company at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Birmingham, Alabama
February 25, 2010

OVERVIEW

Business Activities

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

Key Performance Indicators

In striving to maximize shareholder value while providing cost-effective energy to customers, the Company continues to focus on several key indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock. 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 customer satisfaction surveys and reliability indicators to evaluate the Company's results.

Peak season equivalent forced outage rate (Peak Season EFOR) is an indicator of fossil/hydro and nuclear 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. The fossil/hydro 2009 Peak Season EFOR of 1.50% was better than the target. The nuclear 2009 Peak Season EFOR of 0.14% was better than the target. Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance, expected weather conditions, and expected capital expenditures. The performance for 2009 was better than the target for these reliability measures.

Net income after dividends on preferred and preference stock is the primary measure of the Company's financial performance. The Company's 2009 results compared with its targets for some of these key indicators are reflected in the following chart.

Key Performance Indicator	2009 Target Performance	2009 Actual Performance
Customer Satisfaction	Top quartile in customer surveys	Top quartile
Peak Season EFOR – fossil/hydro	2.75% or less	1.50%
Peak Season EFOR – nuclear	2.75% or less	0.14%
Net Income	$666 million	$670 million

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The performance achieved in 2009 reflects the continued management emphasis, as well as the commitment shown by employees, in achieving or exceeding these key performance expectations.

Earnings

The Company's financial performance remained strong in 2009 despite the challenges of a recessionary economy. The Company's net income after dividends on preferred and preference stock of $670 million in 2009 increased $54 million (8.7%) over the prior year. The increase was primarily due to the corrective rate package providing for adjustments associated with customer charges to certain existing rate structures effective in January 2009, a decrease in other operations and maintenance expenses, and an increase in allowance for funds used during construction (AFUDC) equity. The increase was partially offset by an overall decline in base rate revenues attributable to a decline in kilowatt-hour (KWH) sales, resulting from a recessionary economy and unfavorable weather conditions.

The Company's net income after dividends on preferred and preference stock of $616 million in 2008 increased $36 million (6.3%) over the prior year. This improvement was primarily due to an increase in retail base rate revenues resulting from an increase in rates under the Rate Stabilization and Equalization Plan (Rate RSE) and the Rate Certificated New Plant (Rate CNP) for environmental costs that took effect January 1, 2008, partially offset by higher non-fuel operating expenses and depreciation.

The Company's 2007 net income after dividends on preferred and preference stock was $580 million, representing a $62 million (11.9%) increase from the prior year. This improvement was primarily due to an increase in retail base rate revenues resulting from an increase in rates under Rate RSE and Rate CNP for environmental costs that took effect January 1, 2007 as well as favorable weather conditions, partially offset by higher non-fuel operating expenses and increased interest expense.

RESULTS OF OPERATIONS

A condensed income statement for the Company follows:

	Amount	Increase (Decrease) from Prior Year		
	2009	**2009**	2008	2007
		(in millions)		
Operating revenues	**$5,529**	**$(548)**	$717	$345
Fuel	**1,824**	**(360)**	422	90
Purchased power	**307**	**(232)**	99	12
Other operations and maintenance	**1,211**	**(48)**	73	89
Depreciation and amortization	**545**	**25**	49	21
Taxes other than income taxes	**322**	**16**	20	28
Total operating expenses	**4,209**	**(599)**	663	240
Operating income	**1,320**	**51**	54	105
Total other income and (expense)	**(227)**	**19**	2	(11)
Income taxes	**384**	**16**	16	21
Net income	**709**	**54**	40	73
Dividends on preferred and preference stock	**39**	**-**	4	11
Net income after dividends on preferred and preference stock	**$ 670**	**$ 54**	$ 36	$ 62

Operating Revenues

Operating revenues for 2009 were $5.5 billion, reflecting a $548 million decrease from 2008. The following table summarizes the principal factors that have affected operating revenues for the past three years:

	Amount		
	2009	2008	2007
		(in millions)	
Retail – prior year	**$4,862**	$4,407	$3,996
Estimated change in –			
Rates and pricing	**174**	246	216
Sales growth (decline)	**(109)**	26	(5)
Weather	**(12)**	(70)	38
Fuel and other cost recovery	**(418)**	253	162
Retail – current year	**4,497**	4,862	4,407
Wholesale revenues –			
Non-affiliates	**620**	712	627
Affiliates	**237**	309	144
Total wholesale revenues	**857**	1,021	771
Other operating revenues	**175**	194	182
Total operating revenues	**$5,529**	$6,077	$5,360
Percent change	**(9)%**	13%	7%

Retail revenues in 2009 were $4.5 billion. These revenues decreased $365 million (7.5%) in 2009 and increased $455 million (10.3%) and $411 million (10.3%) in 2008 and 2007, respectively. The decrease in 2009 was due to decreased fuel revenue and a decline in KWH sales, partially offset by the corrective rate package providing for adjustments associated with customer charges to certain existing rate structures. The increases in 2008 and 2007 were primarily due to increases in fuel revenue and base rate increases of 5.6% and 5.3%, respectively. See FUTURE EARNINGS POTENTIAL – "PSC Matters" herein and Note 3 to the financial statements under "Retail Regulatory Matters" for additional information. See "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes related to sales growth (decline) and weather.

Fuel rates billed to customers are designed to fully recover fluctuating fuel and purchased power costs over a period of time. Fuel revenues generally have no effect on net income because they represent the recording of revenues to offset fuel and purchased power expenses. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein and Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for additional information.

Wholesale revenues from sales to non-affiliated utilities were as follows:

	2009	2008	2007
		(in millions)	
Unit power sales –			
Capacity	**$158**	$160	$151
Energy	**207**	238	192
Total	**365**	398	343
Other power sales –			
Capacity and other	**133**	134	128
Energy	**122**	180	156
Total	**255**	314	284
Total non-affiliated	**$620**	$712	$627

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

Wholesale revenues from sales to non-affiliates include unit power sales under long-term contracts to Florida utilities and sales to wholesale customers within the Company's service territory. Capacity revenues under unit power sales contracts reflect the recovery of fixed costs and a return on investment, and under these contracts, energy is generally sold at variable cost. Fluctuations in the prices of oil and natural gas, which are the primary fuel sources for unit power sales customers, influence changes in these energy sales. However, because energy is generally sold at variable cost, these fluctuations have a minimal effect on earnings. The amounts of long-term unit power sales capacity revenues are scheduled to cease with the termination of the unit power sales contract in May 2010. In June 2010, the capacity subject to the unit power sales contracts will be utilized for retail service. As shown in the table above, unit power sales capacity revenues have ranged from $151 million to $160 million over the last three years. Short-term opportunity energy sales are also included in wholesale energy sales 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. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail Rate Adjustments" herein and Note 3 to the financial statements under "Retail Regulatory Matters – Rate RSE" for additional information.

Wholesale revenues from sales to affiliated companies within the Southern Company system 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 Intercompany Interchange Contract (IIC), as approved by the Federal Energy Regulatory Commission (FERC). In 2009, wholesale revenues from sales to affiliates decreased $71.5 million primarily due to a 37.6% decrease in price, partially offset by a 23.2% increase in KWH sales to affiliates as a result of greater availability of the Company's generating resources because of a decrease in customer demand within the Company's service territory. In 2008, wholesale revenues from sales to affiliates increased $164.4 million primarily due to a 62.2% increase in KWH sales to affiliates as a result of greater availability of the Company's generating resources because of a decrease in customer demand within the Company's service territory. In 2007, wholesale revenues from sales to affiliates decreased $71.9 million primarily due to a 37.0% decrease in KWH sales to affiliates as a result of lower availability of the Company's generating resources because of an increase in customer demand within the Company's service territory.

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 clauses.

Other operating revenues in 2009 decreased $19.6 million (10.1%) from 2008 primarily due to a $42.5 million decrease in revenues from gas-fueled co-generation steam facilities as a result of lower gas prices. This decrease was partially offset by an increase of $10.0 million in customer charges related to late fees. In 2008, other operating revenues increased $12.4 million (6.8%) from 2007 primarily due to an $11.7 million increase in revenues from gas-fueled co-generation steam facilities. In 2007, other operating revenues increased $13.5 million (8.0%) from 2006 primarily due to a $4.0 million increase in revenues from electric property associated with pole attachment and building rentals, a $2.6 million increase in transmission revenues, and a $2.5 million increase in revenues from gas-fueled co-generation steam facilities. Since co-generation steam revenues are generally offset by fuel expense, these revenues did not have a significant impact on earnings for any year reported.

Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2009 and the percent change by year were as follows:

	KWHs	Percent Change		
	2009	2009	2008	2007
	(in billions)			
Residential	**18.1**	**(1.7)%**	(2.6)%	1.3%
Commercial	**14.2**	**(2.5)**	(1.4)	2.8
Industrial	**18.5**	**(15.9)**	(3.2)	(1.6)
Other	**0.2**	**8.1**	0.2	0.7
Total retail	**51.0**	**(7.6)**	(2.5)	0.5
Wholesale -				
Non-affiliates	**14.3**	**(5.8)**	(3.6)	(1.3)
Affiliates	**6.5**	**23.2**	62.2	(37.0)
Total wholesale	**20.8**	**1.6**	7.6	(10.0)
Total energy sales	**71.8**	**(5.1)**	0.0	(2.4)

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers. Retail energy sales in 2009 were 7.6% less than in 2008. Energy sales were down in 2009 across major classes of customers. Residential and commercial sales decreased 1.7% and 2.5%, respectively, due primarily to unfavorable weather and decreased customer demand in 2009 as compared to 2008. Industrial sales decreased 15.9% during the year as a result of decreased customer demand in all sectors, most significantly in the chemical and primary metals sectors, due to a recessionary economy.

Retail energy sales in 2008 were 2.5% less than in 2007. Energy sales were down in 2008 across major classes of customers. Residential and commercial sales decreased 2.6% and 1.4%, respectively, due primarily to unfavorable weather in 2008 compared to 2007. Industrial sales decreased 3.2% during the year primarily as a result of decreased customer demand in the chemical and pipeline, and textiles and food sectors, as a result of a slowing economy that worsened during the fourth quarter of 2008.

Retail energy sales in 2007 were 0.5% higher than in 2006. Energy sales in the residential and commercial sectors led the growth with a 1.3% and a 2.8% increase, respectively, due primarily to weather-driven increased demand. Industrial sales decreased 1.6% during the year primarily as a result of decreased sales demand in textiles and food, primary metals, and chemical sectors.

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 generating units. Additionally, the Company purchases a portion of its electricity needs from the wholesale market.

Details of the Company's electricity generated and purchased were as follows:

	2009	2008	2007
Total generation *(billions of KWHs)*	**68.8**	70.0	69.8
Total purchased power *(billions of KWHs)*	**6.3**	9.2	9.6
Sources of generation *(percent)* –			
Coal	**58**	66	69
Nuclear	**20**	20	19
Gas	**13**	11	10
Hydro	**9**	3	2
Cost of fuel, generated *(cents per net KWH)* –			
Coal	**3.02**	2.94	2.14
Nuclear	**0.56**	0.50	0.50
Gas	**5.24**	8.30	7.43
Average cost of fuel, generated *(cents per net KWH)**	**2.79**	3.00	2.36
Average cost of purchased power *(cents per net KWH)*	**6.05**	7.44	6.07

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

Fuel and purchased power expenses were $2.1 billion in 2009, a decrease of $592.1 million (21.8%) below the prior year costs. This decrease was the result of a $367.3 million decrease related to the volume of KWHs generated and purchased and a $224.8 million decrease in the cost of fuel resulting from lower natural gas prices and an increase in hydro generation.

Fuel and purchased power expenses were $2.7 billion in 2008, an increase of $521.5 million (23.7%) above the prior year costs. This increase was the result of a $560.8 million increase in the cost of fuel, offset by a $39.3 million decrease related to the volume of KWHs generated and purchased.

Fuel and purchased power expenses were $2.2 billion in 2007, an increase of $101.9 million (4.9%) above the prior year costs. This increase was the result of a $70.3 million increase in the cost of fuel and a $31.6 million increase related to the volume of KWHs generated and purchased.

Purchased power consists of purchases from affiliates in the Southern Company system and non-affiliated companies. Purchased power transactions among the Company, its affiliates, and non-affiliates will vary from period to period depending on demand and the availability and variable production cost of generating resources at each company. In 2009, purchased power from non-affiliates decreased $91.1 million (50.9%) due to a 34.9% decrease in the amount of energy purchased and a 24.6% decrease in the average cost per KWH. In 2009, purchased power from affiliates decreased $140.5 million (39.1%) due to a 31.4% decrease in the amount of energy purchased. In 2008, the average cost of purchased power from non-affiliates increased $81.9 million (84.5%) due to a 67.9% increase in the amount of energy purchased. In 2007, purchased power from non-affiliates decreased $27.1 million (21.8%) due to a 22.6% decrease in the amount of energy purchased.

Coal prices continued to be influenced by worldwide demand from developing countries, as well as increased mining and fuel transportation costs. While coal prices reached unprecedented high levels in 2008, the recessionary economy pushed prices downward in 2009. However, the lower prices did not fully offset the higher priced coal already in inventory and under long-term contract. Demand for natural gas in the United States also was affected by the recessionary economy leading to significantly lower natural gas prices. During 2009, uranium prices continued to moderate from the highs set during 2007. Worldwide production levels increased in 2009; however, secondary supplies and inventories were still required to meet worldwide reactor demand.

Fuel and purchased power expenses generally do not affect net income, since they are offset by fuel revenues under the Company's energy cost recovery rate (Rate ECR). The Company, along with the Alabama Public Service Commission (PSC), continuously monitors the under/over recovered balance to determine whether adjustments to billing rates are required. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein and Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for additional information.

Other Operations and Maintenance Expenses

In 2009, other operations and maintenance expenses decreased $47.6 million (3.8%) primarily due to an $18.1 million decrease in steam production expense related to fewer scheduled outages, a $12.9 million decrease in administrative and general expense related to reductions in employee medical and other benefit-related expenses and in the injuries and damages reserve, a $5.5 million decrease in customer accounts expense, and a $4.7 million decrease in customer service and information expense.

In 2008, other operations and maintenance expenses increased $72.7 million (6.1%) primarily due to a $27.4 million increase in steam production expense related to environmental mandates (which were offset by revenues associated with Rate CNP environmental) and scheduled outage costs, a $22.9 million increase in nuclear production expense related to operations and scheduled outage costs, and a $19.9 million increase in transmission and distribution expense related to overhead line clearing costs.

In 2007, other operations and maintenance expenses increased $89.3 million (8.1%) primarily due to a $28.5 million increase in steam production expense related to environmental mandates and scheduled outage costs, a $19.6 million increase in transmission and distribution expense related to overhead line clearing costs, a $19.0 million increase in administrative and general expenses related to an increase in the expenses for the injuries and damages reserve, outside services, and employee benefits, an $8.1 million increase in nuclear production expense related to scheduled outage cost, and a $4.7 million increase in customer accounts expense associated with customer service expenses.

Depreciation and Amortization

Depreciation and amortization increased $24.5 million (4.7%) in 2009, $48.9 million (10.4%) in 2008, and $20.5 million (4.5%) in 2007, primarily due to additions to property, plant, and equipment related to environmental mandates (which were offset by revenues associated with Rate CNP environmental) and transmission and distribution projects. See Note 3 to financial statements under "Retail Regulatory Matters – Rate CNP" for additional information.

On June 25, 2009, the Company submitted an offer of settlement and stipulation to the FERC relating to the 2008 depreciation study that was filed in October 2008. The settlement offer withdraws the requests for authorization to use updated depreciation rates. In lieu of the new rates, the Company is using those depreciation rates employed prior and up to January 1, 2009 that were previously approved by the FERC. On September 30, 2009, the FERC issued an order approving the settlement offer. See Note 1 to financial statements under "Depreciation and Amortization" for additional information.

Taxes Other Than Income Taxes

Taxes other than income taxes increased $15.8 million (5.1%) in 2009, $19.9 million (7.0%) in 2008, and $28.4 million (11.0%) in 2007, primarily due to increases in the bases of state and municipal public utility license taxes.

Allowance for Funds Used During Construction Equity

AFUDC equity increased $33.7 million (73.9%) in 2009, $10.1 million (28.5%) in 2008, and $17.2 million (94.1%) in 2007, primarily due to increases in construction work in progress related to environmental mandates at generating facilities, as well as transmission, distribution, and general plant projects compared to the prior years. See Note 1 to financial statements under "Allowance for Funds Used During Construction" for additional information.

Interest Expense, Net of Amounts Capitalized

Interest expense, net of amounts capitalized, increased $19.6 million (7.0%) in 2009 primarily due to the issuance of long-term debt, partially offset by additional capitalized interest, as a result of increases in construction work in progress. Interest expense, net of amounts capitalized, increased $5.2 million (1.9%) in 2008 which was not material when compared to the prior year. Interest expense, net of amounts capitalized, increased $21.5 million (8.5%) in 2007 primarily due to higher interest rates on new issuance of long-term debt and higher interest rates on the Company's outstanding variable rate securities.

Income Taxes

Income taxes increased $16.2 million (4.4%) in 2009, primarily due to higher pre-tax income, prior year tax return actualization, and an increase in expense related to normal tax contingencies, partially offset by the tax benefits associated with an increase in AFUDC equity and an increase in the federal production activities deduction.

Income taxes increased $16.6 million (4.7%) in 2008, primarily due to higher pre-tax income partially offset by the tax benefit associated with an increase in AFUDC equity and a decrease in expense related to normal tax contingencies.

Income taxes increased $20.9 million (6.3%) in 2007, primarily due to higher pre-tax income partially offset by the tax benefit associated with an increase in AFUDC equity and an increase in the federal production activities deduction.

Effects of Inflation

The Company is subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Any adverse effect of inflation on the Company's results of operations has not been substantial. See Note 3 to financial statements under "Retail Regulatory Matters – Rate RSE" for additional information.

FUTURE EARNINGS POTENTIAL

General

The Company operates as a vertically integrated utility providing electricity to retail and wholesale customers within its traditional service area located in the State of Alabama in addition 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 wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the FERC. Retail rates and earnings are reviewed and may be adjusted periodically within certain limitations. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements under "FERC Matters" and "Retail Regulatory Matters" for additional information about 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 constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the Company's service area. Recessionary conditions have negatively impacted sales and are expected to continue to have a negative impact, particularly on industrial and commercial customers. The timing and extent of the economic recovery will impact future earnings.

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may exceed amounts estimated. Some of the factors driving the potential for such an increase are higher commodity costs, market demand for labor, and scope additions and clarifications. The timing, specific requirements, and estimated costs could also change as environmental statutes and regulations are adopted or modified. See Note 3 to the financial statements under "Environmental Matters" for additional information.

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 the Company, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. These actions were filed concurrently with the issuance of notices of violation of the NSR provisions to each of the

traditional operating companies. After the Company was dismissed from the original action, the EPA filed a separate action in January 2001 against the Company in the U.S. District Court for the Northern District of Alabama. In the lawsuit against the Company, the EPA alleges that NSR violations occurred at five coal-fired generating facilities operated by the Company. The civil action requests penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

)ther Litigation

:ommon law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become ıore frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on)ctober 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of ſississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of lurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to ssert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The :ompany is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in ıugust 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ltimate outcome of this matter cannot be determined at this time.

:nvironmental Statutes and Regulations

ſeneral

'he Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes nd regulations governing environmental media, including air, water, and land resources. Applicable statutes include the Clean Air ıct; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation nd Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; the Endangered pecies Act; and related federal and state regulations. Compliance with these environmental requirements involves significant capital nd operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions. Through 2009, the :ompany had invested approximately $2.8 billion in capital projects to comply with these requirements, with annual totals of $526 ıillion, $617 million, and $469 million for 2009, 2008, and 2007, respectively. The Company expects that capital expenditures to ssure compliance with existing and new statutes and regulations will be an additional $136 million, $85 million, and $99 million for 010, 2011, and 2012, respectively. The Company's compliance strategy can be affected by changes to existing environmental laws, tatutes, and regulations; the cost, availability, and existing inventory of emissions allowances; and the Company's fuel mix. :nvironmental costs that are known and estimable at this time are included in capital expenditures discussed under FINANCIAL :ONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein.

:ompliance with any new federal or state legislation or regulations related to global climate change, air quality, coal combustion yproducts, including coal ash, or other environmental and health concerns could also significantly affect the Company. Although ew or revised environmental legislation or regulations could affect many areas of the Company's operations, the full impact of any uch changes cannot be determined at this time.

ir Quality

:ompliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. 'hrough 2009, the Company had spent approximately $2.5 billion in reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_x) missions and in monitoring emissions pursuant to the Clean Air Act. Additional controls are currently being installed at several lants to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

'he EPA regulates ground level ozone through implementation of an eight-hour ozone air quality standard. No area within the :ompany's service area is currently designated as nonattainment under the current standard. In March 2008, however, the EPA issued final rule establishing a more stringent eight-hour ozone standard, and on January 6, 2010, the EPA proposed further reductions in ıe standard. The EPA is expected to finalize the revised standard in August 2010 and require state implementation plans for any onattainment areas by December 2013. The revised eight-hour ozone standard is expected to result in designation of new onattainment areas within the Company's service territory.

)uring 2005, the EPA's annual fine particulate matter nonattainment designations became effective for several areas within the :ompany's service area. State plans for addressing the nonattainment designations for this standard could require further reductions ı SO_2 and NO_x emissions from power plants. In September 2006, the EPA published a final rule which increased the stringency of ıe 24-hour average fine particulate matter air quality standard. The Birmingham, Alabama area has been designated as nonattainment ɔr the 24-hour standard, and a state implementation plan for this nonattainment area is due in December 2012.

On December 8, 2009, the EPA also proposed revisions to the National Ambient Air Quality Standard for SO_2. The EPA is expected to finalize the revised SO_2 standard in June 2010.

Twenty-eight eastern states, including the State of Alabama, are subject to the requirements of the Clean Air Interstate Rule (CAIR). The rule calls for additional reductions of NO_x and/or SO_2 to be achieved in two phases, 2009/2010 and 2015. In July 2008 and December 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued decisions invalidating certain aspects of CAIR, but left CAIR compliance requirements in place while the EPA develops a revised rule. The State of Alabama has completed its plan to implement CAIR, and emissions reductions are being accomplished by the installation of emissions controls at the Company's coal-fired facilities and/or by the purchase of emissions allowances. The EPA is expected to issue a proposed CAIR replacement rule in July 2010.

The Clean Air Visibility Rule was finalized in July 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977, and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each ten-year period thereafter. For power plants, the Clean Air Visibility Rule allows states to determine that CAIR satisfies BART requirements for SO_2 and no additional controls beyond CAIR are anticipated to be necessary at any of the Company's facilities. The State of Alabama has completed its implementation plans for BART compliance and other measures required to achieve the first phase of reasonable progress.

The EPA is currently developing a Maximum Achievable Control Technology (MACT) rule for coal and oil-fired electric generating units, which will likely address numerous Hazardous Air Pollutants, including mercury. In March 2005, the EPA issued the Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR. In a separate proceeding in the U.S. District Court for the District of Columbia, the EPA entered into a proposed consent decree that requires the EPA to issue a proposed MACT rule by March 16, 2011 and a final rule by November 16, 2011.

The impacts of the eight-hour ozone standards, the fine particulate matter nonattainment designations, and future revisions to CAIR, the SO_2 standard, the Clean Air Visibility Rule, and MACT rule for the electric generating units on the Company cannot be determined at this time and will depend on the specific provisions of the final rules, resolution of any legal challenges, and the development and implementation of rules at the state level. However, these additional regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

The Company has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the continuing and new environmental requirements discussed above. As part of this strategy, the Company has already installed a number of SO_2 and NO_x emissions controls and plans to install additional controls within the next several years to ensure continued compliance with applicable air quality requirements.

Water Quality

In July 2004, the EPA published final regulations under the Clean Water Act to reduce impingement and entrainment of fish, shellfish, and other forms of aquatic life at existing power plant cooling water intake structures. The use of cost-benefit analysis in the rule was ultimately appealed to the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing intake structures. The EPA is now in the process of revising the regulations. While the U.S. Supreme Court's decision may ultimately result in greater flexibility for demonstrating compliance with the standards, the full scope of the regulations will depend on further rulemaking by the EPA and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

On December 28, 2009, the EPA announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and proposed a plan to adopt such revisions by 2013. New wastewater treatment requirements are expected and may result in the installation of additional controls on certain Company facilities. The impact of revised guidelines will depend on the studies conducted in connection with the rulemaking, as well as the specific requirements of the final rule, and, therefore, cannot be determined at this time.

Environmental Remediation

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. See Note 3 to the financial statements under "Environmental Matters – Environmental Remediation" for additional information.

Coal Combustion Byproducts

The EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA has collected information from the electric utility industry on surface impoundment safety, and conducted on-site inspections at one of the Company's facilities as part of its evaluation. The Company has a routine and robust inspection program in place to ensure the integrity of its coal ash surface impoundments. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010. The impact of these additional regulations on the Company will depend on the specific provisions of the final rule and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the Company's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March 2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.

Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the Company were approximately 47 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 43 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company continues to evaluate its future energy and emissions profiles and is participating in voluntary programs to reduce greenhouse gas emissions and to help develop and advance technology to reduce emissions.

FERC Matters

In July 2005, the Company filed two applications with the FERC for new 50-year licenses for the Company's seven hydroelectric developments on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan, and Bouldin) and for the Lewis Smith and Bankhead developments on the Warrior River. The FERC licenses for all of these nine projects expired in July and August 2007. Since the FERC did not act on the Company's new license applications prior to the expiration of the existing licenses, the FERC is required by law to issue annual licenses to the Company, under the terms and conditions of the existing license, until action is taken on the new license applications. The FERC issued an annual license for the Coosa developments in August 2007 and issued an annual license for the Warrior developments in September 2007. These annual licenses were automatically renewed in 2009 without further action by the FERC to allow the Company to continue operation of the projects under the terms of the previous license while the FERC completes review of the applications for new licenses.

In 2006, the Company initiated the process of developing an application to relicense the Martin hydroelectric project located on the Tallapoosa River. The current Martin license will expire in 2013 and the application for a new license is expected to be filed with the FERC in 2011.

In 2010, the Company will initiate the process of developing an application to relicense the Holt hydroelectric project located on the Warrior River. The current Holt license will expire on August 31, 2015, and the application for a new license is expected to be filed prior to that time.

Upon or after the expiration of each license, the U.S. 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 timing and final outcome of the Company's relicense applications cannot now be determined.

PSC Matters

Retail Rate Adjustments

Rate RSE

Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4.0% per year and any annual adjustment is limited to 5.0%. Retail rates remain unchanged when the retail return on common equity is projected to be between 13.0% and 14.5%. If the Company's actual retail return on common equity is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail return on common equity fall below the allowed equity return range.

In October 2008, the Alabama PSC approved a corrective rate package, effective January 2009, that primarily provides for adjustments associated with customer charges to certain existing rate structures. The Company agreed to a moratorium on any increase in rates in 2009 under the Rate RSE.

On December 1, 2009, the Company made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2010. The Rate RSE increase for 2010 is 3.24%, or $152 million annually, and was effective in January 2010. The revenue adjustment under the Rate RSE is largely attributable to the costs associated with fossil capacity which is currently dedicated to certain long-term wholesale contracts that expire during 2010. Retail cost of service for 2010 reflects the cost for that portion of the year in which this capacity is no longer committed to wholesale. The termination of these long-term wholesale contracts will result in a significant decrease in unit power sales capacity revenues. In an Alabama PSC order dated January 5, 2010, the Alabama PSC acknowledged that a full calendar year of costs for such capacity would be reflected in the Rate RSE calculation beginning in 2011 and thereafter. Under the terms of Rate RSE, the maximum increase for 2011 cannot exceed 4.76%.

Rate CNP

The Company's retail rates, approved by the Alabama PSC, provide for adjustments to recognize the placing of new generating facilities into retail service and the recovery of retail costs associated with certificated power purchase agreements (PPAs) under a Rate CNP. There was no adjustment to the Rate CNP to recover certificated PPA costs in 2007, 2008, or 2009. Effective April 2010, Rate CNP will be reduced approximately $70 million annually, primarily due to the expiration on May 31, 2010 of the PPA with Southern Power covering the capacity of Plant Harris Unit 1.

Rate CNP also allows for the recovery of the Company's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism is based on forward looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on invested capital. Retail rates increased approximately 0.6% in January 2007 and 2.4% in January 2008 due to environmental costs. In October 2008, the Company agreed to defer collection of any increase in rates under this portion of Rate CNP, which permits recovery of costs associated with environmental laws and regulations, from 2009 until 2010. The deferral of the retail rate adjustments had an immaterial impact on annual cash flows, and had no significant effect on the Company's revenues or net income. On December 1, 2009, the Company made its Rate CNP environmental submission of projected data for calendar year 2010, resulting in an increase to retail rates of approximately 4.3%, or an additional $195 million annually, based upon projected billings. Under the terms of the rate mechanism, this adjustment became effective in January 2010. The Rate CNP environmental adjustment is primarily attributable to scrubbers being placed in service during 2010 at four of the Company's generating units. See Note 3 to the financial statements under "Retail Regulatory Matters – Rate CNP" for further information.

Fuel Cost Recovery

The Company has established fuel cost recovery rates under Rate ECR approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. The Company, along with the Alabama PSC, will continue to monitor the over recovered fuel cost balance to determine whether an additional adjustment to billing rates is required.

In June 2007, the Alabama PSC ordered the Company to increase its Rate ECR factor to 3.100 cents per KWH effective with billings beginning July 2007. In October 2008, the Alabama PSC approved an increase in the Company's Rate ECR factor to 3.983 cents per KWH effective with billings beginning October 2008.

On June 2, 2009, the Alabama PSC approved a decrease in the Company's Rate ECR factor to 3.733 cents per KWH for billings beginning June 9, 2009. On December 1, 2009, the Alabama PSC approved a decrease in the Company's Rate ECR factor to 2.731 cents per KWH for billings beginning January 2010 through December 2011. The Alabama PSC further approved an additional reduction in the Rate ECR factor of 0.328 cents per KWH for the billing months of January 2010 through December 2010 resulting in a Rate ECR factor of 2.403 cents per KWH for such 12-month period. For billing months beginning January 2012, the Rate ECR factor shall be 5.910 cents per KWH, absent a contrary order by the Alabama PSC. Rate ECR revenues, as recorded on the financial statements, are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, the approved decreases in the Rate ECR factor will have no significant effect on the Company's net income, but will decrease operating cash flows related to fuel cost recovery in 2010 when compared to 2009.

As of December 31, 2009, the Company had an over recovered fuel balance of approximately $199.6 million, of which approximately $22.1 million is included in deferred over recovered regulatory clause revenues in the balance sheets. As of December 31, 2008, the

Company had an under recovered fuel balance of approximately $305.8 million, of which approximately $180.9 million is included in deferred under recovered regulatory clause revenues in the balance sheets. These classifications are based on estimates, which include such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any return of the over recovered fuel costs or recovery of under recovered fuel costs. See Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for further information.

Natural Disaster Reserve

Based on an order from the Alabama PSC, the Company maintains a reserve for operations and maintenance expense to cover the cost of damages from major storms to its transmission and distribution facilities. The order approves a separate monthly natural disaster reserve (NDR) charge to customers consisting of two components. The first component is intended to establish and maintain a target reserve balance of $75 million for future storms and is an on-going part of customer billing. The second component of the NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives the Company authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Absent further Alabama PSC approval, the maximum total NDR charge consisting of both components is $10 per month per non-residential customer account and $5 per month per residential customer account. The Company has discretionary authority to accrue certain additional amounts as circumstances warrant.

In addition to the monthly NDR charge, the Company accrued $39.6 million of discretionary reserve in 2009 resulting in an accumulated balance of approximately $75 million in the reserve for future storms as of December 31, 2009. This reserve is included in other regulatory liabilities, deferred in the balance sheets. Effective February 2010, billings will be reduced to $0.37 per month per non-residential customer account and $0.15 per month per residential customer account, consistent with the Alabama PSC order to maintain the target NDR balance. The Company has fully recovered its deferred storm costs; therefore, rates do not include the second component of the NDR charge.

As revenue from the NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, any change in revenue and expense will not have an effect on net income but will decrease operating cash flows related to the NDR charge in 2010 when compared to 2009.

The net effect of the changes in 2010 in the Rate ECR factor, Rate RSE, Rate CNP, and NDR will result in an overall annual reduction in the Company's retail customers' billings of approximately $433 million.

Steam Service

On February 5, 2009, the Alabama PSC granted a Certificate of Abandonment of Steam Service in the downtown area of the City of Birmingham. The order allows the Company to discontinue steam service by the earlier of three years from May 14, 2008 or when it has no remaining steam service customers. Currently, the Company has contractual obligations to provide steam service until 2013. Impacts related to the abandonment of steam service are recognized in operating income and are not material to the earnings of the Company.

Legislation

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives, which could have a significant impact on the future cash flow and net income of the Company. The Company's cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA was approximately $104 million. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of the Company.

On October 27, 2009, Southern Company and its subsidiaries received notice that an award of $165 million had been granted, of which $65 million is available to the Company, under the ARRA grant application for transmission and distribution automation and modernization projects pending final negotiations. The Company continues to assess the other financial implications of the ARRA.

The U.S. House of Representatives and the U.S. Senate have passed separate bills related to healthcare reform. Both bills include a provision that would make Medicare Part D subsidy reimbursements taxable. If enacted into law, this provision could have a

significant negative impact on the Company's net income. See Note 2 to the financial statements under "Other Postretirement Benefits" for additional information.

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

Income Tax Matters

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code of 1986, as amended. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Other Matters

In accordance with accounting standards related to employers' accounting for pensions, the Company recorded non-cash pre-tax pension income of approximately $24 million, $26 million, and $17 million in 2009, 2008, and 2007, respectively. Postretirement benefit costs for the Company were $19 million, $23 million, and $27 million in 2009, 2008, and 2007, respectively. Such amounts are dependent on several factors including trust earnings and changes to the plans. A portion of pension 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. In addition, the Company is subject to certain claims and legal actions arising in the ordinary course of business. The Company's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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. See Note 3 to the financial statements for information regarding material issues.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed 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 accounting standards which require 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 the accounting standards 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 financial statements than they would on a non-regulated company.

As reflected in Note 1 to the financial statements under "Regulatory Assets and Liabilities," significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines and accounting principles generally accepted in the United States. 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 results of operations.

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, in accordance with generally accepted accounting principles (GAAP), records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. 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, coal combustion byproducts, including coal ash, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in Internal Revenue Service (IRS) or Alabama Department of Revenue interpretations of existing regulations.
- Identification of sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of new or existing matters through the legislative process, the court systems, the IRS, the Alabama Department of Revenue, the FERC, or the EPA.

Unbilled Revenues

Revenues related to the retail 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.

Pension and Other Postretirement Benefits

The Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, health care cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets, and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining the Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on the Company's investment strategy, historical experience, and expectations for long-term rates of return that considers external actuarial advice. The Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to the Company's target asset allocation. The Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

A 25 basis point change in any significant assumption would result in a $6 million or less change in total benefit expense and a $68 million or less change in projected obligations.

New Accounting Standards

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. The Company adopted this new guidance effective January 1, 2010, with no material impact on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition remained stable at December 31, 2009. Throughout the turmoil in the financial markets, the Company has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper programs and variable rate pollution control revenue bonds. The Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit have increased, and the Company has been and expects to continue to be subject to higher costs as its existing facilities are replaced or renewed. Total committed credit fees for the Company average less than ¼ of 1% per year. See "Sources of Capital" and "Financing Activities" herein for additional information.

The Company's investments in pension and nuclear decommissioning trust funds remained stable in value as of December 31, 2009. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012. The projections of the amount vary significantly depending on key variables, including future trust fund performance, and cannot be determined at this time. The Company's funding obligations for the nuclear decommissioning trust are based on the site study, and the next study is expected to be conducted in 2013.

Net cash provided from operating activities in 2009 totaled $1.6 billion, an increase of $424 million as compared to 2008. The increase was primarily due to an increase in net income, as previously discussed, a decrease in receivables, and an increase in other current liabilities attributable to collections on regulatory clauses. Net cash provided from operating activities in 2008 totaled $1.2 billion, an increase of $30 million as compared to 2007. The increase included additional use of funds for fossil fuel inventory and payment of operating expenses along with a higher receivables balance as compared to 2007. This use of funds was offset by an increase in cash from net income as previously discussed and higher depreciation expense along with a decrease in the payments for federal taxes as compared to 2007. Net cash provided from operating activities in 2007 totaled $1.2 billion, an increase of $194 million as compared to 2006. The increase was primarily due to an increase in net income resulting from price increases, an increase in deferred taxes, and the timing of payments related to operating expenses.

Net cash used for investing activities totaled $1.2 billion, $1.6 billion, and $1.3 billion for 2009, 2008, and 2007, respectively, primarily due to gross property additions to utility plant of $1.2 billion, $1.5 billion and $1.2 billion for 2009, 2008, and 2007, respectively. These additions were primarily related to environmental mandates, construction of transmission and distribution facilities, replacement of steam generation equipment, and purchases of nuclear fuel.

Net cash used for financing activities totaled $35 million in 2009 primarily due to redemptions of debt securities and dividends paid in excess of debt issuances and cash raised from common stock sales. In 2008 and 2007, net cash provided from financing activities totaled $375 million and $162 million, respectively, primarily due to long-term debt issuances and cash raised from common stock sales in excess of redemptions of securities and dividends paid. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and securities redeemed.

Significant balance sheet changes for 2009 include increases of $340 million in cash primarily from collections on regulatory clauses. These cash collections correspondingly decreased current and deferred under recovered regulatory clause revenues by $297 million and increased current and deferred over recovered regulatory clause revenues by $204 million. Other changes include increases of $939 million in gross plant related to environmental mandates and transmission and distribution projects and $478 million in long-term debt. In 2008, significant balance sheet changes included an increase of $966 million in gross plant and an increase of $855 million in long-term debt, primarily due to an increase in environmental-related equipment. Other significant balance sheet changes in 2008 were a result of a decline in the market value of the Company's pension trust and nuclear decommissioning trust funds, impacting the Company's other regulatory assets and liabilities. In 2007, significant balance sheet changes included an increase of $671 million in gross plant and an increase of $602 million in long-term debt, primarily due to an increase in environmental-related equipment.

The Company's ratio of common equity to total capitalization, including short-term debt, was 43.3% in 2009; 42.5% in 2008, and 42.5% in 2007. See Note 6 to the financial statements for additional information.

The Company has maintained investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and preference stock. See SELECTED FINANCIAL AND OPERATING DATA for additional information regarding the Company's securities ratings.

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, unsecured debt, common stock, preferred stock, and preference stock. However, the type and timing of any financings will depend on market conditions, regulatory approval, and other factors.

Security issuances are subject to regulatory approval by the Alabama PSC. Additionally, with respect to the public offering of securities, the Company files registration statements with the Securities and Exchange Commission under the Securities Act of 1933, as amended. The amounts of securities authorized by the Alabama PSC 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. 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 the Company are not commingled with funds of any other company.

The Company's current liabilities sometimes exceed current assets because of the Company's debt due within one year and the periodic use of short-term debt as a funding source primarily to meet scheduled maturities of long-term debt, as well as cash needs which can fluctuate significantly due to the seasonality of the business.

To meet short-term cash needs and contingencies, the Company has various internal and external sources of liquidity. At December 31, 2009, the Company had approximately $368 million of cash and cash equivalents and $1.3 billion of unused credit arrangements with banks, as described below. In addition, the Company has substantial cash flow from operating activities and access to the capital markets, including a commercial paper program, to meet liquidity needs.

The Company maintains committed lines of credit in the amount of $1.3 billion, of which $481 million will expire at various times during 2010. $372 million of the credit facilities expiring in 2010 allow for the execution of term loans for an additional one-year period. $765 million of credit facilities expire in 2012. A portion of the unused credit with banks is allocated to provide liquidity support to the Company's variable rate pollution control revenue bonds. The amount of variable rate pollution control revenue bonds requiring liquidity support as of December 31, 2009 was approximately $608 million. Subsequent to December 31, 2009, two remarketings of pollution control revenue bonds increased that amount to $744 million. 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 at the request and for the benefit of the Company and the other traditional 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 traditional operating company. The obligations of each company under these arrangements are several and there is no cross-affiliate credit support.

The Company had no commercial paper outstanding as of December 31, 2009, and $25 million outstanding as of December 31, 2008.

Financing Activities

In March 2009, the Company issued $500 million of Series 2009A 6.00% Senior Notes due March 1, 2039. The proceeds were used to repay short-term indebtedness and for other general corporate purposes, including the Company's continuous construction program.

In June 2009, the Company incurred obligations related to the issuance of $53 million of the Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Barry Plant Project), First Series 2009. The proceeds were used to fund pollution control and environmental improvement facilities at Plant Barry.

In July 2009, the Company issued 3,375,000 shares of common stock to Southern Company at $40 a share ($135 million aggregate purchase price). The proceeds were used for general corporate purposes.

In August 2009, the Company's $250 million Series BB Floating Rate Senior Notes due August 25, 2009 matured.

In October 2009, the Company issued 1,687,500 shares of common stock to Southern Company at $40 a share ($67.5 million aggregate purchase price). The proceeds were used for general corporate purposes.

In December 2009, the Company incurred obligations related to the issuance of $25.5 million of the Industrial Development Board of the City of Mobile, Alabama Solid Waste Disposal Revenue Bonds (Alabama Power Barry Plant Project), Second Series 2009. The proceeds were used to fund certain solid waste disposal facilities at Plant Barry.

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

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- and/or Baa3 or below. These contracts are primarily for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At December 31, 2009, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $5 million. At December 31, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $324 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the Company's ability to access capital markets, particularly the short-term debt market.

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, where possible, 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 future exposure to changes in interest rates, the Company enters into forward starting interest rate swaps and other derivatives that have been designated as hedges. The weighted average interest rate on $232 million of long-term variable interest rate exposure that has not been hedged at January 1, 2010 was 3.0%. 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 $2.3 million at January 1, 2010. For further information, see Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements.

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 financial hedge contracts for natural gas purchases. The Company has implemented fuel hedging programs per the guidelines 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% 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% of the Company's natural gas budget for that year.

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

	2009 Changes	2008 Changes
	Fair Value	
	(in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	**$(92)**	$ -
Contracts realized or settled	**123**	(44)
Current period changes[a]	**(75)**	(48)
Contracts outstanding at the end of the period, assets (liabilities), net	**$(44)**	$(92)

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

The change in the fair value positions of the energy-related derivative contracts for the year ended December 31, 2009 was an increase of $47.6 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and prices of natural gas. At December 31, 2009, the Company had a net hedge volume of 37.3 million mmBtu with a weighted average contract cost approximately $1.20 per mmBtu above market prices, and 44.5 million mmBtu at December 31, 2008 with a weighted average contract cost approximately $2.12 per mmBtu above market prices. The majority of the natural gas hedges are recovered through the fuel cost recovery clause.

At December 31, the net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as assets/(liabilities) as follows:

Asset (Liability) Derivatives	**2009**	2008
	(in millions)	
Regulatory hedges	**$(44)**	$(92)
Cash flow hedges	**-**	-
Not designated	**-**	-
Total fair value	**$(44)**	$(92)

Energy-related derivative contracts which are designated as regulatory hedges relate to the Company's fuel hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clause. Certain other gains and losses on energy-related derivatives, designated as cash flow hedges, are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Unrealized pre-tax gains and losses from energy-related derivative contracts recognized in income were not material for any year presented.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	December 31, 2009 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
		(in millions)		
Level 1	$ -	$ -	$ -	$ -
Level 2	(44)	(34)	(10)	-
Level 3	-	-	-	-
Fair value of contracts outstanding at end of period	$(44)	$(34)	$(10)	$ -

The Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note 10 to the financial statements for further discussion on fair value measurement.

The Company is exposed to market price risk in the event of nonperformance by counterparties to energy-related and interest rate derivative contracts. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P 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 Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements.

Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $1.0 billion for 2010, $1.0 billion for 2011, and $1.1 billion for 2012. Environmental expenditures included in these estimated amounts are $136 million, $85 million, and $99 million for 2010, 2011, and 2012, respectively. Also included over the next three years, the Company estimates spending $653 million on Plant Farley (including nuclear fuel), $882 million on distribution facilities, and $481 million on transmission additions. See Note 7 to the financial statements under "Construction Program" for additional details.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. As a result of Nuclear Regulatory Commission requirements, the Company has external trust funds for nuclear decommissioning costs; however, the Company currently has no additional funding requirements. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning."

In addition to the funds required for the Company's construction program, approximately $800 million will be required by the end of 2012 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.

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 an extended period will diminish internally funded capital for other purposes and may require the Company to seek capital from other sources. See Note 2 to the financial statements for additional information.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, 7, and 11 to the financial statements for additional information.

Contractual Obligations

	2010	2011-2012	2013-2014	After 2014	Uncertain Timing [d]	Total
			(in millions)			
Long-term debt[a] –						
Principal	$ 100	$ 700	$ 250	$ 5,136	$ -	$ 6,186
Interest	311	603	530	4,846	-	6,290
Preferred and preference stock dividends[b]	39	79	79	-	-	197
Energy-related derivative obligations[c]	34	11	-	-	-	45
Operating leases	22	21	8	10	-	61
Unrecognized tax benefits and interest[d]	-	-	-	-	6	6
Purchase commitments[e] –						
Capital [f]	912	1,919	-	-	-	2,831
Limestone[g]	11	30	32	54	-	127
Coal	1,420	1,589	923	975	-	4,907
Nuclear fuel	73	99	60	90	-	322
Natural gas [h]	413	451	254	148	-	1,266
Purchased power	39	60	67	337	-	503
Long-term service agreements[i]	23	48	50	135	-	256
Postretirement benefits trust[j]	11	22	-	-	-	33
Total	$3,408	$5,632	$2,253	$11,731	$6	$23,030

(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, 2010, as reflected in the statements of capitalization. Fixed rates include, where applicable, the effects of interest rate derivatives employed to manage interest rate risk.

(b) Preferred and preference stock do not mature; therefore, amounts are provided for the next five years only.

(c) For additional information, see Notes 1 and 11 to the financial statements.

(d) The timing related to the realization of $6 million in unrecognized tax benefits and interest payments in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Note 5 to the financial statements for additional information.

(e) The Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for 2009, 2008, and 2007 were $1.21 billion, $1.26 billion, and $1.19 billion, respectively.

(f) 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 nuclear fuel. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program.

(g) As part of the Company's program to reduce sulfur dioxide emissions from certain of its coal plants, the Company has entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment.

(h) 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, 2009.

(i) Long-term service agreements include price escalation based on inflation indices.

(j) The Company forecasts postretirement trust contributions over a three-year period. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012. The projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Therefore, no amounts related to the pension trust are included in the table. 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 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales and retail rates, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, access to sources of capital, projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, start and completion of construction projects, filings with state and federal regulatory authorities, impacts of adoption of new accounting rules, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts and other substances, and also changes in 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 FERC matters and 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 recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of the Company's employee benefit plans and nuclear decommissioning trusts;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- 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 and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- 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, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the 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, 2009, 2008, and 2007

Alabama Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Revenues:			
Retail revenues	**$4,497,081**	$4,862,281	$4,406,956
Wholesale revenues, non-affiliates	**619,859**	711,903	627,047
Wholesale revenues, affiliates	**236,995**	308,482	144,089
Other revenues	**174,639**	194,265	181,901
Total operating revenues	**5,528,574**	6,076,931	5,359,993
Operating Expenses:			
Fuel	**1,823,784**	2,184,310	1,762,418
Purchased power, non-affiliates	**87,737**	178,807	96,928
Purchased power, affiliates	**218,654**	359,202	341,461
Other operations and maintenance	**1,211,245**	1,258,888	1,186,235
Depreciation and amortization	**544,923**	520,449	471,536
Taxes other than income taxes	**322,274**	306,522	286,579
Total operating expenses	**4,208,617**	4,808,178	4,145,157
Operating Income	**1,319,957**	1,268,753	1,214,836
Other Income and (Expense):			
Allowance for equity funds used during construction	**79,175**	45,519	35,425
Interest income	**16,906**	19,394	19,545
Interest expense, net of amounts capitalized	**(298,495)**	(278,917)	(273,737)
Other income (expense), net	**(24,564)**	(31,514)	(29,144)
Total other income and (expense)	**(226,978)**	(245,518)	(247,911)
Earnings Before Income Taxes	**1,092,979**	1,023,235	966,925
Income taxes	**383,980**	367,813	351,198
Net Income	**708,999**	655,422	615,727
Dividends on Preferred and Preference Stock	**39,463**	39,463	36,145
Net Income After Dividends on Preferred and Preference Stock	**$ 669,536**	$ 615,959	$ 579,582

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008, and 2007

Alabama Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Activities:			
Net income	**$ 708,999**	$ 655,422	$ 615,727
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization, total	**636,788**	599,767	548,959
Deferred income taxes	**(65,907)**	126,538	21,269
Allowance for equity funds used during construction	**(79,175)**	(45,519)	(35,425)
Pension, postretirement, and other employee benefits	**(25,802)**	(26,530)	(18,781)
Stock based compensation expense	**3,767**	3,105	4,900
Tax benefit of stock options	**166**	685	1,118
Other, net	**62,318**	27,687	(13,648)
Changes in certain current assets and liabilities --			
-Receivables	**310,203**	(31,692)	(5,798)
-Fossil fuel stock	**(76,602)**	(134,212)	(33,840)
-Materials and supplies	**(21,989)**	(17,723)	(32,543)
-Other current assets	**(16,253)**	(1,493)	22,353
-Accounts payable	**(18,767)**	(8,751)	78,508
-Accrued taxes	**24,415**	36,957	(17,248)
-Accrued compensation	**(31,684)**	(4,722)	4,194
-Other current liabilities	**192,835**	(198)	10,098
Net cash provided from operating activities	**1,603,312**	1,179,321	1,149,843
Investing Activities:			
Property additions	**(1,233,580)**	(1,477,644)	(1,157,186)
Investment in restricted cash from pollution control bonds	**(5,673)**	(96,326)	(97,775)
Distribution of restricted cash from pollution control bonds	**49,041**	35,979	78,043
Nuclear decommissioning trust fund purchases	**(244,662)**	(300,503)	(334,275)
Nuclear decommissioning trust fund sales	**243,796**	299,636	333,409
Cost of removal net of salvage	**(37,883)**	(41,744)	(48,932)
Other investing activities	**165**	(19,142)	(26,621)
Net cash used for investing activities	**(1,228,796)**	(1,599,744)	(1,253,337)
Financing Activities:			
Increase (decrease) in notes payable, net	**(24,995)**	24,995	(119,670)
Proceeds --			
Common stock issued to parent	**202,500**	300,000	229,000
Capital contributions from parent company	**23,949**	21,272	27,867
Gross excess tax benefit of stock options	**485**	1,289	2,556
Preference stock	**-**	-	200,000
Pollution control revenue bonds	**78,500**	265,100	265,500
Senior notes issuances	**500,000**	850,000	850,000
Redemptions --			
Preferred stock	**-**	(125,000)	-
Pollution control revenue bonds	**-**	(11,100)	-
Senior notes	**(250,000)**	(410,000)	(668,500)
Other long-term debt	**-**	-	(103,093)
Payment of preferred and preference stock dividends	**(39,470)**	(40,899)	(31,380)
Payment of common stock dividends	**(522,800)**	(491,300)	(465,000)
Other financing activities	**(2,850)**	(9,369)	(25,709)
Net cash provided from (used for) financing activities	**(34,681)**	374,988	161,571
Net Change in Cash and Cash Equivalents	**339,835**	(45,435)	58,077
Cash and Cash Equivalents at Beginning of Year	**28,181**	73,616	15,539
Cash and Cash Equivalents at End of Year	**$ 368,016**	$ 28,181	$ 73,616
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $33,112, $20,215 and $17,961 capitalized, respectively)	**254,989**	258,918	248,289
Income taxes (net of refunds)	**426,390**	214,368	340,951

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Alabama Power Company 2009 Annual Report

Assets	2009	2008
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 368,016**	$ 28,181
Restricted cash	**36,711**	80,079
Receivables --		
Customer accounts receivable	**322,292**	350,410
Unbilled revenues	**134,875**	98,921
Under recovered regulatory clause revenues	**37,338**	153,899
Other accounts and notes receivable	**33,522**	44,645
Affiliated companies	**61,508**	70,612
Accumulated provision for uncollectible accounts	**(9,551)**	(8,882)
Fossil fuel stock, at average cost	**394,511**	322,089
Materials and supplies, at average cost	**326,074**	305,880
Vacation pay	**53,607**	52,577
Prepaid expenses	**111,320**	88,219
Other regulatory assets, current	**34,347**	74,825
Other current assets	**6,203**	12,915
Total current assets	**1,910,773**	1,674,370
Property, Plant, and Equipment:		
In service	**18,574,229**	17,635,129
Less accumulated provision for depreciation	**6,558,864**	6,259,720
Plant in service, net of depreciation	**12,015,365**	11,375,409
Nuclear fuel, at amortized cost	**253,308**	231,862
Construction work in progress	**1,256,311**	1,092,516
Total property, plant, and equipment	**13,524,984**	12,699,787
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**59,628**	50,912
Nuclear decommissioning trusts, at fair value	**489,795**	403,966
Miscellaneous property and investments	**69,749**	62,782
Total other property and investments	**619,172**	517,660
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**387,447**	362,596
Prepaid pension costs	**132,643**	166,334
Deferred under recovered regulatory clause revenues	**-**	180,874
Other regulatory assets, deferred	**750,492**	732,367
Other deferred charges and assets	**198,582**	202,018
Total deferred charges and other assets	**1,469,164**	1,644,189
Total Assets	**$17,524,093**	$16,536,006

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Alabama Power Company 2009 Annual Report

Liabilities and Stockholder's Equity	**2009**	2008
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 100,000**	$ 250,079
Notes payable	**-**	24,995
Accounts payable --		
Affiliated	**194,675**	178,708
Other	**328,400**	358,176
Customer deposits	**86,975**	77,205
Accrued taxes --		
Accrued income taxes	**14,789**	18,299
Other accrued taxes	**31,918**	30,372
Accrued interest	**65,455**	56,375
Accrued vacation pay	**44,751**	44,217
Accrued compensation	**71,286**	91,856
Liabilities from risk management activities	**37,844**	83,873
Over recovered regulatory clause revenues	**181,565**	-
Other current liabilities	**40,020**	53,777
Total current liabilities	**1,197,678**	1,267,932
Long-Term Debt (See accompanying statements)	**6,082,489**	5,604,791
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**2,293,468**	2,243,117
Deferred credits related to income taxes	**88,705**	90,083
Accumulated deferred investment tax credits	**164,713**	172,638
Employee benefit obligations	**387,936**	396,923
Asset retirement obligations	**491,007**	461,284
Other cost of removal obligations	**668,151**	634,792
Other regulatory liabilities, deferred	**169,224**	79,151
Deferred over recovered regulatory clause revenues	**22,060**	-
Other deferred credits and liabilities	**37,113**	45,858
Total deferred credits and other liabilities	**4,322,377**	4,123,846
Total Liabilities	**11,602,544**	10,996,569
Redeemable Preferred Stock (See accompanying statements)	**341,715**	341,715
Preference Stock (See accompanying statements)	**343,373**	343,412
Common Stockholder's Equity (See accompanying statements)	**5,236,461**	4,854,310
Total Liabilities and Stockholder's Equity	**17,524,093**	$16,536,006
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION

At December 31, 2009 and 2008

Alabama Power Company 2009 Annual Report

	2009	2008	2009	2008
		(in thousands)	*(percent of total)*	
Long-Term Debt:				
Long-term debt payable to affiliated trusts --				
Variable rate (3.35% at 1/1/10) due 2042	**$ 206,186**	$ 206,186		
Long-term notes payable --				
Floating rate (2.34% at 1/1/09) due 2009	**-**	250,000		
4.70% due 2010	**100,000**	100,000		
5.10% due 2011	**200,000**	200,000		
4.85% due 2012	**500,000**	500,000		
5.80% due 2013	**250,000**	250,000		
5.125% to 6.375% due 2016-2047	**3,775,000**	3,275,000		
Total long-term notes payable	**4,825,000**	$4,575,000		
Other long-term debt --				
Pollution control revenue bonds --				
1.40% to 5.00% due 2030-2038	**553,500**	500,500		
Variable rates (0.18% to 0.44% at 1/1/10) due 2015-2036	**601,690**	576,190		
Total other long-term debt	**1,155,190**	1,076,690		
Capitalized lease obligations	**-**	79		
Unamortized debt premium (discount), net	**(3,887)**	(3,085)		
Total long-term debt (annual interest requirement -- $311.4 million)	**6,182,489**	5,854,870		
Less amount due within one year	**100,000**	250,079		
Long-term debt excluding amount due within one year	**6,082,489**	5,604,791	**50.7%**	50.3%

	2009	2008	2009	2008
		(in thousands)	*(percent of total)*	
Preferred and Preference Stock:				
Cumulative redeemable preferred stock				
$100 par or stated value -- 4.20% to 4.92%				
Authorized - 3,850,000 shares				
Outstanding - 475,115 shares	**47,610**	47,610		
$1 par value -- 5.20% to 5.83%				
Authorized - 27,500,000 shares				
Outstanding - 12,000,000 shares: $25 stated value	**294,105**	294,105		
Preference stock				
Authorized - 40,000,000 shares				
Outstanding - $1 par value -- 5.63% to 6.50%				
- 14,000,000 shares				
(non-cumulative) $25 stated value	**343,373**	343,412		
Total preferred and preference stock				
(annual dividend requirement -- $39.5 million)	**685,088**	685,127	**5.7**	6.1
Common Stockholder's Equity:				
Common stock, par value $40 per share --				
Authorized - 2009: 40,000,000 shares				
- 2008: 40,000,000 shares				
Outstanding - 2009: 30,537,500 shares	**1,221,500**	1,019,000		
- 2008: 25,475,000 shares				
Paid-in capital	**2,119,818**	2,091,462		
Retained earnings	**1,900,526**	1,753,797		
Accumulated other comprehensive income (loss)	**(5,383)**	(9,949)		
Total common stockholder's equity	**5,236,461**	4,854,310	**43.6**	43.6
Total Capitalization	**$12,004,038**	$11,144,228	**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, 2009, 2008, and 2007

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	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)			
Balance at December 31, 2006	12,250	$490,000	$2,028,963	$1,516,245	$(2,921)	$4,032,28
Net income after dividends on preferred and preference stock	-	-	-	579,582	-	579,58
Issuance of common stock	5,725	229,000	-	-	-	229,00
Capital contributions from parent company	-	-	36,441	-	-	36,44
Other comprehensive income (loss)	-	-	-	-	(1,526)	(1,52
Cash dividends on common stock	-	-	-	(465,000)	-	(465,00
Other	-	-	(106)	5	-	(10
Balance at December 31, 2007	17,975	719,000	2,065,298	1,630,832	(4,447)	4,410,68
Net income after dividends on preferred and preference stock	-	-	-	615,959	-	615,95
Issuance of common stock	7,500	300,000	-	-	-	300,00
Capital contributions from parent company	-	-	26,164	-	-	26,16
Other comprehensive income (loss)	-	-	-	-	(5,502)	(5,50
Cash dividends on common stock	-	-	-	(491,300)	-	(491,30
Other	-	-	-	(1,694)	-	(1,69
Balance at December 31, 2008	**25,475**	**1,019,000**	**2,091,462**	**1,753,797**	**(9,949)**	**4,854,31**
Net income after dividends on preferred and preference stock	-	-	-	**669,536**	-	**669,53**
Issuance of common stock	**5,063**	**202,500**	-	-	-	**202,50**
Capital contributions from parent company	-	-	**28,356**	-	-	**28,35**
Other comprehensive income (loss)	-	-	-	-	**4,566**	**4,56**
Cash dividends on common stock	-	-	-	**(522,800)**	-	**(522,80**
Other	-	-	-	**(7)**	-	
Balance at December 31, 2009	**30,538**	**$1,221,500**	**$2,119,818**	**$1,900,526**	**$(5,383)**	**$5,236,46**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Alabama Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Net income after dividends on preferred and preference stock	**$669,536**	$615,959	$579,582
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of $(1,943), $(4,297), and $(1,226), respectively	**(3,195)**	(7,068)	(2,017)
Reclassification adjustment for amounts included in net income, net of tax of $4,718, $952, and $298, respectively	**7,761**	1,566	491
Total other comprehensive income (loss)	**4,566**	(5,502)	(1,526)
Comprehensive Income	**$674,102**	$610,457	$578,056

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 four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies – the Company, Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power), are vertically integrated utilities providing electric service in four Southeastern states. The Company operates as a vertically integrated utility providing electricity to retail and wholesale customers within its traditional service area located in the State of Alabama in addition to wholesale customers in the Southeast. Southern Power constructs, acquires, owns, and manages generation assets, and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in leveraged leases. 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 to the current year presentation.

The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC) and the Alabama 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 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, digital wireless communications, and other services with respect to business and operations and power pool transactions. Costs for these services amounted to $325 million, $321 million, and $299 million, during 2009, 2008, and 2007, respectively. Cost allocation methodologies used by SCS were approved by the Securities and Exchange Commission prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies.

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, systems and procedures services, strategic planning and budgeting services, and other services with respect to business and operations. Costs for these services amounted to $183 million, $196 million, and $182 million, during 2009, 2008, and 2007, 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 non-fuel expenses, which were $10.2 million in 2009, $11.1 million in 2008, and $9.8 million in 2007. See Note 4 for additional information.

Southern Company's 30% ownership interest in Alabama Fuel Products, LLC (AFP), which produced synthetic fuel, was terminated in July 2006. The Company had an agreement with an indirect subsidiary of Southern Company that provided services for AFP. Under this agreement, the Company provided certain accounting functions, including processing and paying fuel transportation invoices, and the Company was reimbursed for its expenses. Amounts billed under this agreement totaled approximately $1.2 million

and $58.1 million in 2008 and 2007, respectively. In addition, the Company purchased synthetic fuel from AFP for use at several of the Company's plants. Synthetic fuel purchases totaled $6.2 million and $462.1 million in 2008 and 2007, respectively.

The Company had an agreement with Southern Power under which the Company operated and maintained Plant Harris at cost. On August 1, 2007, that agreement was terminated and replaced with a service agreement under which the Company provides to Southern Power specifically requested services. In 2009, 2008, and 2007, the Company billed Southern Power $0.9 million, $0.9 million, and $2.4 million, respectively, under these agreements. Under a power purchase agreement (PPA) with Southern Power, the Company's purchased power costs from Plant Harris in 2009, 2008, and 2007 totaled $61.6 million, $63.2 million, and $66.3 million, respectively. The Company also provides the fuel, at cost, associated with the PPA. The fuel cost recognized by the Company was $62.5 million in 2009, $119.6 million in 2008, and $108.1 million in 2007. Additionally, the Company recorded $8.3 million of prepaid capacity expenses included in other deferred charges and other assets in the balance sheets at December 31, 2009, 2008, and 2007. See Note 3 under "Retail Regulatory Matters" and Note 7 under "Purchased Power Commitments" for additional information.

Also, see Note 4 for information regarding the Company's ownership in and PPA with Southern Electric Generating Company (SEGCO).

The traditional operating companies, including the Company, and Southern Power 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.

Regulatory Assets and Liabilities

The Company is subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate 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:

	2009	2008	Note
	(in millions)		
Deferred income tax charges	**$ 387**	$ 363	(a)
Loss on reacquired debt	**74**	80	(b)
Vacation pay	**54**	53	(c, k)
Under/(over) recovered regulatory clause revenues	**(166)**	335	(d)
Fuel-hedging (realized and unrealized) losses	**45**	95	(e)
Other assets	**8**	7	(f, g)
Asset retirement obligations	**(43)**	18	(a)
Other cost of removal obligations	**(668)**	(635)	(a)
Deferred income tax credits	**(89)**	(90)	(a)
Fuel-hedging (realized and unrealized) gains	**(1)**	(4)	(e)
Mine reclamation and remediation	**(12)**	(14)	(h)
Nuclear outage	**(27)**	(8)	(d)
Deferred purchased power	**(8)**	(20)	(g)
Natural disaster reserve	**(75)**	(33)	(i)
Other liabilities	**(3)**	(4)	(d)
Underfunded retiree benefit plans	**657**	614	(j, k)
Total assets (liabilities), net	**$ 133**	$ 757	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal assets and 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 assets and 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. This includes both vacation and banked holiday pay.

(d) Recorded and recovered or amortized as approved or accepted by the Alabama PSC over periods not exceeding five years.
(e) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally does not exceed three years. Upon final settlement, actual costs incurred are recovered through the fuel cost recovery clause.
(f) Recorded as accepted by the Alabama PSC. Capitalized upon initialization of related construction projects.
(g) Recovered over the life of the PPA for periods up to 13 years.
(h) Recorded as accepted by the Alabama PSC. Mine reclamation and remediation liabilities will be settled following completion of the related activities.
(i) Recovered as storm restoration expenses are incurred, as approved by the Alabama PSC.
(j) Recovered and amortized over the average remaining service period which may range up to 14 years. See Note 2 for additional information.
(k) Not earning a return as offset in rate base by a corresponding asset or liability.

In the event that a portion of the Company's operations is no longer subject to applicable accounting rules for rate regulation, the Company would be required to write off or reclassify to accumulated other comprehensive income 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 to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 3 under "Retail Regulatory Matters" for additional information.

Revenues

Energy and other revenues are recognized as services are provided. Wholesale 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 these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered or returned to customers through adjustments to the billing factors. The Company continuously monitors the under/over recovered balances and files for revised rates as required or when management deems appropriate, depending on the rate. See Note 3 under "Retail Regulatory Matters – Fuel Cost Recovery" and "Retail Regulatory Matters – Rate CNP" for additional information.

The Company has a diversified base of customers. No single customer comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense includes the cost of purchased emissions 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. See Note 3 under "Nuclear Fuel Disposal Costs" for additional information.

Income and Other 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. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with accounting standards related to the uncertainty in income taxes, the Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

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 Company's property, plant, and equipment consisted of the following at December 31:

	2009	2008
	(in millions)	
Generation	$ 9,627	$ 9,096
Transmission	2,702	2,559
Distribution	5,046	4,827
General	1,187	1,141
Plant acquisition adjustment	12	12
Total plant in service	$18,574	$17,635

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 nuclear refueling outage costs in advance of the unit's next refueling outage. The refueling cycle is 18 months for each unit. During 2009, the Company accrued $47.5 million for the applicable refueling cycles and paid $29.6 million for an outage at Plant Farley Unit 1. There was no outage at Plant Farley Unit 2 in 2009. At December 31, 2009, the reserve balance totaled $27.1 million and is included in the balance sheet in other regulatory liabilities.

Depreciation and Amortization

Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.2% in 2009 and 2008 and 3.1% in 2007. Depreciation studies are conducted periodically to update the composite rates and the information is provided to the Alabama 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. 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.

On June 25, 2009, the Company submitted an offer of settlement and stipulation to the FERC relating to the 2008 depreciation study that was filed in October 2008. The settlement offer withdraws the requests for authorization to use updated depreciation rates. In lieu of the new rates, the Company is using those depreciation rates employed prior and up to January 1, 2009 that were previously approved by the FERC. On September 30, 2009, the FERC issued an order approving the settlement offer.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are 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. The Company has received accounting guidance from the Alabama PSC allowing the continued accrual of other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability.

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, 2009 was $490 million. In addition, the Company has retirement obligations related to various landfill sites and underground storage tanks, asbestos removal, and disposal of polychlorinated biphenyls in certain transformers. The Company also has identified retirement obligations related to certain transmission and distribution facilities and certain wireless communication towers. However, liabilities for the removal of these assets have not been recorded because the range of time over which the Company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income allowed removal costs in accordance with its regulatory treatment. Any differences between costs recognized in accordance with accounting standards related to asset retirement and environmental obligations, 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" for further information on amounts included in rates.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2009	2008
	(in millions)	
Balance beginning of year	**$461**	$506
Liabilities incurred	-	-
Liabilities settled	**(1)**	(2)
Accretion	**31**	31
Cash flow revisions [a]	-	(74)
Balance end of year	**$491**	$461

(a) Updated based on results from 2008 Nuclear Decommissioning Study

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 external trust funds (the Funds) to comply with the NRC's regulations. Use of the Funds is restricted to nuclear decommissioning activities and the Funds 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). The Funds are required to be held by one or more trustees with an individual net worth of at least $100 million. The FERC requires the Funds' managers to exercise the standard of care in investing that a "prudent investor" would use in the same circumstances. The FERC regulations also require, except for investments tied to market indices or other mutual funds, that the Funds' managers may not invest in any securities of the utility for which it manages funds or its affiliates. While the Company is allowed to prescribe an overall investment policy to the Funds' managers, the Company is not allowed to engage in the day-to-day management of the Funds or to mandate individual investment decisions. Day-to-day management of the investments in the Funds is delegated to unrelated third party managers with oversight by the Company's management. The Funds' managers are authorized, within broad limits, to actively buy and sell securities at their own discretion in order to maximize the investment return on the Funds' investments. The Funds are invested in a tax-efficient manner in a diversified mix of equity and fixed income securities and are reported as trading securities.

The Company records the investment securities held in the Funds at fair value, as disclosed in Note 10. Gains and losses, whether realized, unrealized, or identified as other-than-temporary, are recorded in the regulatory liability for asset retirement obligations in the balance sheets and are not included in net income or other comprehensive income. Fair value adjustments, realized gains, and other-than-temporary impairment losses are determined on a specific identification basis.

At December 31, 2009, investment securities in the Funds totaled $488.4 million consisting of equity securities of $345.6 million, debt securities of $134.3 million, and $8.5 million of other securities. At December 31, 2008, investment securities in the Funds totaled $402.9 million consisting of equity securities of $256.7 million, debt securities of $135.3 million, and $10.9 million of other securities. These amounts exclude receivables related to investment income and pending investment sales, and payables related to pending investment purchases.

Sales of the securities held in the Funds resulted in cash proceeds of $243.8 million, $299.6 million, and $333.4 million in 2009, 2008, and 2007, respectively, all of which were reinvested. For 2009, fair value increases, including reinvested interest and dividends and excluding the Funds' expenses, were $96.2 million, of which $79.9 million related to securities held in the Funds at December 31, 2009. For 2008, fair value reductions, including reinvested interest and dividends and excluding the Funds' expenses, were $(134.4) million. Realized gains and other-than-temporary impairment losses were $34.6 million and $(37.2) million, respectively, in 2007. While the investment securities held in the Funds are reported as trading securities, the Funds continue to be managed with a long-term focus. Accordingly, all purchases and sales within the Funds are presented separately in the statements of cash flows as investing cash flows, consistent with the nature of and purpose for which the securities were acquired.

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 a plan with the NRC designed to ensure that, over time, the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

At December 31, 2009, the accumulated provisions for decommissioning were as follows:

	(in millions)
External trust funds	$490
Internal reserves	25
Total	$515

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 performed in 2008 for Plant Farley was as follows:

Decommissioning periods:	
Beginning year	2037
Completion year	2065
	(in millions)
Site study costs:	
Radiated structures	$1,060
Non-radiated structures	72
Total	$1,132

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.

For ratemaking purposes, the Company's decommissioning costs are based on the site study. Significant assumptions used to determine these costs for ratemaking were an inflation rate of 4.5% and a trust earnings rate of 7.0%. The next site study is expected to be conducted in 2013.

Amounts previously contributed to the external trust fund are currently projected to be adequate to meet the decommissioning obligations. The Company will continue to provide site specific estimates of the decommissioning costs and related projections of funds in the external trust to the Alabama PSC and, if necessary, would seek the Alabama PSC's approval to address any changes in a manner consistent with the NRC and other applicable requirements.

Allowance for Funds Used During Construction (AFUDC)

In accordance with regulatory treatment, the Company records AFUDC, which 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 equity component of AFUDC is not included in calculating taxable income. All current construction costs are included in retail rates. The composite rate used to determine the amount of AFUDC was 9.2% in 2009 and 2008 and 9.4% in 2007. AFUDC, net of income tax, as a percent of net income after dividends on preferred and preference stock was 14.9% in 2009, 9.4% in 2008, and 8.0% in 2007.

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 loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

Natural Disaster Reserve

Based on an order from the Alabama PSC, the Company maintains a reserve for operations and maintenance expense to cover the cost of damages from major storms to its transmission and distribution facilities. The order approves a separate monthly natural disaster reserve (NDR) charge to customers consisting of two components. The first component is intended to establish and maintain a target reserve balance of $75 million for future storms and is an on-going part of customer billing. The second component of the NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives the Company authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Absent further Alabama PSC approval, the maximum total NDR charge consisting of both components is $10 per month per non-residential customer account and $5 per month per residential customer account. The Company has discretionary authority to accrue certain additional amounts as circumstances warrant.

In addition to the monthly NDR charge, the Company accrued $39.6 million of discretionary reserve in 2009 resulting in an accumulated balance of approximately $75 million in the reserve for future storms as of December 31, 2009. This reserve is included in other regulatory liabilities, deferred in the balance sheets. Effective February 2010, billings will be reduced to $0.37 per month per non-residential customer account and $0.15 per month per residential customer account, consistent with the Alabama PSC order to maintain the target NDR balance. The Company has fully recovered its deferred storm costs; therefore, rates do not include the second component of the NDR charge.

As revenue from the NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, any change in revenue and expense will not have an effect on net income but will decrease operating cash flows related to the NDR charge in 2010 when compared to 2009.

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, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the average costs of oil, coal, natural gas, and emissions allowances. Fuel is charged to inventory when purchased and then expensed as used and recovered by the Company through fuel cost recovery rates approved by the Alabama PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero 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 (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 10 for additional information. 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 or are recoverable through the Alabama PSC-approved fuel hedging program. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges 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. See Note 11 for additional information.

The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. Additionally, the Company has no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2009.

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.

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 reclassifications for amounts included in net income.

Variable Interest Entities

The primary beneficiary of a variable interest entity must consolidate the related assets and liabilities. The Company has established certain wholly-owned trusts to issue preferred securities. See Note 6 under "Long-Term Debt Payable to Affiliated Trusts" for additional information. However, the Company is not considered 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 included in Long-term Debt in the balance sheets.

2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the defined benefit plan are expected for the year ending December 31, 2010. The Company also provides certain defined benefit pension plans for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, the Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The Company funds trusts to the extent required by the Alabama PSC and the FERC. For the year ending December 31, 2010, postretirement trust contributions are expected to total approximately $11 million.

The measurement date for plan assets and obligations for 2009 and 2008 was December 31 while the measurement date for prior years was September 30. Pursuant to accounting standards related to defined postretirement benefit plans, the Company was required to change the measurement date for its defined postretirement benefit plans from September 30 to December 31 beginning with the year ended December 31, 2008. As permitted, the Company adopted the measurement date provisions effective January 1, 2008 resulting in an increase in long-term liabilities of $5 million and an increase in prepaid pension costs of approximately $11 million.

Pension Plans

The total accumulated benefit obligation for the pension plans was $1.6 billion in 2009 and $1.4 billion in 2008. Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the projected benefit obligations and the fair value of plan assets were as follows:

	2009	2008
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$1,460**	$1,420
Service cost	**34**	43
Interest cost	**96**	109
Benefits paid	**(77)**	(94)
Actuarial loss (gain)	**162**	(18)
Balance at end of year	**1,675**	1,460
Change in plan assets		
Fair value of plan assets at beginning of year	**1,539**	2,318
Actual return (loss) on plan assets	**245**	(692)
Employer contributions	**5**	7
Benefits paid	**(77)**	(94)
Fair value of plan assets at end of year	**1,712**	1,539
Prepaid pension asset, net	**$ 37**	$ 79

At December 31, 2009, the projected benefit obligations for the qualified and non-qualified pension plans were $1.6 billion and $95 million, respectively. All pension plan assets are related to the qualified pension plan.

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). In 2009, in determining the optimal asset allocation for the pension fund, the Company performed an extensive study based on projections of both assets and liabilities over a 10-year horizon. The primary goal of the study was to maximize plan funded status. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's pension plan assets as of the end of the year, along with the targeted mix of assets, is presented below:

	Target	**2009**	2008
Domestic equity	29%	**33%**	34%
International equity	28	**29**	23
Fixed income	15	**15**	14
Special situations	3	**-**	-
Real estate investments	15	**13**	19
Private equity	10	**10**	10
Total	100%	**100%**	100%

The investment strategy for plan assets related to the Company's defined benefit pension plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of pension plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
*Domestic equity**	$339	$141	$ -	$ 480
International equity*	439	44	-	483
Fixed income:				
U.S. Treasury, government, and agency bonds	-	127	-	127
Mortgage- and asset-backed securities	-	34	-	34
Corporate bonds	-	85	-	85
Pooled funds	-	3	-	3
Cash equivalents and other	1	104	-	105
Special situations	-	-	-	-
Real estate investments	53	-	166	219
Private equity	-	-	169	169
Total	$832	$538	$335	$1,705
Liabilities:				
Derivatives	(1)	-	-	(1)
Total	$831	$538	$335	$1,704

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	***Significant* Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$318	$129	$ -	$ 447
International equity*	285	26	-	311
Fixed income:				
U.S. Treasury, government, and agency bonds	-	133	-	133
Mortgage- and asset-backed securities	-	63	-	63
Corporate bonds	-	86	-	86
Pooled funds	-	1	-	1
Cash equivalents and other	7	61	-	68
Special situations	-	-	-	-
Real estate investments	43	-	254	297
Private equity	-	-	148	148
Total	$653	$499	$402	$1,554
Liabilities:				
Derivatives	(2)	-	-	(2)
Total	$651	$499	$402	$1,552

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	Private Equity	Real Estate Investments	Private Equity
		(in millions)		
Beginning balance	$254	$148	$316	$157
Actual return on investments:				
Related to investments held at year end	(72)	13	(51)	(43)
Related to investments sold during the year	(20)	3	1	8
Total return on investments	(92)	16	(50)	(35)
Purchases, sales, and settlements	4	5	(12)	26
Transfers into/out of Level 3	-	-	-	-
Ending balance	$166	$169	$254	$148

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the consolidated balance sheets related to the Company's pension plans consist of:

	2009	2008
	(in millions)	
Prepaid pension costs	$133	$166
Other regulatory assets, deferred	549	479
Other current liabilities	(6)	(6)
Employee benefit obligations	(90)	(81)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	Net (Gain)Loss
	(in millions)	
Balance at December 31, 2009:		
Regulatory assets	$50	$499
Balance at December 31, 2008:		
Regulatory assets	$58	$421
Estimated amortization in net periodic pension cost in 2010:		
Regulatory assets	$ 9	$ 2

The changes in the balances of regulatory assets and regulatory liabilities related to the defined benefit pension plans for the year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets	Regulatory Liabilities
	(in millions)	
Balance at December 31, 2007	$ 43	$(423)
Net loss	441	433
Change in prior service costs	-	-
Reclassification adjustments:		
Amortization of prior service costs	(2)	(10)
Amortization of net gain	(3)	-
Total reclassification adjustments	(5)	(10)
Total change	436	423
Balance at December 31, 2008	479	-
Net loss	**79**	-
Change in prior service costs	**1**	-
Reclassification adjustments:		
Amortization of prior service costs	**(9)**	-
Amortization of net gain	**(1)**	-
Total reclassification adjustments	**(10)**	-
Total change	**70**	-
Balance at December 31, 2009	**$549**	**$ -**

Components of net periodic pension cost (income) were as follows:

	2009	2008	2007
		(in millions)	
Service cost	**$ 34**	$ 35	$ 35
Interest cost	**96**	87	82
Expected return on plan assets	**(164)**	(160)	(146)
Recognized net (gain) loss	**1**	2	2
Net amortization	**9**	10	10
Net periodic pension (income)	**$ (24)**	$ (26)	$ (17)

Net periodic pension cost (income) is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

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, 2009, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2010	$ 87
2011	91
2012	95
2013	101
2014	108
2015 to 2019	610

Other Postretirement Benefits

Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the accumulated postretirement benefit obligations (APBO) and in the fair value of plan assets were as follows:

	2009	2008
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 446**	$ 480
Service cost	**6**	9
Interest cost	**29**	37
Benefits paid	**(26)**	(30)
Actuarial loss (gain)	**19**	(53)
Plan amendments	**(15)**	-
Retiree drug subsidy	**2**	3
Balance at end of year	**461**	446
Change in plan assets		
Fair value of plan assets at beginning of year	**252**	297
Actual return (loss) on plan assets	**47**	(75)
Employer contributions	**20**	57
Benefits paid	**(24)**	(27)
Fair value of plan assets at end of year	**295**	252
Accrued liability (recognized in the balance sheet)	**$(166)**	$(194)

Other postretirement benefit 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. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's other postretirement benefit plan assets as of the end of the year, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	47%	**42%**	31%
International equity	12	**16**	13
Domestic fixed income	32	**35**	46
Special situations	1	**-**	-
Real estate investments	5	**4**	7
Private equity	3	**3**	3
Total	100%	**100%**	100%

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is comprised of domestic bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Trust-owned life insurance.*** Some of the Company's taxable trusts invest in these investments in order to minimize the impact of taxes on the portfolio.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.

- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of other postretirement benefit plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$54	$ 8	$ -	$ 62
International equity*	24	2	-	26
Fixed income:				
U.S. Treasury, government, and agency bonds	-	7	-	7
Mortgage- and asset-backed securities	-	2	-	2
Corporate bonds	-	5	-	5
Pooled funds	-	-	-	-
Cash equivalents and other	-	23	-	23
Trust-owned life insurance	-	144	-	144
Special situations	-	-	-	-
Real estate investments	3	-	9	12
Private equity	-	-	10	10
Total	$81	$191	$19	$291

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$33	$ 7	$ -	$ 40
International equity*	16	1	-	17
Fixed income:				
U.S. Treasury, government, and agency bonds	-	7	-	7
Mortgage- and asset-backed securities	-	4	-	4
Corporate bonds	-	5	-	5
Pooled funds	-	-	-	-
Cash equivalents and other	-	48	-	48
Trust-owned life insurance	-	105	-	105
Special situations	-	-	-	-
Real estate investments	2	-	15	17
Private equity	-	-	8	8
Total	$51	$177	$23	$251

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	**Private Equity**	**Real Estate Investments**	**Private Equity**
			(in millions)	
Beginning balance	**$15**	**$8**	$17	$9
Actual return on investments:				
Related to investments held at year end	**(5)**	**2**	(2)	(2)
Related to investments sold during the year	**(1)**	**-**	-	-
Total return on investments	**(6)**	**2**	(2)	(2)
Purchases, sales, and settlements	**-**	**-**	-	1
Transfers into/out of Level 3	**-**	**-**	-	-
Ending balance	**$9**	**$10**	$15	$8

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's other postretirement benefit plans consist of:

	2009	2008
	(in millions)	
Regulatory assets	**$ 108**	$ 135
Employee benefit obligations	**(166)**	(194)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the other postretirement benefit plans that had not yet been recognized in net periodic postretirement benefit cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	**Net (Gain)Loss**	**Transition Obligation**
		(in millions)	
Balance at December 31, 2009:			
Regulatory asset	**$33**	**$67**	**$ 8**
Balance at December 31, 2008:			
Regulatory asset	$49	$71	$15
Estimated amortization as net periodic postretirement cost in 2010:			
Regulatory asset	$ 4	$ -	$ 3

The changes in the balance of regulatory assets related to the other postretirement benefit plans for the plan year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets
	(in millions)
Balance at December 31, 2007	$ 95
Net loss	50
Change in prior service costs/transition obligation	-
Reclassification adjustments:	
Amortization of transition obligation	(5)
Amortization of prior service costs	(5)
Amortization of net gain	-
Total reclassification adjustments	(10)
Total change	40
Balance at December 31, 2008	135
Net gain	**(4)**
Change in prior service costs/transition obligation	**(15)**
Reclassification adjustments:	
Amortization of transition obligation	**(4)**
Amortization of prior service costs	**(4)**
Amortization of net gain	-
Total reclassification adjustments	**(8)**
Total change	**(27)**
Balance at December 31, 2009	**$108**

Components of the other postretirement benefit plans' net periodic cost were as follows:

	2009	2008	2007
		(in millions)	
Service cost	**$ 6**	$ 7	$ 7
Interest cost	**29**	29	28
Expected return on plan assets	**(24)**	(22)	(19)
Net amortization	**8**	9	11
Net postretirement cost	**$ 19**	$ 23	$ 27

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act) provides a 28% prescription drug subsidy for Medicare eligible retirees. The effect of the subsidy reduced the Company's expenses for the years ended December 31, 2009, 2008, and 2007 by approximately $9.0 million, $10.7 million, and $10.7 million, respectively, and is expected to have a similar impact on future expenses.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO 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)	
2010	$ 29	$ (3)	$ 26
2011	32	(3)	29
2012	34	(3)	31
2013	36	(4)	32
2014	37	(4)	33
2015 to 2019	194	(28)	166

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2006 for the 2007 plan year using a discount rate of 6.00% and an annual salary increase of 3.50%.

	2009	2008	2007
Discount rate:			
Pension plans	**5.93%**	6.75%	6.30%
Other postretirement benefit plans	**5.84**	6.75	6.30
Annual salary increase	**4.18**	3.75	3.75
Long-term return on plan assets:			
Pension plans	**8.50**	8.50	8.50
Other postretirement benefit plans	**7.52**	7.66	7.68

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the APBO was a weighted average medical care cost trend rate of 8.50% for 2010, decreasing gradually to 5.25% through the year 2016 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2009 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$29	$27
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 an 85% matching contribution up to 6% of an employee's base salary. Total matching contributions made to the plan for 2009, 2008, and 2007 were $19 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 such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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 EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including the Company, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. These actions were filed concurrently with the issuance of notices of violation of the NSR provisions to each of the traditional operating companies. After the Company was dismissed from the original action, the EPA filed a separate action in January 2001 against the Company in the U.S. District Court for the Northern District of Alabama. In the lawsuit against the Company, the EPA alleges that NSR violations occurred at five coal-fired generating facilities operated by the Company. The civil action requests penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the

Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Remediation

The 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.

FERC Matters

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

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

On December 23, 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that the Company possesses or has exercised any market power. The agreement likewise does not require the Company to make any refunds related to sales during the 15-month refund period. Under the agreement, the Company will donate $0.6 million to nonprofit organizations in the State of Alabama for the purpose of offsetting the electricity bills of low-income retail customers. The agreement is subject to review and approval by the FERC.

Intercompany Interchange Contract

The Company's generation fleet is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies (including the Company), Southern Power, and SCS, as agent, under the terms of which the power pool of Southern Company is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining Southern Power as a "system company" rather than a "marketing affiliate" is just and reasonable. In connection with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

In October 2006, the FERC issued an order accepting a settlement resolving the proceeding subject to Southern Company's agreement to accept certain modifications to the settlement's terms. Southern Company notified the FERC that it accepted the modifications. The modifications largely involve functional separation and information restrictions related to marketing activities conducted on

behalf of Southern Power. In November 2006, Southern Company filed with the FERC a compliance plan in connection with the order. In April 2007, the FERC approved, with certain modifications, the plan submitted by Southern Company. Implementation of the plan did not have a material impact on the Company's financial statements. In November 2007, Southern Company notified the FERC that the plan had been implemented. In December 2008, the FERC division of audits issued for public comment its final audit report pertaining to compliance implementation and related matters. No comments were submitted challenging the audit report's findings of Southern Company's compliance. The proceeding remains open pending a decision from the FERC regarding the audit report.

Nuclear Fuel Disposal Costs

The Company has a contract with the United States, acting through 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.

In July 2007, the U.S. Court of Federal Claims awarded the Company approximately $17 million, representing substantially all of the direct costs of the expansion of spent nuclear fuel storage facilities at Plant Farley from 1998 through 2004. In November 2007, the government's motion for reconsideration was denied. In January 2008, the government filed an appeal, and in February 2008, filed a motion to stay the appeal. In April 2008, the U.S. Court of Appeals for the Federal Circuit granted the government's motion to stay the appeal pending the court's decisions in three other similar cases already on appeal. Those cases were decided in August 2008. The U.S. Court of Appeals for the Federal Circuit has left the stay of appeals in place pending the decision in an appeal of another case involving spent nuclear fuel contracts.

In April 2008, a second claim against the government was filed for damages incurred after December 31, 2004 (the court-mandated cut-off in the original claim), due to the government's alleged continuing breach of contract. In October 2008, the U.S. Court of Appeals for the Federal Circuit denied a similar request by the government to stay this proceeding. The complaint does not contain any specific dollar amount for recovery of damages. Damages will continue to accumulate until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of December 31, 2009 for either claim. The final outcome of these matters cannot be determined at this time, but no material impact on net income is expected as any damage amounts collected from the government are expected to be returned to customers.

An on-site dry spent fuel storage facility at Plant Farley is operational and can be expanded to accommodate spent fuel through the expected life of the plant.

Retail Regulatory Matters

Rate RSE

Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4.0% per year and any annual adjustment is limited to 5.0%. Retail rates remain unchanged when the retail return on common equity is projected to be between 13.0% and 14.5%. If the Company's actual retail return on common equity is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail return on common equity fall below the allowed equity return range.

In October 2008, the Alabama PSC approved a corrective rate package, effective January 2009, that primarily provides for adjustments associated with customer charges to certain existing rate structures. The Company agreed to a moratorium on any increase in rates in 2009 under the Rate RSE.

On December 1, 2009, the Company made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2010. The Rate RSE increase for 2010 is 3.24%, or $152 million annually, and was effective in January 2010. The revenue adjustment under the Rate RSE is largely attributable to the costs associated with fossil capacity which is currently dedicated to certain long-term wholesale contracts that expire during 2010. Retail cost of service for 2010 reflects the costs for that portion of the year in which this capacity is no longer committed to wholesale. In an Alabama PSC order dated January 5, 2010, the Alabama PSC acknowledged that a full calendar year of costs for these units would be reflected in the Rate RSE calculation beginning in 2011 and thereafter. Under the terms of Rate RSE, the maximum increase for 2011 cannot exceed 4.76%.

Rate CNP

The Company's retail rates, approved by the Alabama PSC, 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 a Rate CNP. There was no adjustment to the Rate CNP to recover certificated PPA costs in 2007, 2008, or 2009. Effective April 2010, Rate CNP will be reduced approximately $70 million annually, primarily due to the expiration on May 31, 2010, of the PPA with Southern Power covering the capacity of Plant Harris Unit 1.

Rate CNP also allows for the recovery of the Company's retail costs associated with environmental laws, regulations, or other such mandates. The rate mechanism is based on forward looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on invested capital. Retail rates increased approximately 0.6% in January 2007 and 2.4% in January 2008 due to environmental costs. In October 2008, the Company agreed to defer collection of any increase in rates under this portion of Rate CNP, which permits recovery of costs associated with environmental laws and regulations, from 2009 until 2010. The deferral of the retail rate adjustments had an immaterial impact on annual cash flows, and had no significant effect on the Company's revenues or net income. On December 1, 2009, the Company made its Rate CNP environmental submission of projected data for calendar year 2010, resulting in an increase to retail rates of approximately 4.3%, or an additional $195 million annually, based upon projected billings. Under the terms of the rate mechanism, this adjustment became effective in January 2010. The Rate CNP environmental adjustment is primarily attributable to scrubbers being placed in service during 2010 at four of the Company's generating units.

Fuel Cost Recovery

The Company has established fuel cost recovery rates under Rate ECR approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. The Company, along with the Alabama PSC, will continue to monitor the over recovered fuel cost balance to determine whether an additional adjustment to billing rates is required.

In June 2007, the Alabama PSC ordered the Company to increase its Rate ECR factor to 3.100 cents per kilowatt-hour (KWH) effective with billings beginning July 2007. In October 2008, the Alabama PSC approved an increase in the Company's Rate ECR factor to 3.983 cents per KWH effective with billings beginning October 2008.

On June 2, 2009, the Alabama PSC approved a decrease in the Company's Rate ECR factor to 3.733 cents per KWH for billings beginning June 9, 2009. On December 1, 2009, the Alabama PSC approved a decrease in the Company's Rate ECR factor to 2.731 cents per KWH for billings beginning January 2010 through December 2011. The Alabama PSC further approved an additional reduction in the Rate ECR factor of 0.328 cents per KWH for the billing months of January 2010 through December 2010 resulting in a Rate ECR factor of 2.403 cents per KWH for such 12-month period. For billing months beginning January 2012, the Rate ECR factor shall be 5.910 cents per KWH, absent a contrary order by the Alabama PSC. Rate ECR revenues, as recorded on the financial statements, are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, the approved decreases in the Rate ECR factor will have no significant effect on the Company's net income, but will decrease operating cash flows related to fuel cost recovery in 2010 when compared to 2009.

As of December 31, 2009, the Company had an over recovered fuel balance of approximately $199.6 million, of which approximately $22.1 million is included in deferred over recovered regulatory clause revenues in the balance sheets. As of December 31, 2008, the Company had an under recovered fuel balance of approximately $305.8 million, of which approximately $180.9 million is included in deferred under recovered regulatory clause revenues in the balance sheets. These classifications are based on estimates, which include such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any return of the over recovered fuel costs or recovery of under recovered fuel costs.

Natural Disaster Reserve

Based on an order from the Alabama PSC, the Company maintains a reserve for operations and maintenance expense to cover the cost of damages from major storms to its transmission and distribution facilities. The order approves a separate monthly NDR charge to customers consisting of two components. The first component is intended to establish and maintain a target reserve balance of $75 million for future storms and is an on-going part of customer billing. The second component of the NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives the Company authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Absent further Alabama PSC approval, the maximum total NDR charge consisting of

both components is $10 per month per non-residential customer account and $5 per month per residential customer account. The Company has discretionary authority to accrue certain additional amounts as circumstances warrant.

In addition to the monthly NDR charge, the Company accrued $39.6 million of discretionary reserve in 2009 resulting in an accumulated balance of approximately $75 million in the reserve for future storms as of December 31, 2009. This reserve is included in other regulatory liabilities, deferred in the balance sheets. Effective February 2010, billings will be reduced to $0.37 per month per non-residential customer account and $0.15 per month per residential customer account, consistent with the Alabama PSC order to maintain the target NDR balance. The Company has fully recovered its deferred storm costs, therefore, rates do not include the second component of the NDR charge.

As revenue from the NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, any change in revenue and expense will not have an effect on net income but will decrease operating cash flows related to the NDR charge in 2010 when compared to 2009.

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 years' notice. The Company's share of purchased power totaled $82.1 million in 2009, $124 million in 2008, and $105 million in 2007, and is included in "Purchased power from affiliates" in the statements of income. The Company accounts for SEGCO using the equity method.

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, 2009, the capitalization of SEGCO consisted of $85 million of equity and $74 million of long-term debt on which the annual interest requirement is $3.2 million. SEGCO paid no dividends in 2009, $7.8 million in 2008, and $2.6 million in 2007, of which one-half of each was paid to the Company. In addition, the Company recognizes 50% of SEGCO's net income.

In addition to the Company's ownership of SEGCO, the Company's percentage ownership and investment in jointly-owned coal-fired generating plants at December 31, 2009 is as follows:

Facility	Total Megawatt Capacity	Company Ownership	Company Investment	Accumulated Depreciation
			(in millions)	
Greene County	*500*	*60.00% (1)*	$ 137	$ 71
Plant Miller Units 1 and 2	1,320	91.84% (2)	1,063	449

(1) Jointly owned with an affiliate, Mississippi Power.
(2) Jointly owned with PowerSouth.

At December 31, 2009, the Company's Plant Miller portion of construction work in progress was $243.6 million.

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 and the Company is responsible for providing its own financing.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and combined state income tax returns for the States of Alabama, Georgia, and Mississippi. Under a joint consolidated income tax allocation agreement, 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 it filed a separate income tax return. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability. In addition, the Company files a separate company income tax return for the State of Tennessee.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2009	2008	2007
		(in millions)	
Federal –			
Current	**$374**	$198	$287
Deferred	**(41)**	121	17
	$333	$319	$304
State –			
Current	**$ 76**	$ 43	$ 43
Deferred	**(25)**	6	4
	51	49	47
Total	**$384**	$368	$351

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:

	2009	2008
		(in millions)
Deferred tax liabilities:		
Accelerated depreciation	**$2,010**	$1,908
Property basis differences	**376**	343
Premium on reacquired debt	**30**	33
Pension and other benefits	**184**	175
Fuel clause under recovered	**-**	140
Regulatory assets associated with employee benefit obligations	**295**	286
Regulatory assets associated with asset retirement obligations	**208**	199
Other	**82**	67
Total	**3,185**	3,151
Deferred tax assets:		
Federal effect of state deferred taxes	**88**	126
State effect of federal deferred taxes	**107**	104
Unbilled revenue	**29**	34
Storm reserve	**23**	4
Pension and other benefits	**334**	330
Other comprehensive losses	**9**	13
Fuel clause over recovered	**75**	
Asset retirement obligations	**208**	199
Other	**93**	82
Total	**966**	892
Total deferred tax liabilities, net	**2,219**	2,259
Portion included in current assets (liabilities), net	**74**	(16)
Accumulated deferred income taxes in the balance sheets	**$2,293**	$2,243

At December 31, 2009, the Company's tax-related regulatory assets and liabilities were $387 million and $89 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years, to deferred taxes previously recognized at rates lower than the current enacted tax law, 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.

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 $8.0 million in each of 2009, 2008, and 2007. At December 31, 2009, all investment tax credits available to reduce federal income taxes payable had been utilized.

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**3.0**	3.1	3.2
Non-deductible book depreciation	**0.8**	0.9	0.9
Differences in prior years' deferred and current tax rates	**(0.2)**	(0.1)	(0.2)
AFUDC-equity	**(2.5)**	(1.6)	(1.3)
Production activities deduction	**(0.8)**	(0.5)	(0.6)
Other	**(0.2)**	(0.8)	(0.7)
Effective income tax rate	**35.1%**	36.0%	36.3%

AFUDC increased in 2009 due to increases in the amount of construction work in progress related to environmental mandates at generating facilities and transmission, distribution, and general plant projects compared to the prior years. See Note 1 under "Allowance for Funds Used During Construction (AFUDC)" for additional information.

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U. S. production activities as defined in the Internal Revenue Code Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, the Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements.

Unrecognized Tax Benefits

For 2009, the total amount of unrecognized tax benefits increased by $3 million, resulting in a balance of $6 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	2009	2008	2007
		(in millions)	
Unrecognized tax benefits at beginning of year	**$3**	$5	$1
Tax positions from current periods	**2**	1	2
Tax positions from prior periods	**1**	(2)	2
Reductions due to settlements	**-**	(1)	-
Reductions due to expired statute of limitations	**-**	-	-
Balance at end of year	**$6**	$3	$5

The tax positions from current periods increase for 2009 relate primarily to the production activities deduction tax position and other miscellaneous uncertain tax positions. The tax positions increase from prior periods for 2009 relates primarily to the production activities deduction tax position. See "Effective Tax Rate" above for additional information.

Impact on the Company's effective tax rate, if recognized, is as follows:

	2009	2008	2007
		(in millions)	
Tax positions impacting the effective tax rate	**$6**	$3	$5
Tax positions not impacting the effective tax rate	-	-	-
Balance of unrecognized tax benefits	**$6**	$3	$5

Accrued interest for unrecognized tax benefits was as follows:

	2009	2008	2007
		(in millions)	
Interest accrued at beginning of year	**$0.3**	$0.4	$ -
Interest reclassified due to settlements	-	(0.3)	-
Interest accrued during the year	-	0.2	0.4
Balance at end of year	**$0.3**	$0.3	$0.4

The Company classifies interest on tax uncertainties as interest expense. The Company did not accrue any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized benefit with respect to a majority of the Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. The possible conclusion or settlement of state audits could impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

6. FINANCING

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 $206 million, which constitute substantially all of the assets of these trusts and are reflected in the balance sheets as Long-term Debt Payable. 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, 2009, preferred securities of $200 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities.

Securities Due Within One Year

At December 31, 2009, the Company had a scheduled maturity of senior notes due within one year totaling $100 million. At December 31, 2008, the Company had scheduled maturities and redemptions of senior notes due within one year totaling $250 million.

Maturities of senior notes through 2014 applicable to total long-term debt are as follows: $100 million in 2010; $200 million in 2011; $500 million in 2012; $250 million in 2013; and none in 2014.

Pollution Control Revenue Bonds

Pollution control obligations represent loans to the Company from public authorities of funds or installment purchases of solid waste disposal 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. The Company incurred obligations related to the issuance of $78.5 million of pollution control revenue bonds in 2009. Proceeds from certain issuances are restricted until qualifying expenditures are incurred.

Senior Notes

The Company issued a total of $500 million of unsecured senior notes in 2009. The proceeds of these issuances were used to repay short-term indebtedness and for other general corporate purposes, including the Company's continuous construction program.

At December 31, 2009 and 2008, the Company had $4.8 billion and $4.6 billion, respectively, of senior notes outstanding. These senior notes are effectively subordinate to all secured debt of the Company which amounted to approximately $153 million at December 31, 2009.

Preference and Common Stock

In 2009, the Company issued no new shares of preference stock. The Company issued 5,062,500 new shares of common stock to Southern Company at $40.00 per share and realized proceeds of $202.5 million. The proceeds of these issuances were used for general corporate purposes.

Outstanding Classes of Capital Stock

The Company currently has preferred stock, Class A preferred stock, preference stock, and common stock authorized and outstanding. The Company's preferred stock and Class A preferred stock, without preference between classes, rank senior to the Company's preference stock and common stock with respect to payment of dividends and voluntary or involuntary dissolution. The preferred stock and Class A preferred stock of the Company contains a feature that allows the holders to elect a majority of the Company's board of directors if dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of the Company, the preferred stock and Class A preferred stock is presented as "Redeemable Preferred Stock" in a manner consistent with temporary equity under applicable accounting standards. The preference stock does not contain such a provision that would allow the holders to elect a majority of the Company's board. The Company's preference stock ranks senior to the common stock with respect to the payment of dividends and voluntary or involuntary dissolution. Certain series of the preferred stock, Class A preferred stock, and preference stock are subject to redemption at the option of the Company on or after a specified date (typically five or 10 years after the date of issuance).

Dividend Restrictions

The Company can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Assets Subject to Lien

The Company has granted liens on certain property in connection with the issuance of certain series of pollution control revenue bonds with an outstanding principal amount of $153 million as of December 31, 2009.

Bank Credit Arrangements

The Company maintains committed lines of credit in the amount of $1.3 billion, of which $481 million will expire at various times during 2010, $25 million will expire in 2011, and $765 will expire in 2012. $372 million of the credit facilities expiring in 2010 allow for the execution of one-year term loans. These credit facilities provide liquidity support to the Company's commercial paper borrowings and $608 million are dedicated to funding purchase obligations relating to variable rate pollution control revenue bonds. Subsequent to December 31, 2009, two remarketings of pollution control revenue bonds increased that amount to $744 million.

Most 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 average less than ¼ of 1% for the Company. Compensating balances are not legally restricted from withdrawal.

Most of the Company's credit arrangements with banks have covenants that limit the Company's debt to 65% 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, 2009, 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 uncommitted credit arrangements. As of December 31, 2009, the Company had no commercial paper outstanding. As of December 31, 2008, the Company had $25 million of commercial paper outstanding. During 2009 and 2008, the peak amount outstanding for short-term borrowings was $237 million and $301 million, respectively. The average amount outstanding in 2009 and 2008 was $30 million and $40 million, respectively. The average annual interest rate on short-term borrowings was 0.23% in 2009 and 2.31% in 2008. Short-term borrowings are included in notes payable in the balance sheets.

At December 31, 2009, the Company had regulatory approval to have outstanding up to $2.0 billion of short-term borrowings.

7. COMMITMENTS

Construction Program

The Company is engaged in continuous construction programs, currently estimated to total $1.0 billion in 2010, $1.0 billion in 2011, and $1.1 billion in 2012. These amounts include $73 million, $48 million, and $51 million for 2010, 2011, and 2012, respectively, for construction expenditures related to contractual purchase commitments for nuclear fuel included under "Fuel Commitments." The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. At December 31, 2009, 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 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 provide 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, which are subject to price escalation, are made at various intervals based on actual operating hours of the respective units. Total remaining payments to GE under these agreements for facilities owned are currently estimated at $256 million over the remaining life of the agreements, which are currently estimated to range up to 10 years. 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.

Limestone Commitments

As part of the Company's program to reduce sulfur dioxide emissions from its coal plants, the Company has entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment. Limestone contracts are structured with tonnage minimums and maximums in order to account for fluctuations in coal burn and sulfur content. The Company has a minimum contractual obligation of 2.9 million tons, equating to approximately $127 million, through 2019. Estimated expenditures (based on minimum contracted obligated dollars) over the next five years are $11 million in 2010, $15 million in 2011, $15 million in 2012, $16 million in 2013, and $16 million in 2014.

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 and nitrogen oxide emissions allowances. 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, 2009. Total estimated minimum long-term commitments at December 31, 2009 were as follows:

	Commitments		
	Natural Gas	Coal	Nuclear Fuel
		(in millions)	
2010	$ 413	$1,420	$ 73
2011	275	894	48
2012	176	695	51
2013	141	516	37
2014	113	407	23
2015 and thereafter	148	975	90
Total commitments	$1,266	$4,907	$322

Additional commitments for fuel will be required to supply the Company's future needs. Total charges for nuclear fuel included in fuel expense totaled $78 million in 2009, $70 million in 2008, and $65 million in 2007.

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 traditional operating companies and Southern Power. Under these agreements, each of the traditional operating companies and Southern Power may be jointly and severally liable. The creditworthiness of Southern Power is currently inferior to the creditworthiness of the traditional operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other traditional operating companies to ensure the Company will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power as a contracting party under these agreements.

Purchased Power Commitments

The Company has entered into various long-term commitments for the purchase of capacity and energy. Total estimated minimum long-term obligations at December 31, 2009 were as follows:

	Commitments		
	Affiliated	Non-Affiliated	Total
		(in millions)	
2010	$13	$ 26	$ 39
2011	-	30	30
2012	-	30	30
2013	-	31	31
2014	-	36	36
2015 and thereafter	-	337	337
Total commitments	$13	$490	$503

Certain PPAs reflected in the table are accounted for as operating leases.

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 $26.9 million in 2009, $26.1 million in 2008, and $27.7 million in 2007. Of these amounts, $20.3 million, $19.2 million, and $20.5 million for 2009, 2008, and 2007, respectively, relate to the rail car leases and are recoverable through the Company's Rate ECR. At December 31, 2009, estimated minimum rental commitments for non-cancelable operating leases were as follows:

	Minimum Lease Payments		
	Rail Cars	Vehicles & Other	Total
		(in millions)	
2010	$16	$ 6	$22
2011	7	4	11
2012	7	3	10
2013	4	1	5
2014	3	-	3
2015 and thereafter	10	-	10
Total *	$47	$14	$61

* Total does not include payments related to a non-affiliated PPA that is accounted for as an operating lease. Obligations related to this agreement are included in the above purchased power commitments table.

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 2010 and 2013, and the Company's maximum obligations are $61.2 million and $18.6 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 eliminate the Company's payments under the residual value obligations. However, due to the recessionary economy, it is possible that the fair market value of the leased property would not eliminate the Company's payments under the residual value obligations on the leases expiring in 2010.

Guarantees

At December 31, 2009, 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 as described above in "Operating Leases."

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, 2009, there were 1,412 current and former employees of the Company participating in the stock option plan and there were 21 million shares of Southern Company common stock remaining available for awards under this plan. 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. The Company generally recognizes stock option expense on a straight-line basis over the vesting period which equates to the requisite service period; however, for employees who are eligible for retirement, the total cost is expensed at the grant date. 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. For certain stock option awards, a change in control will provide accelerated vesting.

The estimated fair values of stock options granted in 2009, 2008, and 2007 were derived using the Black-Scholes stock option pricing model. Expected volatility was based on historical volatility of Southern Company's stock over a period equal to the expected term. The Company used historical exercise data to estimate the expected term that represents the period of time that options granted to employees are expected to be outstanding. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant that covers the expected term of the stock options.

The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of stock options granted:

Year Ended December 31	2009	2008	2007
Expected volatility	**15.6%**	13.1%	14.8%
Expected term *(in years)*	**5.0**	5.0	5.0
Interest rate	**1.9%**	2.8%	4.6%
Dividend yield	**5.4%**	4.5%	4.3%
Weighted average grant-date fair value	**$1.80**	$2.37	$4.12

The Company's activity in the stock option plan for 2009 is summarized below:

	Shares Subject to Option	Weighted Average Exercise Price
Outstanding at December 31, 2008	6,809,196	$31.61
Granted	2,084,772	31.39
Exercised	(137,082)	19.79
Cancelled	(7,412)	29.40
Outstanding at December 31, 2009	**8,749,474**	**$31.74**
Exercisable at December 31, 2009	**5,791,523**	**$31.10**

The number of stock options vested and expected to vest in the future, as of December 31, 2009 was not significantly different from the number of stock options outstanding at December 31, 2009 as stated above. As of December 31, 2009, the weighted average remaining contractual term for the options outstanding and options exercisable was 6.0 years and 4.6 years, respectively, and the aggregate intrinsic value for the options outstanding and options exercisable was $20.8 million and $17.1 million, respectively.

As of December 31, 2009, there was $1.0 million of total unrecognized compensation cost related to stock option awards not yet vested. That cost is expected to be recognized over a weighted-average period of approximately 11 months.

For the years ended December 31, 2009, 2008, and 2007, total compensation cost for stock option awards recognized in income was $3.8 million, $3.1 million, and $4.9 million, respectively, with the related tax benefit also recognized in income of $1.4 million, $1.2 million, and $1.9 million, respectively.

The compensation cost and tax benefits related to the grant and exercise of Southern Company stock options to the Company's employees are recognized in the Company's financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $1.7 million, $5.2 million, and $9.7 million, respectively. The actual tax benefit realized by the Company for the tax deductions from stock option exercises totaled $0.7 million, $2.0 million, and $3.7 million, respectively, for the years ended December 31, 2009, 2008, and 2007.

9. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act (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 $12.6 billion for public liability claims that could arise from a single nuclear incident. Plant Farley is insured against this liability to a maximum of $375 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 commercial nuclear reactors. The Company could be assessed up to $117.5 million per incident for each licensed reactor it operates but not more than an aggregate of $17.5 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 $235 million per incident but not more than an aggregate of $35 million to be paid for each incident in any one year. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due no later than October 29, 2013.

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. In the event of a loss, the amount of insurance available may not be adequate to cover property damage and other incurred expenses.

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. The Company purchases the maximum limit allowed by NEIL and has elected a 12-week deductible 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 $38 million.

Claims resulting from terrorist acts are covered under both the ANI and NEIL policies (subject to normal policy limits). The aggregate, however, that NEIL will pay for all claims resulting from terrorist acts in any 12 month period is $3.2 billion plus such additional amounts NEIL can recover through reinsurance, indemnity, or other sources.

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. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

As of December 31, 2009, assets and liabilities measured at fair value on a recurring basis during the period, together with the level of the fair value hierarchy in which they fall, are as follows:

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Energy-related derivatives	$ -	$ 1	$ -	$ 1
Nuclear decommissioning trusts:[a]				
Domestic equity	296	49	-	345
U.S. Treasury and government agency securities	11	5	-	16
Corporate bonds	-	76	-	76
Mortgage and asset backed securities	-	42	-	42
Other	-	9	-	9
Cash equivalents and restricted cash	346	-	-	346
Total	$653	$182	$ -	$835
Liabilities:				
Energy-related derivatives	$ -	$ 45	$ -	$ 45
Interest rate derivatives	-	4	-	4
Total	$ -	$ 49	$ -	$ 49

(a) Excludes receivables related to investment income, pending investment sales, and payables related to pending investment purchases.

Energy-related derivatives and interest rate derivatives primarily consist of over-the-counter contracts. See Note 11 herein for additional information. The nuclear decommissioning trust funds are invested in a diversified mix of equity and fixed income securities. See Note 1 under "Nuclear Decommissioning" for additional information. The cash equivalents and restricted cash consist of securities with original maturities of 90 days or less. All of these financial instruments and investments are valued primarily using the market approach.

As of December 31, 2009, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

As of December 31, 2009:	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(in millions)			
Nuclear decommissioning trusts:				
Trust owned life insurance	$ 78	None	Daily	15 days
Cash equivalents and restricted cash:				
Money market funds	346	None	Daily	Not applicable

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

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

As of December 31, 2009, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
2009	**$6,182**	**$6,357**
2008	5,855	5,784

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

11. DERIVATIVES

The 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 its exposures, where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

Energy-Related Derivatives

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 manages fuel-hedging programs, implemented per the guidelines of the Alabama PSC, through the use of financial derivative contracts.

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

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

- *Regulatory Hedges* – Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the Company's fuel hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the fuel cost recovery clause.
- *Cash Flow Hedges* – Gains and losses on energy-related derivatives designated as cash flow hedges are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income (OCI) before being recognized in income in the same period as the hedged transactions are reflected in earnings.
- *Not Designated* – Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

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

At December 31, 2009, the net volume of energy-related derivative contracts for natural gas positions for the Company, together with the longest hedge date over which it is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

Net Purchased mmBtu* *(in millions)*	Longest Hedge Date	Longest Non-Hedge Date
37	2014	-

*mmBtu – million British thermal units

For cash flow hedges, the amounts expected to be reclassified from OCI to revenue and fuel expense for the next 12-month period ending December 31, 2010 are immaterial.

Interest Rate Derivatives

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

For cash flow hedges, the fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings.

At December 31, 2009, the Company had outstanding interest rate derivatives designated as cash flow hedges of existing debt as follows:

Notional Amount *(in millions)*	Variable Rate Received	Weighted Average Fixed Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) December 31, 2009 *(in millions)*
$576	SIFMA Index*	2.69%	February 2010	$(4)

* Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA)

The estimated pre-tax loss that will be reclassified from OCI to interest expense for the next 12-month period ending December 31, 2010 is $1.0 million. The Company has deferred gains and losses that are expected to be amortized into earnings through 2035.

Derivative Financial Statement Presentation and Amounts

At December 31, 2009 and 2008, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
Derivative Category	Balance Sheet Location	2009	2008	Balance Sheet Location	2009	2008
		(in millions)			*(in millions)*	
Derivatives designated as hedging instruments for regulatory purposes						
Energy-related derivatives:	Other current assets	**$1**	$4	Liabilities from risk management activities	**$34**	$ 75
	Other deferred charges and assets	**-**	-	Other deferred credits and liabilities	**11**	21
Total derivatives designated as hedging instruments for regulatory purposes		**$1**	$4		**$45**	$ 96
Derivatives designated as hedging instruments in cash flow hedges						
Interest rate derivatives:	Other current assets	**-**	-	Liabilities from risk management activities	**4**	9
	Other deferred charges and assets	**-**	-	Other deferred credits and liabilities	**-**	2
Total derivatives designated as hedging instruments in cash flow hedges		**$-**	$-		**$ 4**	$ 11
Total		**$1**	$4		**$49**	$107

All derivative instruments are measured at fair value. See Note 10 for additional information.

At December 31, 2009 and 2008, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheets were as follows:

	Unrealized Losses			Unrealized Gains		
Derivative Category	Balance Sheet Location	2009	2008	Balance Sheet Location	2009	2008
		(in millions)			*(in millions)*	
Energy-related derivatives:	Other regulatory assets, current	**$(34)**	$(75)	Other regulatory liabilities, current	**$1**	$4
	Other regulatory assets, deferred	**(11)**	(21)	Other regulatory liabilities, deferred	**-**	-
Total energy-related derivative gains (losses)		**$(45)**	$(96)		**$1**	$4

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
					Amount		
Derivative Category	2009	2008	2007	Statements of Income Location	2009	2008	2007
		(in millions)				*(in millions)*	
Interest rate derivatives	$(5)	$(11)	$(3)	Interest expense	$(12)	$(3)	$(1)

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

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives not designated as hedging instruments were immaterial.

Contingent Features

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 derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain affiliated companies. At December 31, 2009, the fair value of derivative liabilities with contingent features was $7.6 million.

At December 31, 2009, the Company had no collateral posted with its derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is $33.3 million.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and/or preference stock.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. The Company participated in certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2009 and 2008 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred and Preference Stock
		(in millions)	
March 2009	**$1,340**	**$299**	**$146**
June 2009	**1,366**	**349**	**177**
September 2009	**1,592**	**483**	**261**
December 2009	**1,231**	**189**	**86**
March 2008	$1,337	$274	$130
June 2008	1,470	319	153
September 2008	1,865	478	252
December 2008	1,405	198	81

The Company's business is influenced by seasonal weather conditions.

SELECTED FINANCIAL AND OPERATING DATA 2005-2009

Alabama Power Company 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in thousands)	**$5,528,574**	$6,076,931	$5,359,993	$5,014,728	$4,647,824
Net Income after Dividends on Preferred and Preference Stock (in thousands)	**$669,536**	$615,959	$579,582	$517,730	$507,895
Cash Dividends on Common Stock (in thousands)	**$522,800**	$491,300	$465,000	$440,600	$409,900
Return on Average Common Equity (percent)	**13.27**	13.30	13.73	13.23	13.72
Total Assets (in thousands)	**$17,524,093**	$16,536,006	$15,746,625	$14,655,290	$13,689,907
Gross Property Additions (in thousands)	**$1,322,596**	$1,532,673	$1,203,300	$960,759	$890,062
Capitalization (in thousands):					
Common stock equity	**$5,236,461**	$4,854,310	$4,410,683	$4,032,287	$3,792,726
Preference stock	**343,373**	343,412	343,466	147,361	-
Redeemable preferred stock	**341,715**	341,715	340,046	465,046	465,046
Long-term debt	**6,082,489**	5,604,791	4,750,196	4,148,185	3,869,465
Total (excluding amounts due within one year)	**$12,004,038**	$11,144,228	$9,844,391	$8,792,879	$8,127,237
Capitalization Ratios (percent):					
Common stock equity	**43.6**	43.6	44.8	45.9	46.7
Preference stock	**2.9**	3.1	3.5	1.7	-
Redeemable preferred stock	**2.8**	3.0	3.4	5.3	5.7
Long-term debt	**50.7**	50.3	48.3	47.1	47.6
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0	100.0
Security Ratings:					
First Mortgage Bonds -					
Moody's	-	-	-	-	A1
Standard and Poor's	-	-	-	-	A+
Fitch	-	-	-	-	AA-
Preferred Stock/ Preference Stock -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	Baa1
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	**1,229,134**	1,220,046	1,207,883	1,194,696	1,184,406
Commercial	**198,642**	211,119	216,830	214,723	212,546
Industrial	**5,912**	5,906	5,849	5,750	5,492
Other	**780**	775	772	766	759
Total	**1,434,468**	1,437,846	1,431,334	1,415,935	1,403,203
Employees (year-end)	**6,842**	6,997	6,980	6,796	6,621

SELECTED FINANCIAL AND OPERATING DATA 2005-2009 (continued)

Alabama Power Company 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in thousands):					
Residential	**$1,961,678**	$1,997,603	$1,833,563	$1,664,304	$1,476,211
Commercial	**1,429,601**	1,459,466	1,313,642	1,172,436	1,062,341
Industrial	**1,080,208**	1,381,100	1,238,368	1,140,225	1,065,124
Other	**25,594**	24,112	21,383	18,766	17,745
Total retail	**4,497,081**	4,862,281	4,406,956	3,995,731	3,621,421
Wholesale - non-affiliates	**619,859**	711,903	627,047	634,552	551,408
Wholesale - affiliates	**236,995**	308,482	144,089	216,028	288,956
Total revenues from sales of electricity	**5,353,935**	5,882,666	5,178,092	4,846,311	4,461,785
Other revenues	**174,639**	194,265	181,901	168,417	186,039
Total	**5,528,574**	$6,076,931	$5,359,993	$5,014,728	$4,647,824
Kilowatt-Hour Sales (in thousands):					
Residential	**18,071,471**	18,379,801	18,874,039	18,632,935	18,073,783
Commercial	**14,185,622**	14,551,495	14,761,243	14,355,091	14,061,650
Industrial	**18,555,377**	22,074,616	22,805,676	23,187,328	23,349,769
Other	**217,594**	201,283	200,874	199,445	198,715
Total retail	**51,030,064**	55,207,195	56,641,832	56,374,799	55,683,917
Wholesale - non-affiliates	**14,316,742**	15,203,960	15,769,485	15,978,465	15,442,728
Wholesale - affiliates	**6,473,084**	5,256,130	3,241,168	5,145,107	5,735,429
Total	**71,819,890**	75,667,285	75,652,485	77,498,371	76,862,074
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**10.86**	10.87	9.71	8.93	8.17
Commercial	**10.08**	10.03	8.90	8.17	7.55
Industrial	**5.82**	6.26	5.43	4.92	4.56
Total retail	**8.81**	8.81	7.78	7.09	6.50
Wholesale	**4.12**	4.99	4.06	4.03	3.97
Total sales	**7.45**	7.77	6.84	6.25	5.80
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,716**	15,162	15,696	15,663	15,347
Residential Average Annual Revenue Per Customer	**$1,597**	$1,648	$1,525	$1,399	$1,253
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**12,222**	12,222	12,222	12,222	12,216
Maximum Peak-Hour Demand (megawatts):					
Winter	**10,701**	10,747	10,144	10,309	9,812
Summer	**10,870**	11,518	12,211	11,744	11,162
Annual Load Factor (percent)	**59.8**	60.9	59.4	61.8	63.2
Plant Availability (percent):					
Fossil-steam	**88.5**	90.1	88.2	89.6	90.5
Nuclear	**93.3**	94.1	87.5	93.3	92.9
Source of Energy Supply (percent):					
Coal	**53.4**	58.5	60.9	60.2	59.5
Nuclear	**18.6**	17.8	16.5	17.4	17.2
Hydro	**7.9**	2.9	1.8	3.8	5.6
Gas	**11.8**	9.2	8.7	7.6	6.8
Purchased power -					
From non-affiliates	**2.0**	2.9	1.8	2.1	3.8
From affiliates	**6.3**	8.7	10.3	8.9	7.1
Total	**100.0**	100.0	100.0	100.0	100.0

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GEORGIA POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Georgia Power Company 2009 Annual Report

The management of Georgia Power Company (the "Company") 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 the 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. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.



Michael D. Garrett
President and Chief Executive Officer



Ronnie R. Labrato
Executive Vice President, Chief Financial Officer, and Treasurer

February 25, 2010

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 (the "Company") (a wholly owned subsidiary of Southern Company) as of December 31, 2009 and 2008, 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, 2009. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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-196 to II-241) present fairly, in all material respects, the financial position of Georgia Power Company at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

OVERVIEW

Business Activities

Georgia 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 Georgia and to wholesale customers in the Southeast.

Many factors affect the opportunities, challenges, and risks of the Company's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, and fuel prices. The Company is currently constructing two new nuclear and three new combined cycle generating units. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge the Company for the foreseeable future. On August 27, 2009, the Georgia Public Service Commission (PSC) approved an accounting order that allows the Company to amortize up to $324 million of its regulatory liability related to other cost of removal obligations over the 18-month period ending December 31, 2010 in lieu of filing a request for a base rate increase. The Company is required to file a general base rate case by July 1, 2010. The Company filed for an adjustment to its fuel cost recovery rate on December 15, 2009. On February 22, 2010, the Company, the Georgia PSC Public Interest Advocacy Staff, and three customer groups entered into a stipulation to resolve the case, subject to approval by the Georgia PSC. A final decision by the Georgia PSC is expected on March 11, 2010. If approved, the new fuel cost recovery rates will go into effect on April 1, 2010.

Key Performance Indicators

In striving to maximize shareholder value while providing cost-effective energy to more than two million customers, the Company continues to focus on several key indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock. 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 customer satisfaction surveys and reliability indicators to evaluate the Company's results.

Peak season equivalent forced outage rate (Peak Season EFOR) is an indicator of fossil/hydro and nuclear 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. The 2009 fossil/hydro Peak Season EFOR of 1.43% was better than the target. The 2009 nuclear Peak Season EFOR of 3.70% was above the target due to an unplanned outage at Plant Hatch. Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance, expected weather conditions, and expected capital expenditures. The 2009 performance was better than the target for these reliability measures.

Net income after dividends on preferred and preference stock is the primary measure of the Company's financial performance. The Company's 2009 results compared to its targets for some of these key indicators are reflected in the following chart:

Key Performance Indicator	2009 Target Performance	2009 Actual Performance
Customer Satisfaction	Top quartile in customer surveys	Top quartile in customer surveys
Peak Season EFOR – fossil/hydro	2.75% or less	1.43%
Peak Season EFOR – nuclear	2.75% or less	3.70%
Net Income	$856 million	$814 million

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The Company's net income target for 2009 was set lower than in the prior year to reflect the economic downturn that began in late 2008; however, the global recession's impacts on energy demand were greater than anticipated. As the recession escalated, management emphasized stringent cost-containment efforts to partially offset the resulting revenue declines and, in lieu of a rate increase, worked with the Georgia PSC to develop the accounting order discussed previously. Although the Company did not meet its target, these efforts provided substantial improvement in the Company's financial condition while consistently demonstrating the Company's commitment to customer service, reliability, and competitive prices.

Earnings

The Company's 2009 net income after dividends on preferred and preference stock totaled $814 million representing an $88.9 million, or 9.8%, decrease from 2008. The decrease was primarily related to lower commercial and industrial base revenues resulting from the recessionary economy and decreased revenues from market-response rates to large commercial and industrial customers that were partially offset by cost containment activities, increased recognition of environmental compliance cost recovery revenues, and the amortization of the regulatory liability related to other cost of removal activities as authorized by the Georgia PSC. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Rate Plans" herein and Note 3 to the financial statements under "Retail Regulatory Matters – Rate Plans" for additional information. The Company's 2008 net income after dividends on preferred and preference stock totaled $903 million representing a $66.8 million, or 8.0%, increase over 2007. The increase was primarily related to increased contributions from market-response rates for large commercial and industrial customers, higher retail base revenues resulting from the retail rate increase effective January 1, 2008 (2007 Retail Rate Plan), and increased allowance for equity funds used during construction. These increases were partially offset by increased depreciation and amortization resulting from more plant in service and changes to depreciation rates. The Company's 2007 earnings totaled $836 million representing a $48.9 million, or 6.2%, increase over 2006. Operating income increased slightly in 2007 primarily due to increased operating revenues from transmission and outdoor lighting and decreased property taxes, partially offset by higher non-fuel operating expenses. Net income increased primarily due to higher allowance for equity funds used during construction and lower income tax expenses resulting from the Company's donation of Tallulah Gorge to the State of Georgia, partially offset by higher financing costs.

RESULTS OF OPERATIONS

A condensed income statement for the Company follows:

	Amount	Increase (Decrease) from Prior Year		
	2009	2009	2008	2007
		(in millions)		
Operating revenues	$ 7,692	$(720)	$ 840	$ 326
Fuel	2,717	(95)	172	408
Purchased power	979	(426)	355	(95)
Other operations and maintenance	1,494	(87)	19	1
Depreciation and amortization	655	18	126	13
Taxes other than income taxes	317	-	25	(8)
Total operating expenses	6,162	(590)	697	319
Operating income	1,530	(130)	143	7
Total other income and (expense)	(289)	(37)	5	18
Income taxes	410	(78)	70	(25)
Net income	831	(89)	78	50
Dividends on preferred and preference stock	17	-	11	1
Net income after dividends on preferred and preference stock	$ 814	$ (89)	$ 67	$ 49

Operating Revenues

Operating revenues in 2009, 2008, and 2007 and the percent of change from the prior year were as follows:

	Amount		
	2009	2008	2007
		(in millions)	
Retail – prior year	**$ 7,287**	$ 6,498	$ 6,206
Estimated change in –			
Rates and pricing	**(64)**	397	(66)
Sales growth (decline)	**(93)**	(21)	46
Weather	**(6)**	(37)	18
Fuel cost recovery	**(212)**	450	294
Retail – current year	**6,912**	7,287	6,498
Wholesale revenues –			
Non-affiliates	**395**	569	538
Affiliates	**112**	286	278
Total wholesale revenues	**507**	855	816
Other operating revenues	**273**	270	258
Total operating revenues	**$ 7,692**	$ 8,412	$ 7,572
Percent change	**(8.6)%**	11.1%	4.5%

Retail base revenues of $3.9 billion in 2009 decreased by $161.8 million, or 3.9%, from 2008 primarily due to lower industrial and commercial base revenues resulting from the recessionary economy and decreased revenues from market-response rates to large commercial and industrial customers. Industrial base revenues decreased $207.1 million, or 27.9%, and commercial base revenues decreased $35.8 million, or 2.1%. These decreases were partially offset by an increase in residential base revenues of $78.4 million, or 4.8%. All customer classes were positively affected by increased recognition of environmental compliance cost recovery revenues. Retail base revenues of $4.1 billion in 2008 increased by $338.3 million, or 9.0%, from 2007 primarily due to an increase in revenues from market-response rates to large commercial and industrial customers, the retail rate increase effective January 1, 2008, and a 0.7% increase in retail customers. The increase was partially offset by a weak economy in the Southeast and less favorable weather impacts in 2008 than in 2007. Retail base revenues were $3.8 billion in 2007. There was not a material change in total retail base revenues compared to 2006, although industrial base revenues decreased $56.5 million, or 8.5%, primarily due to lower sales and a lower contribution from market-response rates for large commercial and industrial customers. This decrease was partially offset by a $31.8 million, or 2.1%, increase in residential base revenues as well as a $22.6 million, or 1.5%, increase in commercial base revenues primarily due to higher sales from favorable weather and customer growth of 1.2%. See "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes related to sales growth (decline) and weather.

Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power, and do not affect net income. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information.

Wholesale revenues from sales to non-affiliated utilities were as follows:

	2009	2008	2007
		(in millions)	
Unit power sales –			
Capacity	**$ 43**	$ 40	$ 33
Energy	**26**	44	33
Total	**69**	84	66
Other power sales –			
Capacity and other	**140**	129	158
Energy	**186**	356	314
Total	**326**	485	472
Total non-affiliated	**$395**	$569	$538

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

Revenues from unit power sales decreased $15.9 million, or 18.9%, in 2009 primarily due to a 26.0% decrease in kilowatt-hour (KWH) energy sales due to the recessionary economy and generally unfavorable weather. Revenues from unit power sales increased $18.2 million, or 27.4%, in 2008 driven by higher fuel rates and an 8.2% increase in the KWH energy sales primarily related to sales by the Company's generating units when other Southern Company system units were unavailable. Revenues from unit power sales remained relatively constant in 2007. Revenues from other non-affiliated sales decreased by $158.3 million, or 32.7%, in 2009, increased $12.7 million, or 2.7%, in 2008, and decreased $9.6 million, or 2.0%, in 2007. The decrease in 2009 was due to lower natural gas prices and a 49.7% decrease in KWH sales due to the recessionary economy and generally unfavorable weather. The increase in 2008 was primarily driven by the fuel component within non-affiliate wholesale prices which has increased with the effects of higher fuel and purchased power costs. This increase was partially offset by a 9.8% decrease in KWH energy sales and decreased contributions from the emissions allowance component of market-based wholesale rates. The decrease in 2007 was primarily due to a decrease in revenues from large territorial contracts resulting from lower emissions allowance prices.

Wholesale revenues from sales to affiliated companies within the Southern Company system 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 Intercompany Interchange Contract (IIC), as approved by the Federal Energy Regulatory Commission (FERC). In 2009, wholesale revenues from sales to affiliates decreased 60.9% due to lower natural gas prices and a 32.2% decrease in KWH sales due to the recessionary economy and generally unfavorable weather. In 2008, KWH energy sales to affiliated companies decreased 28.8% while revenues from sales to affiliates increased 3.0%. In 2007, KWH energy sales to affiliates decreased 5.0% while revenues from sales to affiliates increased 10.0%. The revenue increases in 2008 and 2007 were primarily due to the increased cost of fuel and other marginal generation components of the rates. These transactions do not have a significant impact on earnings since this energy is generally sold at marginal cost.

Other operating revenues remained relatively flat in 2009. Other operating revenues increased $12.3 million, or 4.8%, in 2008 primarily due to a $6.7 million increase in revenues from outdoor lighting resulting from a 15.8% increase in lighting customers and a $7.6 million increase in customer fees resulting from higher rates that went into effect in 2008, partially offset by a $2.2 million decrease in equipment rentals revenue. Other operating revenues increased $22.2 million, or 9.4%, in 2007 primarily due to an $11.6 million increase in transmission revenues due to the increased usage of the Company's transmission system by non-affiliated companies, a $7.9 million increase in revenues from outdoor lighting activities due to a 10% increase in the number of lighting customers, and a $4.0 million increase from customer fees.

Energy Sales

Changes in revenues are influenced heavily by the change in volume of energy sold from year to year. KWH sales for 2009 and the percent change by year were as follows:

	KWH	Percent Change		
	2009	2009	2008	2007
	(in billions)			
Residential	**26.3**	**(0.5)%**	(1.6)%	2.4%
Commercial	**32.6**	**(1.4)**	0.0	2.9
Industrial	**21.8**	**(9.7)**	(5.2)	(0.3)
Other	**0.7**	**0.1**	(3.8)	5.6
Total retail	**81.4**	**(3.5)**	(2.1)	1.8
Wholesale				
Non-affiliates	**5.2**	**(46.6)**	(7.8)	(1.0)
Affiliates	**2.5**	**(32.2)**	(28.8)	(5.0)
Total wholesale	**7.7**	**(42.7)**	(14.7)	(2.3)
Total energy sales	**89.1**	**(8.9)%**	(4.0)%	1.1%

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers.

Residential KWH sales decreased 0.5% in 2009 compared to 2008 primarily due to slightly less favorable weather, partially offset by an increase of 0.2% in residential customers. Commercial and industrial KWH sales decreased 1.4% and 9.7%, respectively, in 2009 compared to 2008 due to the recessionary economy. During 2009, there was a broad decline in demand across all industrial segments, most significantly in the chemical, primary metals, textiles, and stone, clay, and glass sectors.

Residential KWH sales decreased 1.6% in 2008 compared to 2007 primarily due to less favorable weather, partially offset by a 0.7% increase in residential customers. Commercial KWH sales remained flat in 2008 compared to 2007 despite a 0.2% increase in commercial customers. Industrial KWH sales decreased 5.2% in 2008 over 2007 primarily due to reduced demand and closures within the textile and primary and fabricated metal industries, which were a result of the slowing economy that worsened during the fourth quarter 2008.

Residential KWH sales increased 2.4% in 2007 over 2006 due to favorable weather and a 1.3% increase in residential customers. Commercial KWH sales increased 2.9% in 2007 over 2006 primarily due to favorable weather and a 0.3% increase in commercial customers. Industrial KWH sales decreased 0.3% primarily due to reduced demand and closures within the textile industry; however, this was partially offset by a 2.9% increase in the number of industrial customers.

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 generating units. Additionally, the Company purchases a portion of its electricity needs from the wholesale market. Details of the Company's electricity generated and purchased were as follows:

	2009	2008	2007
Total generation *(billions of KWHs)*	**72.4**	80.8	87.0
Total purchased power *(billions of KWHs)*	**20.4**	21.3	18.9
Sources of generation *(percent)* -			
Coal	**67**	74	75
Nuclear	**21**	19	18
Gas	**10**	6	7
Hydro	**2**	1	-
Cost of fuel, generated *(cents per net KWH)* -			
Coal	**4.12**	3.44	2.87
Nuclear	**0.55**	0.51	0.51
Gas	**5.30**	6.90	6.28
Average cost of fuel, generated *(cents per net KWH)**	**3.48**	3.11	2.68
Average cost of purchased power *(cents per net KWH)*	**6.06**	8.10	7.27

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

Fuel and purchased power expenses were $3.7 billion in 2009, a decrease of $521.7 million, or 12.4%, below prior year costs. This decrease was due to a $371.2 million decrease related to fewer KWHs generated and purchased primarily due to lower customer demand as a result of the recessionary economy and a $150.5 million decrease in the average cost of purchased power, partially offset by an increase in the average cost of fuel.

Fuel and purchased power expenses were $4.2 billion in 2008, an increase of $526.6 million, or 14.3%, above prior year costs. Substantially all of this increase was due to the higher average cost of fuel and purchased power.

Fuel and purchased power expenses were $3.7 billion in 2007, an increase of $312.9 million, or 9.3%, above prior year costs. This increase was driven by a $414.5 million increase in total energy costs due to the higher average cost of fuel and purchased power, partially offset by a $101.6 million reduction due to fewer KWHs purchased.

Coal prices continued to be influenced by worldwide demand from developing countries, as well as increased mining and fuel transportation costs. While coal prices reached unprecedented high levels in 2008, the recessionary economy pushed prices downward in 2009. However, the lower prices did not fully offset the higher priced coal already in inventory and under long-term contract. Demand for natural gas in the United States also was affected by the recessionary economy leading to significantly lower natural gas prices. During 2009, uranium prices continued to moderate from the highs set during 2007. Worldwide production levels increased in 2009; however, secondary supplies and inventories were still required to meet worldwide reactor demand.

Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the Company's fuel cost recovery provisions. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information.

Other Operations and Maintenance Expenses

In 2009, other operations and maintenance expenses decreased $86.7 million, or 5.5%, compared to 2008. The decrease was due to a $46.1 million decrease in power generation, a $28.0 million decrease in transmission and distribution, and a $31.5 million decrease in customer accounting, service, and sales, most of which are related to cost containment activities in an effort to offset the effects of the recessionary economy.

In 2008, other operations and maintenance expenses increased $19.2 million, or 1.2%, compared to 2007. The increase was primarily the result of a $14.7 million increase in the accrual for property damage approved under the 2007 Retail Rate Plan, a $14.6 million increase in scheduled outages and maintenance for fossil generating plants, and a $22.0 million increase related to meter reading, records and collections, and uncollectible account expenses. These increases were partially offset by decreases of $24.7 million related to the timing of transmission and distribution operations and maintenance and $7.4 million related to medical, pension, and other employee benefits. In 2007, the change in other operations and maintenance expenses was immaterial compared to 2006.

Depreciation and Amortization

Depreciation and amortization increased $18.2 million, or 2.9%, in 2009 compared to the prior year primarily due to additional plant in service related to transmission, distribution, and environmental projects, partially offset by the amortization of $41.4 million of the regulatory liability related to other cost of removal obligations as authorized by the Georgia PSC. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Rate Plans" herein, Note 1 to the financial statements under "Depreciation and Amortization," and Note 3 to the financial statements under "Retail Regulatory Matters – Rate Plans" for additional information.

Depreciation and amortization increased $125.8 million, or 24.6%, in 2008 compared to the prior year primarily due to an increase in plant in service related to completed transmission, distribution, and environmental projects, changes in depreciation rates effective January 1, 2008 approved under the 2007 Retail Rate Plan, and the expiration of amortization related to a regulatory liability for purchased power costs under the terms of the retail rate plan for the three years ended December 31, 2007 (2004 Retail Rate Plan).

Depreciation and amortization increased $12.4 million, or 2.5%, in 2007 compared to the prior year primarily due to a 3.4% increase in plant in service related to transmission, distribution, and environmental projects from the prior year. This increase was partially offset by a decrease in amortization of the regulatory liability for purchased power costs as described above.

Taxes Other Than Income Taxes

In 2009, the increase in taxes other than income taxes was immaterial. In 2008, taxes other than income taxes increased $25.1 million, or 8.6%, from the prior year primarily due to higher municipal franchise fees resulting from retail revenue increases during 2008. Taxes other than income taxes decreased $7.7 million, or 2.6%, in 2007 primarily due to the resolution of a dispute regarding property taxes in Monroe County, Georgia.

Allowance for Funds Used During Construction Equity

In 2009, the increase in allowance for funds used during construction (AFUDC) equity was immaterial. AFUDC equity increased $27.1 million, or 39.8%, in 2008 and $36.7 million, or 116.3%, in 2007 primarily due to the increase in construction work in progress balances related to ongoing environmental and transmission projects, as well as three combined cycle generating units at Plant McDonough.

Interest Expense, Net of Amounts Capitalized

In 2009, interest expense, net of amounts capitalized increased $40.5 million, or 11.7%, primarily due to an increase in long-term debt levels resulting from the issuance of additional senior notes and pollution control bonds to fund the Company's ongoing construction program. The increase in interest expense in 2008 was immaterial. Interest expense increased $25.5 million, or 8.0%, in 2007 primarily due to a 13.9% increase in long-term debt levels due to the issuance of additional senior notes and pollution control revenue bonds.

Other Income (Expense), Net

Other income (expense), net increased $7.5 million, or 80.8%, in 2009 primarily related to $2.0 million and $0.9 million increases in customer contracting and income resulting from purchases by large commercial and industrial customers of hedges against market-response rates, respectively, and a decrease of $2.4 million in donations. Other income (expense), net decreased $24.0 million, or 163.0%, in 2008 primarily due to a $12.9 million change in classification of revenues related to a residential pricing program to base retail revenues in 2008 as ordered by the Georgia PSC under the 2007 Retail Rate Plan, as well as decreased revenues of $7.3 million and $2.6 million related to non-operating rental income and customer contracting, respectively. Other income (expense), net increased $5.8 million, or 66.5%, in 2007 primarily due to $4.0 million from land and timber sales.

Income Taxes

Income taxes decreased $77.5 million, or 15.9%, in 2009 primarily due to lower pre-tax income. Income taxes increased $70.0 million, or 16.8%, in 2008 primarily due to increased pre-tax net income and the 2007 Tallulah Gorge donation. This increase was partially offset by an increase in AFUDC equity, which is non-taxable, as well as additional state tax credits and an increase in the federal production activities deduction. Income taxes decreased $24.8 million, or 5.6%, in 2007 primarily due to state and federal deductions for the Company's donation of 2,200 acres in the Tallulah Gorge area to the State of Georgia and higher federal manufacturing deductions.

Effects of Inflation

The Company is subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Any adverse effect of inflation on the Company's results of operations has not been substantial.

FUTURE EARNINGS POTENTIAL

General

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. 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 wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the FERC. Retail rates and revenues are reviewed and may be adjusted periodically within certain limitations. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements under "Retail Regulatory Matters" and "FERC Matters" for additional information about 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 business of selling electricity. These factors include the Company's ability to maintain a constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the Company's service area. Recessionary conditions have negatively impacted sales and are expected to continue to have a negative impact, particularly to industrial and commercial customers. The timing and extent of the economic recovery will impact future earnings.

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may exceed amounts estimated. Some of the factors driving the potential for such an increase are higher commodity costs, market demand for labor, and scope additions and clarifications. The timing, specific requirements, and estimated costs could also change as environmental statutes and regulations are adopted or modified. Under the 2007 Retail Rate Plan, an environmental compliance cost recovery (ECCR) tariff was implemented on January 1, 2008 to allow for the recovery of most of the costs related to environmental controls mandated by state and federal regulation scheduled for completion between 2008 and 2010. See Note 3 to the financial statements under "Retail Regulatory Matters – Rate Plans" for additional information.

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 the Company, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. The action was filed concurrently with the issuance of a notice of violation of the NSR provisions to the Company. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and the Company. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The original action, now solely against the Company, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 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 or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the

defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

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. Applicable statutes 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; the Endangered Species Act; and related federal and state regulations. 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. Through 2009, the Company had invested approximately $3.5 billion in capital projects to comply with these requirements, with annual totals of $440 million, $689 million, and $856 million for 2009, 2008, and 2007, respectively. The Company expects that capital expenditures to ensure compliance with existing and new statutes and regulations will be an additional $259 million, $350 million, and $600 million for 2010, 2011, and 2012, respectively. The Company's compliance strategy can be affected by changes to existing environmental laws, statutes, and regulations; the cost, availability, and existing inventory of emissions allowances; and the Company's fuel mix. 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.

Compliance with any new federal or state legislation or regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns could also significantly affect the Company. Although new or revised environmental legislation or regulations could affect many areas of the Company's operations, the full impact of any such changes cannot be determined at this time.

Air Quality

Compliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. Through 2009, the Company had spent approximately $3.2 billion in reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_x) emissions and in monitoring emissions pursuant to the Clean Air Act. Additional controls are currently being installed at several plants to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

The EPA regulates ground level ozone through implementation of an eight-hour ozone air quality standard. A 20-county area within metropolitan Atlanta is the only location within the Company's service area that is currently designated as nonattainment for the standard, which could require additional reductions in NO_x emissions from power plants. In March 2008, however, the EPA issued a final rule establishing a more stringent eight-hour ozone standard, and on January 6, 2010, the EPA proposed further reductions in the standard. The EPA is expected to finalize the revised standard in August 2010 and require state implementation plans for any nonattainment areas by December 2013. The revised eight-hour ozone standard is expected to result in designation of new nonattainment areas within the Company's service territory.

During 2005, the EPA's annual fine particulate matter nonattainment designations became effective for several areas within the Company's service area. State plans for addressing the nonattainment designations for this standard could require further reductions in SO_2 and NO_x emissions from power plants.

On December 8, 2009, the EPA also proposed revisions to the National Ambient Air Quality Standard for SO_2. The EPA is expected to finalize the revised SO_2 standard in June 2010.

Twenty-eight eastern states, including the State of Georgia, are subject to the requirements of the Clean Air Interstate Rule (CAIR). The rule calls for additional reductions of NO_x and/or SO_2 to be achieved in two phases, 2009/2010 and 2015. In July 2008 and December 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued decisions invalidating certain aspects of CAIR, but left CAIR compliance requirements in place while the EPA develops a revised rule. The State of Georgia has completed its plan to implement CAIR, and emissions reductions are being accomplished by the installation of emissions controls at certain of the Company's coal-fired facilities and/or by the purchase of emissions allowances. The EPA is expected to issue a proposed CAIR replacement rule in July 2010.

The Clean Air Visibility Rule was finalized in July 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977, and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each ten-year period thereafter. For power plants, the Clean Air Visibility Rule allows states to determine that CAIR satisfies BART requirements for SO_2 and NO_x, and no additional controls beyond CAIR are anticipated to be necessary at any of the Company's facilities. The State of Georgia is currently completing its implementation plan for BART compliance and other measures required to achieve the first phase of reasonable progress.

The EPA is currently developing a Maximum Achievable Control Technology (MACT) rule for coal and oil-fired electric generating units, which will likely address numerous Hazardous Air Pollutants, including mercury. In March 2005, the EPA issued the Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR. In a separate proceeding in the U.S. District Court for the District of Columbia, the EPA entered into a proposed consent decree that requires the EPA to issue a proposed MACT rule by March 16, 2011 and a final rule by November 16, 2011.

In February 2004, the EPA finalized the Industrial Boiler (IB) MACT rule, which imposed limits on hazardous air pollutants from industrial boilers, including biomass boilers. Compliance with the final rule was scheduled to begin in September 2007; however, in response to challenges to the final rule, the U.S. Court of Appeals for the District of Columbia Circuit vacated the IB MACT rule in its entirety in July 2007 and ordered the EPA to develop a new IB MACT rule. In September 2009, the deadline to promulgate a proposed rule was extended from July 15, 2009 to April 15, 2010, with a final rule required by December 16, 2010. The EPA is currently developing the new rule and may change the methodology to determine the MACT limits for industrial boilers.

The impacts of the eight-hour ozone standards, the fine particulate matter nonattainment designations, and future revisions to CAIR, the SO_2 standard, the Clean Air Visibility Rule, and the MACT rules for electric generating units and industrial boilers on the Company cannot be determined at this time and will depend on the specific provisions of the final rules, resolution of any legal challenges, and the development and implementation of rules at the state level. However, these additional regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. As a result of these uncertainties, the Company has delayed any further construction activities related to both the installation of emissions control equipment at Plants Branch and Yates and the conversion of Plant Mitchell from coal-fired to biomass-fired.

The Company has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the continuing and new environmental requirements discussed above. As part of this strategy, the Company has already installed a number of SO_2 and NO_x emissions controls and plans to install additional controls within the next several years to ensure continued compliance with applicable air quality requirements. In addition, most units in Georgia are required to install specific emissions controls according to a schedule set forth in the state's Multipollutant Rule, which is designed to reduce emissions of SO_2, NO_x, and mercury in Georgia.

Water Quality

In July 2004, the EPA published final regulations under the Clean Water Act to reduce impingement and entrainment of fish, shellfish, and other forms of aquatic life at existing power plant cooling water intake structures. The use of cost-benefit analysis in the rule was ultimately appealed to the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing intake structures. The EPA is now in the process of revising the regulations. While the U.S. Supreme Court's decision may ultimately result in greater flexibility for demonstrating compliance with the standards, the full scope of the regulations will depend on further rulemaking by the EPA and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

On December 28, 2009, the EPA announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and proposed a plan to adopt such revisions by 2013. New wastewater treatment requirements are expected and may result in the installation of additional controls on certain of the Company's facilities. The impact of revised guidelines will depend on the studies conducted in connection with the rulemaking, as well as the specific requirements of the final rule, and, therefore, cannot be determined at this time.

Environmental Remediation

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. See Note 3 to the financial statements under "Environmental Matters – Environmental Remediation" for additional information.

Coal Combustion Byproducts

The EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA has collected information from the electric utility industry on surface impoundment safety and conducted on-site inspections at two facilities of the Company as part of its evaluation. The Company has a routine and robust inspection program in place to ensure the integrity of its coal ash surface impoundments. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010. The impact of these additional regulations on the Company will depend on the specific provisions of the final rule and cannot be determined at this time. However, additional regulations of coal combustion byproducts could have a significant impact on the Company's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. As a result of these uncertainties, the Company has delayed any further construction activities related to both the installation of emissions control equipment at Plants Branch and Yates and the conversion of Plant Mitchell from coal-fired to biomass-fired.

Global Climate Issues

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March 2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.

Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units. See Item 1 – BUSINESS – "Rate Matters – Integrated Resource Planning" for additional information. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the Company were approximately 57 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 48 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company is actively constructing new generating facilities with lower greenhouse gas emissions. These include two additional nuclear generating units at Plant Vogtle and three combined cycle units at Plant McDonough.

The Company has also proposed the conversion of Plant Mitchell from coal-fired to biomass generation and is currently evaluating the costs and viability of other renewable technologies for the State of Georgia. On February 2, 2010, the Georgia PSC approved the Company's request to delay construction activities related to Plant Mitchell pending the EPA's anticipated issuance of regulations associated with coal combustion byproducts and the IB MACT rule described previously.

PSC Matters

Rate Plans

In December 2007, the Georgia PSC approved the 2007 Retail Rate Plan for the years 2008 through 2010. Under the 2007 Retail Rate Plan, the Company's earnings are evaluated against a retail return on common equity (ROE) range of 10.25% to 12.25%. Retail base rates increased by approximately $100 million effective January 1, 2008 to provide for cost recovery of transmission, distribution, generation, and other investments, as well as increased operating costs. In addition, the ECCR tariff was implemented to allow for the recovery of costs related to environmental projects mandated by state and federal regulations. The ECCR tariff increased rates by approximately $222 million effective January 1, 2008.

In connection with the 2007 Retail Rate Plan, the Company agreed that it would not file for a general base rate increase during this period unless its projected retail ROE falls below 10.25%. The economic recession has significantly reduced the Company's revenues upon which retail rates were set under the 2007 Retail Rate Plan. In June 2009, despite stringent efforts to reduce expenses, the Company's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of filing to increase customer rates as

allowed under the 2007 Retail Rate Plan, on June 29, 2009, the Company filed a request with the Georgia PSC for an accounting order that would allow the Company to amortize up to $324 million of its regulatory liability related to other cost of removal obligations.

On August 27, 2009, the Georgia PSC approved the accounting order. Under the terms of the accounting order, the Company was entitled to amortize up to one-third of the regulatory liability ($108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail ROE. For the year ended December 31, 2009, the Company amortized $41 million of the regulatory liability. In addition, the Company may amortize up to two-thirds of the regulatory liability ($216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE. The Company is required to file a general rate case by July 1, 2010, in response to which the Georgia PSC would be expected to determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued. See Note 3 to the financial statements under "Retail Regulatory Matters – Rate Plans" for additional information.

Fuel Cost Recovery

The Company has established fuel cost recovery rates approved by the Georgia PSC. The Georgia PSC approved increases in the Company's total annual billings of approximately $383 million effective March 1, 2007 and approximately $222 million effective June 1, 2008.

On December 15, 2009, the Company filed for a fuel cost recovery increase with the Georgia PSC. On February 22, 2010, the Company, the Georgia PSC Public Interest Advocacy Staff, and three customer groups entered into a stipulation to resolve the case, subject to approval by the Georgia PSC (the Stipulation). Under the terms of the Stipulation, the Company's annual fuel cost recovery billings will increase by approximately $425 million. In addition, the Company will implement an interim fuel rider, which would allow the Company to adjust its fuel cost recovery rates prior to the next fuel case if the under recovered fuel balance exceeds budget by more than $75 million. The Company is required to file its next fuel case by March 1, 2011. The Georgia PSC is scheduled to vote on the Stipulation on March 11, 2010 with the new fuel rates to become effective April 1, 2010. The ultimate outcome of this matter cannot be determined at this time.

As of December 31, 2009, the Company's under recovered fuel balance totaled approximately $665 million, which if the Stipulation is approved, the Company will recover over 32 months beginning April 1, 2010. Therefore, approximately $373 million of the under recovered regulatory clause revenues for the Company is included in deferred charges and other assets at December 31, 2009.

Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, a change in the billing factor has no significant effect on the Company's revenues or net income, but does impact annual cash flow. See Note 1 to the financial statements under "Revenues" and Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for additional information.

Legislation

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives, which could have a significant impact on the future cash flow and net income of the Company. The Company estimates the cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA to be $112 million. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of the Company.

On October 27, 2009, Southern Company and its subsidiaries received notice that an award of $165 million had been granted, of which $51 million is available to the Company, under the ARRA grant application for transmission and distribution automation and modernization projects pending final negotiations. The Company continues to assess the other financial implications of the ARRA.

The U.S. House of Representatives and the U.S. Senate have passed separate bills related to healthcare reform. Both bills include a provision that would make Medicare Part D subsidy reimbursements taxable. If enacted into law, this provision could have a significant negative impact on the Company's net income. See Note 2 to the financial statements under "Other Postretirement Benefits" for additional information.

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

Income Tax Matters

Georgia State Income Tax Credits

The Company's 2005 through 2008 income tax filings for the State of Georgia include state income tax credits for increased activity through Georgia ports. The Company has also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue (DOR) has not responded to these claims. In July 2007, the Company filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. An unrecognized tax benefit has been recorded related to these credits. See Note 5 to the financial statements under "Unrecognized Tax Benefits" for additional information. If the Company prevails, these claims could have a significant, and possibly material, positive effect on the Company's net income. If the Company is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on the Company's cash flow. The ultimate outcome of this matter cannot now be determined.

Internal Revenue Code Section 199 Domestic Production Deduction

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code of 1986, as amended. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Construction

Nuclear

On August 26, 2009, the Nuclear Regulatory Commission (NRC) issued an Early Site Permit and Limited Work Authorization to Southern Nuclear, on behalf of the Company, Oglethorpe Power Corporation, the Municipal Electric Authority of Georgia, and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners (collectively, Owners), related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). See Note 4 to the financial statements for additional information on these co-owners. In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license (COL) for the new units. If licensed by the NRC, Plant Vogtle Units 3 and 4 are scheduled to be placed in service in 2016 and 2017, respectively.

In April 2008, the Company, acting for itself and as agent for the Owners, and a consortium consisting of Westinghouse Electric Company LLC (Westinghouse) and Stone & Webster, Inc. (collectively, Consortium) entered into an engineering, procurement, and construction agreement to design, engineer, procure, construct, and test two AP1000 nuclear units with electric generating capacity of approximately 1,100 megawatts each and related facilities, structures, and improvements at Plant Vogtle (Vogtle 3 and 4 Agreement).

The Vogtle 3 and 4 Agreement is an arrangement whereby the Consortium supplies and constructs the entire facility with the exception of certain items provided by the Owners. Under the terms of the Vogtle 3 and 4 Agreement, the Owners agreed to pay a purchase price that will be subject to certain price escalations and adjustments, including certain index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Consortium under the Vogtle 3 and 4 Agreement. The Company's proportionate share is 45.7%.

On February 23, 2010, the Company, acting for itself and as agent for the Owners, and the Consortium entered into an amendment to the Vogtle 3 and 4 Agreement. The amendment, which is subject to the approval of the Georgia PSC, replaces certain of the index-based adjustments to the purchase price with fixed escalation amounts.

The Owners and the Consortium have agreed to certain liquidated damages upon the Consortium's failure to comply with the schedule and performance guarantees. The Consortium's liability to the Owners for schedule and performance liquidated damages and warranty claims is subject to a cap.

Certain payment obligations of Westinghouse and Stone & Webster, Inc. under the Vogtle 3 and 4 Agreement are guaranteed by Toshiba Corporation and The Shaw Group, Inc., respectively. In the event of certain credit rating downgrades of any Owner, such Owner will be required to provide a letter of credit or other credit enhancement.

The Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Owners will be required to pay certain termination costs and, at certain stages of the work, cancellation fees to the Consortium. The Consortium may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including delays in receipt of the COL or delivery of full notice to proceed, certain Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Owners, Owner insolvency, and certain other events.

On March 17, 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 at an in-service cost of $6.4 billion. In addition, the Georgia PSC voted to approve the inclusion of the related construction work in progress accounts in rate base.

On April 21, 2009 the Governor of the State of Georgia signed into law the Georgia Nuclear Energy Financing Act that will allow the Company to recover financing costs for nuclear construction projects by including the related construction work in progress accounts in rate base during the construction period. The cost recovery provisions will become effective on January 1, 2011. With respect to Plant Vogtle Units 3 and 4, this legislation allows the Company to recover projected financing costs of approximately $1.7 billion during the construction period beginning in 2011, which reduces the projected in-service cost to approximately $4.4 billion.

On June 15, 2009, an environmental group filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Energy Financing Act. The Company believes there is no meritorious basis for this petition and intends to vigorously defend against the requested actions.

On August 27, 2009, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors and expressing concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. The Company is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

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

On August 31, 2009, the Company filed with the Georgia PSC its first semi-annual construction monitoring report for Plant Vogtle Units 3 and 4 for the period ended June 30, 2009 which did not include any proposed change to the estimated construction cost as certified by the Georgia PSC in March 2009. On February 25, 2010, the Georgia PSC approved the expenditures made by the Company pursuant to the certification through June 30, 2009. The Georgia PSC also ordered that in its future semi-annual construction monitoring reports, the Company will report against a total certified cost of approximately $6.1 billion, which is the effective certified amount after giving effect to the Georgia Nuclear Energy Financing Act as described above. The Company will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

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

Other Construction

On August 10, 2009, the Company filed its quarterly construction monitoring report for Plant McDonough Units 4, 5, and 6 for the quarter ended June 30, 2009. On September 30, 2009, the Company amended the report. As amended, the report includes a request for an increase in the certified costs to construct Plant McDonough. The Georgia PSC held a hearing in December 2009 and is scheduled to render its decision on March 16, 2010. The ultimate outcome of this matter cannot be determined at this time.

Other Matters

The Company is involved in various other matters being litigated, regulatory matters, and certain tax-related issues that could affect future earnings. In addition, the Company is subject to certain claims and legal actions arising in the ordinary course of business. The Company's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending

or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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. See Note 3 to the financial statements for information regarding material issues.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed the following critical accounting policies and estimates 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 accounting standards which require 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 the accounting standards 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 and accounting principles generally accepted in the United States. 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, in accordance with generally accepted accounting principles (GAAP), records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. 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, coal combustion byproducts, including coal ash, and other environmental matters.
- Changes in existing income tax regulations or changes in IRS or Georgia DOR 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 new or existing matters through the legislative process, the court systems, the IRS, the Georgia DOR, the FERC, or the EPA.

Unbilled Revenues

Revenues related to the retail 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, 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.

Pension and Other Postretirement Benefits

The Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, health care cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining the Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on the Company's investment strategy, historical experience, and expectations for long-term rates of return that considers external actuarial advice. The Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to the Company's target asset allocation. The Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

A 25 basis point change in any significant assumption would result in an $8 million or less change in total benefit expense and a $104 million or less change in projected obligations.

New Accounting Standards

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. The Company adopted this new guidance effective January 1, 2010, with no material impact on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition remained stable at December 31, 2009. Throughout the turmoil in the financial markets, the Company has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper programs and variable rate pollution control revenue bonds. The Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit increased in 2009, and the Company may continue to be subject to higher costs as its existing facilities are replaced or renewed. Total committed credit fees for the Company average less than ⅜ of 1% per year. See "Sources of Capital" and "Financing Activities" herein for additional information.

The Company's investments in pension and nuclear decommissioning trust funds remained stable in value as of December 31, 2009. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant; however, projections of the amount vary significantly depending on key variables including future fund performance and cannot be determined at this time. Any changes to funding obligations to the nuclear decommissioning trusts will be determined in connection with the Company's 2010 retail rate case and are not currently expected to be material.

Cash flow from operations totaled $1.4 billion in 2009, a decrease of $310 million from 2008, primarily due to an $89 million decrease in net income, a reduction in deferred revenues of approximately $172 million, a reduction in accrued compensation of approximately $122 million, and an increase in fuel inventory additions of approximately $150 million, partially offset by a reduction in accounts receivable of approximately $210 million. Cash flow from operations totaled $1.7 billion in 2008, an increase of $279 million from 2007, primarily due to higher retail operating revenues partially offset by higher inventory additions. Cash flow from operations in 2007 totaled $1.4 billion, an increase of $249 million from 2006, primarily due to higher retail revenues primarily related to higher fuel cost recovery revenues and less cash used for working capital primarily from lower inventory additions and increases in other current liabilities.

Net cash used for investing activities totaled $2.4 billion, $1.9 billion, and $1.9 billion in 2009, 2008, and 2007, respectively, due to gross property additions primarily related to installation of equipment to comply with environmental standards; construction of generation, transmission, and distribution facilities; and purchase of nuclear fuel. The majority of funds needed for gross property additions for the last several years have been provided from operating activities, capital contributions from Southern Company, and the issuance of debt and preference stock.

Cash provided from financing activities totaled $881 million, $310 million, and $430 million for 2009, 2008, and 2007, respectively. These totals are primarily related to additional issuances of senior notes in all years. The statements of cash flows provide additional details. See "Financing Activities" herein.

Significant balance sheet changes in 2009 include the $1.9 billion increase in total property, plant, and equipment discussed above. Other significant balance sheet changes in 2009 include a $776 million increase in long-term debt to provide funds for the Company's continuous construction program. Significant balance sheet changes in 2008 include a $1.1 billion increase in long-term debt primarily to replace short-term debt and provide funds for the Company's continuous construction program and an increase in total property, plant, and equipment of $1.3 billion. Other significant balance sheet changes in 2008 include a decrease of $1.0 billion in prepaid pension costs, an increase of $908 million in other regulatory assets, and a decrease of $462 million in other regulatory liabilities primarily attributable to the decline in market value of the Company's pension trust fund

The Company's ratio of common equity to total capitalization, including short-term debt, was 47.8% in 2009, 46.5% in 2008, and 47.5% in 2007. The Company has received investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and preference stock. See "Credit Rating Risk" herein and SELECTED FINANCIAL AND OPERATING DATA for additional information regarding the Company's security ratings.

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, security issuances, term loans, short-term borrowings, and equity contributions from Southern Company. However, the type and timing of any future financings, if needed, will depend on market conditions, regulatory approvals, and other factors. In addition, on February 16, 2010, the U.S. Department of Energy (DOE) offered the Company a conditional commitment for federal loan guarantees that would apply to future Company borrowings related to Plant Vogtle Units 3 and 4. Any borrowings guaranteed by the DOE would be full recourse to the Company and would be secured by a first priority lien on the Company's ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed 70% of eligible project costs, or approximately $3.4 billion, and are expected to be funded by the Federal Financing Bank. The Company has 90 days to accept the conditional commitment, including obtaining any necessary regulatory approvals. The Company will work with the DOE to finalize the loan guarantees. Final approval and issuance of loan guarantees by the DOE are subject to receipt of the COL for Plant Vogtle Units 3 and 4 from the NRC, negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. There can be no assurance that the DOE will issue loan guarantees for the Company. See FUTURE EARNINGS POTENTIAL – "Construction – Nuclear" herein and Note 3 to the financial statements under "Nuclear Construction" for more information on Plant Vogtle Units 3 and 4.

The issuance of long-term securities by the Company is subject to the approval of the Georgia PSC. In addition, the issuance of short-term debt securities by the Company is subject to regulatory approval by the FERC. Additionally, with respect to the public offering of securities, the Company files registration statements with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended. The amounts of securities authorized by the Georgia PSC and the FERC 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. 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 the Company are not commingled with funds of any other company.

The Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source for under recovered fuel costs and to meet cash needs which can fluctuate significantly due to the seasonality of the business.

To meet short-term cash needs and contingencies, at December 31, 2009 the Company had credit arrangements with banks totaling $1.7 billion. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information. In addition, the Company has substantial cash flow from operating activities and access to capital markets, including a commercial paper program, to meet liquidity needs.

At December 31, 2009, bank credit arrangements were as follows:

		Expires	
Total	Unused	2010	2012
	(in millions)		
$1,715	$1,703	$595	$1,120

Of the credit arrangements that expire in 2010, $40 million allow for the execution of term loans for an additional two-year period.

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of the Company and the other traditional 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 benefit 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, 2009, the Company had $324 million of outstanding commercial paper.

Financing Activities

In February 2009, the Company issued $500 million aggregate principal amount of Series 2009A 5.95% Senior Notes due February 1, 2039. In December 2009, the Company issued $500 million aggregate principal amount of Series 2009B 4.25% Senior Notes due December 1, 2019. The net proceeds from the sale of these senior notes were used by the Company to repay at maturity $150 million aggregate principal amount of its Series U Floating Rate Senior Notes and $125 million aggregate principal amount of its Series V 4.10% Senior Notes, to redeem $55 million aggregate principal amount of its Series D 5.50% Senior Notes, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including the Company's continuous construction program.

The Company also incurred $416.5 million of obligations related to the issuance of pollution control revenue bonds, the proceeds of which were used to retire $327.3 million of pollution control revenue bonds and to finance the construction of certain solid waste disposal facilities.

During 2009, the Company settled interest rate hedges of $300 million related to the issuance of senior notes at a loss of $19 million. The effective portion of these losses has been deferred in other comprehensive income and is being amortized to interest expense over the life of the original interest rate hedge.

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

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- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation facilities. At December 31, 2009, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $32 million. At December 31, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 totaled approximately $1.2 billion. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the Company's ability to access capital markets, particularly the short-term debt market.

On September 2, 2009, Moody's Investors Service (Moody's) affirmed the credit ratings of the Company's senior unsecured notes and commercial paper of A2/P-1, respectively, and revised the rating outlook to negative. On September 4, 2009, Fitch Ratings, Inc. affirmed the Company's senior unsecured notes and commercial paper ratings of A+/F1, respectively, but revised the Company's rating outlook to negative. On October 6, 2009, Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (S&P) affirmed the credit ratings of the Company's senior unsecured notes and its short-term credit rating of A/A-1, respectively, and maintained its stable rating outlook.

Market Price Risk

Due to cost-based rate regulation, the Company has limited exposure to market rate volatility in interest rates, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures the Company nets the exposures,where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress tests, and sensitivity analysis.

To mitigate future exposure to changes in interest rates, the Company enters into forward starting interest rate swaps and other derivatives that have been designated as hedges. These derivatives have a notional amount of $300 million and are related to certain variable rate debt over the next year. The weighted average interest rate on $1.2 billion of outstanding variable rate long-term debt that has not been hedged at January 1, 2010 was 0.23%. 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 $12 million at January 1, 2010. See Notes 1 and 11 to the financial statements under "Financial Instruments" and "Interest Rate Derivatives," respectively, for additional information.

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, into financial hedge contracts for gas purchases.

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

	2009 Changes	2008 Changes
	Fair Value	
	(in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (113)	$ -
Contracts realized or settled	150	(69)
Current period changes[a]	(112)	(44)
Contracts outstanding at the end of the period, assets (liabilities), net	$ (75)	$ (113)

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

The change in the fair value positions of the energy-related derivative contracts for the year-ended December 31, 2009 was an increase of $38.2 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and the price of natural gas. At December 31, 2009, the Company had a net hedge volume of 70.7 million mmBtu with a weighted average contract cost approximately $1.08 per mmBtu above market prices, and 59.3 million mmBtu at December 31, 2008 with a weighted average contract cost approximately $1.96 per mmBtu above market prices. Substantially all natural gas hedges gains and losses are recovered through the Company's fuel cost recovery mechanism.

At December 31, 2009 and 2008, all of the Company's energy-related derivative contracts were designated as regulatory hedges related to the Company's fuel hedging program. Therefore, gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery mechanism. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred and were not material for any year presented.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	December 31, 2009 Fair Value Measurements			
	Total Fair Value	Maturity		
		Year 1	Years 2&3	Years 4&5
		(in millions)		
Level 1	$ -	$ -	$ -	$ -
Level 2	(75)	(47)	(27)	(1)
Level 3	-	-	-	-
Fair value of contracts outstanding at end of period	$ (75)	$ (47)	$ (27)	$ (1)

The Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note 10 to the financial statements for further discussion on fair value measurement.

The Company is exposed to market price risk in the event of nonperformance by counterparties to the energy-related and interest rate derivative contracts. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P 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 Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements.

Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $2.5 billion for 2010, $2.4 billion for 2011, and $2.8 billion for 2012. Environmental expenditures included in these estimated amounts are $259 million, $350 million, and $600 million for 2010, 2011, and 2012, respectively. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. See Note 3 and Note 7 to the financial statements under "Construction – Nuclear" and "Construction Program," respectively, for additional information.

As a result of requirements by the NRC, the Company has established external trust funds for nuclear decommissioning costs. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning."

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 the related interest, preferred and preference stock dividends, leases, derivative obligations, and other purchase commitments are as follows. See Notes 1, 6, 7, and 11 to the financial statements for additional information.

Contractual Obligations

	2010	2011-2012	2013-2014	After 2014	Uncertain Timing [d]	Total
			(in millions)			
Long-term debt[a] –						
Principal	$ 250	$ 611	$ 525	$ 6,597	$ -	$ 7,983
Interest	378	736	670	6,067	-	7,851
Preferred and preference stock dividends[b]	17	35	35	-	-	87
Energy-related derivative obligations[c]	47	27	1	-	-	75
Operating leases	37	54	28	17	-	136
Capital leases	4	9	10	40	-	63
Unrecognized tax benefits and interest[d]	183	-	-	-	18	201
Purchase commitments[e] –						
Capital[f]	2,298	4,984	-	-	-	7,282
Limestone [g]	19	30	32	20	-	101
Coal	2,239	2,609	959	1,533	-	7,340
Nuclear fuel	198	224	171	207	-	800
Natural gas[h]	473	1,028	772	3,414	-	5,687
Purchased power	343	583	472	1,939	-	3,337
Long-term service agreements[i]	14	61	91	550	-	716
Trusts –						
Nuclear decommissioning[j]	3	7	7	53	-	70
Postretirement benefits[k]	31	53	-	-	-	84
Total	$6,534	$11,051	$3,773	$ 20,437	$ 18	$ 41,813

(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, 2010, as reflected in the statements of capitalization. Fixed rates include, where applicable, the effects of interest rate derivatives employed to manage interest rate risk. Excludes capital lease amounts (shown separately).

(b) Preferred and preference stock does not mature; therefore, amounts provided are for the next five years only.

(c) For additional information see Notes 1 and 11 to the financial statements.

(d) The timing related to the realization of $18 million in unrecognized tax benefits and corresponding interest payments cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. Of the total $201 million, $97 million is the estimated cash payment. See Note 3 under "Income Tax Matters" and Note 5 under "Unrecognized Tax Benefits" to the financial statements for additional information.

(e) The Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for the last three years were $1.5 billion, $1.6 billion, and $1.6 billion, respectively.

(f) 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 nuclear fuel. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program.

(g) As part of the Company's program to reduce sulfur dioxide emissions from its coal plants, the Company has entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment.

(h) 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, 2009.

(i) Long-term service agreements include price escalation based on inflation indices.

(j) Projections of nuclear decommissioning trust contributions are based on the 2007 Retail Rate Plan and are subject to change in the 2010 retail rate case.

(k) The Company forecasts postretirement trust contributions over a three-year period. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012. The projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Therefore, no amounts related to the pension trust fund are included in the table. 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 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales, retail rates, fuel cost recovery and other rate actions, environmental regulations and expenditures, the Company's projections for postretirement benefit and nuclear decommissioning trust contributions, financing activities, access to sources of capital, the impacts of the adoption of new accounting rules, impacts of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, estimated sales and purchases under new power sale and purchase agreements, start and 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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts and other substances, and also changes in 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 FERC matters and 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 recovery from the recent recession, population, business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of the Company's employee benefit plans and nuclear decommissioning trusts;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate cases related to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals and potential DOE loan guarantees;
- 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 and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- 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, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the 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, 2009, 2008, and 2007

Georgia Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Revenues:			
Retail revenues	**$6,912,403**	$7,286,345	$6,498,003
Wholesale revenues, non-affiliates	**394,538**	568,797	537,913
Wholesale revenues, affiliates	**111,964**	286,219	277,832
Other revenues	**272,835**	270,191	257,904
Total operating revenues	**7,691,740**	8,411,552	7,571,652
Operating Expenses:			
Fuel	**2,716,928**	2,812,417	2,640,526
Purchased power, non-affiliates	**269,136**	442,951	332,064
Purchased power, affiliates	**709,730**	962,100	718,327
Other operations and maintenance	**1,494,192**	1,580,922	1,561,736
Depreciation and amortization	**655,150**	636,970	511,180
Taxes other than income taxes	**316,532**	316,219	291,136
Total operating expenses	**6,161,668**	6,751,579	6,054,969
Operating Income	**1,530,072**	1,659,973	1,516,683
Other Income and (Expense):			
Allowance for equity funds used during construction	**96,788**	95,294	68,177
Interest income	**2,242**	7,219	3,560
Interest expense, net of amounts capitalized	**(385,889)**	(345,415)	(343,461)
Other income (expense), net	**(1,774)**	(9,259)	14,705
Total other income and (expense)	**(288,633)**	(252,161)	(257,019)
Earnings Before Income Taxes	**1,241,439**	1,407,812	1,259,664
Income taxes	**410,013**	487,504	417,521
Net Income	**831,426**	920,308	842,143
Dividends on Preferred and Preference Stock	**17,381**	17,381	6,007
Net Income After Dividends on Preferred and Preference Stock	**$814,045**	$902,927	$836,136

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008, and 2007

Georgia Power Company *2009 Annual Report*

	2009	2008	2007
		(in thousands)	
Operating Activities:			
Net income	**$ 831,426**	$ 920,308	$ 842,143
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization, total	**790,581**	758,284	616,796
Deferred income taxes	**191,382**	170,958	(78,010)
Deferred revenues	**(48,962)**	122,965	4,871
Deferred expenses	**(4,281)**	1,605	2,950
Allowance for equity funds used during construction	**(96,788)**	(95,294)	(68,177)
Pension, postretirement, and other employee benefits	**(20,032)**	(3,243)	8,836
Stock based compensation expense	**4,592**	4,200	5,977
Hedge settlements	**(19,016)**	(22,949)	12,121
Insurance cash surrender value	**19,742**	-	-
Other, net	**20,212**	(696)	15,600
Changes in certain current assets and liabilities --			
-Receivables	**126,758**	(82,996)	134,276
-Fossil fuel stock	**(241,509)**	(91,536)	(1,211)
-Materials and supplies	**(6,139)**	(20,021)	(32,998)
-Prepaid income taxes	**21,067**	(14,885)	10,002
-Other current assets	**(1,217)**	(18,460)	(4,359)
-Accounts payable	**(54,328)**	(56,126)	22,626
-Accrued taxes	**(19,445)**	117,524	(33,320)
-Accrued compensation	**(100,547)**	21,525	(30,039)
-Other current liabilities	**24,678**	16,788	20,702
Net cash provided from operating activities	**1,418,174**	1,727,951	1,448,786
Investing Activities:			
Property additions	**(2,514,972)**	(1,847,953)	(1,765,345)
Investment in restricted cash from pollution control bonds	**-**	-	(59,525)
Distribution of restricted cash from pollution control revenue bonds	**26,849**	32,675	-
Nuclear decommissioning trust fund purchases	**(989,219)**	(419,086)	(448,287)
Nuclear decommissioning trust fund sales	**984,340**	412,206	441,407
Cost of removal, net of salvage	**(56,494)**	(62,722)	(47,565)
Change in construction payables, net of joint owner portion	**106,008**	2,639	24,893
Other investing activities	**25,479**	(38,198)	(25,478)
Net cash used for investing activities	**(2,418,009)**	(1,920,439)	(1,879,900)
Financing Activities:			
Decrease in notes payable, net	**(33,137)**	(358,497)	(17,690)
Proceeds --			
Capital contributions from parent company	**931,382**	272,894	322,448
Preferred and preference stock	**-**	-	225,000
Pollution control revenue bonds issuances	**416,510**	386,485	190,800
Senior notes issuances	**1,000,000**	1,000,000	1,500,000
Other long-term debt issuances	**1,100**	301,100	-
Redemptions --			
Pollution control revenue bonds	**(327,310)**	(335,605)	-
Capital leases	**(1,693)**	(1,125)	(2,185)
Senior notes	**(333,000)**	(198,097)	(300,000)
Other long-term debt	**-**	-	(762,887)
Payment of preferred and preference stock dividends	**(17,568)**	(17,016)	(3,143)
Payment of common stock dividends	**(738,900)**	(721,200)	(689,900)
Other financing activities	**(15,979)**	(19,104)	(32,787)
Net cash provided from financing activities	**881,405**	309,835	429,656
Net Change in Cash and Cash Equivalents	**(118,430)**	117,347	(1,458)
Cash and Cash Equivalents at Beginning of Year	**132,739**	15,392	16,850
Cash and Cash Equivalents at End of Year	**$ 14,309**	$ 132,739	$ 15,392
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $39,849, $39,807 and $28,668 capitalized, respectively)	**$341,003**	$309,264	$317,938
Income taxes (net of refunds)	**227,778**	279,904	456,852

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Georgia Power Company 2009 Annual Report

Assets	2009	2008
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ **14,309**	$ 132,739
Restricted cash and cash equivalents	**-**	22,381
Receivables --		
Customer accounts receivable	**486,885**	554,219
Unbilled revenues	**172,035**	147,978
Under recovered regulatory clause revenues	**291,837**	338,780
Joint owner accounts receivable	**146,932**	38,710
Other accounts and notes receivable	**62,758**	59,189
Affiliated companies	**11,775**	13,091
Accumulated provision for uncollectible accounts	**(9,856)**	(10,732)
Fossil fuel stock, at average cost	**726,266**	484,757
Materials and supplies, at average cost	**362,803**	356,537
Vacation pay	**74,566**	71,217
Prepaid income taxes	**132,668**	65,987
Other regulatory assets, current	**76,634**	118,961
Other current assets	**62,651**	63,464
Total current assets	**2,612,263**	2,457,278
Property, Plant, and Equipment:		
In service	**25,120,034**	23,975,262
Less accumulated provision for depreciation	**9,493,068**	9,101,474
Plant in service, net of depreciation	**15,626,966**	14,873,788
Nuclear fuel, at amortized cost	**339,810**	278,412
Construction work in progress	**2,521,091**	1,434,989
Total property, plant, and equipment	**18,487,867**	16,587,189
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**66,106**	57,163
Nuclear decommissioning trusts, at fair value	**580,322**	460,430
Miscellaneous property and investments	**38,516**	40,945
Total other property and investments	**684,944**	558,538
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**608,851**	572,528
Deferred under recovered regulatory clause revenues	**373,245**	425,609
Other regulatory assets, deferred	**1,321,904**	1,449,352
Other deferred charges and assets	**205,492**	265,174
Total deferred charges and other assets	**2,509,492**	2,712,663
Total Assets	**$24,294,566**	$22,315,668

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Georgia Power Company 2009 Annual Report

Liabilities and Stockholder's Equity	**2009**	2008
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 253,882**	$ 280,443
Notes payable	**323,958**	357,095
Accounts payable --		
Affiliated	**238,599**	260,545
Other	**602,003**	422,485
Customer deposits	**200,103**	186,919
Accrued taxes --		
Accrued income taxes	**548**	70,916
Unrecognized tax benefits	**164,863**	128,712
Other accrued taxes	**290,174**	278,172
Accrued interest	**89,228**	79,432
Accrued vacation pay	**57,662**	57,643
Accrued compensation	**42,756**	135,191
Liabilities from risk management activities	**49,788**	113,432
Other cost of removal obligations, current	**216,000**	-
Other regulatory liabilities, current	**99,807**	60,330
Other current liabilities	**84,319**	75,846
Total current liabilities	**2,713,690**	2,507,161
Long-Term Debt (See accompanying statements)	**7,782,340**	7,006,275
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**3,389,907**	3,064,580
Deferred credits related to income taxes	**133,683**	140,933
Accumulated deferred investment tax credits	**242,496**	256,218
Employee benefit obligations	**923,177**	882,965
Asset retirement obligations	**676,705**	688,019
Other cost of removal obligations	**124,662**	396,947
Other regulatory liabilities, deferred	**1,234**	115,865
Other deferred credits and liabilities	**137,790**	111,505
Total deferred credits and other liabilities	**5,629,654**	5,657,032
Total Liabilities	**16,125,684**	15,170,468
Preferred Stock (See accompanying statements)	**44,991**	44,991
Preference Stock (See accompanying statements)	**220,966**	220,966
Common Stockholder's Equity (See accompanying statements)	**7,902,925**	6,879,243
Total Liabilities and Stockholder's Equity	**$24,294,566**	$22,315,668
Commitments and Contingent Matters *(See notes)*		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION
At December 31, 2009 and 2008
Georgia Power Company 2009 Annual Report

	2009	2008	2009	2008
		(in thousands)	*(percent of total)*	
Long-Term Debt:				
Long-term debt payable to affiliated trusts --				
5.88% due 2044	**$ 206,186**	$ 206,186		
Long-term notes payable --				
4.10% due 2009	**-**	125,300		
Variable rate (2.3288% at 1/1/09) due 2009	**-**	150,000		
Variable rate (0.80% at 1/1/10) due 2010	**250,000**	250,000		
Variable rate (2.95% at 1/1/10) due 2011	**300,000**	300,000		
4.00% to 5.57% due 2011	**102,500**	101,100		
5.125% due 2012	**200,000**	200,000		
4.90% to 6.00% due 2013	**525,000**	525,000		
4.25% to 8.20% due 2015-2048	**4,363,903**	3,421,903		
Total long-term notes payable	**5,741,403**	5,073,303		
Other long-term debt --				
Pollution control revenue bonds:				
1.95% to 5.75% due 2016-2048	**1,134,080**	1,309,190		
Variable rate (0.25% at 1/1/10) due 2011	**8,330**	8,330		
Variable rate (0.18% to 0.30% at 1/1/10) due 2016-2049	**892,315**	628,005		
Total other long-term debt	**2,034,725**	1,945,525		
Capitalized lease obligations	**62,805**	67,948		
Unamortized debt discount	**(8,897)**	(6,244)		
Total long-term debt (annual interest requirement -- $377.6 million)	**8,036,222**	7,286,718		
Less amount due within one year	**253,882**	280,443		
Long-term debt excluding amount due within one year	**7,782,340**	7,006,275	**48.8%**	49.5%
Preferred and Preference Stock:				
Non-cumulative preferred stock				
$25 par value -- 6.125%				
Authorized - 50,000,000 shares				
Outstanding - 1,800,000 shares	**44,991**	44,991		
Non-cumulative preference stock				
$100 par value -- 6.50%				
Authorized - 15,000,000 shares				
Outstanding - 2,250,000 shares	**220,966**	220,966		
Total preferred and preference stock (annual dividend requirement -- $17.4 million)	**265,957**	265,957	**1.7**	1.9
Common Stockholder's Equity:				
Common stock, without par value --				
Authorized: 20,000,000 shares				
Outstanding: 9,261,500 shares	**398,473**	398,473		
Paid-in capital	**4,592,350**	3,655,731		
Retained earnings	**2,932,934**	2,857,789		
Accumulated other comprehensive income (loss)	**(20,832)**	(32,750)		
Total common stockholder's equity	**7,902,925**	6,879,243	**49.5**	48.6
Total Capitalization	**$15,951,222**	$14,151,475	**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, 2009, 2008, and 2007

Georgia Power Company 2009 Annual Report

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)			
Balance at December 31, 2006	9,262	$398,473	$3,039,845	$2,529,826	$(11,893)	$5,956,251
Net income after dividends on preferred and preference stock	-	-	-	836,136	-	836,136
Capital contributions from parent company	-	-	334,931	-	-	334,931
Other comprehensive loss	-	-	-	-	(2,000)	(2,000)
Cash dividends on common stock	-	-	-	(689,900)	-	(689,900)
Other	-	-	1	1	-	2
Balance at December 31, 2007	9,262	398,473	3,374,777	2,676,063	(13,893)	6,435,420
Net income after dividends on preferred and preference stock	-	-	-	902,927	-	902,927
Capital contributions from parent company	-	-	280,954	-	-	280,954
Other comprehensive loss	-	-	-	-	(18,857)	(18,857)
Cash dividends on common stock	-	-	-	(721,200)	-	(721,200)
Other	-	-	-	(1)	-	(1)
Balance at December 31, 2008	**9,262**	**398,473**	**3,655,731**	**2,857,789**	**(32,750)**	**6,879,243**
Net income after dividends on preferred and preference stock	-	-	-	**814,045**	-	**814,045**
Capital contributions from parent company	-	-	**936,619**	-	-	**936,619**
Other comprehensive income	-	-	-	-	**11,918**	**11,918**
Cash dividends on common stock	-	-	-	**(738,900)**	-	**(738,900)**
Balance at December 31, 2009	**9,262**	**$398,473**	**$4,592,350**	**$2,932,934**	**$(20,832)**	**$7,902,925**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Georgia Power Company 2009 Annual Report

	2009	2008	20(
		(in thousands)	
Net income after dividends on preferred and preference stock	**$814,045**	$902,927	$836,1
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of $(1,133), $(13,150), and $(1,831), respectively	**(1,826)**	(20,846)	(2,9
Reclassification adjustment for amounts included in net income, net of tax of $8,651, $1,255, and $278, respectively	**13,744**	1,989	4
Marketable securities:			
Change in fair value, net of tax of $-, $-, and $291, respectively	-	-	4
Total other comprehensive income (loss)	**11,918**	(18,857)	(2,0(
Comprehensive Income	**$825,963**	$884,070	$834,1

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Georgia Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies – Alabama Power Company (Alabama Power), the Company, Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power) – provide electric service in four Southeastern states. The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public, and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in 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 Plants Hatch and Vogtle.

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 to the current year presentation.

The Company is subject to regulation by the Federal Energy Regulatory Commission (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.

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, digital wireless communications, and other services with respect to business and operations and power pool operations. Costs for these services amounted to $506 million in 2009, $490 million in 2008, and $449 million in 2007. Cost allocation methodologies used by SCS were approved by the Securities and Exchange Commission prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies.

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, systems and procedures services, strategic planning and budgeting services, and other services with respect to business and operations. Costs for these services amounted to $398 million in 2009, $410 million in 2008, and $380 million in 2007.

The Company had an agreement with Southern Power under which the Company operated and maintained Southern Power's Plants Dahlberg, Franklin, and Wansley at cost. In August 2007, that agreement was terminated and replaced with a service agreement under which the Company provides to Southern Power specifically requested services. Billings under these agreements with Southern Power amounted to $0.5 million in 2009, $1.9 million in 2008, and $6.8 million in 2007.

Southern Company's 30% ownership interest in Alabama Fuel Products, LLC (AFP), which produced synthetic fuel, was terminated in July 2006. The Company had an agreement with an indirect subsidiary of Southern Company that provided services for AFP. Under this agreement, the Company provided certain accounting functions, including processing and paying fuel transportation invoices, and the Company was reimbursed for its expenses. Amounts billed under this agreement totaled approximately $85 million in 2007. In addition, the Company purchased synthetic fuel from AFP for use at Plant Branch. Synthetic fuel purchases totaled $278 million in 2007. The related party transactions and synthetic fuel purchases were terminated as of December 31, 2007.

The Company has entered into several power purchase agreements (PPA) with Southern Power for capacity and energy. Expenses associated with these PPAs were $411 million, $480 million, and $440 million in 2009, 2008, and 2007, respectively. Additionally, the Company had $24 million and $25 million of prepaid capacity expenses included in deferred charges and other assets in the balance sheets at December 31, 2009 and 2008, 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 non-fuel expenses, which were $3.9 million in 2009, $8.1 million in 2008, and $5.1 million in 2007. See Note 4 for additional information.

The Company provides incidental services to and receives such services from other Southern Company subsidiaries which are generally minor in duration and amount. The Company neither provided nor received any significant services to or from affiliates in 2009, 2008, or 2007.

Also see Note 4 for information regarding the Company's ownership in and a PPA with Southern Electric Generating Company (SEGCO) and Note 5 for information on certain deferred tax liabilities due to affiliates.

The traditional operating companies, including the Company, and Southern Power 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.

Regulatory Assets and Liabilities

The Company is subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of governmental 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:

	2009	2008	Note
	(in millions)		
Deferred income tax charges	**$ 609**	$ 573	(a)
Loss on reacquired debt	**157**	165	(b)
Vacation pay	**75**	71	(c, h)
Underfunded retiree benefit plans	**952**	921	(e, h)
Fuel-hedging (realized and unrealized) losses	**82**	130	(f)
Building leases	**47**	49	(i)
Generating plant outage costs	**39**	45	(j)
Other regulatory assets	**49**	98	(d)
Asset retirement obligations	**116**	209	(a, h)
Other cost of removal obligations	**(341)**	(397)	(a)
Deferred income tax credits	**(134)**	(141)	(a)
Environmental compliance cost recovery	**(96)**	(135)	(g)
Other regulatory liabilities	**(1)**	(15)	(b, d, f)
Total assets (liabilities), net	**$1,554**	$1,573	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and 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 other cost of removal liabilities will be settled and trued up following completion of the related activities. Other cost of removal obligations include $216 million that may be amortized during 2010. See Note 3 under "Retail Regulatory Matters – Rate Plans" for additional information.

(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) Recorded and recovered or amortized as approved by the Georgia PSC over periods not exceeding three years.

(e) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 2 for additional information.

(f) Fuel-hedging assets and liabilities are recorded over the life of the underlying hedged purchase contracts, which generally do not exceed 42 months. Upon final settlement, costs are recovered through the Company's fuel cost recovery mechanism.

(g) This balance represents deferred revenue associated with the environmental compliance cost recovery (ECCR) tariff established in the 2007 Retail Rate Plan (as defined below). The recovery of the forecasted environmental compliance costs was levelized to collect equal annual amounts between January 1, 2008 and December 31, 2010 under the tariff.

(h) Not earning a return as offset in rate base by a corresponding asset or liability.

(i) See Note 6 under "Capital Leases." Recovered over the remaining lives of the buildings through 2026.

(j) See "Property, Plant, and Equipment." Recovered over the respective operating cycles, which range from 18 months to 10 years.

In the event that a portion of the Company's operations is no longer subject to applicable accounting rules for rate regulation, the Company would be required to write off or reclassify to accumulated other comprehensive income related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair value. All regulatory assets and liabilities are reflected in rates.

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 and 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.

Retail fuel cost recovery rates require periodic filings with the Georgia PSC. See Note 3 under "Retail Regulatory Matters – Fuel Cost Recovery" for information on the Company's current fuel case proceeding.

The Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense includes the cost of purchased emissions 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. See Note 3 under "Nuclear Fuel Disposal Costs" for additional information.

Income and Other 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. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with accounting standards related to the uncertainty in income taxes, the Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

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 Company's property, plant, and equipment consisted of the following at December 31:

	2009	2008
	(in millions)	
Generation	**$ 12,185**	$ 11,478
Transmission	**3,891**	3,764
Distribution	**7,603**	7,409
General	**1,413**	1,296
Plant acquisition adjustment	**28**	28
Total plant in service	**$ 25,120**	$ 23,975

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 outage costs over the unit's operating cycle. The refueling cycles are 18 and 24 months for Plants Vogtle and Hatch, respectively. Also, in accordance with the Georgia PSC, 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.

Depreciation and Amortization

Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.0% in 2009, 2.9% in 2008, and 2.6% in 2007. Depreciation studies are conducted periodically to update the composite rates that are approved by the Georgia PSC. Effective January 1, 2008, the Company's depreciation rates were 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. 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 the Company's retail rate plan for the three years ended December 31, 2007 (2004 Retail Rate Plan), the Company was ordered to recognize Georgia PSC–certified capacity costs in rates evenly over the three years covered by the 2004 Retail Rate Plan. The Company recorded credits to amortization of $19 million in 2007. The retail rate plan for the three years ending December 31, 2010 (2007 Retail Rate Plan) did not include a similar order.

On August 27, 2009, the Georgia PSC approved an accounting order allowing the Company to amortize up to $324 million of its regulatory liability related to other cost of removal obligations. See Note 3 under "Retail Regulatory Matters – Rate Plans" for additional information.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are 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. The Company has received accounting guidance from the Georgia PSC allowing the continued accrual of other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability. See Note 3 under "Retail Regulatory Matters – Rate Plans" for additional information related to the Company's cost of removal regulatory liability.

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, 2009 was $580 million. In addition, the Company has retirement obligations related to various landfill sites, ash ponds, underground storage tanks, and asbestos removal. The Company also has 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 assets have not been recorded because the range of time over which the Company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income the allowed removal costs in accordance with its regulatory treatment. Any difference between costs recognized in accordance with accounting standards related to asset retirement and environmental obligations and those reflected in rates are recognized as either a regulatory asset or liability in the balance sheets as ordered by the Georgia PSC. 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:

	2009	2008
	(in millions)	
Balance beginning of year	$ 690	$ 664
Liabilities incurred	2	4
Liabilities settled	(7)	(1)
Accretion	44	41
Cash flow revisions	(48)	(18)
Balance end of year	$ 681	$ 690

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 external trust funds (the Funds) to comply with the NRC's regulations. Use of the Funds is restricted to nuclear decommissioning activities and the Funds 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). The Funds are required to be held by one or more trustees with an individual net worth of at least $100 million. The FERC requires the Funds' managers to exercise the standard of care in investing that a "prudent investor" would use in the same circumstances. The FERC regulations also require, except for investments tied to market indices or other mutual funds, that the Funds' managers may not invest in any securities of the utility for which it manages funds or its affiliates. In addition, the NRC prohibits investments in securities of power reactor licensees. While the Company is allowed to prescribe an overall investment policy to the Funds' managers, the Company is not allowed to engage in the day-to-day management of the Funds or to mandate individual investment decisions. Day-to-day management of the investments in the Funds is delegated to unrelated third party managers with oversight by the Company's management. The Funds' managers are authorized, within broad limits, to actively buy and sell securities at their own discretion in order to maximize the return on the Funds' investments. The Funds are invested in a tax-efficient manner in a diversified mix of equity and fixed income securities and are reported as trading securities.

The Company records the investment securities held in the Funds at fair value, as disclosed in Note 10. Gains and losses, whether realized, unrealized, or identified as other-than-temporary, are recorded in the regulatory liability for asset retirement obligations in the balance sheets and are not included in net income or other comprehensive income. Fair value adjustments, realized gains, and other-than-temporary impairment losses are determined on a specific identification basis.

At December 31, 2009, investment securities in the Funds totaled $580.0 million consisting of equity securities of $428.6 million, debt securities of $138.0 million, and $13.4 million of other securities. At December 31, 2008, investment securities in the Funds totaled $459.1 million, consisting of equity securities of $261.4 million, debt securities of $187.3 million, and $10.4 million of other securities. These amounts exclude receivables related to investment income and pending investment sales, and payables related to pending investment purchases.

Sales of the securities held in the Funds resulted in cash proceeds of $984.3 million, $412.2 million, and $441.4 million in 2009, 2008, and 2007, respectively, all of which were re-invested. For 2009, fair value increases, including reinvested interest and dividends and excluding expenses, were $118.7 million, of which $117.8 million relates to securities held in the Funds at December 31, 2009. For 2008, fair value reductions, including reinvested interest and dividends and excluding expenses, were $(143.9) million. Realized gains and other-than-temporary impairment losses were $43.7 million and $(39.1) million, respectively, in 2007. While the investment securities held in the Funds are reported as trading securities, the Funds continue to be managed with a long-term focus. Accordingly, all purchases and sales within the Funds are presented separately in the statement of cash flows as investing cash flows, consistent with the nature of and purpose for which the securities were acquired.

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 designed to ensure that, over time, the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

Site study cost is the estimate to decommission a specific facility as of the site study year. The estimated costs of decommissioning are based on the most current study performed in 2009. The site study costs and accumulated provisions for decommissioning as of December 31, 2009 based on the Company's ownership interests were as follows:

	Plant Hatch	Plant Vogtle
Decommissioning periods:		
Beginning year	2034	2047
Completion year	2063	2067
Site study costs:	*(in millions)*	
Radiated structures	$ 583	$ 500
Non-radiated structures	46	71
Total site study costs	$ 629	$ 571
Accumulated provision	$ 360	$ 206

The decommissioning periods and site study costs for Plant Vogtle reflect the extended operating license approved by the NRC on June 3, 2009. The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from these estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making these estimates.

For ratemaking purposes, the Company's decommissioning costs are based on the NRC generic estimate to decommission the radioactive portion of the facilities. The annual decommissioning costs for ratemaking were $7 million for Plant Vogtle for 2007. Under the 2007 Retail Rate Plan, effective for the years 2008 through 2010, the annual decommissioning cost for ratemaking is $3 million for Plant Vogtle. Based on estimates approved in the 2007 Retail Rate Plan, the Company projected the external trust funds for Plant Hatch would be adequate to meet the decommissioning obligations with no further contributions. The NRC estimates are $531 million and $366 million for Plants Hatch and Vogtle, respectively. Significant assumptions used to determine the costs for ratemaking include an estimated inflation rate of 2.9% and an estimated trust earnings rate of 4.9%. The Company expects the Georgia PSC to periodically review and adjust, if necessary, the amounts collected in rates for nuclear decommissioning costs.

Allowance for Funds Used During Construction (AFUDC) and Interest Capitalized

In accordance with regulatory treatment, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation. The equity component of AFUDC is not included in calculating taxable income. For the years 2009, 2008, and 2007, the average AFUDC rates were 8.0%, 8.2%, and 8.4%, respectively, and AFUDC capitalized was $136.6 million, $135.1 million, and $96.8 million, respectively. AFUDC, net of taxes, was 14.9%, 13.3%, and 10.3% of net income after dividends on preferred and preference stock for 2009, 2008, and 2007, respectively.

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 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.

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. In 2007, the Company accrued $6.6 million annually that was recoverable through base rates. Effective January 1, 2008, the Company is accruing $21.4 million annually under the 2007 Retail Rate Plan. The Company expects the Georgia PSC to periodically review and adjust, if necessary, the amounts collected in rates for storm damage costs.

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, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the average costs of oil, coal, natural gas, and emissions allowances. Fuel is charged to inventory when purchased and then expensed as used and recovered by the Company through fuel cost recovery rates approved by the Georgia PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero 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 (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 10 for additional information. 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 or are recoverable through the Georgia PSC-approved fuel hedging program. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges 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. See Note 11 for additional information.

The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. Additionally, the Company has no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2009.

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.

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 reclassifications for amounts included in net income.

Variable Interest Entities

The primary beneficiary of a variable interest entity must consolidate the related assets and liabilities. The Company has established certain wholly-owned trusts to issue preferred securities. However, the Company is not considered 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 in the balance sheets. See Note 6 under "Long-Term Debt Payable to Affiliated Trusts" for additional information.

2. RETIREMENT BENEFITS

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

The measurement date for plan assets and obligations for 2009 and 2008 was December 31 while the measurement date for prior years was September 30. Pursuant to accounting standards related to defined postretirement benefit plans, the Company was required to change the measurement date for its defined postretirement benefit plans from September 30 to December 31 beginning with the year ended December 31, 2008. As permitted, the Company adopted the measurement date provisions effective January 1, 2008 resulting in an increase in long-term liabilities of $10 million and an increase in prepaid pension costs of approximately $10 million.

Pension Plans

The total accumulated benefit obligation for the pension plans was $2.4 billion in 2009 and $2.1 billion in 2008. Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the projected benefit obligations and the fair value of plan assets were as follows:

	2009	2008
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,238	$ 2,178
Service cost	48	62
Interest cost	147	167
Benefits paid	(122)	(133)
Actuarial loss (gain)	206	(36)
Balance at end of year	2,517	2,238
Change in plan assets		
Fair value of plan assets at beginning of year	2,038	3,073
Actual return (loss) on plan assets	314	(910)
Employer contributions	7	8
Benefits paid	(122)	(133)
Fair value of plan assets at end of year	2,237	2,038
Accrued liability	$ (280)	$ (200)

At December 31, 2009, the projected benefit obligations for the qualified and non-qualified pension plans were $2.4 billion and $135 million, respectively. All pension plan assets are related to the qualified pension plan.

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). In 2009, in determining the optimal asset allocation for the pension fund, the Company performed an extensive study based on projections of both assets and liabilities over a 10-year forward horizon. The primary goal of the study was to maximize plan funded status. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

The actual composition of the Company's pension plan assets as of December 31, 2009 and 2008, along with the targeted mix of assets, is presented below:

	Target	**2009**	2008
Domestic equity	29%	**33%**	34%
International equity	28	**29**	23
Fixed income	15	**15**	14
Special situations	3	**-**	-
Real estate investments	15	**13**	19
Private equity	10	**10**	10
Total	100%	**100%**	100%

The investment strategy for plan assets related to the Company's defined benefit plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of pension plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$ 444	$ 184	$ -	$ 628
International equity*	574	57	-	631
Fixed income:				
U.S. Treasury, government, and agency bonds	-	165	-	165
Mortgage- and asset-backed securities	-	45	-	45
Corporate bonds	-	111	-	111
Pooled funds	-	4	-	4
Cash equivalents and other	1	136	-	137
Special situations	-	-	-	-
Real estate investments	69	-	217	286
Private equity	-	-	221	221
Total	$ 1,088	$ 702	$ 438	$ 2,228
Liabilities:				
Derivatives	(2)	-	-	(2)
Total	$ 1,086	$ 702	$ 438	$ 2,226

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$ 419	$ 171	$ -	$ 590
International equity*	377	35	-	412
Fixed income:				
U.S. Treasury, government, and agency bonds	-	176	-	176
Mortgage- and asset-backed securities	-	84	-	84
Corporate bonds	-	114	-	114
Pooled funds	-	1	-	1
Cash equivalents and other	9	81	-	90
Special situations	-	-	-	-
Real estate investments	58	-	336	394
Private equity	-	-	196	196
Total	$ 863	$ 662	$ 532	$ 2,057
Liabilities:				
Derivatives	(3)	-	-	(3)
Total	$ 860	$ 662	$ 532	$ 2,054

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	**Private Equity**	**Real Estate Investments**	**Private Equity**
		(in millions)		
Beginning balance	**$ 336**	**$ 196**	$ 418	$ 208
Actual return on investments:				
Related to investments held at year end	**(98)**	**14**	(68)	(56)
Related to investments sold during the year	**(26)**	**4**	2	10
Total return on investments	**(124)**	**18**	(66)	(46)
Purchases, sales, and settlements	**5**	**7**	(16)	34
Transfers into/out of Level 3	**-**	**-**	-	-
Ending balance	**$ 217**	**$ 221**	$ 336	$ 196

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued utilizing matrix pricing, a common model utilizing observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's pension plans consist of the following:

	2009	2008
	(in millions)	
Other regulatory assets, deferred	**$734**	$642
Current liabilities, other	**(8)**	(7)
Employee benefit obligations	**(272)**	(193)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	**Net(Gain)Loss**
	(in millions)	
Balance at December 31, 2009:	**$73**	**$661**
Balance at December 31, 2008:	$87	$555
Estimated amortization in net periodic pension cost in 2010:	$13	$2

The changes in the balances of regulatory assets and regulatory liabilities related to the defined benefit pension plans for the year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets	Regulatory Liabilities
	(in millions)	
Balance at December 31, 2007	$ 64	$ (540)
Net loss	585	554
Reclassification adjustments:		
Amortization of prior service costs	(4)	(14)
Amortization of net gain	(3)	-
Total reclassification adjustments	(7)	(14)
Total change	578	540
Balance at December 31, 2008	$ 642	$ -
Net loss	**108**	-
Reclassification adjustments:		
Amortization of prior service costs	**(14)**	-
Amortization of net gain	**(2)**	-
Total reclassification adjustments	**(16)**	-
Total change	**92**	-
Balance at December 31, 2009	**$ 734**	**$ -**

Components of net periodic pension cost (income) were as follows:

	2009	2008	2007
		(in millions)	
Service cost	**$ 48**	$ 49	$ 51
Interest cost	**147**	134	126
Expected return on plan assets	**(216)**	(211)	(195)
Recognized net loss	**2**	3	3
Net amortization	**14**	14	14
Net periodic pension cost (income)	**$ (5)**	$ (11)	$ (1)

Net periodic pension cost (income) is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

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, 2009, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2010	$ 135
2011	140
2012	144
2013	151
2014	162
2015 to 2019	929

Other Postretirement Benefits

Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the accumulated postretirement benefit obligations (APBO) and in the fair value of plan assets were as follows:

	2009	2008
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 772**	$ 798
Service cost	**10**	13
Interest cost	**50**	61
Benefits paid	**(43)**	(47)
Actuarial loss (gain)	**8**	(57)
Plan amendments	**(18)**	-
Retiree drug subsidy	**3**	4
Balance at end of year	**782**	772
Change in plan assets		
Fair value of plan assets at beginning of year	**312**	427
Actual return (loss) on plan assets	**66**	(131)
Employer contributions	**31**	59
Benefits paid	**(40)**	(43)
Fair value of plan assets at end of year	**369**	312
Accrued liability	**$ (413)**	$ (460)

Other postretirement benefit 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. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's other postretirement benefit plan assets as of the end of the year, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	41%	**34%**	38%
International equity	22	**29**	21
Fixed income	31	**32**	35
Special situations	1	**-**	-
Real estate investments	3	**3**	4
Private equity	2	**2**	2
Total	100%	**100%**	100%

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio comprises both domestic and international bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Trust-owned life insurance.*** Some of the Company's taxable trusts invest in these investments in order to minimize the impact of taxes on the portfolio.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.

- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of other postretirement benefit plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$ 82	$ 29	$ -	$ 111
International equity*	20	31	-	51
Fixed income:				
U.S. Treasury, government, and agency bonds	-	5	-	5
Mortgage- and asset-backed securities	-	2	-	2
Corporate bonds	-	4	-	4
Pooled funds	-	17	-	17
Cash equivalents and other	-	26	-	26
Trust-owned life insurance	-	126	-	126
Special situations	-	-	-	-
Real estate investments	2	-	8	10
Private equity	-	-	8	8
Total	$ 104	$ 240	$ 16	$ 360

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Domestic equity*	$ 69	$ 34	$ -	$ 103
International equity*	13	21	-	34
Fixed income:				
U.S. Treasury, government, and agency bonds	-	5	-	5
Mortgage- and asset-backed securities	-	3	-	3
Corporate bonds	-	4	-	4
Pooled funds	-	9	-	9
Cash equivalents and other	-	22	-	22
Trust-owned life insurance	-	110	-	110
Special situations	-	-	-	-
Real estate investments	2	-	12	14
Private equity	-	-	7	7
Total	$ 84	$ 208	$ 19	$ 311

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	**Private Equity**	**Real Estate Investments**	**Private Equity**
		(in millions)		
Beginning balance	**$ 12**	**$ 7**	$ 14	$ 7
Actual return on investments:				
Related to investments held at year end	**(3)**	**1**	(1)	(1)
Related to investments sold during the year	**(1)**	**-**	-	-
Total return on investments	**(4)**	**1**	(1)	(1)
Purchases, sales, and settlements	**-**	**-**	(1)	1
Transfers into/out of Level 3	**-**	**-**	-	-
Ending balance	**$ 8**	**$ 8**	$ 12	$ 7

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued utilizing matrix pricing, a common model utilizing observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's other postretirement benefit plans consist of the following:

	2009	2008
	(in millions)	
Other regulatory assets, deferred	**$ 202**	$ 261
Employee benefit obligations	**(413)**	(460)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the other postretirement benefit plans that had not yet been recognized in net periodic postretirement benefit cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	**Net(Gain) Loss**	**Transition Obligation**
		(in millions)	
Balance at December 31, 2009:	**$ 11**	**$ 167**	**$ 24**
Balance at December 31, 2008:	$ 20	$ 198	$ 43
Estimated amortization as net periodic postretirement benefit cost in 2010:	$ 1	$ 3	$ 6

The components of other comprehensive income, along with the changes in the balance of regulatory assets, related to the other postretirement benefit plans for the plan year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets
	(in millions)
Balance at December 31, 2007	$ 171
Net loss	110
Reclassification adjustments:	
Amortization of transition obligation	(11)
Amortization of prior service costs	(3)
Amortization of net gain	(6)
Total reclassification adjustments	(20)
Total change	90
Balance at December 31, 2008	$ 261
Net gain	**(28)**
Change in prior service costs/transition obligation	**(18)**
Reclassification adjustments:	
Amortization of transition obligation	**(8)**
Amortization of prior service costs	**(2)**
Amortization of net gain	**(3)**
Total reclassification adjustments	**(13)**
Total change	**(59)**
Balance at December 31, 2009	**$ 202**

Components of the other postretirement benefit plans' net periodic cost were as follows:

	2009	2008	2007
		(in millions)	
Service cost	**$ 10**	$ 10	$ 10
Interest cost	**50**	50	47
Expected return on plan assets	**(30)**	(30)	(26)
Net amortization	**13**	16	19
Net postretirement cost	**$ 43**	$ 46	$ 50

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act) provides a 28% prescription drug subsidy for Medicare eligible retirees. The effect of the subsidy reduced the Company's expenses for the years ended December 31, 2009, 2008, and 2007 by approximately $14 million, $14 million, and $14 million, respectively, and is expected to have a similar impact on future expenses.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO 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)	
2010	$ 50	$ (4)	$ 46
2011	53	(4)	49
2012	56	(4)	52
2013	58	(5)	53
2014	60	(6)	54
2015 to 2019	317	(38)	279

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2006 for the 2007 plan year using a discount rate of 6.00% and an annual salary increase of 3.50%.

	2009	2008	2007
Discount rate:			
Pension plans	**5.93%**	6.75%	6.30%
Other postretirement benefit plans	**5.83**	6.75	6.30
Annual salary increase	**4.18**	3.75	3.75
Long-term return on plan assets:			
Pension plans	**8.50**	8.50	8.50
Other postretirement benefit plans	**7.35**	7.38	7.37

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the APBO was a weighted average medical care cost trend rate of 8.50% for 2010, decreasing gradually to 5.25% through the year 2016 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2009 as follows:

	1 Percent Increase	**1 Percent Decrease**
	(in millions)	
Benefit obligation	$ 58	$ 51
Service and interest costs	4	4

Employee Savings Plan

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides an 85% matching contribution up to 6% of an employee's base salary. Total matching contributions made to the plan for 2009, 2008, and 2007 were $25 million, $25 million, and $24 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 such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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 EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including the Company, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. The action was filed concurrently with the issuance of a notice of violation of the NSR provisions to the Company. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and the Company. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The original action, now solely against the Company, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 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 or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the

Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Remediation

The 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.

In 2007, the Company's rates included an annual accrual of $5.4 million for environmental remediation. Beginning in January 2008, the Company is recovering environmental remediation costs through a new base rate tariff (see "Retail Regulatory Matters - Rate Plans" herein) that includes an annual accrual of $1.2 million for environmental remediation. Environmental remediation expenditures are charged against the reserve as they are incurred. The annual accrual amount is expected to be reviewed and adjusted in future regulatory proceedings. As of December 31, 2009, the balance of the environmental remediation liability was $12.5 million.

The Company has been designated or identified as a potentially responsible party (PRP) at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), including a large site in Brunswick, Georgia on the CERCLA National Priorities List (NPL). The parties have completed the removal of wastes from the Brunswick site as ordered by the EPA. Additional claims for recovery of natural resource damages at this site or for the assessment and potential cleanup of other sites on the Georgia Hazardous Sites Inventory and the CERCLA NPL are anticipated. The final outcome of these matters cannot now be determined. 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.

By letter dated September 30, 2008, the EPA advised the Company that it has been designated as a PRP at the Ward Transformer Superfund site located in Raleigh, North Carolina. Numerous other entities have also received notices from the EPA. The Company, along with other named PRPs, is negotiating with the EPA to address cleanup of the site and reimbursement for past expenditures related to work performed at the site. In addition, on April 30, 2009, two PRPs filed separate actions in the U.S. District Court for the Eastern District of North Carolina against numerous other PRPs, including the Company, seeking contribution from the defendants for expenses incurred by the plaintiffs related to work performed at a portion of the site. The ultimate outcome of these matters will depend upon further environmental assessment and the ultimate number of PRPs and cannot be determined at this time; however, it is not expected to have a material impact on the Company's financial statements.

FERC Matters

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

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

On December 23, 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that the Company possesses or has exercised any market power. The agreement likewise does not require the Company to make any refunds related to sales during the 15-month refund period. Under the agreement, the Company will donate $0.7 million to nonprofit organizations in the State of Georgia for the purpose of offsetting the electricity bills of low-income retail customers. The agreement is subject to review and approval by the FERC.

Intercompany Interchange Contract

The Company's generation fleet is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies (including the Company), Southern Power, and SCS, as agent, under the terms of which the power pool of Southern Company is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining Southern Power as a "system company" rather than a "marketing affiliate" is just and reasonable. In connection with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

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

Income Tax Matters

The Company's 2005 through 2008 income tax filings for the State of Georgia included state income tax credits for increased activity through Georgia ports. The Company has also filed similar claims for the years 2002 through 2004. The Georgia Department of Revenue has not responded to these claims. In July 2007, the Company filed a complaint in the Superior Court of Fulton County to recover the credits claimed for the years 2002 through 2004. An unrecognized tax benefit has been recorded related to these credits. See Note 5 under "Unrecognized Tax Benefits" for additional information. If the Company prevails, these claims could have a significant, and possibly material, positive effect on the Company's net income. If the Company is not successful, payment of the related state tax could have a significant, and possibly material, negative effect on the Company's cash flow. The ultimate outcome of this matter cannot now be determined.

Nuclear Fuel Disposal Costs

The Company has contracts with the United States, acting through the U.S. Department of Energy (DOE), which 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.

In July 2007, the U.S. Court of Federal Claims awarded the Company approximately $30 million, based on its ownership interests, representing substantially all of the direct costs of the expansion of spent nuclear fuel storage facilities at Plants Hatch and Vogtle from 1998 through 2004. In November 2007, the government's motion for reconsideration was denied. In January 2008, the government filed an appeal and, in February 2008, filed a motion to stay the appeal. In April 2008, the U.S. Court of Appeals for the Federal Circuit granted the government's motion to stay the appeal pending the court's decisions in three other similar cases already on appeal. Those cases were decided in August 2008. The U.S. Court of Appeals for the Federal Circuit has left the stay of appeals in place pending the decision in an appeal of another case involving spent nuclear fuel contracts.

In April 2008, a second claim against the government was filed for damages incurred after December 31, 2004 (the court-mandated cut-off in the original claim), due to the government's alleged continuing breach of contract. In October 2008, the U.S. Court of Appeals for the Federal Circuit denied a similar request by the government to stay this proceeding. The complaint does not contain

any specific dollar amount for recovery of damages. Damages will continue to accumulate until the issue is resolved or the storage is provided. No amounts have been recognized in the financial statements as of December 31, 2009 for either claim. The final outcome of these matters cannot be determined at this time, but no material impact on net income is expected as any damage amounts collected from the government are expected to be returned to customers.

Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2014. 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 is operational and can be expanded to accommodate spent fuel through the expected life of the plant.

Retail Regulatory Matters

Rate Plans

In December 2004, the Georgia PSC approved the Company's retail rate plan for the years 2005 through 2007 (2004 Retail Rate Plan). Under the terms of the 2004 Retail Rate Plan, the Company's earnings were evaluated against a retail return on equity (ROE) range of 10.25% to 12.25%. Two-thirds of any earnings above 12.25% were applied to rate refunds, with the remaining one-third retained by the Company. Retail rates and customer fees 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. In 2007, the Company refunded 2005 earnings above 12.25% retail ROE. There were no refunds related to earnings for 2007.

In December 2007, the Georgia PSC approved the 2007 Retail Rate Plan for the years 2008 through 2010. Under the 2007 Retail Rate Plan, the Company's earnings are evaluated against a retail ROE range of 10.25% to 12.25%. Retail base rates increased by approximately $100 million effective January 1, 2008 to provide for cost recovery of transmission, distribution, generation, and other investments, as well as increased operating costs. In addition, the ECCR tariff was implemented to allow for the recovery of costs related to environmental projects mandated by state and federal regulations. The ECCR tariff increased rates by approximately $222 million effective January 1, 2008.

In connection with the 2007 Retail Rate Plan, the Company agreed that it would not file for a general base rate increase during this period unless its projected retail ROE falls below 10.25%. The economic recession has significantly reduced the Company's revenues upon which retail rates were set under the 2007 Retail Rate Plan. In June 2009, despite stringent efforts to reduce expenses, the Company's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of filing to increase customer rates as allowed under the 2007 Retail Rate Plan, on June 29, 2009, the Company filed a request with the Georgia PSC for an accounting order that would allow the Company to amortize up to $324 million of its regulatory liability related to other cost of removal obligations.

On August 27, 2009, the Georgia PSC approved the accounting order. Under the terms of the accounting order, the Company was entitled to amortize up to one-third of the regulatory liability ($108 million) in 2009, limited to the amount needed to earn no more than a 9.75% retail ROE. For the year ended December 31, 2009, the Company amortized $41 million of the regulatory liability. In addition, the Company may amortize up to two-thirds of the regulatory liability ($216 million) in 2010, limited to the amount needed to earn no more than a 10.15% retail ROE.

The Company is required to file a general rate case by July 1, 2010, in response to which the Georgia PSC would be expected to determine whether the 2007 Retail Rate Plan should be continued, modified, or discontinued.

Fuel Cost Recovery

The Company has established fuel cost recovery rates approved by the Georgia PSC. In February 2007, the Georgia PSC approved an increase in the Company's total annual billings of approximately $383 million effective March 1, 2007. On May 20, 2008, the Georgia PSC approved an additional increase of approximately $222 million effective June 1, 2008. The order in that case required the Company to file a new fuel cost recovery rate by March 1, 2009, which was subsequently approved by the Georgia PSC to be delayed until December 15, 2009. On December 15, 2009, the Company filed for a fuel cost recovery increase with the Georgia PSC. On February 22, 2010, the Company, the Georgia PSC Public Interest Advocacy Staff, and three customer groups entered into a stipulation to resolve the case, subject to approval by the Georgia PSC (the Stipulation). Under the terms of the Stipulation, the Company's annual fuel cost recovery billings will increase by approximately $425 million. In addition, the Company will implement an interim fuel rider, which would allow the Company to adjust its fuel cost recovery rates prior to the next fuel case if the under

recovered fuel balance exceeds budget by more than $75 million. The Company is required to file its next fuel case by March 1, 2011. The Georgia PSC is scheduled to vote on the Stipulation on March 11, 2010 with the new fuel rates to become effective April 1, 2010. The ultimate outcome of this matter cannot be determined at this time.

As of December 31, 2008, the Company had a total under recovered fuel cost balance of approximately $764.4 million. As of December 31, 2009, the Company's under recovered fuel balance totaled approximately $665 million, which if the Stipulation is approved, the Company will recover over 32 months beginning April 1, 2010. Therefore, approximately $373 million of the under recovered regulatory clause revenues for the Company is included in deferred charges and other assets at December 31, 2009.

Fuel cost recovery revenues as recorded in the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, a change in the billing factor has no significant effect on the Company's revenues or net income, but does impact annual cash flow.

Construction

Nuclear

On August 26, 2009, the NRC issued an Early Site Permit and Limited Work Authorization to Southern Nuclear, on behalf of the Company, Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia (MEAG Power), and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners (collectively, Owners), related to two additional nuclear units on the site of Plant Vogtle (Plant Vogtle Units 3 and 4). See Note 4 for additional information on these co-owners. In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license (COL) for the new units. If licensed by the NRC, Plant Vogtle Units 3 and 4 are scheduled to be placed in service in 2016 and 2017, respectively.

In April 2008, the Company, acting for itself and as agent for the Owners, and a consortium consisting of Westinghouse Electric Company LLC (Westinghouse) and Stone & Webster, Inc. (collectively, Consortium) entered into an engineering, procurement, and construction agreement to design, engineer, procure, construct, and test two AP1000 nuclear units with electric generating capacity of approximately 1,100 megawatts each and related facilities, structures, and improvements at Plant Vogtle (Vogtle 3 and 4 Agreement).

The Vogtle 3 and 4 Agreement is an arrangement whereby the Consortium supplies and constructs the entire facility with the exception of certain items provided by the Owners. Under the terms of the Vogtle 3 and 4 Agreement, the Owners agreed to pay a purchase price that will be subject to certain price escalations and adjustments, including certain index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Consortium under the Vogtle 3 and 4 Agreement. The Company's proportionate share is 45.7%.

On February 23, 2010, the Company, acting for itself and as agent for the Owners, and the Consortium entered into an amendment to the Vogtle 3 and 4 Agreement. The amendment, which is subject to the approval of the Georgia PSC, replaces certain of the index-based adjustments to the purchase price with fixed escalation amounts.

The Owners and the Consortium have agreed to certain liquidated damages upon the Consortium's failure to comply with the schedule and performance guarantees. The Consortium's liability to the Owners for schedule and performance liquidated damages and warranty claims is subject to a cap.

Certain payment obligations of Westinghouse and Stone & Webster, Inc. under the Vogtle 3 and 4 Agreement are guaranteed by Toshiba Corporation and The Shaw Group, Inc., respectively. In the event of certain credit rating downgrades of any Owner, such Owner will be required to provide a letter of credit or other credit enhancement.

The Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Owners will be required to pay certain termination costs and, at certain stages of the work, cancellation fees to the Consortium. The Consortium may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including delays in receipt of the COL or delivery of full notice to proceed, certain Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Owners, Owner insolvency, and certain other events.

On March 17, 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 at an in-service cost of $6.4 billion. In addition, the Georgia PSC voted to approve the inclusion of the related construction work in progress accounts in rate base.

On April 21, 2009, the Governor of the State of Georgia signed into law the Georgia Nuclear Energy Financing Act that will allow the Company to recover financing costs for nuclear construction projects by including the related construction work in progress accounts in rate base during the construction period. The cost recovery provisions will become effective on January 1, 2011. With respect to Plant Vogtle Units 3 and 4, this legislation allows the Company to recover projected financing costs of approximately $1.7 billion during the construction period beginning in 2011, which reduces the projected in-service cost to approximately $4.4 billion.

On June 15, 2009, an environmental group filed a petition in the Superior Court of Fulton County, Georgia seeking review of the Georgia PSC's certification order and challenging the constitutionality of the Georgia Nuclear Energy Financing Act. The Company believes there is no meritorious basis for this petition and intends to vigorously defend against the requested actions.

On August 27, 2009, the NRC issued letters to Westinghouse revising the review schedules needed to certify the AP1000 standard design for new reactors and expressing concerns related to the availability of adequate information and the shield building design. The shield building protects the containment and provides structural support to the containment cooling water supply. The Company is continuing to work with Westinghouse and the NRC to resolve these concerns. Any possible delays in the AP1000 design certification schedule, including those addressed by the NRC in their letters, are not currently expected to affect the projected commercial operation dates for Plant Vogtle Units 3 and 4.

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

On August 31, 2009, the Company filed with the Georgia PSC its first semi-annual construction monitoring report for Plant Vogtle Units 3 and 4 for the period ended June 30, 2009 which did not include any proposed change to the estimated construction cost as certified by the Georgia PSC in March 2009. On February 25, 2010, the Georgia PSC approved the expenditures made by the Company pursuant to the certification through June 30, 2009. The Georgia PSC also ordered that in its future semi-annual construction monitoring reports, the Company will report against a total certified cost of approximately $6.1 billion, which is the effective certified amount after giving effect to the Georgia Nuclear Energy Financing Act as described above. The Company will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

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

Other Construction

On August 10, 2009, the Company filed its quarterly construction monitoring report for Plant McDonough Units 4, 5, and 6 for the quarter ended June 30, 2009. On September 30, 2009, the Company amended the report. As amended, the report includes a request for an increase in the certified costs to construct Plant McDonough. The Georgia PSC held a hearing in December 2009 and is scheduled to render its decision on March 16, 2010. The ultimate outcome of this matter cannot be determined at this time.

4. JOINT OWNERSHIP AGREEMENTS

The Company and 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 these units is 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 accounts for SEGCO using the equity method.

The Company's share of expenses included in purchased power from affiliates in the statements of income is as follows:

	2009	2008	2007
		(in millions)	
Energy	$ 44	$ 86	$ 66
Capacity	43	41	42
Total	$ 87	$ 127	$ 108

The Company owns undivided interests in Plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with OPC, MEAG Power, Dalton, Florida Power & Light Company, Jacksonville Electric Authority, and Gulf Power. Under these agreements, the Company has contracted to operate and maintain the plants as agent for the co-owners and 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 and Florida Power Corporation (Progress Energy Florida) jointly own a combustion turbine unit (Intercession City) operated by Progress Energy Florida.

At December 31, 2009, the Company's percentage ownership and investment (exclusive of nuclear fuel) in jointly owned facilities in commercial operation were as follows:

Facility (Type)	Company Ownership	Investment	Accumulated Depreciation
		(in millions)	
Plant Vogtle (nuclear)			
Units 1 and 2	45.7%	$ 3,285	$ 1,916
Plant Hatch (nuclear)	50.1	937	522
Plant Wansley (coal)	53.5	696	195
Plant Scherer (coal)			
Units 1 and 2	8.4	133	70
Unit 3	75.0	723	339
Rocky Mountain (pumped storage)	25.4	175	106
Intercession City (combustion-turbine)	33.3	12	3

At December 31, 2009, the portion of total construction work in progress related to Plants Wansley, Scherer, and Vogtle Units 3 and 4 was $5 million, $247 million, and $611 million, respectively. Construction at Plants Wansley and Scherer relates primarily to environmental projects. See Note 3 under "Construction – Nuclear" for information on Plant Vogtle Units 3 and 4.

The Company's proportionate share of its plant operating expenses is included in the corresponding operating expenses in the statements of income and the Company is responsible for providing its own financing.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and combined state income tax returns for the States of Alabama, Georgia, and Mississippi. Under a joint consolidated income tax allocation agreement, 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 it filed a separate income tax return. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

Current and Deferred Income Taxes

The transfer of the Plant McIntosh construction project from Southern Power to the Company in 2005 resulted in a deferred gain to Southern Power for federal income tax purposes. The Company is reimbursing Southern Power for the remaining balance of the related deferred taxes of $3.9 million as it is reflected in Southern Power's future taxable income. Of this amount, $3.5 million is included in Other Deferred Credits and $0.4 million is included in Affiliated Accounts Payable in the balance sheets at December 31, 2009.

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 is reimbursing the Company for the remaining balance of the related deferred taxes of $6.7 million as it is reflected in the Company's future taxable income. Of this amount, $5.7 million is included in Other Deferred Debits and $1.0 million is included in Affiliated Accounts Receivable in the balance sheets at December 31, 2009.

Details of income tax provisions are as follows:

	2009	2008	2007
		(in millions)	
Federal –			
Current	**$ 211**	$ 284	$ 442
Deferred	**175**	155	(72)
	386	439	370
State –			
Current	**7**	32	54
Deferred	**17**	16	(6)
	24	48	48
Total	**$ 410**	$ 487	$ 418

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:

	2009	2008
		(in millions)
Deferred tax liabilities –		
Accelerated depreciation	**$ 2,923**	$ 2,554
Property basis differences	**585**	594
Employee benefit obligations	**184**	174
Fuel clause under recovery	**270**	311
Premium on reacquired debt	**64**	67
Emissions allowances	**22**	-
Regulatory assets associated with employee benefit obligations	**362**	349
Asset retirement obligations	**263**	267
Other	**70**	72
Total	**4,743**	4,388
Deferred tax assets –		
Federal effect of state deferred taxes	**177**	189
Employee benefit obligations	**482**	457
Other property basis differences	**117**	127
Other deferred costs	**65**	99
Cost of removal obligations	**109**	-
State tax credit carry forward	**99**	-
Other comprehensive income	**12**	10
Unbilled fuel revenue	**42**	42
Asset retirement obligations	**263**	267
Environmental capital cost recovery	**37**	52
Other	**38**	21
Total	**1,441**	1,264
Total deferred tax liabilities, net	**3,302**	3,124
Portion included in current assets/(liabilities), net	**88**	(60)
Accumulated deferred income taxes	**$ 3,390**	$ 3,064

At December 31, 2009, tax-related regulatory assets were $609 million and tax-related regulatory liabilities were $134 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. 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 $13.7 million in 2009 and $13.0 million annually in 2008 and 2007. At December 31, 2009, all investment tax credits available to reduce federal income taxes payable had been utilized.

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**1.2**	2.2	2.4
Non-deductible book depreciation	**1.1**	0.9	1.1
AFUDC equity	**(2.7)**	(2.4)	(1.9)
Donations	**(0.8)**	-	(1.7)
Other	**(0.8)**	(1.1)	(1.7)
Effective income tax rate	**33.0%**	34.6%	33.2%

The decrease in the Company's 2009 effective tax rate is primarily the result of the Company's donation of 5,111 acres of land to the State of Georgia combined with an increase in non-taxable AFUDC equity and a decrease in tax deductions related to unrecognized tax benefits. See "Unrecognized Tax Benefits" and Note 3 under "Income Tax Matters" for additional information on these unrecognized tax benefits and related litigation.

The increase in the Company's 2008 effective tax rate is primarily the result of a decrease in donations for 2008 as a result of the Tallulah Gorge land donation in 2007 combined with an increase in non-taxable AFUDC equity. In 2007, the Company donated 2,200 acres of land in the Tallulah Gorge State Park to the State of Georgia.

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in the Internal Revenue Code Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, the Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements.

Unrecognized Tax Benefits

For 2009, the total amount of unrecognized tax benefits increased by $44.3 million, resulting in a balance of $181.4 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	2009	2008	2007
		(in millions)	
Unrecognized tax benefits at beginning of year	**$137**	$89	$65
Tax positions from current periods	**44**	47	20
Tax positions from prior periods	**1**	5	4
Reductions due to settlements	**-**	(4)	-
Reductions due to expired statute of limitations	**(1)**	-	-
Balance at end of year	**$181**	$ 137	$89

The tax positions from current periods increase for 2009 relate primarily to the Georgia state tax credits litigation, the production activities deduction tax position, and other miscellaneous uncertain tax positions. The tax positions increase from prior periods for 2009 relates primarily to the production activities deduction tax position. See Note 3 under "Income Tax Matters" for additional information.

Impact on the Company's effective tax rate, if recognized, is as follows:

	2009	2008	2007
		(in millions)	
Tax positions impacting the effective tax rate	**$ 181**	$ 134	$ 86
Tax positions not impacting the effective tax rate	**-**	3	3
Balance of unrecognized tax benefits	**$ 181**	$ 137	$ 89

The tax positions impacting the effective tax rate primarily relate to Georgia state tax credit litigation at the Company. See Note 3 under "Income Tax Matters" for additional information.

Accrued interest for unrecognized tax benefits was as follows:

	2009	2008	2007
		(in millions)	
Interest accrued at beginning of year	**$ 14**	$ 7	$ 3
Interest reclassified due to settlements	**-**	-	-
Interest accrued during the year	**6**	7	4
Balance at end of year	**$ 20**	$ 14	$ 7

The Company classifies interest on tax uncertainties as interest expense. The Company did not accrue any penalties on uncertain tax positions.

The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

Substantially all of the Company's unrecognized tax benefits impacting the effective tax rate are associated with the state income tax credits discussed in Note 3 under "Income Tax Matters." Settlement of this litigation could occur within the next 12 months, which would reduce the balance of the uncertain tax position by these amounts.

6. FINANCING

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 $206 million, which constitute substantially all of the assets of these trusts and are reflected in the balance sheets as Long-term Debt. 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, 2009, preferred securities of $200 million were outstanding. See Note 1 under "Variable Interest Entities" for additional information on the accounting treatment for these trusts and the related securities.

Securities Due Within One Year

A summary of the scheduled maturities and redemptions of securities due within one year at December 31 is as follows:

	2009	2008
		(in millions)
Capital lease	**$ 4**	$ 5
Senior notes	**250**	275
Total	**$254**	$280

Maturities through 2014 applicable to total long-term debt are as follows: $254 million in 2010; $415 million in 2011; $205 million in 2012; $530 million in 2013; and $5 million in 2014.

Pollution Control Revenue 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, 2009 and 2008 was $2.0 billion and $1.9 billion, respectively. Proceeds from certain issuances are restricted until qualifying expenditures are incurred.

Senior Notes

The Company issued $1.0 billion aggregate principal amount of unsecured senior notes in 2009. The proceeds of the issuance were used to repay a portion of the Company's short-term indebtedness, fund note redemptions totaling $333 million, redeem pollution control revenue bonds totaling $327.3 million, and fund the Company's continuous construction program. At December 31, 2009 and 2008, the Company had $5.4 billion and $4.8 billion of senior notes outstanding, respectively. These senior notes are effectively subordinated to all secured debt of the Company, which aggregated $63 million and $68 million at December 31, 2009 and 2008, respectively.

Bank Term Loans

At December 31, 2009 and 2008, the Company had a $300 million bank loan outstanding, which matures in March 2011.

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, 2009 and 2008, the Company had a capitalized lease obligation for its corporate headquarters building of $62 million and $66 million, respectively, with an interest rate of 8.0%. 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. See Note 1 under "Regulatory Assets and Liabilities."

At December 31, 2009 and 2008, the Company had capitalized lease obligations of $0.6 million and $0.8 million, respectively, for its vehicles. However, for ratemaking purposes, these obligations are treated as operating leases and, as such, lease payments are charged to expense as incurred. The annual expense incurred for all capital leases in 2009, 2008, and 2007 was $8.7 million, $9.7 million, and $9.2 million, respectively.

Outstanding Classes of Capital Stock

The Company currently has preferred stock, Class A preferred stock, preference stock, and common stock authorized. The Company has shares of its Class A preferred stock, preference stock, and common stock outstanding. The Company's Class A preferred stock ranks senior to the Company's preference stock and common stock with respect to payment of dividends and voluntary or involuntary dissolution. The Company's preference stock ranks senior to the common stock with respect to the payment of dividends and voluntary or involuntary dissolution. Certain series of the Class A preferred stock and preference stock are subject to redemption at the option of the Company on or after a specified date (typically five or 10 years after the date of issuance) at a redemption price equal to 100% of the liquidation amount of the stock. In addition, the Company may redeem the outstanding series of the preference stock at a redemption price equal to 100% of the liquidation amount plus a make-whole premium based on the present value of the liquidation amount and future dividends.

Dividend Restrictions

The Company can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Bank Credit Arrangements

At December 31, 2009, the Company had credit arrangements with banks totaling $1.7 billion, of which $12 million was used to support outstanding letters of credit. Of these facilities, $595 million expire during 2010, with the remaining $1.1 billion expiring in

2012. $40 million of the facilities that expire in 2010 provides the option of converting borrowings into a two-year term loan. The Company expects to renew its facilities, as needed, prior to expiration. The agreements contain stated borrowing rates. 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 average less than 3/8 of 1% for the Company. Compensating balances are not legally restricted from withdrawal.

The credit arrangements contain covenants that limit the ratio of indebtedness to capitalization (each as defined in the arrangements) to 65%. For purposes of these definitions, indebtedness excludes the long-term debt payable to affiliated trusts and, in certain cases, other hybrid securities. 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. At December 31, 2009, the Company was in compliance with all such covenants. None of the arrangements contain material adverse change clauses at the time of borrowings.

The $1.7 billion of unused credit arrangements provides liquidity support to the Company's variable rate pollution control revenue bonds and its commercial paper borrowings. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of December 31, 2009 was $901 million. In addition, the Company borrows under a commercial paper program. The amount of commercial paper outstanding at December 31, 2009, 2008, and 2007 was $324 million, $256 million, and $616 million, respectively. The Company also had $100 million of short-term bank loans outstanding at December 31, 2008. Commercial paper and short-term bank loans are included in notes payable on the balance sheets.

During 2009, the peak amount of short-term debt outstanding was $757 million and the average amount outstanding was $348 million. The average annual interest rate on short-term debt in 2009 and 2008 was 0.4% and 2.9%, respectively.

7. COMMITMENTS

Construction Program

The Company currently estimates property additions to be approximately $2.5 billion, $2.4 billion, and $2.8 billion in 2010, 2011, and 2012, respectively. These amounts include $198 million, $109 million, and $115 million in 2010, 2011, and 2012, respectively, for construction expenditures related to contractual purchase commitments for nuclear fuel included under "Fuel Commitments." The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; changes in environmental statutes and regulations; changes in nuclear plants to meet new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program. See Note 3 under "Construction" for additional information.

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 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, which are subject to price escalation, are made quarterly based on actual operating hours of the respective units. Total payments to GE under this agreement are currently estimated at $171.5 million over the remaining term of the agreement, which is currently projected to be approximately nine years. However, the LTSA contains various cancellation provisions at the option of the Company.

The Company has also entered into an LTSA with GE through 2014 for neutron monitoring system parts and electronics at Plant Hatch. Total remaining payments to GE under this agreement are currently estimated at $8 million. The contract contains cancellation provisions at the option of the Company. Payments made to GE prior to the performance of any work are recorded as a prepayment in the balance sheets. Work performed by GE is capitalized or charged to expense, as appropriate, net of any joint owner billings, based on the nature of the work.

The Company has entered into a LTSA with Mitsubishi Power Systems Americas, Inc. (MPS) for the purpose of providing certain parts and maintenance services for the three combined cycle units under construction at Plant McDonough, which are scheduled to go into service in February 2011, June 2011, and June 2012, respectively. The LTSA stipulates that MPS will perform all planned maintenance on each covered unit which includes the cost of all materials and services. MPS is also obligated to cover costs of unplanned maintenance on the gas turbines subject to limits specified in the LTSA. This LTSA will begin in 2011 and is in effect through two major inspection cycles per covered unit. Periodic payments to MPS are to be made quarterly and will also be made based on the scheduled inspections for the respective covered units. Payments to MPS under this agreement, which are subject to price escalation, are currently estimated to be $536.8 million for the term of the agreement which is expected to be between 12 and 13 years. However, the LTSA contains various termination provisions at the option of the Company.

Limestone Commitments

As part of the Company's program to reduce sulfur dioxide emissions from its coal plants, the Company has entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment. Limestone contracts are structured with tonnage minimums and maximums in order to account for fluctuations in coal burn and sulfur content. The Company has a minimum contractual obligation of 3.3 million tons, equating to approximately $101.0 million through 2019. Estimated expenditures (based on minimum contracted obligated dollars) over the next five years are $19.3 million in 2010, $14.8 million in 2011, $15.2 million in 2012, $15.5 million in 2013, and $16.0 million in 2014.

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 emissions allowances. 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, 2009.

Total estimated minimum long-term commitments at December 31, 2009 were as follows:

	Commitments		
	Natural Gas	Coal	Nuclear Fuel
		(in millions)	
2010	$ 473	$2,239	$ 198
2011	575	1,843	109
2012	453	766	115
2013	422	525	111
2014	350	434	60
2015 and thereafter	3,414	1,533	207
Total	$5,687	$7,340	$ 800

Additional commitments for fuel will be required to supply the Company's future needs. Total charges for nuclear fuel included in fuel expense were $82 million, $77 million, and $79 million for the years 2009, 2008, and 2007, respectively.

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 traditional operating companies and Southern Power. Under these agreements, each of the traditional operating companies and Southern Power may be jointly and severally liable. The creditworthiness of Southern Power is currently inferior to the creditworthiness of the traditional operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other traditional operating companies to ensure the Company will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power as a contracting party under these agreements.

Purchased Power Commitments

The Company has commitments regarding a portion of a 5% interest in Plant Vogtle owned by MEAG Power that are in effect until the latter of the retirement of the plant or the latest stated maturity date of MEAG Power'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. Portions of the capacity payments 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. Generally, the cost of such capacity and energy is included in purchased power from non-affiliates in the statements of income. Capacity payments totaled $47 million, $48 million, and $46 million in 2009, 2008, and 2007, respectively. The Company also has entered into other various long-term PPAs. Estimated total long-term obligations under these commitments at December 31, 2009 were as follows:

	Vogtle Capacity Payments	Affiliated PPAs	Non-Affiliated PPAs
		(in millions)	
2010	$ 55	$ 153	$ 135
2011	53	119	142
2012	47	107	115
2013	22	107	108
2014	18	108	109
2015 and thereafter	86	488	1,365
Total	$ 281	$ 1,082	$ 1,974

Certain PPAs reflected in the table are accounted for as operating leases.

Operating Leases

The Company has entered into various operating leases with various terms and expiration dates. Rental expenses related to these operating leases totaled $43 million for 2009, $52 million for 2008, and $55 million for 2007.

At December 31, 2009, estimated minimum lease payments for these noncancelable operating leases were as follows:

	Minimum Lease Payments		
	Rail Cars	Other	Total
		(in millions)	
2010	$ 30	$ 7	$ 37
2011	30	5	35
2012	16	3	19
2013	12	3	15
2014	10	3	13
2015 and thereafter	15	2	17
Total	$ 113	$ 23	$ 136

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 $39.7 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. A majority of the rental expenses related to the rail car leases are fully recoverable through the fuel cost recovery clause as ordered by the Georgia PSC and the remaining portion is recovered through base rates.

Guarantees

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. Alabama Power has also guaranteed $50 million in senior notes issued by SEGCO. The Company has agreed to reimburse Alabama Power for the pro rata portion of such obligations 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.

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 the Company's employees ranging from line management to executives. As of December 31, 2009, there were 1,954 current and former employees of the Company participating in the stock option plan, and there were 21 million shares of Southern Company common stock remaining available for awards under this plan. 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. The Company generally recognizes stock option expense on a straight-line basis over the vesting period which equates to the requisite service period; however, for employees who are eligible for retirement the total cost is expensed at the grant date. 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. For certain stock option awards, a change in control will provide accelerated vesting.

The estimated fair values of stock options granted in 2009, 2008, and 2007 were derived using the Black-Scholes stock option pricing model. Expected volatility was based on historical volatility of Southern Company's stock over a period equal to the expected term. The Company used historical exercise data to estimate the expected term that represents the period of time that options granted to employees are expected to be outstanding. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant that covers the expected term of the stock options. The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of stock options granted:

Year Ended December 31	2009	2008	2007
Expected volatility	**15.6%**	13.1%	14.8%
Expected term *(in years)*	**5.0**	5.0	5.0
Interest rate	**1.9%**	2.8%	4.6%
Dividend yield	**5.4%**	4.5%	4.3%
Weighted average grant-date fair value	**$1.80**	$2.37	$4.12

The Company's activity in the stock option plan for 2009 is summarized below:

	Shares Subject to Option	Weighted Average Exercise Price
Outstanding at December 31, 2008	7,992,436	$31.90
Granted	2,489,671	31.38
Exercised	(121,447)	20.59
Cancelled	(37,736)	32.71
Outstanding at December 31, 2009	**10,322,924**	**$31.90**
Exercisable at December 31, 2009	**6,870,135**	**$31.35**

The number of stock options vested, and expected to vest in the future, as of December 31, 2009 was not significantly different from the number of stock options outstanding at December 31, 2009 as stated above. At December 31, 2009, the weighted average remaining contractual term for the options outstanding and options exercisable was 5.9 years and 4.6 years, respectively, and the aggregate intrinsic value for the options outstanding and options exercisable was $23.1 million and $18.7 million, respectively.

As of December 31, 2009, there was $1.4 million of total unrecognized compensation cost related to stock option awards not yet vested. That cost is expected to be recognized over a weighted-average period of approximately 10 months.

For the years ended December 31, 2009, 2008, and 2007, total compensation cost for stock option awards recognized in income was $4.6 million, $4.2 million, and $6.0 million, respectively, with the related tax benefit also recognized in income of $1.8 million, $1.6 million, and $2.3 million, respectively.

The compensation cost and tax benefits related to the grant and exercise of Southern Company stock options to the Company's employees are recognized in the Company's financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $1.7 million, $10.6 million, and $17.4 million, respectively. The actual tax benefit realized by the Company for the tax deductions from stock option exercises totaled $0.7 million, $4.1 million, and $6.7 million, respectively, for the years ended December 31, 2009, 2008, and 2007.

9. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act (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 the Company's Plants Hatch and Vogtle. The Act provides funds up to $12.6 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 $375 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 commercial nuclear reactors. The Company could be assessed up to $117.5 million per incident for each licensed reactor it operates but not more than an aggregate of $17.5 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, based on its ownership and buyback interests, is $237 million, per incident, but not more than an aggregate of $35 million to be paid for each incident in any one year. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due no later than October 29, 2013.

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. In the event of a loss, the amount of insurance available may not be adequate to cover property damage and other incurred expenses.

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. The Company purchases the maximum limit allowed by NEIL, subject to ownership limitations. Each facility has elected a 12-week deductible 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 $50 million.

Claims resulting from terrorist acts are covered under both the ANI and NEIL policies (subject to normal policy limits). The aggregate, however, that NEIL will pay for all claims resulting from terrorist acts in any 12-month period is $3.2 billion plus such additional amounts NEIL can recover through reinsurance, indemnity, or other sources.

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. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

As of December 31, 2009, assets and liabilities measured at fair value on a recurring basis during the period, together with the level of the fair value hierarchy in which they fall, are as follows:

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in millions)		
Assets:				
Nuclear decommissioning trusts:[a]				
Domestic equity	$428	$ 1	$ -	$429
U.S. Treasury and government agency securities	-	31	-	31
Municipal bonds	-	23	-	23
Corporate bonds	-	61	-	61
Mortgage and asset backed securities	-	23	-	23
Other	-	13	-	13
Total	$428	$152	$ -	$580
Liabilities:				
Energy-related derivatives	$ -	$75	$ -	$ 75
Interest rate derivatives	-	2	-	2
Total	$ -	$77	$ -	$ 77

(a) Excludes receivables related to investment income, pending investment sales, and payables related to pending investment purchases.

Energy-related derivatives and interest rate derivatives primarily consist of over-the-counter contracts. See Note 11 for additional information. The nuclear decommissioning trust funds are invested in a diversified mix of equity and fixed income securities. See Note 1 under "Nuclear Decommissioning" for additional information. All of these financial instruments and investments are valued primarily using the market approach.

As of December 31, 2009, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

As of December 31, 2009:	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in millions)			
Nuclear decommissioning trusts:				
Corporate bonds – commingled funds	$14	None	Daily	1 to 3 days
Other – commingled funds	13	None	Daily	Not applicable

The commingled funds in the nuclear decommissioning trusts are invested primarily in a diversified portfolio of high grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements, and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The commingled funds will, however, maintain a dollar-weighted average portfolio maturity of 90 days or less. The assets may be longer term investment grade fixed income obligations having a maximum five year final maturity with put features or floating rates with a reset date of 13 months or less. The primary objective for the commingled funds is a high level of current income consistent with stability of principal and liquidity.

The Company's 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:		
2009	**$ 7,973**	**$ 8,059**
2008	$ 7,219	$ 7,096

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

11. DERIVATIVES

The 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 its exposures, where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

Energy-Related Derivatives

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 manages fuel-hedging programs, implemented per the guidelines of the Georgia PSC, through the use of financial derivative contracts.

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

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

- *Regulatory Hedges* – Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the Company's fuel hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the fuel cost recovery clauses.
- *Not Designated* – Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

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

At December 31, 2009, the net volume of energy-related derivative contracts for natural gas positions for the Company, together with the longest hedge date over which it is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

Net Purchased mmBtu*	Longest Hedge Date	Longest Non-Hedge Date
(in millions)		
71	2014	-

*mmBtu - million British thermal units

Interest Rate Derivatives

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

For cash flow hedges, the fair value gains or losses are recorded in other comprehensive income (OCI) and are reclassified into earnings at the same time the hedged transactions affect earnings.

At December 31, 2009, the Company had outstanding interest rate derivatives designated as cash flow hedges of existing debt as follows:

Notional Amount	Variable Rate Received	Weighted Average Fixed Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) December 31, 2009
(in millions)				*(in millions)*
$300	1-month LIBOR	2.43%	April 2010	$(2)

For the year ended December 31, 2009, the Company realized net losses of $19 million upon termination of certain interest rate derivatives at the same time it issued debt. The effective portion of these losses has been deferred in OCI and is being amortized to interest expense over the life of the original interest rate derivative, reflecting the period in which the forecasted hedged transaction affects earnings.

The estimated pre-tax losses that will be reclassified from OCI to interest expense for the next 12-month period ending December 31, 2010 are $12.8 million. The Company has deferred gains and losses that are expected to be amortized into earnings through 2037.

Derivative Financial Statement Presentation and Amounts

At December 31, 2009 and 2008, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in millions)			*(in millions)*	
Derivatives designated as hedging instruments for regulatory purposes						
Energy-related derivatives:	Other current assets	**$-**	$5	Liabilities from risk management activities	**$47**	$85
	Other deferred charges and assets	**-**	-	Other deferred credits and liabilities	**28**	33
Total derivatives designated as hedging instruments for regulatory purposes		**$-**	$5		**$75**	$118
Derivatives designated as hedging instruments in cash flow hedges						
Interest rate derivatives:	Other current assets	**$-**	$-	Liabilities from risk management activities	**$2**	$28
	Other deferred charges and assets	**-**	-	Other deferred credits and liabilities	**-**	1
Total derivatives designated as hedging instruments in cash flow hedges		**$-**	$-		**$2**	$29
Total		**$-**	$5		**$77**	$147

All derivative instruments are measured at fair value. See Note 10 for additional information.

At December 31, 2009 and 2008, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheets were as follows:

	Unrealized Losses			Unrealized Gains		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in millions)			*(in millions)*	
Energy-related derivatives:	Other regulatory assets, current	**$(47)**	$(85)	Other regulatory liabilities, current	**$-**	$5
	Other regulatory assets, deferred	**(28)**	(33)	Other regulatory liabilities, deferred	**-**	-
Total energy-related derivative gains (losses)		**$(75)**	$(118)		**$-**	$5

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
					Amount		
Derivative Category	**2009**	2008	2007	**Statements of Income Location**	**2009**	2008	2007
		(in millions)				*(in millions)*	
Interest rate derivatives	**$ (3)**	$ (34)	$ (5)	Interest expense	**$ (22)**	$ (3)	$ (1)

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

For all years presented, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were immaterial.

Contingent Features

The Company has certain derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain affiliated companies. At December 31, 2009, the fair value of derivative liabilities with contingent features was $17 million.

At December 31, 2009, the Company had no collateral posted with its derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is $33.3 million.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to debt, preferred securities, preferred stock, and preference stock.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. The Company participated in certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2009 and 2008 is as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred and Preference Stock
		(in millions)	
March 2009	**$ 1,766**	**$ 272**	**$ 122**
June 2009	**1,874**	**369**	**190**
September 2009	**2,327**	**683**	**388**
December 2009	**1,725**	**206**	**114**
March 2008	$ 1,865	$ 325	$ 176
June 2008	2,111	442	248
September 2008	2,644	711	402
December 2008	1,792	182	77

The Company's business is influenced by seasonal weather conditions.

SELECTED FINANCIAL AND OPERATING DATA 2005-2009

Georgia Power Company 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in thousands)	**$7,691,740**	$8,411,552	$7,571,652	$7,245,644	$7,075,837
Net Income after Dividends on Preferred and Preference Stock (in thousands)	**$814,045**	$902,927	$836,136	$787,225	$744,373
Cash Dividends on Common Stock (in thousands)	**$738,900**	$721,200	$689,900	$630,000	$582,800
Return on Average Common Equity (percent)	**11.01**	13.56	13.50	13.80	14.08
Total Assets (in thousands)	**$24,294,566**	$22,315,668	$20,822,761	$19,308,730	$17,898,445
Gross Property Additions (in thousands)	**$2,646,158**	$1,953,448	$1,862,449	$1,276,889	$958,563
Capitalization (in thousands):					
Common stock equity	**$7,902,925**	$6,879,243	$6,435,420	$5,956,251	$5,452,083
Preferred and preference stock	**265,957**	265,957	265,957	44,991	43,909
Long-term debt	**7,782,340**	7,006,275	5,937,792	5,211,912	5,365,323
Total (excluding amounts due within one year)	**$15,951,222**	$14,151,475	$12,639,169	$11,213,154	$10,861,315
Capitalization Ratios (percent):					
Common stock equity	**49.5**	48.6	50.9	53.1	50.2
Preferred and preference stock	**1.7**	1.9	2.1	0.4	0.4
Long-term debt	**48.8**	49.5	47.0	46.5	49.4
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0	100.0
Security Ratings:					
Preferred and Preference Stock -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	Baa1
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	**2,043,661**	2,039,503	2,024,520	1,998,643	1,960,556
Commercial	**295,375**	295,925	295,478	294,654	289,009
Industrial	**8,202**	8,248	8,240	8,008	8,290
Other	**6,580**	5,566	4,807	4,371	4,143
Total	**2,353,818**	2,349,242	2,333,045	2,305,676	2,261,998
Employees (year-end)	**8,599**	9,337	9,270	9,278	9,273

N/A = Not Applicable.

	2009	2008	2007	2006	2005
Operating Revenues (in thousands):					
Residential	**$ 2,686,155**	$2,648,176	$2,442,501	$2,326,190	$2,227,137
Commercial	**2,825,602**	2,917,270	2,576,058	2,423,568	2,357,077
Industrial	**1,318,070**	1,640,407	1,403,852	1,382,213	1,406,295
Other	**82,576**	80,492	75,592	73,649	73,854
Total retail	**6,912,403**	7,286,345	6,498,003	6,205,620	6,064,363
Wholesale - non-affiliates	**394,538**	568,797	537,913	551,731	524,800
Wholesale - affiliates	**111,964**	286,219	277,832	252,556	275,525
Total revenues from sales of electricity	**7,418,905**	8,141,361	7,313,748	7,009,907	6,864,688
Other revenues	**272,835**	270,191	257,904	235,737	211,149
Total	**$7,691,740**	$8,411,552	$7,571,652	$7,245,644	$7,075,837
Kilowatt-Hour Sales (in thousands):					
Residential	**26,272,226**	26,412,131	26,840,275	26,206,170	25,508,472
Commercial	**32,592,831**	33,058,109	33,056,632	32,112,430	31,334,182
Industrial	**21,810,062**	24,163,566	25,490,035	25,577,006	25,832,265
Other	**671,390**	670,588	697,363	660,285	737,343
Total retail	**81,346,509**	84,304,394	86,084,305	84,555,891	83,412,262
Wholesale - non-affiliates	**5,206,949**	9,756,260	10,577,969	10,685,456	10,588,891
Wholesale - affiliates	**2,504,437**	3,694,640	5,191,903	5,463,463	5,033,165
Total	**89,057,895**	97,755,294	101,854,177	100,704,810	99,034,318
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**10.22**	10.03	9.10	8.88	8.73
Commercial	**8.67**	8.82	7.79	7.55	7.52
Industrial	**6.04**	6.79	5.51	5.40	5.44
Total retail	**8.50**	8.64	7.55	7.34	7.27
Wholesale	**6.57**	6.36	5.17	4.98	5.12
Total sales	**8.33**	8.33	7.18	6.96	6.93
Residential Average Annual Kilowatt-Hour Use Per Customer	**12,848**	12,969	13,315	13,216	13,119
Residential Average Annual Revenue Per Customer	**$1,314**	$1,300	$1,212	$1,173	$1,145
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**15,995**	15,995	15,995	15,995	15,995
Maximum Peak-Hour Demand (megawatts):					
Winter	**15,173**	14,221	13,817	13,528	14,360
Summer	**16,080**	17,270	17,974	17,159	16,925
Annual Load Factor (percent)	**60.7**	58.4	57.5	61.8	59.4
Plant Availability (percent):					
Fossil-steam	**92.5**	91.0	90.8	91.4	90.0
Nuclear	**88.4**	89.8	92.4	90.7	89.3
Source of Energy Supply (percent):					
Coal	**52.3**	58.7	61.5	59.0	60.7
Nuclear	**16.2**	14.8	14.6	14.4	14.5
Hydro	**1.8**	0.6	0.5	0.9	1.9
Oil and gas	**7.7**	5.1	5.5	5.0	3.0
Purchased power -					
From non-affiliates	**4.4**	5.1	3.8	3.8	4.6
From affiliates	**17.6**	15.7	14.1	16.9	15.3
Total	**100.0**	100.0	100.0	100.0	100.0

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GULF POWER COMPANY

FINANCIAL SECTION

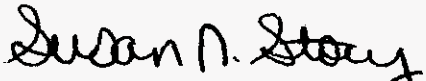
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Gulf Power Company 2009 Annual Report

The management of Gulf Power Company (the "Company") 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 the 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. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.



Susan N. Story
President and Chief Executive Officer



Philip C. Raymond
Vice President and Chief Financial Officer

February 25, 2010

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 (the "Company") (a wholly owned subsidiary of Southern Company) as of December 31, 2009 and 2008, 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, 2009. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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-268 to II-306) present fairly, in all material respects, the financial position of Gulf Power Company at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

OVERVIEW

Business Activities

Gulf Power Company (the Company) operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast.

Many factors affect the opportunities, challenges, and risks of the Company's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, fuel prices, and storm restoration costs. Appropriately balancing the need to recover these increasing costs with customer prices will continue to challenge the Company for the foreseeable future.

Key Performance Indicators

In striving to maximize shareholder value while providing cost-effective energy to over 425,000 customers, the Company continues to focus on several key indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preference stock. 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 customer satisfaction surveys and reliability indicators to evaluate the Company's results.

Peak season equivalent forced outage rate (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. The 2009 Peak Season EFOR of 2.11% was better than the target. Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance, expected weather conditions, and expected capital expenditures. The performance for 2009 was better than the target for these reliability measures. The performance for net income after dividends on preference stock in 2009 was below target. Net income after dividends on preference stock is the primary measure of the Company's financial performance.

The Company's 2009 results compared with its targets for some of these key indicators are reflected in the following chart:

Key Performance Indicator	2009 Target Performance	2009 Actual Performance
Customer Satisfaction	Top quartile in customer surveys	Top quartile
Peak Season EFOR	3.00% or less	2.11%
Net income after dividends on preference stock	$112.5 million	$111.2 million

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance.

Earnings

The Company's 2009 net income after dividends on preference stock was $111.2 million, an increase of $12.9 million from the previous year. In 2008, net income after dividends on preference stock was $98.3 million, an increase of $14.2 million from the previous year. In 2007, net income after dividends on preference stock was $84.1 million, an increase of $8.1 million from the previous year. The increase in net income after dividends on preference stock in 2009 was due primarily to increased allowance for funds used during construction (AFUDC) equity, which is non-taxable, and decreased interest expense, net of amounts capitalized, partially offset by unfavorable weather and a decline in sales. The increase in net income after dividends on preference stock in 2008 was due primarily to higher wholesale revenues from non-affiliates, increased AFUDC equity, and a gain on the sale of assets.

The increase in net income after dividends on preference stock in 2007 was due primarily to increases in retail revenues, earnings on additional investments in environmental controls through the environment cost recovery provision, and related AFUDC equity, partially offset by non-fuel operating expenses.

RESULTS OF OPERATIONS

A condensed statement of income follows:

	Amount	Increase (Decrease) from Prior Year		
	2009	2009	2008	2007
		(in millions)		
Operating revenues	$ 1,302.2	$ (84.9)	$ 127.4	$ 55.9
Fuel	573.4	(62.2)	62.2	38.5
Purchased power	92.0	(17.4)	37.9	(2.3)
Other operations and maintenance	260.3	(17.2)	7.1	10.9
Depreciation and amortization	93.4	8.6	(0.8)	(3.6)
Taxes other than income taxes	94.5	7.3	4.2	3.2
Total operating expenses	1,113.6	(80.9)	110.6	46.7
Operating income	188.6	(4.0)	16.8	9.2
Total other income and (expense)	(18.2)	15.8	6.7	1.3
Income taxes	53.0	(1.1)	7.0	1.8
Net income	117.4	12.9	16.5	8.7
Dividends on preference stock	6.2	-	2.3	0.6
Net income after dividends on preference stock	$ 111.2	$ 12.9	$ 14.2	$ 8.1

Operating Revenues

Operating revenues for 2009 were $1.3 billion, a decrease of $85.0 million from the previous year. The following table summarizes the significant changes in operating revenues for the past three years:

	Amount		
	2009	2008	2007
		(in millions)	
Retail – prior year	$ 1,120.8	$ 1,006.3	$ 952.0
Estimated change in –			
Rates and pricing	33.0	6.3	2.5
Sales growth (decline)	(5.7)	(4.6)	5.8
Weather	(4.5)	3.9	1.2
Fuel and other cost recovery	(37.0)	108.9	44.8
Retail – current year	1,106.6	1,120.8	1,006.3
Wholesale revenues –			
Non-affiliates	94.1	97.1	83.5
Affiliates	32.1	107.0	113.2
Total wholesale revenues	126.2	204.1	196.7
Other operating revenues	69.4	62.3	56.8
Total operating revenues	$ 1,302.2	$ 1,387.2	$ 1,259.8
Percent change	(6.1)%	10.1%	4.6%

Retail revenues decreased $14.2 million, or 1.3%, in 2009, increased $114.4 million, or 11.4%, in 2008, and increased $54.3 million, or 5.7%, in 2007.

Revenues associated with changes in rates and pricing include cost recovery provisions for energy conservation costs and environmental compliance costs. Annually, the Company petitions the Florida Public Service Commission (PSC) for recovery of projected costs, including any true-up amount from prior periods, and approved rates are implemented each January. The recovery provisions include related expenses and a return on average net investment. See Note 3 to the financial statements under "Retail Regulatory Matters – Environmental Cost Recovery" for additional information. See "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes relating to sales growth (or decline) and weather.

Fuel and other cost recovery provisions include fuel expenses, the energy component of purchased power costs, and purchased power capacity costs. Annually, the Company petitions the Florida PSC for recovery of projected fuel and purchased power costs, including any true-up amount from prior periods, and approved rates are implemented each January. Cost recovery provisions also include revenues related to the recovery of storm damage restoration costs. 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 "Property Damage Reserve" and Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for additional information.

Total wholesale revenues were $126.2 million in 2009, a decrease of $77.8 million, or 38.2%, compared to 2008 primarily due to decreased energy sales to affiliates at a lower cost per kilowatt-hour (KWH). Total wholesale revenues were $204.1 million in 2008, an increase of $7.4 million, or 3.7%, compared to 2007 primarily due to higher capacity revenues associated with new and existing territorial wholesale contracts with non-affiliated companies. Total wholesale revenues were $196.7 million in 2007, a decrease of $8.5 million, or 4.2%, compared to 2006 primarily due to decreased energy sales to affiliates at a lower cost per KWH supplied by lower-cost generating resources.

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

Wholesale revenues from sales to non-affiliates include unit power sales under long-term contracts to other Florida utilities. Wholesale revenues from contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment. Energy is generally sold at variable cost. The capacity and energy components under these unit power sales contracts were as follows:

	2009	2008	2007
		(in thousands)	
Unit power sales –			
Capacity	**$ 24,466**	$ 22,028	$ 18,073
Energy	**33,122**	33,767	36,245
Total	**57,588**	55,795	54,318
Other power sales –			
Capacity and other	**11,060**	10,890	2,397
Energy	**25,457**	30,380	26,799
Total	**36,517**	41,270	29,196
Total non-affiliated	**$ 94,105**	$ 97,065	$ 83,514

Wholesale revenues from sales to affiliated companies within the Southern Company system will vary from year to year depending on demand and the availability and cost of generating resources at each system company. These affiliated sales, along with purchases from affiliates, are made in accordance with the Intercompany Interchange Contract (IIC), 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.

Other operating revenues increased $7.1 million, or 11.3%, in 2009 primarily due to other energy services and franchise fees, offset by transmission and distribution network services and timber sales. Other operating revenues increased $5.6 million, or 9.9%, in 2008 primarily due to transmission and distribution network services and other energy services. Other operating revenues increased $10.2 million, or 21.8%, in 2007 primarily due to other energy services and an increase in franchise fees. The increased revenues from other energy services did not have a material impact on earnings since they were generally offset by associated expenses. Franchise fees have no impact on net income.

Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2009 and the percent change by year were as follows:

	KWHs	Percent Change		
	2009	2009	2008	2007
	(in millions)			
Residential	**5,255**	**(1.8)%**	(2.3)%	0.9%
Commercial	**3,896**	**(1.6)**	(0.3)	3.3
Industrial	**1,727**	**(21.9)**	7.9	(4.1)
Other	**25**	**8.1**	(5.1)	4.2
Total retail	**10,903**	**(5.5)**	0.2	0.8
Wholesale				
Non-affiliates	**1,813**	**(0.2)**	(18.4)	7.1
Affiliates	**870**	**(53.5)**	(35.1)	(1.8)
Total wholesale	**2,683**	**(27.2)**	(27.8)	1.9
Total energy sales	**13,586**	**(10.8)**	(8.4)	1.1

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers.

Residential energy sales decreased 1.8% in 2009 compared to 2008 primarily due to the recessionary economy. Residential energy sales decreased 2.3% in 2008 compared to 2007 primarily due to decreased customer usage as a result of a slowing economy, partially offset by more favorable weather. Residential energy sales increased 0.9% in 2007 compared to 2006 primarily due to more favorable weather conditions and customer growth, partially offset by customer response to higher prices.

Commercial energy sales decreased 1.6% in 2009 compared to 2008 primarily due to the recessionary economy and a decrease in the number of customers. The change in commercial energy sales in 2008 compared to 2007 was immaterial. Commercial energy sales increased 3.3% in 2007 compared to 2006 primarily due to more favorable weather conditions and customer growth.

Industrial energy sales decreased 21.9% in 2009 compared to 2008 primarily due to increased customer co-generation due to the lower cost of natural gas in 2009, decreased demand, and a business closure due to the recessionary economy. Industrial energy sales increased 7.9% in 2008 compared to 2007 primarily due to decreased customer co-generation due to the higher cost of natural gas. Industrial energy sales decreased 4.1% in 2007 compared to 2006 primarily due to a conversion project by a major forest products manufacturer and a production process change by a major petroleum company.

Wholesale energy sales to non-affiliates decreased 0.2% in 2009, decreased 18.4% in 2008, and increased 7.1% in 2007, each compared to the prior year. The decrease in 2009 was primarily a result of the recessionary economy. The changes in 2008 and 2007 were primarily the result of fluctuations in the fuel cost to produce energy sold to non-affiliated utilities under both long-term and short-term contracts. The degree to which prices for oil and natural gas, which are the primary fuel sources for these customers, differ from the Company's fuel costs will influence these changes in sales. The fluctuations in sales have a minimal effect on earnings because the energy is generally sold at marginal cost.

Wholesale energy sales to affiliates decreased 53.5% in 2009, 35.1% in 2008, and 1.8% in 2007, compared to prior years. The decrease in 2009 was primarily a result of the recessionary economy. The decreases in 2008 and 2007 were primarily due to the availability of lower cost generation resources at affiliated companies.

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 generating units. Additionally, the Company purchases a portion of its electricity needs from the wholesale market.

Details of the Company's electricity generated and purchased were as follows:

	2009	2008	2007
Total generation *(millions of KWHs)*	**12,895**	14,762	16,657
Total purchased power *(millions of KWHs)*	**1,481**	1,187	798
Sources of generation *(percent)* –			
Coal	**69%**	84%	86%
Gas	**31**	16	14
Cost of fuel, generated *(cents per net KWH)* –			
Coal	**4.27**	3.58	2.86
Gas	**4.66**	8.02	6.91
Average cost of fuel, generated *(cents per net KWH)**	**4.39**	4.31	3.44
Average cost of purchased power *(cents per net KWH)*	**6.71**	9.21	8.96

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

Total fuel and purchased power expenses were $665.4 million in 2009, a decrease of $79.6 million, or 10.7%, below the prior year costs. The net decrease in fuel and purchased power expenses was primarily due to a $53.3 million decrease related to total KWHs generated and purchased and a $26.3 million decrease in the cost of energy primarily resulting from a decrease in the average cost of natural gas. Total fuel and purchased power expenses were $745.0 million in 2008, an increase of $100.1 million, or 15.5%, above the prior year costs. The net increase in fuel and purchased power expenses was due to a $130.5 million increase in the average cost of fuel and purchased power as well as a $34.9 million increase related to KWHs purchased, offset by a $65.3 million decrease related to KWHs generated. Total fuel and purchased power expenses were $644.9 million in 2007, an increase of $36.2 million, or 5.9%, above the prior year costs. The net increase in fuel and purchased power expenses was due to a $32.6 million increase in the average cost of fuel and purchased power as well as a $10.1 million increase related to KWHs generated, offset by a $6.5 million decrease related to KWHs purchased.

Fuel expense was $573.4 million in 2009, a decrease of $62.2 million, or 9.8%, below the prior year costs. This decrease was primarily the result of a 41.9% decrease in the average cost of natural gas and a 12.6% decrease in KWHs generated as a result of lower demand, partially offset by an increase of 19.3% in the average cost of coal per KWH generated. Fuel expense was $635.6 million in 2008, an increase of $62.2 million, or 10.9%, above the prior year costs. This increase was the result of a 25.3% increase in the average cost of fuel, offset by an 11.4% decrease in KWHs generated. Fuel expense was $573.4 million in 2007, an increase of $38.5 million, or 7.2%, above the prior year costs. This increase was the result of a 5.2% increase in the average cost of fuel and a 1.9% increase in KWHs generated.

Purchased power expense was $92.0 million in 2009, a decrease of $17.4 million, or 15.9%, below the prior year costs. This decrease was primarily the result of a 27.1% decrease in the average cost per KWH purchased, offset by a 24.8% increase in the volume of KWHs purchased. Purchased power expense was $109.4 million in 2008, an increase of $37.9 million, or 53.0%, above the prior year costs. This increase was the result of a 48.8% increase in total KWHs purchased and a 2.8% increase in the average cost per net KWH. Purchased power expense was $71.5 million in 2007, a decrease of $2.3 million, or 3.1%, below the prior year costs. This decrease was the result of an 8.9% decrease in total KWHs purchased, offset by a 6.3% increase in the average cost per net KWH.

Coal prices continued to be influenced by worldwide demand from developing countries, as well as increased mining and fuel transportation costs. While coal prices reached unprecedented high levels in 2008, the recessionary economy pushed prices downward in 2009. However, the lower prices did not fully offset the higher priced coal already in inventory and under long-term contract. Demand for natural gas in the United States also was affected by the recessionary economy leading to significantly lower natural gas prices.

Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the Company's fuel cost recovery provisions. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information.

Other Operations and Maintenance Expenses

In 2009, other operations and maintenance expenses decreased $17.2 million, or 6.2%, compared to the prior year primarily due to a $14.4 million decrease in administrative and general expense, most of which is related to decreased storm recovery costs, and a $6.7 million decrease in power generation, most of which is related to scheduled and unscheduled maintenance and cost containment activities in an effort to offset the effects of the recessionary economy. This decrease was partially offset by a $4.8 million increase in other energy services. In 2008, other operations and maintenance expenses increased $7.1 million, or 2.6%, compared to the prior year primarily due to an $8.2 million increase in scheduled and unscheduled maintenance at generation facilities. In 2007, other operations and maintenance expenses increased $10.9 million, or 4.2%, compared to the prior year primarily due to a $5.0 million increase in other energy services and a $4.3 million increase in severance costs associated with a reorganization. The increased expenses from other energy services did not have a material impact on earnings since they were generally offset by associated revenue. In 2007, the Company offered both voluntary and involuntary severance to a number of employees in connection with a reorganization of certain functions.

Depreciation and Amortization

Depreciation and amortization expense increased $8.6 million, or 10.1%, in 2009 compared to the prior year primarily due to additions of environmental control projects at Plant Crist and Plant Scherer and other net additions to generation and distribution facilities. Depreciation and amortization expense decreased $0.8 million, or 0.9%, in 2008 compared to the prior year primarily as a result of a $3.8 million gain on the sale of a building. The decrease was partially offset by an increase of $3.0 million in depreciation due to net additions to generation and distribution facilities. Depreciation and amortization expense decreased $3.6 million, or 4.0%, in 2007 compared to the prior year primarily due to new depreciation rates implemented in January 2007.

Taxes Other Than Income Taxes

Taxes other than income taxes increased $7.3 million, or 8.3%, in 2009 compared to the prior year primarily due to a $5.6 million increase in gross receipts and franchise taxes, which have no impact on net income, and a $1.6 million increase in property taxes. Taxes other than income taxes increased $4.2 million, or 5.1%, in 2008 compared to the prior year primarily due to a $1.9 million decrease in 2007 related to the resolution of a dispute regarding property taxes in Monroe County, Georgia and a $1.9 million increase in franchise and gross receipt taxes. Taxes other than income taxes increased $3.2 million, or 4.0%, in 2007 compared to the prior year primarily due to increases in franchise and gross receipts taxes.

Allowance for Funds Used During Construction Equity

AFUDC equity increased $13.8 million, or 138.8%, in 2009 compared to the prior year primarily due to construction of environmental control projects at Plant Crist and Plant Scherer. AFUDC equity increased $7.6 million, or 319.9%, in 2008 compared to the prior year primarily due to construction of environmental control projects at Plant Crist and Plant Scherer. AFUDC equity increased $2.0 million, or 554.0%, in 2007 compared to the prior year primarily due to construction of an environmental control project at Plant Crist. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" herein and Note 1 to the financial statements under "Allowance for Funds Used During Construction (AFUDC)" for additional information.

Interest Income

Interest income decreased $2.7 million, or 86.6%, in 2009 compared to the prior year primarily due to decreases in interest received related to the recovery of financing costs associated with the fuel clause. Interest income decreased $2.2 million, or 41%, in 2008 primarily as a result of lower variable interest rates charged against the under recovered fuel balance and a decrease in the property damage reserve balance. Interest income increased $0.1 million, or 2.3%, in 2007 compared to the prior year primarily due to interest received related to the recovery of financing costs associated with the fuel clause and incurred costs for storm damage activity as approved by the Florida PSC. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein and Note 3 to the financial statements under "Retail Regulatory Matters – Fuel Cost Recovery" for additional information.

Interest Expense, Net of Amounts Capitalized

Interest expense, net of amounts capitalized decreased $4.7 million, or 11.0%, in 2009 compared to the prior year as the result of an increase in capitalization of AFUDC debt related to the construction of environmental control projects at Plant Crist and Plant Scherer. Interest expense, net of amounts capitalized decreased $1.6 million, or 3.5%, in 2008 compared to the prior year as the result of an increase in capitalization of AFUDC debt related to the construction of environmental control projects and the redemption of $41.2 million of long-term debt payable to an affiliated trust in 2007. These decreases were offset by the issuance of a $110 million term loan agreement in 2008. Interest expense, net of amounts capitalized increased $0.5 million, or 1.2%, in 2007 compared to the prior year and was not material.

Income Taxes

Income taxes decreased $1.1 million, or 2.0%, in 2009, compared to the prior year primarily due to the tax benefit associated with an increase in AFUDC, which is non-taxable, partially offset by higher earnings before taxes. Income taxes increased $7.0 million, or 14.9%, in 2008, compared to the prior year primarily due to higher earnings before income taxes and a decrease in the federal production activities deduction, partially offset by the tax benefit associated with an increase in AFUDC, which is non-taxable. Income taxes increased $1.8 million, or 4.0%, in 2007, compared to the prior year primarily as a result of higher earnings before income taxes. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Effects of Inflation

The Company is subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Any adverse effect of inflation on the Company's results of operations has not been substantial.

FUTURE EARNINGS POTENTIAL

General

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast. 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 wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the FERC. Retail rates and earnings are reviewed and may be adjusted periodically within certain limitations. 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 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 business of selling electricity. These factors include the Company's ability to maintain a constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the Company's service area. Recessionary conditions have negatively impacted sales and are expected to continue to have a negative impact, particularly to industrial and commercial customers. The timing and extent of the economic recovery will impact future earnings.

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may exceed amounts estimated. Some of the factors driving the potential for such an increase are higher commodity costs, market demand for labor, and scope additions and clarifications. The timing, specific requirements, and estimated costs could also change as environmental statutes and regulations are adopted or modified. See Note 3 to the financial statements under "Environmental Matters" for additional information.

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 Company (Alabama Power) and Georgia Power Company (Georgia Power), alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. These actions were filed concurrently with the issuance of notices of violation of the NSR provisions to the Company with respect to the Company's Plant Crist. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including one facility co-owned by the Company. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the

Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

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. Applicable statutes 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; the Endangered Species Act; and related federal and state regulations. 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. Through 2009, the Company had invested approximately $1.1 billion in capital projects to comply with these requirements, with annual totals of $343 million, $296 million, and $124 million for 2009, 2008, and 2007, respectively. The Company expects that capital expenditures to assure compliance with existing and new statutes and regulations will be an additional $113 million, $195 million, and $194 million for 2010, 2011, and 2012, respectively. The Company's compliance strategy can be affected by changes to existing environmental laws, statutes, and regulations; the cost, availability, and existing inventory of emissions allowances; and the Company's fuel mix. 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 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 "Retail Regulatory Matters – Environmental Cost Recovery." Substantially all of the costs for the Clean Air Act and other new environmental legislation discussed below are expected to be recovered through the environmental cost recovery clause.

Compliance with any new federal or state legislation or regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns could also significantly affect the Company. Although new or revised environmental legislation or regulations could affect many areas of the Company's operations, the full impact of any such changes cannot be determined at this time.

Air Quality

Compliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. Through 2009, the Company had spent approximately $834 million in reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_x) emissions and in monitoring emissions pursuant to the Clean Air Act. Additional controls are scheduled to be installed at several plants to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

The EPA regulates ground level ozone through implementation of an eight-hour ozone air quality standard. No area within the Company's service area is currently designated as nonattainment under the eight-hour ozone standard. In March 2008, however, the

EPA issued a final rule establishing a more stringent eight-hour ozone standard, and on January 6, 2010, the EPA proposed further reductions in the standard. The EPA is expected to finalize the revised standard in August 2010 and require state implementation plans for any nonattainment areas by December 2013. The revised eight-hour ozone standard is expected to result in designation of new nonattainment areas within the Company's service territory.

During 2005, the EPA's annual fine particulate matter nonattainment designations became effective for several areas within Georgia. State plans for addressing the nonattainment designations for this standard could require further reductions in SO_2 and NO_x emissions from power plants, including plants owned in part by the Company. On December 8, 2009, the EPA also proposed revisions to the National Ambient Air Quality Standard for SO_2. The EPA is expected to finalize the revised SO_2 standard in June 2010.

Twenty-eight eastern states, including the States of Florida, Georgia, and Mississippi, are subject to the requirements of the Clean Air Interstate Rule (CAIR). The rule calls for additional reductions of NO_x and/or SO_2 to be achieved in two phases, 2009/2010 and 2015. In July 2008 and December 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued decisions invalidating certain aspects of CAIR, but left CAIR compliance requirements in place while the EPA develops a revised rule. The States of Florida, Georgia, and Mississippi have completed plans to implement CAIR, and emissions reductions are being accomplished by the installation of emissions controls at the Company's coal-fired facilities and/or by the purchase of emissions allowances. The EPA is expected to issue a proposed CAIR replacement rule in July 2010.

The Clean Air Visibility Rule was finalized in July 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977, and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each ten-year period thereafter. For power plants, the Clean Air Visibility Rule allows states to determine that CAIR satisfies BART requirements for SO_2 and NO_x, and no additional controls beyond CAIR are anticipated to be necessary at the Company's facilities. States have completed or are currently completing implementation plans for BART compliance and other measures required to achieve the first phase of reasonable progress.

The EPA is currently developing a Maximum Achievable Control Technology (MACT) rule for coal and oil-fired electric generating units, which will likely address numerous Hazardous Air Pollutants, including mercury. In March 2005, the EPA issued the Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR. In a separate proceeding in the U.S. District Court for the District of Columbia, the EPA entered into a proposed consent decree that requires the EPA to issue a proposed MACT rule by March 16, 2011, and a final rule by November 16, 2011.

The impacts of the eight-hour ozone standards, the fine particulate matter nonattainment designations, and future revisions to CAIR, the SO_2 standard, the Clean Air Visibility Rule, and the MACT rule for electric generating units on the Company cannot be determined at this time and will depend on the specific provisions of the final rules, resolution of any legal challenges, and the development and implementation of rules at the state level. However, these additional regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

The Company has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the continuing and new environmental requirements discussed above. As part of this strategy, the Company plans to install additional SO_2 and NO_x emissions controls within the next several years to ensure continued compliance with applicable air quality requirements.

Water Quality

In July 2004, the EPA published final regulations under the Clean Water Act to reduce impingement and entrainment of fish, shellfish, and other forms of aquatic life at existing power plant cooling water intake structures. The use of cost-benefit analysis in the rule was ultimately appealed to the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing intake structures. The EPA is now in the process of revising the regulations. While the U.S. Supreme Court's decision may ultimately result in greater flexibility for demonstrating compliance with the standards, the full scope of the regulations will depend on further rulemaking by the EPA and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

On December 28, 2009, the EPA announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and proposed a plan to adopt such revisions by 2013. New wastewater treatment requirements are expected and may result in the installation of additional controls on certain Company facilities. The impact of revised guidelines will depend on the studies conducted in connection with the rulemaking, as well as the specific requirements of the final rule, and, therefore, cannot be determined at this time.

Environmental Remediation

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. Included in this amount are costs associated with remediation of the Company's substation sites. These projects have been approved by the Florida PSC for recovery through the environmental cost recovery clause; therefore, there is no impact to the Company's net income as a result of these liabilities. 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 Matters – Environmental Remediation" for additional information.

Coal Combustion Byproducts

The EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA has collected information from the electric utility industry on surface impoundment safety and conducted on-site inspections at three Southern Company system facilities as part of its evaluation. The Company has a routine and robust inspection program in place to ensure the integrity of its coal ash surface impoundments. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010. The impact of these additional regulations on the Company will depend on the specific provisions of the final rule and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the Company's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March

2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.

Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units. See Item 1 – BUSINESS – "Rate Matters – Integrated Resource Planning" for additional information. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the Company were approximately 14 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 11 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company continues to evaluate its future energy and emissions profiles and is participating in voluntary programs to reduce greenhouse gas emissions and to help develop and advance technology to reduce emissions.

PSC Matters

General

The Company's rates and charges for service to retail customers are subject to the regulatory oversight of the Florida PSC. The Company's rates are a combination of base rates and several separate cost recovery clauses for specific categories of costs. These separate cost recovery clauses address such items as fuel and purchased energy costs, purchased power capacity costs, energy conservation, and demand side management programs, and the costs of compliance with environmental laws and regulations. Costs not addressed through one of the specific cost recovery clauses are recovered through the Company's base rates.

On November 2, 2009, the Florida PSC approved the Company's annual rate requests for its purchased power capacity, energy conservation, and environmental compliance cost recovery factors for 2010. On December 1, 2009, the Florida PSC approved the Company's annual rate request for its 2010 fuel cost recovery factor, which includes both fuel and purchased energy cost. The net effect of the approved changes to the Company's cost recovery factors for 2010 is a 3.9% rate increase for residential customers using 1,000 KWHs per month. Revenues for all cost recovery clauses, as recorded on the financial statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, changing the billing factor has no significant effect on the Company's revenues or net income, but does impact annual cash flow. See Notes 1 and 3 to the financial statements under "Revenues" and "Retail Regulatory Matters – Fuel Cost Recovery," respectively.

Fuel Cost Recovery

The Company petitions for fuel cost recovery rates to be approved by the Florida PSC on an annual basis. At December 31, 2009 and 2008, the under recovered balance was $2.4 million and $96.7 million, respectively. The change in 2009 was primarily due to an increase in the 2009 fuel cost recovery factors and resulting revenue collected in the period and a higher percentage of natural gas-fired generation which cost less than projected. The Company continuously monitors the over or under recovered fuel cost balance in light of the inherent variability in fuel costs. If the projected fuel cost over or under recovery exceeds 10% of the projected fuel revenue applicable for the period, the Company is required to notify the Florida PSC and indicate if an adjustment to the fuel cost recovery factor is being requested.

Purchased Power Capacity Recovery

The Florida PSC allows the Company to recover its costs for capacity purchased from other power producers under power purchase agreements (PPAs) through a separate cost recovery component or factor in the Company's retail energy rates. Like the other specific cost recovery factors included in the Company's retail energy rates, the rates for purchased capacity are set annually on a calendar year basis. When the Company enters into a new PPA, it is reviewed and approved by the Florida PSC for cost recovery purposes. As of December 31, 2009 and 2008, the Company had an over recovered purchased power capacity balance of approximately $1.5 million and $0.3 million, respectively, which is included in other regulatory liabilities, current in the balance sheets.

In March 2009, the Company entered into a PPA (the Agreement) with Shell Energy North America (US), L.P. (Shell) conditioned on subsequent review and approval of the Company's participation by the Florida PSC. The Florida PSC approved the Agreement through an order that became final in October 2009. As a result, the Agreement became effective on November 1, 2009. The Agreement will terminate on May 24, 2023, unless terminated earlier in accordance with its terms. Under the terms of the Agreement, the Company will be entitled to all of the capacity and energy from an approximately 885 MW combined cycle power plant (the Plant) located in Autauga County, Alabama that is owned and operated by Tenaska Alabama II Partners, L.P. (Tenaska). Shell is entitled to all of the capacity and energy from the Plant under a 20-year Energy Conversion Agreement between Shell and Tenaska that expires on May 24, 2023. Payments under the Agreement will be material. However, these costs have been approved by the Florida PSC for recovery through the Company's fuel clause and purchased power capacity clause; therefore, no material impact is expected on the Company's net income. See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein and Note 7 to the financial statements under "Fuel and Purchased Power Commitments" for additional information.

Environmental Cost Recovery

In August 2007, the Florida PSC voted to approve a stipulation among the Company, the Office of Public Counsel, and the Florida Industrial Power Users Group regarding the Company's plan for complying with certain federal and state regulations addressing air quality. The Company's environmental compliance plan as filed in March 2007 contemplated implementation of specific projects identified in the plan from 2007 through 2018. The stipulation covers all elements of the current plan that are scheduled to be implemented in the 2007 through 2011 timeframe. On April 1, 2009, the Company filed an update to the plan, which was approved by the Florida PSC on November 2, 2009. The Florida PSC acknowledged that the costs associated with the Company's CAIR and Clean Air Visibility Rule compliance plans are eligible for recovery through the environmental cost recovery clause. Annually, the Company seeks recovery of projected costs including any true-up amounts from prior periods. At December 31, 2009 and 2008, the over recovered environmental balance was approximately $11.7 million and $71 thousand, respectively, which is included in other regulatory liabilities, current in the balance sheets. See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein, Note 3 to the financial statements under "Retail Regulatory Matters – Environmental Cost Recovery," and Note 7 to the financial statements under "Construction Program" for additional information.

Legislation

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives, which could have a significant impact on the future cash flow and net income of the Company. The Company's cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA was approximately $19 million. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of the Company.

On October 27, 2009, Southern Company and its subsidiaries received notice that an award of $165 million had been granted, of which $15.5 million relates to the Company, under the ARRA grant application for transmission and distribution automation and modernization projects pending final negotiations. The Company continues to assess the other financial implications of the ARRA.

The U.S. House of Representatives and the U.S. Senate have passed separate bills related to healthcare reform. Both bills include a provision that would make Medicare Part D subsidy reimbursements taxable. If enacted into law, this provision could have a significant negative impact on the Company's net income. See Note 2 to the financial statements under "Other Postretirement Benefits" for additional information.

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

Income Tax Matters

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code of 1986, as amended. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Other Matters

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed 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 accounting standards which require 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 the accounting standards 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 and accounting principles generally accepted in the United States. 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, in accordance with generally accepted accounting principles (GAAP), records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. 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, coal combustion byproducts, including coal ash, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in IRS or state revenue department 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 new or existing matters through the legislative process, the court systems, the IRS, state revenue departments, the FERC, or the EPA.

Unbilled Revenues

Revenues related to the retail 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, 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.

Pension and Other Postretirement Benefits

The Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, health care cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining the Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on the Company's investment strategy, historical experience, and expectations for long-term rates of return that considers external actuarial advice. The Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to the Company's target asset allocation. The Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

A 25 basis point change in any significant assumption would result in a $0.8 million or less change in total benefit expense and a $12 million or less change in projected obligations.

New Accounting Standards

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. The Company adopted this new guidance effective January 1, 2010, with no material impact on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition remained stable at December 31, 2009. Throughout the turmoil in the financial markets, the Company has maintained adequate access to capital without drawing on any of its bank credit arrangements used to support its commercial paper program and variable rate pollution control revenue bonds. The Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit increased in 2009, and the Company may continue to be subject to higher costs as its existing facilities are replaced or renewed. Total committed credit fees for the Company average less than ¾ of 1% per year. See "Sources of Capital" and "Financing Activities" herein for additional information.

The Company's investments in pension trust funds remained stable in value as of December 31, 2009. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant. The projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time.

Net cash provided from operating activities totaled $194.2 million, $147.9 million, and $217.0 million for 2009, 2008, and 2007, respectively. The $46.3 million increase in net cash provided from operating activities in 2009 was primarily due to a $134.5 million reduction in accounts receivable related to fuel cost, partially offset by a $40.5 million decrease in deferred income taxes and a $38.4 million increase in fuel inventory. The $69.1 million decrease in net cash provided from operating activities in 2008 was due primarily to a $61.0 million increase in cash used for the under recovered regulatory clause related to fuel. The $73.6 million increase in net cash provided from operating activities in 2007 was due primarily to increased cash inflows for fuel cost recovery.

Net cash used for investing activities totaled $468.4 million, $348.7 million, and $239.3 million for 2009, 2008, and 2007, respectively. The increases in cash used for investing activities were primarily due to gross property additions to utility plant of $450.4 million, $390.7 million, and $239.3 million for 2009, 2008, and 2007, respectively. Funds for the Company's property additions were provided by operating activities, capital contributions, and other financing activities.

Net cash provided from financing activities totaled $279.4 million, $198.8 million, and $20.2 million for 2009, 2008, and 2007, respectively. The $80.6 million increase in net cash provided from financing activities in 2009 was due primarily to $258.4 million in debt issuances and cash raised from a common stock sale, partially offset by a $157.0 million decrease in notes payable. The $178.6 million increase in net cash provided from financing activities in 2008 was due primarily to the issuance of $110 million in long-term debt and $50 million in short-term debt, and a $49.1 million change in commercial paper cash flows in 2008. The increase was partially offset by the issuance of $85 million in senior notes in 2007. The $4.5 million decrease in net cash provided from financing activities in 2007 was due primarily to a $105.6 million change in commercial paper cash flows and a $25.0 million decrease in senior note proceeds. These decreases were partially offset by the issuance of $80 million in common stock and $45 million in preference stock in 2007.

Significant balance sheet changes in 2009 include an increase of $374.1 million in total property, plant, and equipment, primarily related to environmental control projects; the issuance of $140.0 million in senior notes; the issuance of common stock to Southern Company for $135.0 million; the issuance of $130.4 million of pollution control revenue bonds, with a related restricted cash balance of $6.3 million; an increase in fossil fuel stock of $75.5 million; an increase in customer accounts receivable and unbilled revenues of $6.4 million; and a $94.4 million decrease in under recovered regulatory clause revenues primarily related to fuel.

The Company's ratio of common equity to total capitalization, including short-term debt, was 43.4% in 2009, 42.9% in 2008, and 45.3% in 2007. See Note 6 to the financial statements for additional information.

The Company has received investment grade credit ratings from the major rating agencies with respect to its debt and preference stock. See SELECTED FINANCIAL AND OPERATING DATA and "Credit Rating Risk" herein for additional information regarding the Company's security ratings.

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, security issuances, term loans, and short-term indebtedness. However, the type and timing of any future financings, if needed, will depend on market conditions, regulatory approval, and other factors.

Security issuances are subject to regulatory approval by the Florida PSC pursuant to its rules and regulations. Additionally, with respect to the public offering of securities, the Company files 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 Florida PSC, as well as the amounts, if any, 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. 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 the Company are not commingled with funds of any other company.

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 December 31, 2009, the Company had approximately $9 million of cash and cash equivalents, along with $220 million of unused committed lines of credit with banks to meet its short-term cash needs. These bank credit arrangements will expire in 2010 and $70 million contain provisions allowing one-year term loans executable at expiration. The Company plans to renew these lines of credit during 2010 prior to their expiration. In addition, the Company has substantial cash flow from operating activities and access to the capital markets, including a commercial paper program, 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 at the request and for the benefit of the Company and the other traditional 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 traditional operating company. The obligations of each company under these arrangements are several; there is no cross affiliate credit support. At December 31, 2009, the Company had $88.9 million of commercial paper outstanding. At December 31, 2009, the Company also had $1.4 million in notes payable outstanding related to other energy services contracts.

Financing Activities

In 2009, the Company issued $140 million of senior notes and incurred obligations related to the issuance of $130.4 million of pollution control revenue bonds. In addition, the Company issued to Southern Company 1,350,000 shares of the Company's common stock, without par value, and realized proceeds of $135 million. On January 25, 2010, the Company issued to Southern Company 500,000 shares of the Company's common stock, without par value, and realized proceeds of $50 million. The proceeds were used to repay a portion of the Company's short-term debt, to fund construction of certain environmental projects, and for other general corporate purposes, including the Company's continuous construction program.

The Company also entered into forward starting interest rate swaps during 2009 totaling $100 million to mitigate exposure to interest rate changes related to anticipated debt issuances. The swaps have been designated as cash flow hedges.

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

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- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, emissions allowances, and energy price risk management. At December 31, 2009, the maximum potential collateral requirements under these contracts at a BBB- and/or Baa3 rating were approximately $130 million. At December 31, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $547 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the Company's ability to access capital markets, particularly the short-term debt market.

On September 2, 2009, Moody's Investors Service (Moody's) affirmed the credit ratings of the Company's senior unsecured notes and commercial paper of A2/P-1, respectively, and revised the rating outlook to negative. On September 4, 2009, Fitch Ratings, Inc. affirmed the Company's senior unsecured notes and commercial paper ratings of A/F1, respectively, and maintained a stable rating outlook for the Company. On October 6, 2009, Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (S&P) affirmed the credit ratings of the Company's senior unsecured notes and its short-term credit rating of A/A-1, respectively, and maintained its stable rating outlook.

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, where possible, 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 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 financial hedge contracts for natural gas purchases. The Company has implemented a fuel-hedging program per the guidelines of the Florida PSC.

The weighted average interest rate on $319 million variable rate long-term debt at January 1, 2010 was 0.45%. 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 $3 million at January 1, 2010. See Note 1 to the financial statements under "Financial Instruments" and Note 10 to the financial statements for additional information.

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

	2009 Changes	2008 Changes
	Fair Value	
	(in thousands)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	**$ (31,161)**	$ (202)
Contracts realized or settled	**41,683**	(7,960)
Current period changes[(a)]	**(24,209)**	(22,999)
Contracts outstanding at the end of the period, assets (liabilities), net	**$ (13,687)**	$ (31,161)

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

The change in the fair value positions of the energy-related derivative contracts for the year-ended December 31, 2009 was an increase of $17.5 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and prices of natural gas. At December 31, 2009, the Company had a net hedge volume of 11.0 million mmBtu with a weighted average contract cost approximately $1.26 per mmBtu above market prices, and 14.2 million mmBtu at December 31, 2008 with a weighted average contract cost approximately $2.24 per mmBtu above market prices. Natural gas settlements are recovered through the fuel cost recovery clause.

At December 31, the net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as assets/ (liabilities) as follows:

Asset (Liability) Derivatives	2009	2008
	(in thousands)	
Regulatory hedges	$(13,699)	$(31,161)
Not designated	12	-
Total fair value	$(13,687)	$(31,161)

Energy-related derivative contracts designated as regulatory hedges are related to the Company's fuel hedging program, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clause. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

Unrealized pre-tax gains and losses from energy-related derivative contracts recognized in income were not material for any year presented.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	December 31, 2009 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	(in thousands)			
Level 1	$ -	$ -	$ -	$ -
Level 2	(13,687)	(9,288)	(4,264)	(135)
Level 3	-	-	-	-
Fair value of contracts outstanding at end of period	$ (13,687)	$ (9,288)	$ (4,264)	$ (135)

The Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note 9 to the financial statements for further discussion on fair value measurement.

The Company is exposed to market price risk in the event of nonperformance by counterparties to the derivative energy contracts. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P 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 Note 1 to the financial statements under "Financial Instruments" and Note 10 to the financial statements for additional information.

Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $271.4 million in 2010, $350.2 million in 2011, and $418.5 million in 2012. Environmental expenditures included in these estimated amounts are $113.4 million in 2010, $194.8 million in 2011, and $194.2 million in 2012. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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 FERC and the Florida PSC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preference stock dividends, leases, and other purchase commitments are as follows. See Notes 1, 6, 7, and 10 to the financial statements for additional information.

Contractual Obligations

	2010	2011-2012	2013-2014	After 2014	Uncertain Timing[d]	Total
			(in thousands)			
Long-term debt[a] –						
Principal	$ 140,000	$ 110,000	$ 135,000	$ 740,441	$ -	$1,125,441
Interest	41,237	80,746	77,388	464,144	-	663,515
Energy-related derivative obligations[b]	9,442	4,264	183	-	-	13,889
Preference stock dividends[c]	6,203	12,405	12,405	-	-	31,013
Operating leases	14,525	20,539	12,793	1,613	-	49,470
Unrecognized tax benefits and interest[d]	-	-	-	-	1,729	1,729
Purchase commitments[e] –						
Capital[f]	271,419	768,706	-	-	-	1,040,125
Limestone[g]	6,043	12,543	13,178	35,938	-	67,702
Coal	515,241	75,561	-	-	-	590,802
Natural gas[h]	112,080	137,566	101,176	130,889	-	481,711
Purchased power[i]	39,432	82,474	97,317	659,261	-	878,484
Long-term service agreements[j]	6,315	13,303	13,977	25,583	-	59,178
Postretirement benefits trust[k]	54	107	-	-	-	161
Total	$1,161,991	$1,318,214	$ 463,417	$2,057,869	$1,729	$5,003,220

(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, 2010, as reflected in the statements of capitalization.

(b) For additional information, see Notes 1 and 10 to the financial statements.

(c) Preference stock does not mature; therefore, amounts are provided for the next five years only.

(d) The timing related to the realization of $1.7 million in unrecognized tax benefits and interest payments in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Note 5 to the financial statements for additional information.

(e) The Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for 2009, 2008, and 2007 were $260 million, $277 million, and $270 million, respectively.

(f) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program.

(g) As part of the Company's program to reduce sulfur dioxide emissions from its coal plants, the Company has entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment.

(h) 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, 2009.

(i) The capacity-related costs associated with PPAs are recovered through the purchased power capacity costs recovery clause. See Notes 3 and 7 to the financial statements for additional information.

(j) Long-term service agreements include price escalation based on inflation indices.

(k) The Company forecasts postretirement trust contributions over a three-year period. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant. The projections of the amount vary significantly depending on key variables, including future trust fund performance, and cannot be determined at this time; therefore, no amounts related to the pension trust fund are included in the table. 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 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales, retail rates, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, earnings growth, access to sources of capital, projections for postretirement benefit trust contributions, financing activities, start and completion of construction projects, impacts of adoption of new accounting rules, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts and other substances, and also changes in 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 FERC matters and the EPA civil 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, including those relating to weather, the general economy and recovery from the recent recession, population, and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of 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, including rate actions relating to fuel and other cost recovery mechanisms;
- 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 and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- 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, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the 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, 2009, 2008, and 2007

Gulf Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Revenues:			
Retail revenues	**$1,106,568**	$1,120,766	$1,006,329
Wholesale revenues, non-affiliates	**94,105**	97,065	83,514
Wholesale revenues, affiliates	**32,095**	106,989	113,178
Other revenues	**69,461**	62,383	56,787
Total operating revenues	**1,302,229**	1,387,203	1,259,808
Operating Expenses:			
Fuel	**573,407**	635,634	573,354
Purchased power, non-affiliates	**23,706**	29,590	11,994
Purchased power, affiliates	**68,276**	79,750	59,499
Other operations and maintenance	**260,274**	277,478	270,440
Depreciation and amortization	**93,398**	84,815	85,613
Taxes other than income taxes	**94,506**	87,247	82,992
Total operating expenses	**1,113,567**	1,194,514	1,083,892
Operating Income	**188,662**	192,689	175,916
Other Income and (Expense):			
Allowance for equity funds used during construction	**23,809**	9,969	2,374
Interest income	**423**	3,155	5,348
Interest expense, net of amounts capitalized	**(38,358)**	(43,098)	(44,680)
Other income (expense), net	**(4,075)**	(4,064)	(3,876)
Total other income and (expense)	**(18,201)**	(34,038)	(40,834)
Earnings Before Income Taxes	**170,461**	158,651	135,082
Income taxes	**53,025**	54,103	47,083
Net Income	**117,436**	104,548	87,999
Dividends on Preference Stock	**6,203**	6,203	3,881
Net Income After Dividends on Preference Stock	**$111,233**	$ 98,345	$ 84,118

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008, and 2007

Gulf Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Activities:			
Net income	**$117,436**	$ 104,548	$ 87,999
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization, total	**99,564**	93,607	90,694
Deferred income taxes	**(16,545)**	23,949	(10,818)
Allowance for equity funds used during construction	**(23,809)**	(9,969)	(2,374)
Pension, postretirement, and other employee benefits	**1,769**	1,585	6,062
Stock based compensation expense	**933**	765	1,141
Tax benefit of stock options	**17**	215	344
Hedge settlements	**-**	(5,220)	3,030
Other, net	**(5,190)**	(5,149)	(7,072)
Changes in certain current assets and liabilities --			
-*Receivables*	**83,245**	(49,886)	10,301
-Fossil fuel stock	**(75,145)**	(36,765)	5,025
-Materials and supplies	**(1,642)**	8,927	(2,625)
-Prepaid income taxes	**(6,355)**	(416)	7,177
-Property damage cost recovery	**10,746**	26,143	25,103
-*Other current assets*	**(204)**	(307)	(632)
-Accounts payable	**7,890**	(4,561)	(556)
-Accrued taxes	**(2,404)**	(6,511)	4,773
-Accrued compensation	**(6,330)**	570	(1,322)
-Other current liabilities	**10,255**	6,417	732
Net cash provided from *operating activities*	**194,231**	147,942	216,982
Investing Activities:			
Property additions	**(421,309)**	(377,790)	(241,538)
Investment in restricted cash from pollution control revenue bonds	**(49,188)**	-	-
Distribution of restricted cash from pollution control revenue bonds	**42,841**	-	-
Cost of removal net of salvage	**(9,751)**	(8,713)	(9,408)
Construction payables	**(23,603)**	37,244	10,817
Other investing activities	**(7,426)**	576	803
Net cash used for investing activities	**(468,436)**	(348,683)	(239,326)
Financing Activities:			
Increase (decrease) in notes payable, net	***(49,599)***	*107,438*	*(75,820)*
Proceeds --			
Common stock issued to parent	**135,000**	-	80,000
Capital contributions from parent company	**22,032**	75,324	4,174
Gross excess tax benefit of stock options	**51**	298	799
Preference stock	**-**	-	*45,000*
Pollution control revenue bonds	**130,400**	37,000	-
Senior notes	**140,000**	-	85,000
Other long-term debt issuances	**-**	110,000	-
Redemptions --			
Pollution control revenue bonds	**-**	(37,000)	-
Senior notes	**(1,214)**	(1,300)	-
Other long-term debt	**-**	-	(41,238)
Payment of preference stock dividends	**(6,203)**	(6,057)	(3,300)
Payment of common stock dividends	**(89,300)**	(81,700)	(74,100)
Other financing activities	**(1,728)**	(5,167)	(349)
Net cash provided from financing activities	**279,439**	198,836	20,166
Net Change in Cash and Cash Equivalents	**5,234**	(1,905)	(2,178)
Cash and Cash Equivalents at Beginning of Year	**3,443**	5,348	7,526
Cash and Cash Equivalents at End of Year	**$ 8,677**	$ 3,443	$ 5,348
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $9,489, $3,973 and $1,048 capitalized, respectively)	**$40,336**	$39,956	$35,237
Income taxes (net of refunds)	**73,889**	40,176	39,228
Non-cash decrease in notes payable related to energy services	**(8,309)**	-	-

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Gulf Power Company 2009 Annual Report

Assets	2009	2008
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 8,677**	$ 3,443
Restricted cash and cash equivalents	**6,347**	-
Receivables --		
Customer accounts receivable	**64,257**	69,531
Unbilled revenues	**60,414**	48,742
Under recovered regulatory clause revenues	**4,285**	98,644
Other accounts and notes receivable	**4,107**	7,201
Affiliated companies	**7,503**	8,516
Accumulated provision for uncollectible accounts	**(1,913)**	(2,188)
Fossil fuel stock, at average cost	**183,619**	108,129
Materials and supplies, at average cost	**38,478**	36,836
Other regulatory assets, current	**19,172**	38,908
Prepaid expenses	**44,760**	20,363
Other current assets	**3,634**	5,292
Total current assets	**443,340**	443,417
Property, Plant, and Equipment:		
In service	**3,430,503**	2,785,561
Less accumulated provision for depreciation	**1,009,807**	971,464
Plant in service, net of depreciation	**2,420,696**	1,814,097
Construction work in progress	**159,499**	391,987
Total property, plant, and equipment	**2,580,195**	2,206,084
Other Property and Investments	**15,923**	15,918
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**39,018**	24,220
Other regulatory assets, deferred	**190,971**	170,836
Other deferred charges and assets	**24,160**	18,550
Total deferred charges and other assets	**254,149**	213,606
Total Assets	**$3,293,607**	$2,879,025

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Gulf Power Company 2009 Annual Report

Liabilities and Stockholder's Equity	**2009**	2008
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$140,000**	$ -
Notes payable	**90,331**	148,239
Accounts payable --		
Affiliated	**47,421**	50,304
Other	**80,184**	90,381
Customer deposits	**32,361**	28,017
Accrued taxes --		
Accrued income taxes	**1,955**	39,983
Other accrued taxes	**7,297**	11,855
Accrued interest	**10,222**	8,959
Accrued compensation	**9,337**	15,667
Other regulatory liabilities, current	**22,416**	4,602
Liabilities from risk management activities	**9,442**	26,928
Other current liabilities	**20,092**	29,047
Total current liabilities	**471,058**	453,982
Long-Term Debt (See accompanying statements)	**978,914**	849,265
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**297,405**	254,354
Accumulated deferred investment tax credits	**9,652**	11,255
Employee benefit obligations	**109,271**	97,389
Other cost of removal obligations	**191,248**	180,325
Other regulatory liabilities, deferred	**41,399**	28,597
Other deferred credits and liabilities	**92,370**	83,768
Total deferred credits and other liabilities	**741,345**	655,688
Total Liabilities	**2,191,317**	1,958,935
Preference Stock (See accompanying statements)	**97,998**	97,998
Common Stockholder's Equity (See accompanying statements)	**1,004,292**	822,092
Total Liabilities and Stockholder's Equity	**$3,293,607**	$2,879,025
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION

At December 31, 2009 and 2008

Gulf Power Company 2009 Annual Report

	2009	2008	2009	2008
		(in thousands)		*(percent of total)*
Long Term Debt:				
Long-term notes payable --				
4.35% due 2013	**60,000**	60,000		
4.90% due 2014	**75,000**	75,000		
5.25% to 5.90% due 2016-2044	**452,486**	453,700		
Variable rates (0.35% at 1/1/10) due 2010	**140,000**	-		
Variable rates (0.68% at 1/1/10) due 2011	**110,000**	110,000		
Total long-term notes payable	**837,486**	698,700		
Other long-term debt --				
Pollution control revenue bonds --				
1.50% to 6.00% due 2022-2039	**218,625**	153,625		
Variable rates (0.25% to 0.28% at 1/1/10) due 2022-2039	**69,330**	3,930		
Total other long-term debt	**287,955**	157,555		
Unamortized debt discount	**(6,527)**	(6,990)		
Total long-term debt (annual interest requirement -- $41.2 million)	**1,118,914**	849,265		
Less amount due within one year	**140,000**	-		
Long-term debt excluding amount due within one year	**978,914**	849,265	**47.0%**	48.0%
Preferred and Preference Stock:				
Authorized - 20,000,000 shares--preferred stock				
- 10,000,000 shares--preference stock				
Outstanding - $100 par or stated value -- 6% preference stock	**53,886**	53,886		
-- 6.45% preference stock	**44,112**	44,112		
- 1,000,000 shares (non-cumulative)				
Total preference stock (annual dividend requirement -- $6.2 million)	**97,998**	97,998	**4.7**	5.5
Common Stockholder's Equity:				
Common stock, without par value --				
Authorized - 20,000,000 shares				
Outstanding - 2009: 3,142,717 shares				
Outstanding - 2008: 1,792,717 shares	**253,060**	118,060		
Paid-in capital	**534,577**	511,547		
Retained earnings	**219,117**	197,417		
Accumulated other comprehensive income (loss)	**(2,462)**	(4,932)		
Total common stockholder's equity	**1,004,292**	822,092	**48.3**	46.5
Total Capitalization	**$2,081,204**	$1,769,355	**100.0%**	100.0%

The accompanying notes are an integral part of these financial statements.

TATEMENTS OF COMMON STOCKHOLDER'S EQUITY

or the Years Ended December 31, 2009, 2008, and 2007

ulf Power Company 2009 Annual Report

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)			
alance at December 31, 2006	993	$38,060	$428,592	$171,968	$(4,597)	$634,023
let income after dividends on preference stock	-	-	-	84,118	-	84,118
ssuance of common stock	800	80,000	-	-	-	80,000
apital contributions from parent company	-	-	6,457	-	-	6,457
ther comprehensive income (loss)	-	-	-	-	798	798
ash dividends on common stock	-	-	-	(74,100)	-	(74,100)
ther	-	-	(41)	-	-	(41)
alance at December 31, 2007	1,793	118,060	435,008	181,986	(3,799)	731,255
let income after dividends on preference stock	-	-	-	98,345	-	98,345
apital contributions from parent company	-	-	76,539	-	-	76,539
ther comprehensive income (loss)	-	-	-	-	(1,133)	(1,133)
ash dividends on common stock	-	-	-	(81,700)	-	(81,700)
hange in benefit plan measurement date	-	-	-	(1,214)	-	(1,214)
alance at December 31, 2008	**1,793**	**118,060**	**511,547**	**197,417**	**(4,932)**	**822,092**
let income after dividends on preference stock	-	-	-	**111,233**	-	**111,233**
ssuance of common stock	**1,350**	**135,000**	-	-	-	**135,000**
apital contributions from parent company	-	-	**23,030**	-	-	**23,030**
ther comprehensive income (loss)	-	-	-	-	**2,470**	**2,470**
ash dividends on common stock	-	-	-	**(89,300)**	-	**(89,300)**
ther	-	-	-	**(233)**	-	**(233)**
alance at December 31, 2009	**3,143**	**$253,060**	**$534,577**	**$219,117**	**$(2,462)**	**$1,004,292**

he accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Gulf Power Company 2009 Annual Report

	2009	2008	200
		(in thousands)	
Net income after dividends on preference stock	**$111,233**	$98,345	$84,11
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of $1,132, $(1,077), and $232, respectively	**1,803**	(1,716)	37
Reclassification adjustment for amounts included in net income, net of tax of $419, $366, and $269, respectively	**667**	583	42
Total other comprehensive income (loss)	**2,470**	(1,133)	79
Comprehensive Income	**$113,703**	$97,212	$84,91

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Gulf Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies, Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), the Company, and Mississippi Power Company (Mississippi Power), are vertically integrated utilities providing electric service in four Southeastern states. The Company provides retail service to customers in northwest Florida and to wholesale customers in the Southeast. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in leveraged leases. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

The equity method is used for entities in which the Company has significant influence but does not control. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

The Company is subject to regulation by the Federal Energy Regulatory Commission (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.

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, digital wireless communications, and other services with respect to business and operations and power pool operations. Costs for these services amounted to $87 million, $86 million, and $73 million during 2009, 2008, and 2007, respectively. Cost allocation methodologies used by SCS were approved by the Securities and Exchange Commission (SEC) prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies.

The Company has agreements with Georgia Power and Mississippi Power under which the Company owns a portion of Plant Scherer and Plant Daniel, respectively. Georgia Power operates Plant Scherer and Mississippi Power operates Plant Daniel. The Company reimbursed Georgia Power $3.9 million, $8.1 million, and $5.1 million, and Mississippi Power $20.9 million, $22.8 million, and $23.1 million in 2009, 2008, and 2007, respectively, for its proportionate share of related expenses. See Note 4 and Note 7 under "Operating Leases" for additional information.

The Company entered into a power purchase agreement (PPA), with Southern Power for a total of approximately 292 megawatts (MWs) annually from June 2009 through May 2014. The PPA was the result of a competitive request for proposal process initiated by the Company in January 2006 to address the anticipated need for additional capacity beginning in 2009. In May 2007, the Florida PSC issued an order approving the PPA for the purpose of cost recovery through the Company's purchased power capacity clause. The PPA with Southern Power was approved by the FERC in July 2007.

The Company provides incidental services to and receives such services from other Southern Company subsidiaries which are generally minor in duration and amount. There were no significant services provided or received in 2009, 2008, or 2007.

The traditional operating companies, including the Company, and Southern Power 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.

Regulatory Assets and Liabilities

The Company is subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate 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:

	2009	2008	Note
	(in thousands)		
Deferred income tax charges	**$ 39,018**	$ 24,220	(a)
Asset retirement obligations	**(4,371)**	(4,531)	(a,i)
Other cost of removal obligations	**(191,248)**	(180,325)	(a)
Deferred income tax credits	**(11,412)**	(12,983)	(a)
Loss on reacquired debt	**14,599**	16,248	(b)
Vacation pay	**8,120**	7,991	(c,i)
Under recovered regulatory clause revenues	**2,384**	96,731	(d)
Over recovered regulatory clause revenues	**(14,510)**	(3,295)	(d)
Property damage reserve	**(24,046)**	(9,801)	(e)
Fuel-hedging (realized and unrealized) losses	**15,367**	35,333	(f,i)
Fuel-hedging (realized and unrealized) gains	**(190)**	(1,071)	(f,i)
PPA charges	**8,141**	-	(i,j)
Generation site selection/evaluation costs	**8,373**	2,370	(k)
Other assets	**131**	990	(d,i)
Environmental remediation	**65,223**	66,812	(g,i)
PPA credits	**(7,536)**	-	(i,j)
Other liabilities	**(715)**	(1,518)	(d)
Underfunded retiree benefit plans	**91,055**	81,912	(h,i)
Total assets (liabilities), net	**$ (1,617)**	$ 119,083	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal assets and liabilities are recovered, deferred charges related to income tax assets are recovered, and deferred charges related to income tax liabilities are amortized over the related property lives, which may range up to 65 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 40 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, generally within one year.
(e) Recorded and recovered or amortized as approved by the Florida PSC. The storm cost recovery surcharge ended in June 2009.
(f) Fuel-hedging assets and liabilities are recognized over the life of the underlying hedged purchase contracts, which generally do not exceed four years. Upon final settlement, costs are recovered through the fuel cost recovery clause.
(g) Recovered through the environmental cost recovery clause when the remediation is performed.
(h) Recovered and amortized over the average remaining service period which may range up to 14 years. See Note 2 for additional information.
(i) Not earning a return as offset in rate base by a corresponding asset or liability.
(j) Recovered over the life of the PPA for periods up to 14 years.
(k) Deferred pursuant to Florida Statute while the Company continues to evaluate certain potential new generation projects.

In the event that a portion of the Company's operations is no longer subject to applicable accounting rules for rate regulation, the Company would be required to write off or reclassify to accumulated other comprehensive income 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 values. All regulatory assets and liabilities are to be reflected in rates.

Revenues

Energy and other revenues are recognized as services are provided. Unbilled revenues related to retail sales are accrued at the end of each fiscal period. Wholesale capacity revenues are generally recognized on a levelized basis over the appropriate contract period. The Company's retail electric rates include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. The Company continuously monitors the over or under recovered fuel cost balance in light of the inherent variability in fuel costs. The Company is required to notify the Florida PSC if the projected fuel cost over or under recovery is expected to exceed 10% of the projected fuel revenue applicable for the period and indicate if an adjustment to the fuel cost recovery factor is being requested. 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 these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered or returned to customers through adjustments to the billing factors. Annually, the Company petitions for recovery of projected costs including any true-up amounts from prior periods, and approved rates are implemented each January. See Note 3 under "Retail Regulatory Matters" for additional information.

The Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used.

Income and Other 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. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with accounting standards related to the uncertainty in income taxes, the Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

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 Company's property, plant, and equipment consisted of the following at December 31:

	2009	2008
	(in thousands)	
Generation	**$ 2,034,826**	$ 1,445,095
Transmission	**317,298**	305,097
Distribution	**938,393**	900,793
General	**136,934**	131,269
Plant acquisition adjustment	**3,052**	3,307
Total plant in service	**$ 3,430,503**	$ 2,785,561

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.

Depreciation and Amortization

Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.1% in 2009, 3.4% in 2008, and 3.4% in 2007. Depreciation studies are conducted periodically to update the composite rates. These studies are approved by the Florida 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. 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.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are 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. The Company has received an order from the Florida PSC allowing the continued accrual of other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability.

The liability recognized to retire long-lived assets primarily relates to the Company's combustion turbines at its Pea Ridge facility, various landfill sites, a barge unloading dock, asbestos removal, ash ponds, and disposal of polychlorinated biphenyls in certain transformers. The Company also has identified retirement obligations related to certain transmission and distribution facilities, certain wireless communication towers, and certain structures authorized by the U.S. Army Corps of Engineers. However, liabilities for the removal of these assets have not been recorded because the range of time over which the Company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income allowed removal costs in accordance with its regulatory treatment. Any differences between costs recognized in accordance with accounting standards related to asset retirement and environmental obligations and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the Florida PSC, and are reflected in the balance sheets.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2009	2008
	(in thousands)	
Balance beginning of year	**$12,042**	$11,942
Liabilities incurred	**224**	-
Liabilities settled	**(300)**	(354)
Accretion	**642**	631
Cash flow revisions	-	(177)
Balance end of year	**$12,608**	$12,042

Allowance for Funds Used During Construction (AFUDC)

In accordance with regulatory treatment, the Company records AFUDC, which 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. The equity component of AFUDC is not included in calculating taxable income. The average annual AFUDC rate was 7.65%, 7.65%, and 7.48%, respectively, for the years 2009, 2008, and 2007. AFUDC, net of taxes, as a percentage of net income after dividends on preference stock was 26.64%, 12.62%, and 3.59%, respectively, for 2009, 2008, and 2007.

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 loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

Property Damage Reserve

The Company accrues for the cost of repairing damages from major storms and other uninsured property damages, including uninsured damages to transmission and distribution facilities, generation facilities, and other property. The costs of such damage are charged to the reserve. The Florida PSC-approved annual accrual to the property damage reserve is $3.5 million, with a target level for the reserve 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 $3.5 million in 2009, $3.5 million in 2008, and $3.5 million in 2007. As of December 31, 2009 and 2008, the balance in the Company's property damage reserve totaled approximately $24.0 million and $9.8 million, respectively, which is included in deferred liabilities in the balance sheets.

When the property damage reserve is inadequate to cover the cost of major storms, the Florida PSC can authorize a storm cost recovery surcharge to be applied to customer bills. Such a surcharge was authorized in 2005 after Hurricane Ivan in 2004 and was extended by a 2006 Florida PSC order approving a stipulation to address costs incurred as a result of Hurricanes Dennis and Katrina in 2005. According to the 2006 Florida PSC order, in the case of future storms, if the Company incurs cumulative costs for storm-recovery activities in excess of $10 million during any calendar year, the Company will be permitted to file a streamlined formal request for an interim surcharge. Any interim surcharge would provide for the recovery, subject to refund, of up to 80% of the claimed costs for storm-recovery activities. The Company would then petition the Florida PSC for full recovery through a final or non-interim surcharge or other cost recovery mechanism.

Injuries and Damages Reserve

The Company is subject to claims and lawsuits arising in the ordinary course of business. As permitted by the Florida PSC, 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 reserve does not exceed $2 million and to defer expense recognition of liabilities greater than the balance in the reserve. The cost of settling claims is charged to the reserve. The injuries and damages reserve was $2.9 million and $2.5 million at December 31, 2009 and 2008, respectively. For 2009, $1.6 million and $1.3 million are included in current liabilities and deferred credits and other liabilities in the balance sheets, respectively. For 2008, $2.5 million is included in current liabilities in the balance sheets. Liabilities in excess of the reserve balance of $0.1 million and $0.8 million at December 31, 2009 and 2008, respectively, are included in deferred credits and other liabilities in the balance sheets. Corresponding regulatory assets of $0.1 million and $0.8 million at December 31, 2009 and 2008, respectively, are included in current assets in the balance sheets.

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, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the average costs of oil, coal, natural gas, and emissions allowances. Fuel is charged to inventory when purchased and then expensed as used and recovered through fuel cost recovery rates approved by the Florida PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero 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 (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 9 for additional information. 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 or are recoverable through the Florida PSC-approved hedging program. This results in the deferral of related gains and losses in other comprehensive income (OCI) or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges 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. See Note 10 for additional information.

The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. Additionally, the Company has no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2009.

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.

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 reclassifications for amounts included in net income.

2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the defined benefit plan are expected for the year ending December 31, 2010. The Company also provides a defined benefit pension plan for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, the Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The Company funds trusts to the extent required by the FERC. For the year ending December 31, 2010, postretirement trust contributions are expected to total approximately $54,000.

The measurement date for plan assets and obligations for 2009 and 2008 was December 31 while the measurement date for prior years was September 30. Pursuant to accounting standards related to defined postretirement benefit plans, the Company was required to change the measurement date for its defined postretirement benefit plans from September 30 to December 31 beginning with the year ended December 31, 2008. As permitted, the Company adopted the measurement date provisions effective January 1, 2008 resulting in an increase in long-term liabilities of $1.4 million and an increase in prepaid pension costs of approximately $0.6 million.

Pension Plans

The total accumulated benefit obligation for the pension plans was $275 million in 2009 and $243 million in 2008. Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the projected benefit obligations and the fair value of plan assets were as follows:

	2009	2008
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 260,765**	$ 251,781
Service cost	**6,478**	8,437
Interest cost	**17,139**	19,344
Benefits paid	**(12,884)**	(15,880)
Plan amendments	**-**	-
Actuarial loss (gain)	**27,388**	(2,917)
Balance at end of year	**298,886**	260,765
Change in plan assets		
Fair value of plan assets at beginning of year	**229,407**	345,398
Actual return (loss) on plan assets	**36,840**	(101,036)
Employer contributions	**696**	925
Benefits paid	**(12,884)**	(15,880)
Fair value of plan assets at end of year	**254,059**	229,407
Accrued liability	**$ (44,827)**	$ (31,358)

At December 31, 2009, the projected benefit obligations for the qualified and non-qualified pension plans were $284 million and $15 million, respectively. All pension plan assets are related to the qualified pension plan.

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). In 2009, in determining the optimal asset allocation for the pension fund, the Company performed an extensive study based on projections of both assets and liabilities over a 10-year forward horizon. The primary goal of the study was to maximize plan funded status. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

The actual composition of the Company's pension plan assets as of December 31, 2009 and 2008, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	29%	**33%**	34%
International equity	28	**29**	23
Fixed income	15	**15**	14
Special situations	3	**-**	-
Real estate investments	15	**13**	19
Private equity	10	**10**	10
Total	100%	**100%**	100%

The investment strategy for plan assets related to the Company's defined benefit plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual

asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of pension plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in thousands)		
Assets:				
Domestic equity*	$ 50,434	$ 20,856	$ -	$ 71,290
International equity*	65,197	6,497	-	71,694
Fixed income:				
U.S. Treasury, government, and agency bonds	-	18,783	-	18,783
Mortgage- and asset-backed securities	-	5,107	-	5,107
Corporate bonds	-	12,589	-	12,589
Pooled funds	-	455	-	455
Cash equivalents and other	126	15,396	-	15,522
Special situations	-	-	-	-
Real estate investments	7,862	-	24,699	32,561
Private equity	-	-	25,053	25,053
Total	$ 123,619	$ 79,683	$ 49,752	$ 253,054
Liabilities:				
Derivatives	(202)	(51)	-	(253)
Total	$ 123,417	$ 79,632	$ 49,752	$ 252,801

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

As of December 31, 2008:	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$ 47,250	$ 19,242	$ -	$ 66,492
International equity*	42,508	3,909	-	46,417
Fixed income:				
U.S. Treasury, government, and agency bonds	-	19,866	-	19,866
Mortgage- and asset-backed securities	-	9,413	-	9,413
Corporate bonds	-	12,882	-	12,882
Pooled funds	-	139	-	139
Cash equivalents and other	994	9,089	-	10,083
Special situations	-	-	-	-
Real estate investments	6,476	-	37,790	44,266
Private equity	-	-	22,063	22,063
Total	$ 97,228	$ 74,540	$ 59,853	$ 231,621
Liabilities:				
Derivatives	(348)	-	-	(348)
Total	$ 96,880	$ 74,540	$ 59,853	$ 231,273

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	Private Equity	Real Estate Investments	Private Equity
	(in thousands)		*(in thousands)*	
Beginning balance	**$37,790**	**$22,063**	$47,025	$23,400
Actual return on investments:				
Related to investments held at year end	**(10,741)**	**1,724**	(7,615)	(6,332)
Related to investments sold during the year	**(2,938)**	**452**	180	1,125
Total return on investments	**(13,679)**	**2,176**	(7,435)	(5,207)
Purchases, sales, and settlements	**588**	**814**	(1,800)	3,870
Transfers into/out of Level 3	-	-	-	-
Ending balance	**$24,699**	**$25,053**	$37,790	$22,063

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable in an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued utilizing matrix pricing, a common model utilizing observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships

are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's pension plans consist of the following:

	2009	2008
	(in thousands)	
Other regulatory assets, deferred	**$ 85,194**	$ 71,990
Other, current liabilities	**(910)**	(863)
Employee benefit obligations	**(43,917)**	(30,495)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	**Net (Gain) Loss**
	(in thousands)	
Balance at December 31, 2009:		
Regulatory assets	**$ 8,506**	**$ 76,688**
Balance at December 31, 2008:		
Regulatory assets	$ 9,984	$ 62,006
Estimated amortization in net periodic pension cost in 2010:		
Regulatory assets	$ 1,302	$ 398

The changes in the balances of regulatory assets and regulatory liabilities related to the defined benefit pension plans for the year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets	**Regulatory Liabilities**
	(in thousands)	
Balance at December 31, 2007	$ 6,561	$ (60,464)
Net loss (gain)	66,170	61,989
Change in prior service costs	-	-
Reclassification adjustments:		
Amortization of prior service costs	(323)	(1,525)
Amortization of net gain	(418)	-
Total reclassification adjustments	(741)	(1,525)
Total change	65,429	60,464
Balance at December 31, 2008	$ 71,990	$ -
Net loss (gain)	**14,906**	-
Change in prior service costs	-	-
Reclassification adjustments:		
Amortization of prior service costs	**(1,478)**	-
Amortization of net gain	**(224)**	-
Total reclassification adjustments	**(1,702)**	-
Total change	**13,204**	-
Balance at December 31, 2009	**$ 85,194**	**$** -

Components of net periodic pension cost were as follows:

	2009	2008	2007
		(in thousands)	
Service cost	$ 6,478	$ 6,750	$ 6,835
Interest cost	17,139	15,475	14,519
Expected return on plan assets	(24,357)	(23,757)	(21,934)
Recognized net (gain) loss	224	334	342
Net amortization	1,478	1,478	1,419
Net periodic pension cost	$ 962	$ 280	$ 1,181

Net periodic pension cost (income) is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

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, 2009, estimated benefit payments were as follows:

	Benefit Payments
	(in thousands)
2010	$ 14,388
2011	15,105
2012	15,825
2013	16,696
2014	18,102
2015 to 2019	106,458

Other Postretirement Benefits

Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the accumulated postretirement benefit obligations (APBO) and in the fair value of plan assets were as follows:

	2009	2008
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 72,391	$ 73,909
Service cost	1,328	1,766
Interest cost	4,705	5,671
Benefits paid	(4,115)	(4,864)
Actuarial (gain) loss	497	(4,522)
Plan amendments	(2,416)	-
Retiree drug subsidy	250	431
Balance at end of year	72,640	72,391
Change in plan assets		
Fair value of plan assets at beginning of year	13,180	19,610
Actual return (loss) on plan assets	2,735	(5,556)
Employer contributions	2,923	3,559
Benefits paid	(3,865)	(4,433)
Fair value of plan assets at end of year	14,973	13,180
Accrued liability	$ (57,667)	$ (59,211)

Other postretirement benefit 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. 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. The actual composition of the Company's other postretirement benefit plan assets as of the end of the year, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	28%	**32%**	33%
International equity	27	**28**	22
Fixed income	18	**18**	17
Special situations	3	**-**	-
Real estate investments	14	**12**	19
Private equity	10	**10**	9
Total	100%	**100%**	100%

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is comprised of domestic bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Trust-owned life insurance.*** Some of the Company's taxable trusts invest in these investments in order to minimize the impact of taxes on the portfolio.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of other postretirement benefit plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$ 2,706	$ 1,119	$ -	$ 3,825
International equity*	3,499	348	-	3,847
Fixed income:				
U.S. Treasury, government, and agency bonds	-	1,008	-	1,008
Mortgage- and asset-backed securities	-	274	-	274
Corporate bonds	-	675	-	675
Pooled funds	-	553	-	553
Cash equivalents and other	8	827	-	835
Trust-owned life insurance	-	-	-	-
Special situations	-	-	-	-
Real estate investments	420	-	1,326	1,746
Private equity	-	-	1,346	1,346
Total	$ 6,633	$ 4,804	$ 2,672	$ 14,109
Liabilities:				
Derivatives	(11)	(3)	-	(14)
Total	$ 6,622	$ 4,801	$ 2,672	$ 14,095

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$ 2,591	$ 1,055	$ -	$ 3,646
International equity*	2,332	216	-	2,548
Fixed income:				
U.S. Treasury, government, and agency bonds	-	1,089	-	1,089
Mortgage- and asset-backed securities	-	516	-	516
Corporate bonds	-	706	-	706
Pooled funds	-	551	-	551
Cash equivalents and other	54	499	-	553
Trust-owned life insurance	-	-	-	-
Special situations	-	-	-	-
Real estate investments	355	-	2,073	2,428
Private equity	-	-	1,211	1,211
Total	$ 5,332	$ 4,632	$ 3,284	$ 13,248
Liabilities:				
Derivatives	(20)	-	-	(20)
Total	$ 5,312	$ 4,632	$ 3,284	$ 13,228

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	**Private Equity**	**Real Estate Investments**	**Private Equity**
	(in thousands)		*(in thousands)*	
Beginning balance	**$ 2,073**	**$1,211**	$2,499	$1,243
Actual return on investments:				
Related to investments held at year end	**(624)**	**68**	(339)	(297)
Related to investments sold during the year	**(154)**	**25**	9	59
Total return on investments	**(778)**	**93**	(330)	(238)
Purchases, sales, and settlements	**31**	**42**	(96)	206
Transfers into/out of Level 3	**-**	**-**	-	-
Ending balance	**$ 1,326**	**$1,346**	$2,073	$1,211

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable in an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued utilizing matrix pricing, a common model utilizing observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's other postretirement benefit plans consist of:

	2009	2008
	(in thousands)	
Other regulatory assets, deferred	**$ 5,861**	$ 9,922
Other current liabilities	**-**	(500)
Employee benefit obligations	**(57,667)**	(58,711)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the other postretirement benefit plans that had not yet been recognized in net periodic postretirement benefit cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	**Net (Gain)Loss**	**Transition Obligation**
		(in thousands)	
Balance at December 31, 2009:			
Regulatory asset	**$ 881**	**$ 4,273**	**$ 707**
Balance at December 31, 2008:			
Regulatory asset	$ 3,187	$ 5,302	$ 1,433
Estimated amortization as net periodic postretirement cost in 2010:			
Regulatory asset	$ 186	$ (37)	$ 257

The changes in the balance of regulatory assets related to the other postretirement benefit plans for the plan year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets
	(in thousands)
Balance at December 31, 2007	$ 8,040
Net loss	2,759
Change in prior service costs/transition obligation	-
Reclassification adjustments:	
Amortization of transition obligation	(445)
Amortization of prior service costs	(432)
Amortization of net gain	-
Total reclassification adjustments	(877)
Total change	1,882
Balance at December 31, 2008	$ 9,922
Net gain	**(1,097)**
Change in prior service costs/transition obligation	**(2,416)**
Reclassification adjustments:	
Amortization of transition obligation	**(323)**
Amortization of prior service costs	**(293)**
Amortization of net gain	**68**
Total reclassification adjustments	**(548)**
Total change	**(4,061)**
Balance at December 31, 2009	**$ 5,861**

Components of the other postretirement benefit plans' net periodic cost were as follows:

	2009	2008	2007
		(in thousands)	
Service cost	**$ 1,328**	$ 1,413	$ 1,351
Interest cost	**4,705**	4,536	4,330
Expected return on plan assets	**(1,436)**	(1,452)	(1,320)
Net amortization	**548**	702	792
Net postretirement cost	**$ 5,145**	$ 5,199	$ 5,153

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act) provides a 28% prescription drug subsidy for Medicare eligible retirees. The effect of the subsidy reduced the Company's expenses for the years ended December 31, 2009, 2008, and 2007 by approximately $1.3 million, $1.4 million, and $1.5 million, respectively.

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO 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)	
2010	$ 4,528	$ (382)	$ 4,146
2011	4,942	(422)	4,520
2012	5,173	(482)	4,691
2013	5,385	(543)	4,842
2014	5,606	(607)	4,999
2015 to 2019	29,912	(4,076)	25,836

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2006 for the 2007 plan year using a discount rate of 6.00% and an annual salary increase of 3.50%.

	2009	2008	2007
Discount rate:			
Pension plans	**5.93%**	6.75%	6.30%
Other postretirement benefit plans	**5.84**	6.75	6.30
Annual salary increase	**4.18**	3.75	3.75
Long-term return on plan assets			
Pension plans	**8.50**	8.50	8.50
Other postretirement benefit plans	**8.36**	8.38	8.36

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the APBO was a weighted average medical care cost trend rate of 8.50% for 2010, decreasing gradually to 5.25% through the year 2016 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2009 as follows:

	1 Percent Increase	1 Percent Decrease
	(in thousands)	
Benefit obligation	$ 3,571	$ 3,214
Service and interest costs	273	294

Employee Savings Plan

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides an 85% matching contribution up to 6% of an employee's base salary. Total matching contributions made to the plan for 2009, 2008, and 2007 were $3.7 million, $3.5 million, and $3.5 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 such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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 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 certain coal-fired generating facilities. These actions were filed concurrently with the issuance of notices of violation of the NSR provisions to the Company with respect to the Company's Plant Crist. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including one facility co-owned by the Company. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the

statements, are adjusted for differences in actual recoverable costs and amounts billed in current regulated rates. Accordingly, changing the billing factors has no significant effect on the Company's revenues or net income, but does impact annual cash flow.

Fuel Cost Recovery

The Company petitions for fuel cost recovery rates to be approved by the Florida PSC on an annual basis. The fuel cost recovery rates include the costs of fuel and purchased energy. The Company continuously monitors the over or under recovered fuel cost balance in light of the inherent variability in fuel costs. If the projected fuel cost over or under recovery exceeds 10% of the projected fuel revenue applicable for the period, the Company is required to notify the Florida PSC and indicate if an adjustment to the fuel cost recovery is being requested. As of December 31, 2009 and 2008, the Company had an under recovered fuel balance of approximately $2.4 million and $96.7 million, respectively, which is included in current assets in the balance sheets.

Purchased Power Capacity Recovery

The Florida PSC allows the Company to recover its costs for capacity purchased from other power producers under PPAs through a separate cost recovery component or factor in the Company's retail energy rates. Like the other specific cost recovery factors included in the Company's retail energy rates, the rates for purchased capacity are set annually on a calendar year basis. When the Company enters into a new PPA, it is reviewed and approved by the Florida PSC for cost recovery purposes. As of December 31, 2009 and 2008, the Company had an over recovered purchased power capacity balance of approximately $1.5 million and $0.3 million, respectively, which is included in other regulatory liabilities, current in the balance sheets.

Environmental Cost Recovery

The Florida Legislature adopted legislation for an environmental cost recovery clause, 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 FDEP for the purpose of ensuring compliance with ozone ambient air quality standards adopted by the EPA. In August 2007, the Florida PSC voted to approve a stipulation among the Company, the Office of Public Counsel, and the Florida Industrial Power Users Group regarding the Company's plan for complying with certain federal and state regulations addressing air quality. The Company's environmental compliance plan as filed in March 2007 contemplates implementation of specific projects identified in the plan from 2007 through 2018. The stipulation covers all elements of the current plan that are scheduled to be implemented in the 2007 through 2011 timeframe. On April 1, 2009, the Company filed an update to the plan which was approved by the Florida PSC on November 2, 2009. The Florida PSC acknowledged that the costs associated with the Company's Clean Air Interstate Rule and Clean Air Visibility Rule compliance plan are eligible for recovery through the environmental cost recovery clause. At December 31, 2009 and 2008, the over recovered environmental balance was approximately $11.7 million and $71 thousand, respectively, which is included in other regulatory liabilities, current in the balance sheets.

4. JOINT OWNERSHIP AGREEMENTS

The Company and Mississippi Power jointly own Plant Daniel Units 1 and 2, which together represent capacity of 1,000 MWs. 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 MWs capacity Plant Scherer Unit 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 and the Company is responsible for providing its own financing.

At December 31, 2009, the Company's percentage ownership and its investment in these jointly owned facilities were as follows:

	Plant Scherer Unit 3 (coal)	Plant Daniel Units 1 & 2 (coal)
	(in thousands)	
Plant in service	$ 242,078[a]	$ 262,315
Accumulated depreciation	100,242	150,190
Construction work in progress	70,657	1,542
Ownership	25%	50%

(a) Includes net plant acquisition adjustment of $3.1 million.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and combined State of Mississippi and State of Georgia income tax returns. Under a joint consolidated income tax allocation agreement, 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 it filed a separate income tax return. In accordance with Internal Revenue Service (IRS) regulations, each company is jointly and severally liable for the tax liability.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2009	2008	2007
		(in thousands)	
Federal –			
Current	**$ 62,980**	$ 26,592	$ 51,321
Deferred	**(14,453)**	21,481	(9,431)
	48,527	48,073	41,890
State –			
Current	**6,590**	3,563	6,581
Deferred	**(2,092)**	2,467	(1,388)
	4,498	6,030	5,193
Total	**$ 53,025**	$ 54,103	$ 47,083

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:

	2009	2008
	(in thousands)	
Deferred tax liabilities–		
Accelerated depreciation	**$ 332,971**	$ 284,653
Fuel recovery clause	**965**	39,176
Pension and other employee benefits	**15,539**	15,356
Regulatory assets associated with employee benefit obligations	**37,768**	34,787
Regulatory assets associated with asset retirement obligations	**5,106**	4,877
Other	**9,084**	3,747
Total	**401,433**	382,596
Deferred tax assets–		
Federal effect of state deferred taxes	**13,076**	14,039
Postretirement benefits	**18,465**	17,428
Pension and other employee benefits	**41,124**	38,156
Property reserve	**10,642**	4,872
Other comprehensive loss	**1,546**	3,097
Asset retirement obligations	**5,106**	4,877
Other	**16,995**	7,003
Total	**106,954**	89,472
Net deferred tax liabilities	**294,479**	293,124
Less current portion, net	**2,926**	(38,770)
Accumulated deferred income taxes in the balance sheets	**$ 297,405**	$ 254,354

At December 31, 2009, the tax-related regulatory assets to be recovered from customers was $39.0 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, 2009, the tax-related regulatory liabilities to be credited to customers was $11.4 million. These liabilities are attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

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 $1.6 million in 2009, $1.7 million in 2008, and $1.7 million in 2007. At December 31, 2009, all investment tax credits available to reduce federal income taxes payable had been utilized.

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**1.7**	2.5	2.5
Non-deductible book depreciation	**0.3**	0.0	0.4
Difference in prior years' deferred and current tax rate	**(0.4)**	(0.5)	(0.6)
Production activities deduction	**(0.9)**	0.1	(1.4)
Allowance for funds used during construction	**(4.9)**	(2.2)	(0.6)
Other, net	**0.3**	(0.8)	(0.4)
Effective income tax rate	**31.1%**	34.1%	34.9%

The decrease in the 2009 effective tax rate is primarily the result of an increase in nontaxable allowance for equity funds used during construction.

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in the Internal Revenue Code Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, the Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements.

Unrecognized Tax Benefits

For 2009, the total amount of unrecognized tax benefits increased by $1.3 million, resulting in a balance of $1.6 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	2009	2008	2007
		(thousands)	
Unrecognized tax benefits at beginning of year	**$ 294**	$ 887	$ 211
Tax positions from current periods	**455**	93	469
Tax positions from prior periods	**890**	11	207
Reductions due to settlements	**-**	(697)	-
Reductions due to expired statute of limitations	**-**	-	-
Balance at end of year	**$ 1,639**	$ 294	$ 887

The tax positions from current periods increase for 2009 relate primarily to the production activities deduction tax position and other miscellaneous uncertain tax positions. The tax positions increase from prior periods for 2009 relates primarily to the production activities deduction tax position. See "Effective Tax Rate" above for additional information.

Impact on the Company's effective tax rate, if recognized, is as follows:

	2009	2008	2007
		(thousands)	
Tax positions impacting the effective tax rate	**$ 1,639**	$ 294	$ 887
Tax positions not impacting the effective tax rate	**-**	-	-
Balance of unrecognized tax benefits	**$ 1,639**	$ 294	$ 887

Accrued interest for unrecognized tax benefits was as follows:

	2009	2008	2007
		(thousands)	
Interest accrued at beginning of year	**$ 17**	$ 58	$ 5
Interest reclassified due to settlements	**-**	(54)	-
Interest accrued during the year	**73**	13	53
Balance at end of year	**$ 90**	$ 17	$ 58

The Company classifies interest on tax uncertainties as interest expense. The Company did not accrue any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized benefit with respect to the majority of the Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. The possible conclusion or settlement of state audits could impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

6. FINANCING

Securities Due Within One Year

At December 31, 2009, the Company had $140 million of senior notes due to mature within one year. The date of maturity for these notes is June 2010.

Bank Term Loans

At December 31, 2009, the Company had a $110 million bank loan outstanding, which matures in April 2011.

Senior Notes

At December 31, 2009 and 2008, the Company had a total of $727.5 million and $588.7 million of senior notes outstanding, respectively. These senior notes are effectively subordinate to all secured debt of the Company which totaled approximately $41 million at December 31, 2009.

Pollution Control Revenue 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 has $288.0 million of outstanding pollution control revenue bonds and is required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. Proceeds from certain issuances are restricted until qualifying expenditures are incurred.

Outstanding Classes of Capital Stock

The Company currently has preferred stock, Class A preferred stock, preference stock, and common stock authorized. The Company's preferred stock and Class A preferred stock, without preference between classes, rank senior to the Company's preference stock and common stock with respect to payment of dividends and voluntary or involuntary dissolution. No shares of preferred stock or Class A preferred stock were outstanding at December 31, 2009. The Company's preference stock ranks senior to the common stock with respect to the payment of dividends and voluntary or involuntary dissolution. Certain series of the preference stock are subject to redemption at the option of the Company on or after a specified date (typically five or 10 years after the date of issuance) at a redemption price equal to 100% of the liquidation amount of the preference stock. In addition, one series of the preference stock may be redeemed earlier at a redemption price equal to 100% of the liquidation amount plus a make-whole premium based on the present value of the liquidation amount and future dividends.

In January 2009, the Company issued to Southern Company 1,350,000 shares of the Company's common stock, without par value, and realized proceeds of $135 million. On January 25, 2010, the Company issued to Southern Company 500,000 shares of the Company's common stock, without par value, and realized proceeds of $50 million. The proceeds were used to repay a portion of the Company's short-term debt and for other general corporate purposes, including the Company's continuous construction program.

Dividend Restrictions

The Company can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Assets Subject to Lien

The Company has granted a lien on its property at Plant Daniel in connection with the issuance of two series of pollution control revenue bonds with an outstanding principal amount of $41 million. 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 December 31, 2009, the Company had $220 million of lines of credit with banks, all of which remained unused. These bank credit arrangements will expire in 2010 and $70 million contain provisions allowing one-year term loans executable at expiration. Of the $220 million, $69 million provides support for variable rate pollution control bonds, and $151 million provides liquidity support for

the Company's commercial paper program and other general corporate purposes, including the Company's continuous construction program. Commitment fees average less than ¾ of 1% for the Company.

Certain credit arrangements contain covenants that limit the level of indebtedness to capitalization to 65%, as defined in the arrangements. At December 31, 2009, the Company was in compliance with these 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.

The Company borrows primarily through a commercial paper program that has the liquidity support of committed bank credit arrangements. The Company may also borrow through various other arrangements with banks. At December 31, 2009, the Company had $88.9 million of commercial paper outstanding. At December 31, 2008, the Company had $89.9 million of commercial paper and $50 million of short-term bank notes outstanding. During 2009, the peak amount outstanding for short-term debt was $152.1 million and the average amount outstanding was $51.7 million. The peak amount outstanding for short-term debt in 2008 was $141.2 million and the average amount outstanding was $36.9 million. The average annual interest rate on short-term debt was 1.0% and 2.2% for 2009 and 2008, respectively.

7. COMMITMENTS

Construction Program

The Company is engaged in a continuous construction program, the cost of which is currently estimated to total $271.4 million in 2010, $350.2 million in 2011, and $418.5 million in 2012. The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. At December 31, 2009, significant purchase commitments were outstanding in connection with the ongoing construction program.

Included in the amounts above are $113.4 million in 2010, $194.8 million in 2011, and $194.2 million in 2012 for environmental expenditures. The Company does not have any significant new generating capacity under construction. 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 Agreements

The Company has a Long-Term Service Agreement (LTSA) with General Electric (GE) for the purpose of securing maintenance support for a combined cycle generating facility. The LTSA provides that GE will perform all planned inspections on the covered equipment, which generally 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 limits and scope specified in the LTSA.

In general, the LTSA is in effect through two major inspection cycles of the unit. Scheduled payments to GE, which are subject to price escalation, are made at various intervals based on actual operating hours of the unit. Total remaining payments to GE under the LTSA for facilities owned are currently estimated at $59.2 million over the remaining life of the LTSA, which is currently estimated to be up to 8 years. However, the LTSA contains various cancellation provisions at the option of the Company.

Payments made under the LTSA prior to the performance of any planned inspections are recorded as prepayments. These amounts are included in Current Assets and Deferred Charges and Other Assets in the balance sheets for 2009 and 2008, respectively. Inspection costs are capitalized or charged to expense based on the nature of the work performed.

Limestone Commitments

As part of the Company's program to reduce sulfur dioxide emissions from certain of its coal plants, the Company has entered into various long-term commitments for the procurement of limestone to be used in flue gas desulfurization equipment. Limestone contracts are structured with tonnage minimums and maximums in order to account for fluctuations in coal burn and sulfur content. The Company has a minimum contractual obligation of 0.8 million tons equating to approximately $67.7 million, through 2019. Estimated expenditures (based on minimum contracted obligated dollars) over the next five years are $6.0 million in 2010, $6.2 million in 2011, $6.3 million in 2012, $6.5 million in 2013, and $6.7 million in 2014. Limestone costs are recovered through the environmental cost recovery clause.

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. Coal commitments include forward contract purchases for sulfur dioxide and nitrogen oxide emissions allowances. 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, 2009. Also, the Company has entered into various long-term commitments for the purchase of capacity, electricity, and transmission. The energy-related costs associated with PPAs are recovered through the fuel cost recovery clause. The capacity-related costs associated with PPAs are recovered through the purchased power capacity cost recovery clause.

Total estimated minimum long-term obligations at December 31, 2009 were as follows:

	Commitments		
	Purchased Power*	Natural Gas	Coal
		(in thousands)	
2010	$ 39,432	$ 112,080	$ 515,241
2011	41,185	79,724	75,561
2012	41,289	57,842	-
2013	41,380	47,664	-
2014	55,937	53,512	-
2015 and thereafter	659,261	130,889	-
Total	$ 878,484	$ 481,711	$ 590,802

*Included above is $69.9 million in obligations with affiliated companies. Certain PPAs are accounted for as operating leases.

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 traditional operating companies and Southern Power. Under these agreements, each of the traditional operating companies and Southern Power may be jointly and severally liable. The creditworthiness of Southern Power is currently inferior to the creditworthiness of the traditional operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other traditional operating companies to ensure the Company will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power 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 $10.1 million, $5.0 million, and $4.7 million for 2009, 2008, and 2007, respectively. Included in these lease expenses are rail car lease costs which 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 $7.9 million in 2009, $4.0 million in 2008, and $4.4 million in 2007. The Company includes any step rents, escalations, and lease concessions in its computation of minimum lease payments, which are recognized on a straight-line basis over the minimum lease term.

At December 31, 2009, estimated minimum rental commitments for noncancelable operating leases were as follows:

	Minimum Lease Payments		
	Barges & Rail Cars	Other	Total
		(in thousands)	
2010	$ 12,380	$ 2,145	$ 14,525
2011	9,768	2,053	11,821
2012	8,266	452	8,718
2013	6,925	233	7,158
2014	5,504	131	5,635
2015 and thereafter	1,613	-	1,613
Total	$ 44,456	$ 5,014	$ 49,470

The Company and Mississippi Power jointly entered into operating lease agreements for aluminum rail cars for the transportation of coal to Plant Daniel. The Company has the option to purchase the rail cars at the greater of lease termination value or fair market value or to renew the leases at the end of each lease term. The Company and Mississippi Power also have separate lease agreements for other rail cars that do not include purchase options.

The Company entered into operating lease agreements for barges and tow boats for the transport of coal at Plant Crist. The Company has the option to renew the leases at the end of each lease term. No barge lease costs were incurred for 2009, 2008, or 2007.

In addition to rail car leases, the Company has other operating leases for fuel handling equipment at Plant Daniel. The Company's share of these leases was charged to fuel handling expense in the amount of $0.3 million in 2009. The Company's annual lease payments for 2010 to 2014 will average approximately $0.2 million.

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, 2009, there were 308 current and former employees of the Company participating in the stock option plan, and there were 21 million shares of Southern Company common stock remaining available for awards under this plan. 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. The Company generally recognizes stock option expense on a straight-line basis over the vesting period which equates to the requisite service period; however, for employees who are eligible for retirement the total cost is expensed at the grant date. 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. For certain stock option awards a change in control will provide accelerated vesting.

The estimated fair values of stock options granted in 2009, 2008, and 2007 were derived using the Black-Scholes stock option pricing model. Expected volatility was based on historical volatility of Southern Company's stock over a period equal to the expected term. The Company used historical exercise data to estimate the expected term that represents the period of time that options granted to employees are expected to be outstanding. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant that covers the expected term of the stock options. The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of stock options granted:

Year Ended December 31	**2009**	2008	2007
Expected volatility	**15.6%**	13.1%	14.8%
Expected term *(in years)*	**5.0**	5.0	5.0
Interest rate	**1.9%**	2.8%	4.6%
Dividend yield	**5.4%**	4.5%	4.3%
Weighted average grant-date fair value	**$1.80**	$2.37	$4.12

The Company's activity in the stock option plan for 2009 is summarized below:

	Shares Subject to Option	Weighted Average Exercise Price
Outstanding at December 31, 2008	1,279,765	$ 32.25
Granted	435,820	31.38
Exercised	(56,735)	24.68
Cancelled	(729)	35.30
Outstanding at December 31, 2009	**1,658,121**	**$ 32.28**
Exercisable at December 31, 2009	**994,073**	**$ 31.81**

The number of stock options vested, and expected to vest in the future, as of December 31, 2009 was not significantly different from the number of stock options outstanding at December 31, 2009 as stated above. As of December 31, 2009, the weighted average remaining contractual term for the options outstanding and options exercisable was 6.4 years and 4.9 years, respectively, and the aggregate intrinsic value for the options outstanding and options exercisable was $3.2 million and $2.4 million, respectively.

As of December 31, 2009, there was $0.2 million of total unrecognized compensation cost related to stock option awards not yet vested. That cost is expected to be recognized over a weighted-average period of approximately 10 months.

For the years ended December 31, 2009, 2008, and 2007, total compensation cost for stock option awards recognized in income was $0.9 million, $0.8 million, and $1.1 million, respectively, with the related tax benefit also recognized in income of $0.4 million, $0.3 million, and $0.4 million, respectively.

The compensation cost and tax benefits related to the grant and exercise of Southern Company stock options to the Company's employees are recognized in the Company's financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $0.2 million, $1.3 million, and $3.0 million, respectively. The actual tax benefit realized by the Company for the tax deductions from stock option exercises for the years ended December 31, 2009, 2008, and 2007 totaled $0.1 million, $0.5 million, and $1.1 million, respectively.

9. FAIR VALUE MEASUREMENTS

The fair value measurement is based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The fair value measurements performed on a recurring basis and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	Fair Value Measurements Using			
At December 31, 2009:	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
		(in thousands)		
Assets:				
Energy-related derivatives	$ -	$ 202	$ -	$ 202
Interest rate derivatives	-	2,934	-	2,934
Cash equivalents and restricted cash	9,366	-	-	9,366
Total	$ 9,366	$ 3,136	$ -	$12,502
Liabilities:				
Energy-related derivatives	$ -	$13,889	$ -	$13,889

Energy-related derivatives and interest rate derivatives primarily consist of over-the-counter contracts. See Note 10 for additional information. The cash equivalents and restricted cash consist of securities with original maturities of 90 days or less. These financial instruments and investments are valued primarily using the market approach.

As of December 31, 2009, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

As of December 31, 2009:	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(in thousands)			
Cash equivalents and restricted cash:				
Money market funds	$9,366	None	Daily	Not applicable

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

As of December 31, 2009, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	**Fair Value**
	(in thousands)	
Long-term debt:		
2009	**$ 1,118,914**	**$ 1,137,761**
2008	$ 849,265	$ 831,763

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

10. DERIVATIVES

The 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 its exposures, where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

Energy-Related Derivatives

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 manages fuel-hedging programs, implemented per the guidelines of the Florida PSC, through the use of financial derivative contracts.

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

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

- *Regulatory Hedges* – Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the Company's fuel hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the fuel cost recovery clause.
- *Not Designated* – Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

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

At December 31, 2009, the net volume of energy-related derivative contracts for natural gas positions for the Company, together with the longest hedge date over which it is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

Net Purchased mmBtu*	Longest Hedge Date	Longest Non-Hedge Date
(in thousands)		
11,000	2014	-

*mmBtu - million British thermal units

Interest Rate Derivatives

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

For cash flow hedges, the fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings.

At December 31, 2009, the Company had outstanding interest rate derivatives designated as cash flow hedges on forecasted debt as follows:

Notional Amount	Variable Rate Received	Weighted Average Fixed Rate Paid	Hedge Maturity Date	Fair Value Gain (Loss) December 31, 2009
(in thousands)				*(in thousands)*
$100,000	3-month LIBOR	3.79%	April 2020	$2,934

The estimated pre-tax losses that will be reclassified from OCI to interest expense for the next 12-month period ending December 31, 2010 are $0.9 million. The Company has deferred gains and losses that are expected to be amortized into earnings through 2018.

Derivative Financial Statement Presentation and Amounts

At December 31, 2009 and 2008, the fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
Derivative Category	Balance Sheet Location	2009	2008	Balance Sheet Location	2009	2008
		(in thousands)			*(in thousands)*	
Derivatives designated as hedging instruments for regulatory purposes						
Energy-related derivatives:	Other current assets	**$ 142**	$ 1,017	Liabilities from risk management activities	**$ 9,442**	$ 26,928
	Other deferred charges and assets	**48**	54	Other deferred credits and liabilities	**4,447**	5,305
Total derivatives designated as hedging instruments for regulatory purposes		**$ 190**	$ 1,071		**$ 13,889**	$ 32,233
Derivatives designated as hedging instruments in cash flow hedges						
Interest rate derivatives:	Other current assets	**$ 2,934**	$ -	Liabilities from risk management activities	**$ -**	$ -
Derivatives not designated as hedging instruments						
Energy-related derivatives:	Other current assets	**$ 12**	$ -	Liabilities from risk management activities	**$ -**	$ -
Total		**$ 3,136**	$ 1,071		**$ 13,889**	$ 32,233

All derivative instruments are measured at fair value. See Note 9 for additional information.

At December 31, 2009 and 2008, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheets were as follows:

	Unrealized Losses			Unrealized Gains		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in thousands)			*(in thousands)*	
Energy-related derivatives:	Other regulatory assets, current	**$ (9,442)**	$ (26,928)	Other regulatory liabilities, current	**$ 142**	$ 1,017
	Other regulatory assets, deferred	**(4,447)**	(5,305)	Other regulatory liabilities, deferred	**48**	54
Total energy-related derivative gains (losses)		**$ (13,889)**	$ (32,233)		**$ 190**	$ 1,071

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	**Gain (Loss) Recognized in OCI on Derivative (Effective Portion)**			**Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**			
					Amount		
Derivative Category	**2009**	2008	2007	**Statements of Income Location**	**2009**	2008	2007
		(in thousands)				*(in thousands)*	
Interest rate derivatives	**$ 2,934**	$ (2,792)	$ 602	Interest expense	**$(1,085)**	$ (949)	$ (696)

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

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were immaterial.

Contingent Features

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 derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain affiliated companies. At December 31, 2009, the fair value of derivative liabilities with contingent features was $3.1 million.

At December 31, 2009, the Company had no collateral posted with its derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is $33.3 million.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to debt and preference stock.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. The Company participated in certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade.

11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2009 and 2008 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preference Stock
		(in thousands)	
March 2009	**$ 284,284**	**$ 30,914**	**$ 16,542**
June 2009	**341,095**	**54,320**	**32,269**
September 2009	**377,641**	**67,392**	**41,208**
December 2009	**299,209**	**36,036**	**21,214**
March 2008	$ 311,535	$ 40,708	$ 19,530
June 2008	349,867	52,314	26,992
September 2008	421,841	69,039	37,343
December 2008	303,960	30,628	14,480

The Company's business is influenced by seasonal weather conditions.

SELECTED FINANCIAL AND OPERATING DATA 2005-2009

Gulf Power Company 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in thousands)	**$1,302,229**	$1,387,203	$1,259,808	$1,203,914	$1,083,622
Net Income after Dividends on Preference Stock (in thousands)	**$111,233**	$98,345	$84,118	$75,989	$75,209
Cash Dividends on Common Stock (in thousands)	**$89,300**	$81,700	$74,100	$70,300	$68,400
Return on Average Common Equity (percent)	**12.18**	12.66	12.32	12.29	12.59
Total Assets (in thousands)	**$3,293,607**	$2,879,025	$2,498,987	$2,340,489	$2,175,797
Gross Property Additions (in thousands)	**$450,421**	$390,744	$239,337	$147,086	$142,583
Capitalization (in thousands):					
Common stock equity	**$1,004,292**	$822,092	$731,255	$634,023	$602,344
Preference stock	**97,998**	97,998	97,998	53,887	53,891
Long-term debt	**978,914**	849,265	740,050	696,098	616,554
Total (excluding amounts due within one year)	**$2,081,204**	$1,769,355	$1,569,303	$1,384,008	$1,272,789
Capitalization Ratios (percent):					
Common stock equity	**48.3**	46.5	46.6	45.8	47.3
Preference stock	**4.7**	5.5	6.2	3.9	4.2
Long-term debt	**47.0**	48.0	47.2	50.3	48.5
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
Standard and Poor's	**-**	-	-	-	A+
Fitch	**-**	-	-	-	A+
Preferred Stock/ Preference Stock -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	Baa1
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	**374,091**	373,595	373,036	364,647	354,466
Commercial	**53,272**	53,548	53,838	53,466	53,398
Industrial	**279**	287	298	295	298
Other	**512**	499	491	484	479
Total	**428,154**	427,929	427,663	418,892	408,641
Employees (year-end)	**1,365**	1,342	1,324	1,321	1,335

	2009	2008	2007	2006	2005
Operating Revenues (in thousands):					
Residential	**$588,073**	$581,723	$537,668	$510,995	$465,346
Commercial	**376,125**	369,625	329,651	305,049	273,114
Industrial	**138,164**	165,564	135,179	132,339	123,044
Other	**4,206**	3,854	3,831	3,655	3,355
Total retail	**1,106,568**	1,120,766	1,006,329	952,038	864,859
Wholesale - non-affiliates	**94,105**	97,065	83,514	87,142	84,346
Wholesale - affiliates	**32,095**	106,989	113,178	118,097	91,352
Total revenues from sales of electricity	**1,232,768**	1,324,820	1,203,021	1,157,277	1,040,557
Other revenues	**69,461**	62,383	56,787	46,637	43,065
Total	**$1,302,229**	$1,387,203	$1,259,808	$1,203,914	$1,083,622
Kilowatt-Hour Sales (in thousands):					
Residential	**5,254,491**	5,348,642	5,477,111	5,425,491	5,319,630
Commercial	**3,896,105**	3,960,923	3,970,892	3,843,064	3,735,776
Industrial	**1,727,106**	2,210,597	2,048,389	2,136,439	2,160,760
Other	**25,121**	23,237	24,496	23,886	22,730
Total retail	**10,902,823**	11,543,399	11,520,888	11,428,880	11,238,896
Wholesale - non-affiliates	**1,813,592**	1,816,839	2,227,026	2,079,165	2,295,850
Wholesale - affiliates	**870,470**	1,871,158	2,884,440	2,937,735	1,976,368
Total	**13,586,885**	15,231,396	16,632,354	16,445,780	15,511,114
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**11.19**	10.88	9.82	9.42	8.75
Commercial	**9.65**	9.33	8.30	7.94	7.31
Industrial	**8.00**	7.49	6.60	6.19	5.69
Total retail	**10.15**	9.71	8.73	8.33	7.70
Wholesale	**4.70**	5.53	3.85	4.09	4.11
Total sales	**9.07**	8.70	7.23	7.04	6.71
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,049**	14,274	14,755	15,032	15,181
Residential Average Annual Revenue Per Customer	**$1,572**	$1,552	$1,448	$1,416	$1,328
***Plant Nameplate Capacity* Ratings** (year-end) (megawatts)	**2,659**	2,659	2,659	2,659	2,712
Maximum Peak-Hour Demand (megawatts):					
Winter	**2,310**	2,360	2,215	2,195	2,124
Summer	**2,538**	2,533	2,626	2,479	2,433
Annual Load Factor (percent)	**53.8**	56.7	55.0	57.9	57.7
Plant Availability Fossil-Steam (percent)	**89.7**	88.6	93.4	91.3	89.7
Source of Energy Supply (percent):					
Coal	**61.7**	77.3	81.8	82.5	79.7
Gas	**28.0**	15.3	13.6	12.4	13.1
Purchased power -					
From non-affiliates	**2.2**	2.6	1.6	1.9	2.8
From affiliates	**8.1**	4.8	3.0	3.2	4.4
Total	**100.0**	100.0	100.0	100.0	100.0

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MISSISSIPPI POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Mississippi Power Company 2009 Annual Report

The management of Mississippi Power Company (the "Company") 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 the 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. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

Anthony J. Topazi
President and Chief Executive Officer

Frances Turnage
Vice President, Treasurer, and Chief Financial Officer

February 25, 2010

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 (the "Company") (a wholly owned subsidiary of Southern Company) as of December 31, 2009 and 2008, 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, 2009. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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-339 to II-380) present fairly, in all material respects, the financial position of Mississippi Power Company at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

OVERVIEW

Business Activities

Mississippi 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 Mississippi and to wholesale customers in the Southeast.

Many factors affect the opportunities, challenges, and risks of the Company's business of selling electricity. These factors include the ability to maintain a constructive regulatory environment, to maintain energy sales given the effects of the recession, and to effectively manage and secure timely recovery of rising costs. The Company has various regulatory mechanisms that operate to address cost recovery.

Appropriately balancing required costs and capital expenditures with reasonable retail rates will continue to challenge the Company for the foreseeable future. Hurricane Katrina, the worst natural disaster in the Company's history, hit the Gulf Coast of Mississippi in August 2005, causing substantial damage to the Company's service territory. All of the Company's 195,000 customers were without service immediately after the storm. Through a coordinated effort with Southern Company, as well as non-affiliated companies, the Company restored power to all who could receive it within 12 days. However, due to obstacles in the rebuilding process coupled with the recessionary economy, as of December 31, 2009, the Company had over 8,800 fewer retail customers as compared to pre-storm levels. See Note 1 to the financial statements under "Government Grants" and Note 3 to the financial statements under "Retail Regulatory Matters – Storm Damage Cost Recovery" for additional information.

The Company's retail base rates are set under the Performance Evaluation Plan (PEP), a rate plan approved by the Mississippi Public Service Commission (PSC). PEP was designed with the objective to 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.

Key Performance Indicators

In striving to maximize shareholder value while providing cost-effective energy to customers, the Company continues to focus on several key indicators. These indicators are used to measure the Company's performance for customers and employees.

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, 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 a survey of residential customers (20%). See Note 3 to the financial statements under "Retail Regulatory Matters – Performance Evaluation Plan" 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, plant availability, system reliability, and net income after dividends on preferred stock. The Company's financial success is directly tied to the satisfaction of its customers. Management uses customer satisfaction surveys to evaluate the Company's results. Peak season equivalent forced outage rate (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. The actual EFOR performance for 2009 was the best in the history of the Company. Net income after dividends on preferred stock is the primary measure of the Company's financial performance. Recognizing the critical role in the Company's success played by the Company's employees, employee-related measures are a significant management focus. These measures include safety and inclusion. The 2009 safety performance of the Company was the third best in the history of the Company with an Occupational Safety and Health Administration Incidence Rate of 0.62. This achievement resulted in the Company being recognized as one of the top in safety performance among all utilities in the Southeastern Electric Exchange. Inclusion initiatives resulted in performance at target levels for the year.

The Company's 2009 results compared with its targets for some of these key indicators are reflected in the following chart.

Key Performance Indicator	2009 Target Performance	2009 Actual Performance
Customer Satisfaction	Top quartile in customer surveys	Top quartile
Peak Season EFOR	3.0% or less	0.76%
Net income after dividends on preferred stock	$83.5 million	$85.0 million

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The performance achieved in 2009 reflects the continued emphasis that management places on all of these indicators, as well as the commitment shown by employees in achieving or exceeding management's expectations.

Earnings

The Company's net income after dividends on preferred stock was $85.0 million in 2009 compared to $86.0 million in 2008. The 1.2% decrease in 2009 was primarily the result of decreases in wholesale energy revenues and total other income and (expense) primarily resulting from an increase in interest expense and decreases in contracting work performed for customers, as well as an increase in income tax expense. These decreases in earnings were partially offset by an increase in territorial base revenues primarily due to a wholesale base rate increase effective January 2009 and higher demand as well as a decrease in other non-fuel related expenses. See Note 3 to the financial statements under "FERC Matters" for additional information.

Net income after dividends on preferred stock was $86.0 million in 2008 compared to $84.0 million in 2007. The 2.4% increase in 2008 was primarily the result of an increase in territorial base revenues due to a retail base rate increase effective January 2008 and an increase in wholesale capacity revenues, partially offset by an increase in depreciation and amortization primarily due to the amortization of regulatory items, an increase in non-fuel related expenses, and an increase in charitable contributions. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information.

Net income after dividends on preferred stock was $84.0 million in 2007 compared to $82.0 million in 2006. The 2.4% increase in 2007 was primarily the result of an increase in territorial base revenues due to a retail base rate increase effective April 1, 2006, territorial sales growth, and an increase in total other income and (expense) as a result of charitable contributions in 2006. These factors were partially offset by an increase in non-fuel related expenses and an increase in depreciation and amortization expenses.

RESULTS OF OPERATIONS

A condensed statement of income follows:

	Amount	Increase (Decrease) from Prior Year		
	2009	2009	2008	2007
		(in millions)		
Operating revenues	$1,149.4	$(107.1)	$142.8	$104.5
Fuel	519.7	(66.8)	92.2	55.6
Purchased power	91.9	(34.6)	30.7	22.6
Other operations and maintenance	246.8	(13.3)	4.8	18.6
Depreciation and amortization	70.9	(0.1)	10.7	13.5
Taxes other than income taxes	64.1	(1.0)	4.8	(0.6)
Total operating expenses	993.4	(115.8)	143.2	109.7
Operating income	156.0	8.7	(0.4)	(5.2)
Total other income and (expense)	(19.1)	(7.8)	(1.1)	10.9
Income taxes	50.2	1.9	(3.4)	3.7
Net income	86.7	(1.0)	1.9	2.0
Dividends on preferred stock	1.7	-	-	-
Net income after dividends on preferred stock	$ 85.0	$ (1.0)	$ 1.9	$ 2.0

Operating Revenues

Details of the Company's operating revenues in 2009 and the prior two years were as follows:

	Amount		
	2009	2008	2007
		(in millions)	
Retail – prior year	**$ 785.4**	$ 727.2	$ 647.2
Estimated change in –			
Rates and pricing	**0.6**	18.8	8.7
Sales growth (decline)	**(1.3)**	(1.1)	12.3
Weather	**1.7**	(1.8)	(2.5)
Fuel and other cost recovery	**4.5**	42.3	61.5
Retail – current year	**790.9**	785.4	727.2
Wholesale revenues –			
Non-affiliates	**299.3**	353.8	323.1
Affiliates	**44.5**	100.9	46.2
Total wholesale revenues	**343.8**	454.7	369.3
Other operating revenues	**14.7**	16.4	17.2
Total operating revenues	**$1,149.4**	$1,256.5	$1,113.7
Percent change	**(8.5)%**	12.8%	10.4%

Total retail revenues for 2009 increased 0.7% when compared to 2008 primarily as a result of slightly higher energy sales and fuel revenues. Total retail revenues for 2008 increased 8.0% when compared to 2007 primarily as a result of a retail base rate increase effective in January 2008 and higher fuel revenues. Total retail revenues for 2007 increased 12.4% when compared to 2006 primarily as a result of an increase in territorial sales growth, a retail base rate increase effective in April 2006, and the Environmental Compliance Overview (ECO) Plan rate increase effective in May 2007. See "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes related to sales growth (or decline) and weather.

Electric rates for the Company include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power, and do not affect net income. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information. The fuel and other cost recovery revenues increased in 2009 when compared to 2008 primarily as a result of higher recoverable fuel costs. Recoverable fuel costs include fuel and purchased power expenses reduced by the fuel portion of wholesale revenues from energy sold to customers outside the Company's service territory. The fuel and other cost recovery revenues increased in 2008 when compared to 2007 primarily as a result of the increase in fuel and purchased power expenses. The fuel and other cost recovery revenues increased in 2007 when compared to 2006 as a result of higher fuel costs.

Wholesale revenues from sales to non-affiliates will vary depending on the market cost of available energy compared to the cost of the Company and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. Wholesale revenues from sales to non-affiliates decreased $54.5 million, or 15.4%, in 2009 as compared to 2008 as a result of a $54.1 million decrease in energy revenues, of which $27.6 million was associated with lower fuel prices and $26.4 million was associated with a decrease in kilowatt-hour (KWH) sales, and a $0.5 million decrease in capacity revenues. Wholesale revenues from sales to non-affiliates increased $30.7 million, or 9.5%, in 2008 as compared to 2007 as a result of a $30.4 million increase in energy revenues, of which $40.4 million was associated with higher fuel prices and a $0.3 million increase in capacity revenues, partially offset by a $10.0 million decrease in KWH sales. Wholesale revenues from sales to non-affiliates increased $54.3 million, or 20.2%, in 2007 as compared to 2006 as a result of a $51.5 million increase in energy revenues, of which $32.0 million was associated with increased KWH sales and $19.5 million was associated with higher fuel prices, and a $2.8 million increase in capacity revenues.

Included in wholesale revenues from sales to non-affiliates are revenues from rural electric cooperative associations and municipalities located in southeastern Mississippi. The related revenues increased 1.5%, 8.3%, and 12.6%, in 2009, 2008, and 2007, respectively. The 2009 increase was driven by higher demand which was the result of some brief periods of weather extremes and a base rate increase effective in January 2009. The customer demand experienced by these utilities is determined by factors very similar to those experienced by the Company.

Short-term opportunity energy sales are also included in sales for resale to non-affiliates. These opportunity sales are made at market-based rates (MBRs) that generally provide a margin above the Company's variable cost to produce the energy.

Wholesale revenues from sales to affiliated companies within the Southern Company system will vary from year to year depending on demand, availability and cost of generating resources at each company. These affiliated sales and purchases are made in accordance with the Intercompany Interchange Contract (IIC), as approved by the Federal Energy Regulatory Commission (FERC). Wholesale revenues from sales to affiliated companies decreased 55.9% in 2009 when compared to 2008, increased 118.6% in 2008 when compared to 2007, and decreased 39.5% in 2007 when compared to 2006. These energy sales do not have a significant impact on earnings since the energy is generally sold at marginal cost.

Other operating revenues in 2009 decreased $1.7 million, or 10.6%, from 2008 primarily due to a $1.0 million decrease in transmission revenues. Other operating revenues in 2008 decreased $0.9 million, or 5.0%, from 2007 primarily due to a sale of oil inventory and a customer contract buyout in 2007 totaling $0.9 million. Other operating revenues in 2007 increased $0.5 million, or 2.9%, from 2006 primarily due to a $1.0 million increase in miscellaneous revenues from a sale of oil inventory during the year, partially offset by a $0.6 million decrease in rent from electric property.

Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2009 and percent change by year were as follows:

	KWHs	Percent Change		
	2009	2009	2008	2007
	(in millions)			
Residential	**2,092**	**(1.4)%**	(0.6)%	0.8%
Commercial	**2,851**	**(0.2)**	(0.7)	7.5
Industrial	**4,330**	**3.4**	(3.0)	4.2
Other	**39**	**0.0**	0.3	4.9
Total retail	**9,312**	**1.2**	(1.7)	4.4
Wholesale				
Non-affiliated	**4,652**	**(7.3)**	(3.3)	12.1
Affiliated	**839**	**(43.6)**	44.9	(38.9)
Total wholesale	**5,491**	**(15.6)**	4.7	(1.5)
Total energy sales	**14,803**	**(5.8)**	0.8	2.0

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers. Residential energy sales decreased 1.4% in 2009 compared to 2008 due to the recessionary economy and a declining number of customers. Residential energy sales decreased 0.6% in 2008 compared to 2007 due to decreased customer usage mainly due to the recessionary economy and unfavorable summer weather. Residential energy sales increased 0.8% in 2007 compared to 2006, primarily due to more favorable weather conditions, which offset slow customer growth.

Commercial energy sales decreased 0.2% in 2009 compared to 2008 due to the recessionary economy and a net decline in commercial customers. Commercial energy sales decreased 0.7% in 2008 compared to 2007 due to unfavorable weather and slower than expected customer growth due to the economy. Commercial energy sales increased 7.5% in 2007 compared to 2006 due to customer growth mainly in the casino and hotel industries.

Industrial energy sales increased 3.4% in 2009 compared to 2008 due to increased production of some of the Company's industrial customers and the impacts of Hurricane Gustav, which negatively impacted industrial energy sales in 2008. Industrial energy sales decreased 3.0% in 2008 compared to 2007 due to lower customer use from the recessionary economy. Industrial energy sales increased 4.2% in 2007 compared to 2006 due to continued recovery after Hurricane Katrina.

Wholesale energy sales to non-affiliates decreased 7.3% and 3.3% and increased 12.1% in 2009, 2008, and 2007, respectively. Included in wholesale sales from sales to non-affiliates are sales from rural electric cooperative associations and municipalities located in southeastern Mississippi. Compared to the prior year, KWH sales to these customers remained at the same levels in 2009 despite the recessionary economy and unfavorable weather, decreased 0.9% in 2008 due to slowing growth and unfavorable weather, and increased 4.3% in 2007 due to growth in the service territory. KWH sales to non-territorial customers located outside the Company's service territory decreased 29.0% in 2009 as compared to 2008 primarily due to fewer short-term opportunity sales related to lower gas prices. KWH sales to non-territorial customers located outside the Company's service territory decreased 9.6% in 2008 as compared to 2007 primarily due to lower off-system sales. KWH sales to non-territorial customers increased 41.0% in 2007 as compared to 2006 primarily due to more off-system sales. Wholesale sales to non-affiliates will vary depending on the market cost of available energy compared to the cost of the Company and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation.

Wholesale energy sales to affiliates decreased 43.6% in 2009 as compared to 2008 primarily due to a decrease in the Company's generation and an increase in territorial sales, resulting in less capacity available to sell to affiliate companies. Wholesale energy sales to affiliates increased 44.9% in 2008 as compared to 2007 primarily due to the availability of the Company's lower cost generation resources for sale to affiliated companies. Wholesale energy sales to affiliates decreased 38.9% in 2007 when compared to 2006 primarily due to a decrease in the Company's generation and an increase in territorial sales, resulting in less capacity available to sell to affiliate companies.

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 generating units. Additionally, the Company purchases a portion of its electricity needs from the wholesale market. Details of the Company's electricity generated and purchased were as follows:

	2009	2008	2007
Total generation *(millions of KWHs)*	**12,970**	14,324	14,119
Total purchased power *(millions of KWHs)*	**2,539**	2,091	2,084
Sources of generation *(percent)* –			
Coal	**48**	67	69
Gas	**52**	33	31
Cost of fuel, generated *(cents per net KWH)* –			
Coal	**4.29**	3.52	2.92
Gas	**4.43**	6.83	6.25
Average cost of fuel, generated *(cents per net KWH)*	**4.36**	4.43	3.78
Average cost of purchased power *(cents per net KWH)*	**3.62**	6.05	4.60

Fuel and purchased power expenses were $611.6 million in 2009, a decrease of $101.4 million, or 14.2%, below the prior year costs. This decrease was primarily due to a $69.9 million decrease in the cost of fuel and purchased power and a $31.5 million decrease related to total KWHs generated and purchased. Fuel and purchased power expenses were $713.1 million in 2008, an increase of $122.9 million, or 20.8%, above the prior year costs. This increase was primarily due to a $116.5 million increase in the cost of fuel and purchased power and a $6.4 million increase related to total KWHs generated and purchased. Fuel and purchased power expenses were $590.1 million in 2007, an increase of $78.3 million, or 15.3%, above the prior year costs. This increase was primarily due to a $63.8 million increase in the cost of fuel and purchased power and a $14.5 million increase related to total KWHs generated and purchased.

Fuel expense decreased $66.8 million in 2009 as compared to 2008. Approximately $8.1 million of the reduction in fuel expenses resulted primarily from lower gas prices and a $58.7 million decrease in generation from Company-owned facilities. Fuel expense increased $92.2 million in 2008 as compared to 2007. Approximately $86.1 million in additional fuel expenses resulted from higher coal, gas, and transportation prices and a $6.1 million increase in generation from Company-owned facilities. Fuel expense increased $55.6 million in 2007 as compared to 2006. Approximately $56.8 million in additional fuel expenses resulted from higher coal, gas, transportation prices, and emissions allowances, which were partially offset by a $1.2 million decrease in generation from Company-owned facilities.

Purchased power expense decreased $34.6 million, or 27.4%, in 2009 when compared to 2008. The decrease was primarily due to a $61.8 million decrease in the cost of purchased power, partially offset by a $27.2 million increase in the amount of energy purchased which was due to lower cost opportunity purchases. Purchased power expense increased $30.7 million, or 32.0%, in 2008 when compared to 2007. The increase was primarily due to a $30.4 million increase in the cost of purchased power. Purchased power expense increased $22.6 million, or 30.9%, in 2007 when compared to 2006. The increase was primarily due to a $7.0 million increase in the cost of purchased power and a $15.6 million increase in the amount of energy purchased which was partially due to a decrease in generation resulting from plant outages. 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.

Coal prices continued to be influenced by worldwide demand from developing countries, as well as increased mining and fuel transportation costs. While coal prices reached unprecedented high levels in 2008, the recessionary economy pushed prices downward in 2009. However, the lower prices did not fully offset the higher priced coal already in inventory and under long-term contract. Demand for natural gas in the United States also was affected by the recessionary economy leading to significantly lower natural gas prices.

Fuel expenses generally do not affect net income, since they are offset by fuel revenues under the Company's fuel cost recovery clause. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" and Note 1 to the financial statements under "Fuel Costs" for additional information.

Other Operations and Maintenance Expenses

Total other operations and maintenance expenses decreased $13.3 million in 2009 as compared to 2008 primarily due to a decrease of $12.2 million in transmission, distribution, customer service, and administrative and general expenses driven by overall reductions in spending in an effort to offset the effects of the recessionary economy. Also contributing to the decrease was an $8.3 million reduction in generation outage expenses in 2009. These decreases were partially offset by a $3.9 million increase in expenses for the combined cycle long-term service agreement due to a 36% increase in operating hours as a result of lower gas prices. Also offsetting the decrease was $3.4 million resulting from the 2008 reclassification of generation construction screening expenses to a regulatory asset upon the FERC's acceptance of the wholesale filing in October 2008.

Total other operations and maintenance expenses increased $4.8 million in 2008 as compared to 2007 primarily due to a $6.9 million increase in transmission and distribution expenses, an increase in administrative expenses primarily resulting from the reclassification of System Restoration Rider (SRR) revenues of $3.8 million to expense pursuant to an order from the Mississippi PSC dated January 9, 2009, a $1.9 million increase in generation-related environmental expenses, and a $1.1 million increase in generation operations and outage-related expenses. These increases were partially offset by a $9.3 million reclassification of generation construction screening expenses to a regulatory asset upon the FERC's acceptance of the wholesale filing in October 2008.

Total other operations and maintenance expenses increased $18.6 million from 2006 to 2007. Other operations expense increased $15.1 million, or 8.8%, in 2007 compared to 2006 primarily as a result of a $4.1 million increase in generation construction screening, a $3.3 million insurance recovery for storm restoration expense recognized in 2006, a $2.1 million increase in employee benefits primarily due to an increase in medical expense, a $2.0 million increase in outside and other contract services, and a $2.0 million increase in scheduled production projects. Maintenance expense increased $3.5 million, or 5.2%, in 2007 when compared to 2006, primarily as a result of a $5.5 million increase in generation maintenance expense primarily due to outage work in 2007, partially offset by a $2.0 million decrease in transmission and distribution maintenance expenses due primarily to the deferral of these expenses pursuant to the regulatory accounting order from the Mississippi PSC.

See FUTURE EARNINGS POTENTIAL – "FERC Matters," "PSC Matters – System Restoration Rider," and "PSC Matters – Storm Damage Cost Recovery" herein for additional information.

Depreciation and Amortization

Depreciation and amortization expenses decreased $0.1 million in 2009 compared to 2008 primarily due to a $3.1 million decrease in amortization of environmental costs related to the approved ECO Plan, partially offset by a $2.8 million increase in depreciation expense resulting from an increase in plant in service. Depreciation and amortization expenses increased $10.7 million in 2008 compared to 2007 primarily due to a $5.7 million increase in amortization related to a regulatory liability recorded in 2003 that ended in December 2007 in connection with the Mississippi PSC's accounting order on Plant Daniel capacity, a $2.9 million increase in depreciation expense primarily due to an increase in plant in service, and a $2.4 million increase for amortization of certain reliability-related maintenance costs deferred in 2007 in accordance with a Mississippi PSC order. Depreciation and amortization expenses increased $13.5 million in 2007 compared to 2006 due to a regulatory liability recorded in 2003 in connection with the Mississippi PSC's accounting order on Plant Daniel capacity and an increase in amortization of environmental costs related to the approved ECO Plan. See Note 3 under "Retail Regulatory Matters – Performance Evaluation Plan" and "Environmental Compliance Overview Plan" for additional information.

Taxes Other Than Income Taxes

Taxes other than income taxes decreased $1.0 million in 2009 compared to 2008 primarily as a result of a $0.8 million decrease in payroll taxes and a $0.2 million decrease in franchise taxes. Taxes other than income taxes increased $4.8 million in 2008 compared to 2007 primarily as a result of a $2.7 million increase in ad valorem taxes and a $1.3 million increase in municipal franchise taxes. Taxes other than income taxes decreased $0.6 million in 2007 compared to 2006 primarily as a result of a $2.0 million decrease in ad valorem taxes, partially offset by a $1.5 million increase in municipal franchise taxes.

Interest Expense, Net of Amounts Capitalized

Interest expense, net of amounts capitalized increased $5.0 million in 2009 compared to 2008 primarily due to a $5.2 million increase in interest expense associated with the issuance of new long-term debt in November 2008 and March 2009, partially offset by the maturity of long-term debt and lower interest rates in 2009. Interest expense, net of amounts capitalized decreased $0.2 million in 2008 compared to 2007 primarily due to a $2.7 million decrease in borrowing and lower interest rates on short-term indebtedness and a $0.7 million decrease related to the redemption of outstanding trust preferred securities in 2007, partially offset by a $3.0 million increase in interest expense associated with the issuance of new long-term debt in November 2008 and November 2007. Interest expense, net of amounts capitalized decreased $0.5 million in 2007 compared to 2006 due to a $1.3 million decrease in long-term debt primarily related to the redemption of outstanding trust preferred securities, partially offset by the issuance of new long-term debt in November 2007 and a $0.7 million increase in short-term debt borrowing net of amounts related to Hurricane Katrina.

Other Income (Expense), Net

Other income (expense), net decreased $1.7 million in 2009 compared to 2008 primarily due to a $3.0 million decrease in customer projects and amounts collected from customers for construction of substation projects which had a tax effect of $2.6 million, partially offset by higher charitable contributions of $3.9 million in 2008. Other income (expense), net decreased $1.3 million in 2008 compared to 2007 primarily due to higher charitable contributions of $3.1 million, partially offset by a $0.4 million increase in revenues from contracting work performed for customers, a $0.6 million decrease in other deductions, and a $0.6 million increase in allowance for equity funds used during construction. Other income (expense), net increased $12.7 million in 2007 compared to 2006 primarily due to higher charitable contributions of $6.9 million in 2006 as compared to 2007, a gain on a contract termination approved by the FERC in 2007 of $3.7 million, and an increase in customer projects of $2.5 million.

Income Taxes

Income taxes increased $1.9 million, or 3.9%, in 2009 primarily due to increased pre-tax income, the 2008 amortization of a regulatory liability pursuant to a December 2007 regulatory accounting order from the Mississippi PSC which occurred in 2008, and actualization of permanent differences from previous year tax returns, partially offset by an increase in the federal production activities deduction and an increase in a State of Mississippi manufacturing investment tax credit. Income taxes decreased $3.4 million, or 6.7%, in 2008 primarily due to decreased pre-tax income, the amortization of a regulatory liability pursuant to a December 2007 regulatory accounting order from the Mississippi PSC, and a State of Mississippi manufacturing investment tax credit, partially offset by a decrease in the federal production activities deduction. See Note 3 to the financial statements under "Retail Regulatory Matters" for additional information. Income taxes increased $3.7 million, or 7.8%, in 2007 primarily due to increased pre-tax income and lower federal and state tax credits. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Effects of Inflation

The Company is subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Any adverse effect of inflation on the Company's results of operations has not been substantial.

FUTURE EARNINGS POTENTIAL

General

The Company operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in southeast Mississippi and to wholesale customers in the southeast United States. 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 may be adjusted periodically within certain limitations. Prices for wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the FERC. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements under "FERC Matters" and "Retail Regulatory Matters" for additional information about 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 constructive regulatory environment that continues to allow for the recovery of prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon maintaining energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the Company's service area. Recessionary conditions have negatively impacted sales. The timing and extent of the economic recovery will impact future earnings.

Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may exceed amounts estimated. Some of the factors driving the potential for such an increase are higher commodity costs, market demand for labor, and scope additions and clarifications. The timing, specific requirements, and estimated costs could also change as environmental statutes and regulations are adopted or modified. See Note 3 to the financial statements under "Environmental Matters" for additional information.

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 certain coal-fired generating facilities. These actions were filed concurrently with the issuance of notices of violations to the Company with respect to the Company's Plant Watson. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including one facility co-owned by the Company. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. In early 2000, the EPA filed a motion to amend its complaint to add the Company as a defendant based on the allegations in the notices of violation. However, in March 2001, the court denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. An adverse outcome in either of these cases could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

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. Applicable statutes 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; the Endangered Species Act; and related federal and state regulations. 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. Through 2009, the Company had invested approximately $224 million in capital projects to comply with these requirements, with annual totals of $22 million, $41 million, and $17 million for 2009, 2008, and 2007, respectively. The Company expects that capital expenditures to assure compliance with existing and new statutes and regulations will be an additional $11 million, $59 million, and $128 million for 2010, 2011, and 2012, respectively. The Company's compliance strategy can be affected by changes to existing environmental laws, statutes, and regulations; the cost, availability, and existing inventory of emissions allowances; and the Company's fuel mix. 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.

Compliance with any new federal or state legislation or regulations related to global climate change, air quality, coal combustion byproducts, including coal ash, or other environmental and health concerns could also significantly affect the Company. Although new or revised environmental legislation or regulations could affect many areas of the Company's operations, the full impact of any such changes cannot be determined at this time.

Air Quality

Compliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Company. Through 2009, the Company had spent approximately $107 million in reducing sulfur dioxide (SO_2) and nitrogen oxide (NO_x) emissions and in monitoring emissions pursuant to the Clean Air Act. Additional controls are currently being installed at several plants to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

The EPA regulates ground level ozone through implementation of an eight-hour ozone air quality standard. No area within the Company's service area is currently designated as nonattainment under the eight-hour ozone standard. In March 2008, however, the EPA issued a final rule establishing a more stringent eight-hour ozone standard, and on January 6, 2010, the EPA proposed further reductions in the standard. The EPA is expected to finalize the revised standard in August 2010 and require state implementation plans for any nonattainment areas by December 2013. The revised eight-hour ozone standard is expected to result in designation of new nonattainment areas within the Company's service territory.

On December 8, 2009, the EPA also proposed revisions to the National Ambient Air Quality Standard for SO_2. The EPA is expected to finalize the revised SO_2 standard in June 2010.

Twenty-eight eastern states, including the States of Mississippi and Alabama, are subject to the requirements of the Clean Air Interstate Rule (CAIR). The rule calls for additional reductions of NO_x and/or SO_2 to be achieved in two phases, 2009/2010 and 2015. In July 2008 and December 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued decisions invalidating certain aspects of CAIR, but left CAIR compliance requirements in place while the EPA develops a revised rule. The States of Mississippi and Alabama have completed plans to implement CAIR, and emissions reductions are being accomplished by the installation of emissions controls at the Company's coal-fired facilities and/or by the purchase of emissions allowances. The EPA is expected to issue a proposed CAIR replacement rule in July 2010.

The Clean Air Visibility Rule was finalized in July 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977, and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each ten-year period thereafter. For power plants, the Clean Air Visibility Rule allows states to determine that CAIR satisfies BART requirements for SO_2 and NO_x, and no additional controls beyond CAIR are anticipated to be necessary at any of the Company's facilities. States have completed or are currently completing implementation plans for BART compliance and other measures required to achieve the first phase of reasonable progress.

The EPA is currently developing a Maximum Achievable Control Technology (MACT) rule for coal and oil-fired electric generating units, which will likely address numerous Hazardous Air Pollutants, including mercury. In March 2005, the EPA issued the Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR. In a separate proceeding in the U.S. District Court for the District of Columbia, the EPA entered into a proposed consent decree that requires the EPA to issue a proposed MACT rule by March 16, 2011 and a final rule by November 16, 2011.

The impacts of the eight-hour ozone standards and future revisions to CAIR, the SO_2 standard, the Clean Air Visibility Rule, and the MACT rule for electric generating units on the Company cannot be determined at this time and will depend on the specific provisions of the final rules, resolution of any legal challenges, and the development and implementation of rules at the state level. However, these additional regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

The Company has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the continuing and new environmental requirements discussed above. As part of this strategy, the Company plans to install additional SO_2 and NO_x emissions controls within the next several years to ensure continued compliance with applicable air quality requirements.

Water Quality

In July 2004, the EPA published final regulations under the Clean Water Act to reduce impingement and entrainment of fish, shellfish, and other forms of aquatic life at existing power plant cooling water intake structures. The use of cost-benefit analysis in the rule was ultimately appealed to the U.S. Supreme Court. On April 1, 2009, the U.S. Supreme Court held that the EPA could consider costs in arriving at its standards and in providing variances from those standards for existing intake structures. The EPA is now in the process of revising the regulations. While the U.S. Supreme Court's decision may ultimately result in greater flexibility for demonstrating compliance with the standards, the full scope of the regulations will depend on further rulemaking by the EPA and the actual requirements established by state regulatory agencies and, therefore, cannot be determined at this time.

On December 28, 2009, the EPA announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and proposed a plan to adopt such revisions by 2013. New wastewater treatment requirements are expected and may result in the installation of additional controls on certain Company facilities. The impact of revised guidelines will depend on the studies conducted in connection with the rulemaking, as well as the specific requirements of the final rule, and, therefore, cannot be determined at this time.

Environmental Remediation

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 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 Company could 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.

Coal Combustion Byproducts

The EPA is currently evaluating whether additional regulation of coal combustion byproducts is merited under federal solid and hazardous waste laws. The EPA has collected information from the electric utility industry on surface impoundment safety and conducted on-site inspections at three Southern Company system facilities as part of its evaluation. The Company has a routine and robust inspection program in place to ensure the integrity of its coal ash surface impoundments. The EPA is expected to issue a proposal regarding additional regulation of coal combustion byproducts in early 2010. The impact of these additional regulations on the Company will depend on the specific provisions of the final rule and cannot be determined at this time. However, additional regulation of coal combustion byproducts could have a significant impact on the Company's management, beneficial use, and disposal of such byproducts and could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Global Climate Issues

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions, renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on coal and natural gas prices, and cost recovery through regulated rates. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the EPA has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March 2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.

Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. These costs could affect future unit retirement and replacement decisions, and could result in the retirement of a significant number of coal-fired generating units. See Item 1 – BUSINESS – "Rate Matters – Integrated Resource Planning" for additional information. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the Company were approximately 12 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 10 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company is actively evaluating and developing electric generating technologies with lower greenhouse gas emissions. These include proposed construction of an advanced integrated coal gasification combined cycle (IGCC) unit with approximately 65% carbon capture in Kemper County, Mississippi.

FERC Matters

In August 2008, the Company filed with the FERC a request for revised wholesale electric tariff and rates. Prior to making this filing, the Company reached a settlement with all of its customers who take service under the tariff. This settlement agreement was filed with the FERC as part of the request. The settlement agreement provided for an increase in annual base wholesale revenues in the amount of $5.8 million, effective January 1, 2009. In addition, the settlement agreement allows the Company to increase its annual accrual for the wholesale portion of property damage to $303,000 per year, to defer any property damage costs prudently incurred in excess of the wholesale property damage reserve balance, and to defer the wholesale portion of the generation screening and evaluation costs associated with the IGCC project to be located in Kemper County Mississippi. The settlement agreement also provided that the Company will not seek a change in wholesale full-requirements rates before November 1, 2010, except for changes associated with the fuel adjustment clause and the energy cost management clause (ECM), changes associated with property damages that exceed the amount in the wholesale property damage reserve, and changes associated with costs and expenses associated with environmental requirements affecting fossil fuel generating facilities. In October 2008, the Company received notice that the FERC had accepted the filing effective November 1, 2008, and the revised monthly charges were applied beginning January 1, 2009. As result of the order, the Company reclassified $9.3 million of previously expensed generation screening and evaluation costs to a regulatory asset. See Note 3 to the financial statements under "Integrated Coal Gasification Combined Cycle" for additional information.

PSC Matters

Statewide Electric Generation Needs Review

In April 2008, in accordance with the Mississippi Public Utility Act, the Mississippi PSC issued an order to develop, publicize, and keep current an analysis of the five-year long-range needs for expansion of facilities for the generation of electricity in the State of Mississippi. In its order, the Mississippi PSC directed all affected utilities to submit evidence in support of their forecasts and plans in accordance with the rules of the Mississippi PSC. On January 16, 2009, the Company filed for a request for a Certificate of Public Convenience to construct generating capacity. On August 4, 2009, the Mississippi PSC ordered a two-part hearing process to evaluate the need for and the resources and cost of the new generating capacity separately. On November 9, 2009, the Mississippi PSC ordered that the need for new generating capacity existed. Hearings related to the appropriate resource to meet that need as well as cost recovery of that resource through application of the Baseload Act (described below) were held in February 2010. A decision on the resources and cost is expected to be made by May 1, 2010. The ultimate outcome of this matter cannot now be determined. See Note 3 to the financial statements under "Integrated Coal Gasification Combined Cycle" for additional information.

Mississippi Baseload Construction Legislation

In the 2008 regular session of the Mississippi legislature, a bill was passed and signed by the Governor in May 2008 to enhance the Mississippi PSC's authority to facilitate development and construction of base load generation in the State of Mississippi (Baseload Act). The Baseload Act authorizes, but does not require, the Mississippi PSC to adopt a cost recovery mechanism that includes in retail base rates, prior to and during construction, all or a portion of the prudently incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. Prior to the passage of the Baseload Act, such costs would traditionally be recovered only after the plant was placed in service. The Baseload Act also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the Baseload Act authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant. The effect of this legislation on the Company cannot now be determined.

Performance Evaluation Plan

In May 2004, the Mississippi PSC approved the Company's request to reclassify 266 megawatts (MWs) 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. In the May 2004 order establishing the Company's forward-looking PEP, the Mississippi PSC ordered that the Mississippi Public Utilities Staff and the Company review the operations of the PEP in 2007. By mutual agreement, this review was deferred until 2008 and continued into 2009. On March 2, 2009, concurrent with this review, the annual PEP evaluation filing for 2009 was suspended. On August 3, 2009, the Mississippi Public Utilities Staff and the Company filed a joint report with the Mississippi PSC proposing

several changes to the PEP. On November 9, 2009, the Mississippi PSC approved the revised PEP, which resulted in a lower performance incentive under the PEP and therefore smaller and/or less frequent rate changes in the future. On November 16, 2009, the Company resumed annual evaluations and filed its annual PEP filing for 2010 under the revised PEP, which resulted in a lower allowed return on investment but no rate change.

In April 2007, the Mississippi PSC issued an order allowing the Company to defer certain reliability related maintenance costs beginning January 1, 2007 and recover them evenly over a four-year period beginning January 1, 2008. These costs related to maintenance that was needed as follow-up to emergency repairs that were made subsequent to Hurricane Katrina. At December 31, 2007, the Company had incurred and deferred the retail portion of $9.5 million of such costs. At December 31, 2009, the Company had a balance of the deferred retail portion of $4.7 million with $2.3 million included in current assets as other regulatory assets and $2.4 million included in long-term other regulatory assets. See Note 3 to the financial statements under "Retail Regulatory Matters – Performance Evaluation Plan" for more information on PEP.

System Restoration Rider

In September 2006, the Company filed with the Mississippi PSC a request to implement a SRR to increase the Company's cap on the property damage reserve and to authorize the calculation of an annual property damage accrual based on a formula. The purpose of the SRR is to provide for recovery of costs associated with property damage (including certain property insurance and the costs of self insurance) and to facilitate the Mississippi PSC's review of these costs. In November 2007, the Company along with the Mississippi Public Utilities Staff agreed and stipulated to a revised SRR calculation method that would no longer require the Mississippi PSC to set a cap on the property damage reserve or to authorize the calculation of an annual property damage accrual. Under the revised SRR calculation method, the Mississippi PSC would periodically agree on SRR revenue levels that would be developed based on historical data, expected exposure, type and amount of insurance coverage excluding insurance costs, and other relevant information.

On January 9, 2009, the Mississippi PSC issued an order accepting the stipulation and the revised SRR calculation method. The applicable SRR rate level will be adjusted every three years, unless a significant change in circumstances occurs such that the Company and the Mississippi Public Utilities Staff or the Mississippi PSC deems that a more frequent change would be appropriate. The Company will submit annual filings setting forth SRR-related revenues, expenses, and investment for the projected filing period, as well as the true-up for the prior period. As a result, the December 2008 retail regulatory liability of $6.8 million was reclassified to the property damage reserve. On February 2, 2009, the Company submitted its 2009 SRR rate filing with the Mississippi PSC, which proposed that the 2009 SRR rate level remain at zero and the Company be allowed to accrue approximately $4.0 million to the property damage reserve in 2009. On September 10, 2009, the Mississippi PSC issued an order requiring Mississippi Power to develop SRR factors designed to reduce SRR revenue by approximately $1.5 million from November 2009 to March 2010 under the new rate. On January 29, 2010, the Company submitted its 2010 SRR rate filing with the Mississippi PSC, which proposed that the Company be allowed to accrue approximately $3.0 million to the property damage reserve in 2010. The final outcome of this matter cannot now be determined.

Environmental Compliance Overview Plan

On February 12, 2010, the Company submitted its 2010 ECO Plan notice which proposes an increase in annual revenues for the Company of approximately $3.9 million. In its 2010 ECO filing, the Company is proposing to change the true-up provision of the ECO rate schedule to consider actual revenues collected in addition to actual costs. The final outcome of this matter cannot now be determined. On February 3, 2009, the Company submitted its 2009 ECO Plan notice which proposed an increase in annual revenues for the Company of approximately $1.5 million. On June 19, 2009, the Mississippi PSC approved the ECO Plan with the new rates effective in June 2009.

Fuel Cost Recovery

The Company establishes, annually, a retail fuel cost recovery factor that is approved by the Mississippi PSC. The Company is required to file for an adjustment to the retail fuel cost recovery factor annually; such filing occurred in November 2009. The Mississippi PSC approved the retail fuel cost recovery factor on December 15, 2009, with the new rates effective in January 2010. The retail fuel cost recovery factor will result in an annual decrease in an amount equal to 11.3% of total 2009 retail revenue. At December 31, 2009, the amount of over recovered retail fuel costs included in the balance sheets was $29.4 million compared to $36.0 million under recovered at December 31, 2008. The Company also has a wholesale Municipal and Rural Associations (MRA) and a Market Based (MB) fuel cost recovery factor. Effective January 1, 2010, the wholesale MRA fuel rate decreased, resulting in an

annual decrease in an amount equal to 20.9% of total 2009 MRA revenue. Effective February 1, 2010, the wholesale MB fuel rate decreased, resulting in an annual decrease in an amount equal to 16.9% of total 2009 MB revenue. At December 31, 2009, the amount of over recovered wholesale MRA and MB fuel costs included in the balance sheets was $16.8 million and $2.4 million compared to $15.4 million and $3.7 million, respectively, under recovered at December 31, 2008. The Company's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, this decrease to the billing factor will have no significant effect on the Company's revenues or net income, but will decrease annual cash flow.

In October 2008, the Mississippi PSC opened a docket to investigate and review interest and carrying charges under the fuel adjustment clause for utilities within the State of Mississippi including the Company. On March 4, 2009, the Mississippi PSC issued an order to apply the prime rate in calculating the carrying costs on the retail over or under recovery balances related to fuel cost recovery. On May 20, 2009, the Company filed the carrying cost calculation methodology as part of its compliance filing.

In August 2009, the Mississippi PSC engaged an independent professional audit firm to conduct an audit of the Company's fuel-related expenditures included in the fuel adjustment clause and the ECM clause of 2008 and 2009. The audit was completed in December 2009. There were no audit findings identified in the audit.

Storm Damage Cost Recovery

In August 2005, Hurricane Katrina hit the Gulf Coast of the United States and caused significant damage within the Company's service area. The estimated total storm restoration costs relating to Hurricane Katrina through December 31, 2007 were $302.4 million, which was net of expected insurance proceeds of approximately $77 million, without offset for the property damage reserve of $3.0 million. Such costs were affirmed by the Mississippi PSC in June 2006, and the Company was ordered to establish a regulatory asset for the retail portion. The Mississippi PSC issued an order directing the Company to file an application with the Mississippi Development Authority (MDA) for a Community Development Block Grant (CDBG). In October 2006, the Company received from the MDA a CDBG in the amount of $276.4 million, which was allocated to both the retail and wholesale jurisdictions. In the same month, the Mississippi PSC issued a financing order that authorized the issuance of system restoration bonds for the remaining $25.2 million of the retail portion of storm recovery costs not covered by the CDBG. These funds were received in June 2007. The Company affirmed the $302.4 million total storm costs incurred as of December 31, 2007. On March 2, 2009, the Company filed with the Mississippi PSC its final accounting of the restoration cost relating to Hurricane Katrina and the storm operations center. The final net retail receivable of approximately $3.2 million is expected to be recovered in 2010.

Legislation

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives, which could have a significant impact on the future cash flow and net income of the Company. The Company's cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA was approximately $14 million. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of the Company.

On October 27, 2009, Southern Company and its subsidiaries received notice that an award of $165 million had been granted, of which $25 million related to the Company, under the ARRA grant application for transmission and distribution automation and modernization projects pending final negotiations. The Company continues to assess the other financial implications of the ARRA.

The U.S. House of Representatives and the U.S. Senate have passed separate bills related to healthcare reform. Both bills include a provision that would make Medicare Part D subsidy reimbursements taxable. If enacted into law, this provision could have a significant negative impact on the Company's net income. See Note 2 to the financial statements under "Other Postretirement Benefits" for additional information.

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

Income Tax Matters

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code of 1986, as amended. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years

2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Integrated Coal Gasification Combined Cycle

On January 16, 2009, the Company filed for a Certificate of Public Convenience and Necessity with the Mississippi PSC to allow construction of a new electric generating plant located in Kemper County, Mississippi. The plant would utilize an IGCC technology with an output capacity of 582 MWs. The Kemper IGCC will use locally mined lignite (an abundant, lower heating value coal) from a proposed mine adjacent to the plant as fuel. This certificate, if approved by the Mississippi PSC, would authorize the Company to acquire, construct, and operate the Kemper IGCC and related facilities. The Kemper IGCC, subject to federal and state reviews and certain regulatory approvals, is expected to begin commercial operation in May 2014. As part of its filing, the Company has requested certain rate recovery treatment in accordance with the Baseload Act.

The Company filed an application in June 2006 with the U.S. Department of Energy (DOE) for certain tax credits available to projects using clean coal technologies under the Energy Policy Act of 2005. The DOE subsequently certified the Kemper IGCC, and in November 2006 the IRS allocated Internal Revenue Code Section 48A tax credits of $133 million to the Company. On May 11, 2009, the Company received notification from the IRS formally certifying these tax credits. The utilization of these credits is dependent upon meeting the certification requirements for the Kemper IGCC, including an in-service date no later than May 2014. The Company has secured all environmental reviews and permits necessary to commence construction of the Kemper IGCC and has entered into a binding contract for the steam turbine generator, completing two milestone requirements for the Section 48A credits.

In February 2008, the Company also requested that the DOE transfer the remaining funds previously granted to a cancelled Southern Company project that would have been located in Orlando, Florida. In December 2008, an agreement was reached to assign the remaining funds to the Kemper IGCC. The estimated construction cost of the Kemper IGCC is approximately $2.4 billion, which is net of $245 million related to funding to be received from the DOE related to project construction. The remaining DOE funding of $25 million is projected to be used for demonstration over the first few years of operation.

On April 6, 2009, the Governor of the State of Mississippi signed into law a bill that will provide an ad valorem tax exemption for a portion of the assessed value of all property utilized in certain electric generating facilities with integrated gasification process facilities. This tax exemption, which may not exceed 50% of the total value of the project, is for projects with a capital investment from private sources of $1 billion or more. The Company expects the Kemper IGCC, including the gasification portion, to be a qualifying project under the law.

Beginning in December 2006, the Mississippi PSC has approved the Company's requested accounting treatment to defer the costs associated with the Company's generation resource planning, evaluation, and screening activities as a regulatory asset. In December 2008, the Company requested an amendment to its original order that would allow these costs to continue to be charged to and remain in a regulatory asset until January 1, 2010. On April 6, 2009, the Company received an accounting order from the Mississippi PSC directing the Company to continue to charge all generation resource planning, evaluation, and screening costs to regulatory assets including those costs associated with activities to obtain a certificate of public convenience and necessity and costs necessary and prudent to preserve the availability, economic viability, and/or required schedule of the Kemper IGCC generation resource planning, evaluation, and screening activities until the Mississippi PSC makes findings and determination as to the recovery of the Company's prudent expenditures. The Mississippi PSC's determination of prudence for the Company's pre-construction costs is scheduled to occur by May 2010. As of December 31, 2009, the Company had spent a total of $73.5 million associated with the Company's generation resource planning, evaluation, and screening activities, including regulatory filing costs. Costs incurred for the year ended December 31, 2009 totaled $31.2 million as compared to $24.2 million for the year ended December 31, 2008. Of the total $73.5 million, $68.5 million was deferred in other regulatory assets, $4.0 million was related to land purchases capitalized, and $1.0 million was expensed.

On June 5, 2009, the Mississippi PSC issued an order initiating an evaluation of the Kemper IGCC and establishing a two-phase procedural schedule. On August 4, 2009, the Mississippi PSC ordered a two-part hearing process to evaluate the need for and the resources and cost of the new generating capacity separately. On November 9, 2009, the Mississippi PSC issued an order that found the Company has a demonstrated need for additional capacity of approximately 304 MWs to 1,276 MWs based on an analysis of expected load forecasts, costs, and anticipated retirements. Hearings related to the appropriate resource to meet that need as well as cost recovery of that resource through application of the Baseload Act were held in February 2010. A decision on the resources and cost recovery is expected to be made by May 1, 2010.

On September 15, 2009, South Mississippi Electric Power Association (SMEPA) signed a non-binding letter of intent to explore the acquisition of an interest in the Kemper IGCC. The Company and SMEPA are evaluating a combination of a joint ownership arrangement and a power purchase agreement which would provide SMEPA with up to 20% of the capacity and associated energy output from the Kemper IGCC.

The final outcome of this matter cannot now be determined.

Other Matters

In February 2008, the Company received notice of termination from SMEPA of an approximately 100 MW territorial wholesale market-based contract effective March 31, 2011 which will result in a decrease in annual revenues of approximately $12 million. In December 2008, the Company entered into a 10-year power supply agreement with SMEPA for approximately 152 MWs. This contract is effective April 1, 2011, upon approval from the U.S. Department of Agriculture's Rural Utilities Service. This contract is expected to increase the Company's annual territorial wholesale base revenues by approximately $16.1 million. On June 3, 2009, Mississippi Power's 10-year power supply agreement with SMEPA for approximately 152 MWs effective April 1, 2011 was approved by the U.S. Department of Agriculture's Rural Utilities Service.

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

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed 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 accounting standards which require 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 the accounting standards 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 and accounting principles generally accepted in the United States. 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, in accordance with generally accepted accounting principles (GAAP), records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. 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, coal combustion byproducts, including coal ash, control of toxic substances, hazardous and solid wastes, and other environmental matters.
- Changes in existing income tax regulations or changes in IRS or state revenue department 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 new or other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of new or existing matters through the legislative process, the court systems, the IRS, state revenue departments, the FERC, or the EPA.

Unbilled Revenues

Revenues related to the retail 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, 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.

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-MW 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; and
- 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, the Company is also 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 $26 million.

Pension and Other Postretirement Benefits

The Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, health care cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining the Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on the Company's investment strategy, historical experience, and expectations for long-term rates of return that considers external actuarial advice. The Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to the Company's target asset allocation. The Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

A 25 basis point change in any significant assumption would result in a $0.7 million or less change in the total benefit expense and a $13 million or less change in projected obligations.

New Accounting Standards

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board issued new guidance of the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. The Company adopted this new guidance effective January 1, 2010, with no material impact on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition remained stable at December 31, 2009. Throughout the turmoil in the financial markets, the Company has maintained adequate access to capital without drawing on any of its committed bank credit arrangements used to support its commercial paper programs and variable rate pollution control revenue bonds. The Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. Market rates for committed credit have increased, and the Company has been and expects to continue to be subject to higher costs as its existing facilities are replaced or renewed. Total committed credit fees for the Company average less than ¼ of 1% per year. The ultimate impact on future financing costs as a result of financial turmoil cannot be determined at this time. See "Sources of Capital" and "Financing Activities" herein for additional information.

The Company's investments in pension trust funds remained stable as of December 31, 2009. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012 and such contribution could be significant; however, projections of the amount vary significantly depending on interpretations of and decisions related to federal legislation passed during 2008 as well as other key variables including future trust fund performance and cannot be determined at this time.

Net cash provided from operating activities in 2009 increased from 2008 by $76.2 million. The increase in net cash provided from operating activities was primarily due to an increase in cash related to higher fuel rates effective in March 2009 and a decrease in deferred income taxes. Net cash provided from operating activities in 2008 decreased from 2007 by $112.2 million. The decrease in net cash provided from operating activities was primarily due to the receipt of grant proceeds of $74.3 million in June 2007 and a decrease in operating activities related to receivables in 2008 in the amount of $49.5 million. The decrease in receivables is primarily due to the change in under recovered regulatory clause revenues of $24.7 million and a $24.1 million change in affiliate receivables. Also impacting operating activities were decreases related to fossil fuel stock of $33.3 million primarily due to increases in coal and coal in-transit of $22.0 million and $15.6 million, respectively. These were offset by an increase in deferred income taxes and investment tax credits of $61.4 million. Net cash provided from operating activities increased in 2007 compared to 2006 by $11.7 million primarily due to the Company's receipt of $74.3 million in bond proceeds during 2007 related to Hurricane Katrina recovery, of which $60 million was used to fund the property damage reserve and $14.3 million was used to recover retail operations and maintenance storm restoration cost.

Net cash used for investing activities totaled $119.4 million for 2009 compared to $155.8 million for 2008. The $36.4 million decrease was primarily due to a decrease in property additions. The $55.3 million increase in net cash used for investing activities in 2008 was primarily due to a $12.1 million increase in construction payables and a $27.6 million increase due to the capital portion of Hurricane Katrina grant proceeds received in 2007. The change in net cash used for investing activities in 2007 compared to 2006 of $107.0 million was primarily due to a $117.8 million reduction in the sources of funds related to Hurricane Katrina capital-related grant proceeds received in 2006 and bond proceeds.

Net cash used for financing activities totaled $8.6 million in 2009 compared to $78.9 million that was provided from financing activities in 2008. The $87.5 million decrease was primarily due to a $42.6 million decrease in notes payable and a $40 million decrease in long-term debt as a result of a March 2009 senior note redemption, when compared to the corresponding period in 2008. Net cash provided from financing activities totaled $78.9 million in 2008 compared to $105.5 million that was used in financing activities for the corresponding period in 2007. The $184.5 million increase in net cash provided from financing activities was primarily due to the $80 million long-term bank loan issued to the Company in March 2008, the $50 million senior notes issued in November 2008, and the $36 million redemption of the long-term debt to an affiliated trust in the first nine months of 2007. Notes payable increased by $57.8 million primarily due to additional borrowings from commercial paper. Net cash used for financing activities totaled $105.5 million in 2007 compared to $211.5 million in 2006. This decrease in net cash used for financing activities is primarily due to a decrease in the use of funds related to notes payable of $109.3 million.

Significant changes in the balance sheet as of December 31, 2009 compared to 2008 include an increase in cash of $42.6 million. Under recovered regulatory clause revenues decreased by $55.0 million primarily due to lower fuel costs and the implementation of higher fuel rates in 2009. Fossil fuel inventory increased $41.7 million primarily due to increases in coal inventory and emissions allowances of $30.1 million and $11.6 million, respectively. Prepaid income taxes increased by $31.2 million and total property, plant, and equipment increased by $32.4 million. Other regulatory assets, deferred increased by $37.4 million primarily due to the increase in spending related to the Kemper IGCC. Securities due within one year decreased $39.9 million primarily due to senior notes maturing during the first quarter 2009. Notes payable decreased by $26.3 million primarily due to a decrease in commercial paper borrowings. Over recovered regulatory clause liabilities increased by $48.6 million primarily due to lower fuel costs and the implementation of higher fuel rates in 2009. Long-term debt increased by $123.0 million primarily due to the issuance of senior notes in the first quarter 2009. Employee benefit obligations increased $19.6 million primarily due to the decline in the market value of pension assets. See Note 2 to the financial statements under "Pension Plans" for additional information.

The Company's ratio of common equity to total capitalization, excluding long-term debt due within one year, decreased from 61.2% in 2008 to 55.6% at December 31, 2009. The Company has received investment grade credit ratings from the major rating agencies with respect to debt and preferred stock. See SELECTED FINANCIAL AND OPERATING DATA for additional information regarding the Company's security ratings. See "Credit Rating Risk" herein for additional information.

Sources of Capital

The Company plans to obtain the funds required for construction and other purposes from sources such as operating cash flows, security issuances, term loans, short-term borrowings, and capital contributions from Southern Company. See "Capital Requirements and Contractual Obligations" herein and Note 3 to the financial statements under "Integrated Coal Gasification Combined Cycle" for additional information. The amount, type, and timing of any financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors.

The issuance of securities by the Company is subject to regulatory approval by the FERC. Additionally, with respect to the public offering of securities, the Company files 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 FERC, 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.

To meet short-term cash needs and contingencies, the Company has various sources of liquidity. At December 31, 2009, the Company had approximately $65 million of cash and cash equivalents and $156 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 at the request and for the benefit of the Company and the other traditional 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, 2009, the Company had no commercial paper outstanding.

Financing Activities

During the first quarter of 2009, the Company issued senior notes totaling $125 million. Proceeds were used to repay at maturity the Company's $40 million aggregate principal amount of Series F Floating Rate Senior Notes due March 9, 2009 and to repay a portion of the Company's short-term indebtedness.

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

Off-Balance Sheet Financing Arrangements

In 2001, the Company began an initial 10-year term of a lease agreement for a combined cycle generating facility built at Plant Daniel. 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 Units." Juniper has also entered into leases with other parties unrelated to the Company. The assets leased by the Company comprise less than 50% 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 renewal and a purchase option based on the cost of the Facility at the inception of the lease, which was approximately $370 million. The Company is required to amortize approximately 4% of the initial acquisition cost over the initial lease term. In April 2010, 18 months prior to the end of the initial lease, the Company must notify Juniper if the lease will be terminated. The Company may elect to renew the lease for 10 years. If the lease is renewed, the agreement calls for the Company to amortize an additional 17% 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% 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. See Note 7 to the financial statements under "Operating Leases – Plant Daniel Combined Cycle Generating Units" 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- and/or Baa3 or below. These contracts are for physical electricity purchases, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At December 31, 2009, the maximum potential collateral requirements under these contracts at BBB- and/or Baa3 rating were approximately $5 million. At December 31, 2009, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $370 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the Company's ability to access capital markets, particularly the short-term debt market.

On September 2, 2009, Moody's Investors Service (Moody's) affirmed the credit ratings of the Company's senior unsecured notes and commercial paper of A1/P-1, respectively, and revised the rating outlook for the Company to negative. On September 4, 2009, Fitch Ratings, Inc. affirmed the Company's senior unsecured notes and commercial paper ratings of AA-/F1+, respectively, and maintained a stable rating outlook for the Company. On October 6, 2009, Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (S&P) affirmed the credit rating of the Company's senior unsecured notes and its short-term rating of A/A-1, respectively, and maintained its stable ratings outlook.

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, where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques that include, but are not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

The Company does not currently hedge interest rate risk. The weighted average interest rate on $120 million of variable rate long-term debt at January 1, 2010 was 0.54%. 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, 2010.

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market. At December 31, 2009, exposure from these activities was not material to the Company's financial statements.

In addition, per the guidelines of the Mississippi PSC, the Company has implemented a fuel-hedging program. At December 31, 2009, exposure from these activities was not material to the Company's financial statements.

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

	2009 Changes	2008 Changes
	Fair Value	
	(in thousands)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	**$(51,985)**	$ 1,978
Contracts realized or settled	**53,905**	(30,639)
Current period changes[a]	**(43,654)**	(23,324)
Contracts outstanding at the end of the period, assets (liabilities), net	**$(41,734)**	$(51,985)

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

The change in the fair value positions of the energy-related derivative contracts for the year ended December 31, 2009 was an increase of $10.3 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and prices of natural gas. At December 31, 2009, the Company had a net hedge volume of 23.7 million mmBtu with a weighted average contract cost of approximately $1.80 per mmBtu above market prices, and 28.9 million mmBtu at December 31, 2008 with a weighted average contract cost of approximately $1.89 per mmBtu above market prices. The majority of the natural gas hedge settlements are recovered through the ECM clause.

At December 31, 2009, the net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as assets/(liabilities) as follows:

Asset (Liability) Derivatives	2009	2008
	(in thousands)	
Regulatory hedges	**$(41,746)**	$(51,956)
Cash flow hedges	-	142
Not designated	12	(171)
Total fair value	**$(41,734)**	$(51,985)

Energy-related derivative contracts which are designated as regulatory hedges relate to the Company's fuel hedging program, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the ECM clause. Gains and losses on energy-related derivatives designated as cash flow hedges are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred. The pre-tax gains/(losses) reclassified from other comprehensive income to revenue and fuel expense were not material for any period presented and are not expected to be material for 2010. Additionally, there was no material ineffectiveness recorded in earnings for any period presented.

Unrealized pre-tax gains/(losses) from energy-related derivative contracts recognized in income were not material for any year presented.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	December 31, 2009 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
		(in thousands)		
Level 1	$ -	$ -	$ -	$ -
Level 2	(41,734)	(18,996)	(22,600)	(138)
Level 3	-	-	-	-
Fair value of contracts outstanding at end of period	$(41,734)	$(18,996)	$(22,600)	$(138)

The Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note 9 to the financial statements for further discussion on fair value measurement.

The Company is exposed to market price risk in the event of nonperformance by counterparties to the energy-related derivative contracts. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P 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 Note 1 to the financial statements under "Financial Instruments" and Note 10 to the financial statements.

Capital Requirements and Contractual Obligations

The construction program of the Company is currently estimated to be $472 million for 2010, $661 million for 2011, and $1.3 billion for 2012. These estimates include costs for new generation construction. Environmental expenditures included in these estimated amounts are $11 million, $59 million, and $128 million for 2010, 2011, and 2012, respectively. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth estimates; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Mississippi PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. See Note 3 to the financial statements under "Integrated Coal Gasification Combined Cycle" for additional information.

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 FERC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred stock dividends, leases, and other purchase commitments, are as follows. See Notes 1, 6, 7, and 10 to the financial statements for additional information.

Contractual Obligations

	2010	2011-2012	2013-2014	After 2014	Uncertain Timing [d]	Total
			(in thousands)			
Long-term debt[a] –						
Principal	$ -	$ 80,000	$ 50,000	$362,694	$ -	$ 492,694
Interest	21,643	42,479	38,761	202,726	-	305,609
Preferred stock dividends[b]	1,733	3,465	3,465	-	-	8,663
Energy-related derivative obligations[c]	19,454	22,641	202	-	-	42,297
Unrecognized tax benefits and interest[d]	290	-	-	-	2,967	3,257
Operating leases[e]	40,326	47,588	17,441	1,613		106,968
Capital leases[f]	1,330	2,070	-	-	-	3,400
Purchase commitments[g] –						
Capital[h]	471,511	1,935,149	-	-	-	2,406,660
Coal	316,006	434,084	30,805	-	-	780,895
Natural gas[i]	185,120	251,804	137,330	182,662	-	756,916
Long-term service agreements[j]	13,159	27,201	28,097	74,518	-	142,975
Postretirement benefits trust[k]	230	459	-	-	-	689
Total	$1,070,802	$2,846,940	$306,101	$824,213	$ 2,967	$5,051,023

(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, 2010, as reflected in the statements of capitalization. Excludes capital lease amounts (shown separately).

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) For additional information, see Notes 1 and 10 to the financial statements.

(d) The timing related to the realization of $3 million in unrecognized tax benefits and interest payments in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Note 5 to the financial statements for additional information.

(e) The decrease from 2011-2012 to 2013-2014 is primarily a result of the Plant Daniel operating lease contract that is scheduled to end during 2011. See Note 7 to the financial statements for additional information.

(f) The capital lease of $6.4 million is being amortized over a five-year period ending in 2012.

(g) The Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for 2009, 2008, and 2007 were $247 million, $260 million, and $255 million, respectively.

(h) The Company forecasts capital expenditures over a three-year period. Amounts represent current estimates of total expenditures. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program.

(i) 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, 2009.

(j) Long-term service agreements include price escalation based on inflation indices.

(k) The Company forecasts postretirement trust contributions over a three-year period. The Company expects that the earliest that cash may have to be contributed to the pension trust fund is 2012. The projections of the amount vary significantly depending on key variables including future trust fund performance and cannot be determined at this time. Therefore, no amounts related to the pension trust fund are included in the table. 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 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales, retail rates, storm damage cost recovery and repairs, fuel cost recovery and other rate actions, environmental regulations and expenditures, access to sources of capital, projections for postretirement benefit trust contributions, financing activities, start and completion of construction projects, impacts of adoption of new accounting rules, impact of the American Recovery and Reinvestment Act of 2009, impact of healthcare legislation, if any, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, or coal combustion byproducts and other substances and also changes in 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 FERC matters and EPA civil actions;
- 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 recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities;
- investment performance of 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, including rate actions relating to fuel and other cost recovery mechanisms;
- 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 and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- 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, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents affecting the U.S. electric grid or operation of generation resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the 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, 2009, 2008, and 2007

Mississippi Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Revenues:			
Retail revenues	**$790,950**	$785,434	$727,214
Wholesale revenues, non-affiliates	**299,268**	353,793	323,120
Wholesale revenues, affiliates	**44,546**	100,928	46,169
Other revenues	**14,657**	16,387	17,241
Total operating revenues	**1,149,421**	1,256,542	1,113,744
Operating Expenses:			
Fuel	**519,687**	586,503	494,248
Purchased power, non-affiliates	**8,831**	27,036	9,188
Purchased power, affiliates	**83,104**	99,526	86,690
Other operations and maintenance	**246,758**	260,011	255,177
Depreciation and amortization	**70,916**	71,039	60,376
Taxes other than income taxes	**64,068**	65,099	60,328
Total operating expenses	**993,364**	1,109,214	966,007
Operating Income	**156,057**	147,328	147,737
Other Income and (Expense):			
Interest income	**804**	1,998	1,986
Interest expense, net of amounts capitalized	**(22,940)**	(17,979)	(18,158)
Other income (expense), net	**2,993**	4,695	6,029
Total other income and (expense)	**(19,143)**	(11,286)	(10,143)
Earnings Before Income Taxes	**136,914**	136,042	137,594
Income taxes	**50,214**	48,349	51,830
Net Income	**86,700**	87,693	85,764
Dividends on Preferred Stock	**1,733**	1,733	1,733
Net Income After Dividends on Preferred Stock	**$ 84,967**	$ 85,960	$ 84,031

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008, and 2007

Mississippi Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Activities:			
Net income	**$ 86,700**	$ 87,693	$ 85,764
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization, total	**78,914**	75,765	69,971
Deferred income taxes	**(39,849)**	24,840	(36,572)
Plant Daniel capacity	**-**	-	(5,659)
Pension, postretirement, and other employee benefits	**7,077**	8,182	8,782
Stock based compensation expense	**886**	724	1,038
Tax benefit of stock options	**34**	489	287
Generation construction screening costs	**(30,638)**	(26,662)	(9,031)
Hurricane Katrina grant proceeds-property reserve	**-**	-	60,000
Other, net	**(3,650)**	(20,767)	(15,784)
Changes in certain current assets and liabilities --			
-Receivables	**9,677**	(9,982)	14,874
-Under recovered regulatory clause revenues	**54,994**	(14,450)	10,234
-Fossil fuel stock	**(41,699)**	(38,072)	(4,787)
-Materials and supplies	**(649)**	297	487
-Prepaid income taxes	**1,061**	3,243	17,726
-Other current assets	**2,065**	(2,022)	(1,923)
-Hurricane Katrina grant proceeds	**-**	-	14,345
-Hurricane Katrina accounts payable	**-**	-	(53)
-Other accounts payable	**(7,590)**	3,251	(4,525)
-Accrued taxes	**8,800**	2,428	(867)
-Accrued compensation	**(6,819)**	(1,362)	(1,993)
-Over recovered regulatory clause revenues	**48,596**	-	-
-Other current liabilities	**2,732**	836	4,344
Net cash provided from operating activities	**170,642**	94,431	206,658
Investing Activities:			
Property additions	**(101,995)**	(153,401)	(144,925)
Cost of removal net of salvage	**(9,352)**	(6,411)	2,195
Construction payables	**(5,091)**	(4,084)	8,027
Hurricane Katrina capital grant proceeds	**-**	7,314	34,953
Other investing activities	**(2,971)**	819	(755)
Net cash used for investing activities	**(119,409)**	(155,763)	(100,505)
Financing Activities:			
Increase (decrease) in notes payable, net	**(26,293)**	16,350	(41,433)
Proceeds --			
Capital contributions from parent company	**4,567**	3,541	5,436
Gross excess tax benefit of stock options	**117**	934	572
Pollution control revenue bonds	**-**	7,900	-
Senior notes issuances	**125,000**	50,000	35,000
Other long-term debt issuances	**-**	80,000	-
Redemptions --			
Pollution control revenue bonds	**-**	(7,900)	-
Senior notes	**(40,000)**	-	-
Other long-term debt	**-**	-	(36,082)
Payment of preferred stock dividends	**(1,733)**	(1,733)	(1,733)
Payment of common stock dividends	**(68,500)**	(68,400)	(67,300)
Other financing activities	**(1,779)**	(1,774)	-
Net cash provided from (used for) financing activities	**(8,621)**	78,918	(105,540)
Net Change in Cash and Cash Equivalents	**42,612**	17,586	613
Cash and Cash Equivalents at Beginning of Year	**22,413**	4,827	4,214
Cash and Cash Equivalents at End of Year	**$ 65,025**	$ 22,413	$ 4,827
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $117, $229 and $12 capitalized, respectively)	**$19,832**	$15,753	$16,164
Income taxes (net of refunds)	**77,206**	23,829	67,453

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Mississippi Power Company 2009 Annual Report

Assets	2009	2008
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 65,025**	$ 22,413
Receivables --		
Customer accounts receivable	**36,766**	40,262
Unbilled revenues	**27,168**	24,798
Under recovered regulatory clause revenues	**-**	54,994
Other accounts and notes receivable	**11,337**	8,995
Affiliated companies	**13,215**	24,108
Accumulated provision for uncollectible accounts	**(940)**	(1,039)
Fossil fuel stock, at average cost	**127,237**	85,538
Materials and supplies, at average cost	**27,793**	27,143
Other regulatory assets, current	**53,273**	59,220
Prepaid income taxes	**32,237**	1,061
Other current assets	**12,625**	9,837
Total current assets	**405,736**	357,330
Property, Plant, and Equipment:		
In service	**2,316,494**	2,234,573
Less accumulated provision for depreciation	**950,373**	923,269
Plant in service, net of depreciation	**1,366,121**	1,311,304
Construction work in progress	**48,219**	70,665
Total property, plant, and equipment	**1,414,340**	1,381,969
Other Property and Investments	**7,018**	8,280
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**8,536**	9,566
Other regulatory assets, deferred	**209,100**	171,680
Other deferred charges and assets	**27,951**	23,870
Total deferred charges and other assets	**245,587**	205,116
Total Assets	**$2,072,681**	$1,952,695

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
At December 31, 2009 and 2008
Mississippi Power Company 2009 Annual Report

Liabilities and Stockholder's Equity	2009	2008
	(in thousands)	
Current Liabilities:		
Securities due within one year	$ 1,330	$ 41,230
Notes payable	-	26,293
Accounts payable --		
Affiliated	49,209	36,847
Other	38,662	63,704
Customer deposits	11,143	10,354
Accrued taxes --		
Accrued income taxes	10,590	8,842
Other accrued taxes	49,547	50,700
Accrued interest	5,739	3,930
Accrued compensation	13,785	20,604
Other regulatory liabilities, current	7,610	9,718
Over recovered regulatory clause liabilities	48,596	-
Liabilities from risk management activities	19,454	29,291
Other current liabilities	21,142	19,144
Total current liabilities	276,807	320,657
Long-Term Debt (See accompanying statements)	493,480	370,460
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	223,066	222,324
Deferred credits related to income taxes	13,937	14,074
Accumulated deferred investment tax credits	12,825	14,014
Employee benefit obligations	161,778	142,188
Other cost of removal obligations	97,820	96,191
Other regulatory liabilities, deferred	54,576	51,340
Other deferred credits and liabilities	47,090	52,216
Total deferred credits and other liabilities	611,092	592,347
Total Liabilities	1,381,379	1,283,464
Redeemable Preferred Stock (See accompanying statements)	32,780	32,780
Common Stockholder's Equity (See accompanying statements)	658,522	636,451
Total Liabilities and Stockholder's Equity	$2,072,681	$1,952,695
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CAPITALIZATION

At December 31, 2009 and 2008

Mississippi Power Company 2009 Annual Report

	2009	2008	2009	2008
		(in thousands)		*(percent of total)*
Long-Term Debt:				
Long-term notes payable --				
6.00% due 2013	**50,000**	50,000		
5.4% to 5.625% due 2017-2035	**280,000**	155,000		
Adjustable rates (0.68% at 1/1/10) due 2011	**80,000**	120,000		
Total long-term notes payable	**410,000**	325,000		
Other long-term debt --				
Pollution control revenue bonds:				
5.15% due 2028	**42,625**	42,625		
Variable rates (0.25% to 0.30% at 1/1/10) due 2020-2028	**40,070**	40,070		
Total other long-term debt	**82,695**	82,695		
Capitalized lease obligations	**3,399**	4,630		
Unamortized debt discount	**(1,284)**	(635)		
Total long-term debt (annual interest requirement -- $21.6 million)	**494,810**	411,690		
Less amount due within one year	**1,330**	41,230		
Long-term debt excluding amount due within one year	**493,480**	370,460	**41.6%**	35.6%
Cumulative Redeemable Preferred Stock:				
$100 par value				
Authorized: 1,244,139 shares				
Outstanding: 334,210 shares				
4.40% to 5.25% (annual dividend requirement -- $1.7 million)	**32,780**	32,780	**2.8**	3.2
Common Stockholder's Equity:				
Common stock, without par value --				
Authorized: 1,130,000 shares				
Outstanding: 1,121,000 shares	**37,691**	37,691		
Paid-in capital	**325,562**	319,958		
Retained earnings	**295,269**	278,802		
Accumulated other comprehensive income (loss)	**-**	-		
Total common stockholder's equity	**658,522**	636,451	**55.6**	61.2
Total Capitalization	**$1,184,782**	$1,039,691	**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, 2009, 2008, and 2007

Mississippi Power Company 2009 Annual Report

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)			
Balance at December 31, 2006	1,121	$37,691	$307,019	$244,511	$599	$589,820
Net income after dividends on preferred stock	-	-	-	84,031	-	84,031
Capital contributions from parent company	-	-	7,333	-	-	7,333
Other comprehensive income (loss)	-	-	-	-	(26)	(26)
Cash dividends on common stock	-	-	-	(67,300)	-	(67,300)
Other	-	-	(28)	-	-	(28)
Balance at December 31, 2007	1,121	37,691	314,324	261,242	573	613,830
Net income after dividends on preferred stock	-	-	-	85,960	-	85,960
Capital contributions from parent company	-	-	5,634	-	-	5,634
Other comprehensive income (loss)	-	-	-	-	(573)	(573)
Cash dividends on common stock	-	-	-	(68,400)	-	(68,400)
Balance at December 31, 2008	**1,121**	**37,691**	**319,958**	**278,802**	**-**	**636,451**
Net income after dividends on preferred stock	-	-	-	**84,967**	-	**84,967**
Capital contributions from parent company	-	-	**5,604**	-	-	**5,604**
Other comprehensive income (loss)	-	-	-	-	-	-
Cash dividends on common stock	-	-	-	**(68,500)**	-	**(68,500)**
Balance at December 31, 2009	**1,121**	**$37,691**	**$325,562**	**$295,269**	**$ -**	**$658,522**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Mississippi Power Company 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Net income after dividends on preferred stock	**$84,967**	$85,960	$84,031
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of $-, $(355), and $(16), respectively	-	(573)	(26
Comprehensive Income	**$84,967**	$85,387	$84,005

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mississippi Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies, Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power), are vertically integrated utilities providing electric service in four Southeastern states. The Company operates as a vertically integrated utility providing service to retail customers in southeast Mississippi and to wholesale customers in the Southeast. Southern Power constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in leveraged leases. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

The equity method is used for entities 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 to the current year presentation.

The Company is subject to regulation by the Federal Energy Regulatory Commission (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 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, digital wireless communications, and other services with respect to business and operations and power pool transactions. Costs for these services amounted to $84 million, $87 million, and $71.8 million during 2009, 2008, and 2007, respectively. Cost allocation methodologies used by SCS were approved by the Securities and Exchange Commission prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies.

The Company provides incidental services to and receives such services from other Southern Company subsidiaries which are generally minor in duration and amount. The Company provided no significant service to an affiliate in 2009, 2008, and 2007. The Company received storm restoration assistance from other Southern Company subsidiaries totaling $3.2 million in 2008. There was no storm assistance received in 2009 or 2007.

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 $10.2 million, $11.1 million, and $9.8 million in 2009, 2008, and 2007, 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 $20.9 million, $22.8 million, and $23.1 million in 2009, 2008, and 2007, respectively. See Note 4 for additional information.

The traditional operating companies, including the Company, and Southern Power 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.

Regulatory Assets and Liabilities

The Company is subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate 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:

	2009	2008	Note
		(in thousands)	
Hurricane Katrina	**$ (143)**	$ (143)	(a)
Underfunded retiree benefit plans	**99,690**	87,094	(b,k)
Property damage	**(57,814)**	(54,241)	(m)
Deferred income tax charges	**9,027**	8,862	(d)
Property tax	**17,170**	16,333	(e)
Transmission & distribution deferral	**4,734**	7,101	(f)
Vacation pay	**8,756**	8,498	(g,k)
Loss on reacquired debt	**8,409**	9,133	(h)
Loss on redeemed preferred stock	**229**	400	(i)
Loss on rail cars	**108**	196	(h)
Other regulatory assets	**1,087**	-	(c)
Fuel-hedging (realized and unrealized) losses	**44,116**	56,516	(j,k)
Asset retirement obligations	**8,955**	8,345	(d)
Deferred income tax credits	**(14,853)**	(14,962)	(d)
Other cost of removal obligations	**(97,820)**	(96,191)	(d)
Fuel-hedging (realized and unrealized) gains	**(551)**	(761)	(j,k)
Generation screening costs	**68,496**	37,857	(l)
Other liabilities	**(2,628)**	(4,894)	(c)
Total assets (liabilities), net	**$ 96,968**	$ 69,143	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) For additional information, see Note 3 under "Retail Regulatory Matters – Storm Damage Cost Recovery."
(b) Recovered and amortized over the average remaining service period which may range up to 14 years. See Note 2 for additional information.
(c) Recorded and recovered as approved by the Mississippi PSC over periods not exceeding two years.
(d) 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.
(e) Recovered through the ad valorem tax adjustment clause over a 12-month period beginning in April of the following year.
(f) Amortized over a four-year period ending 2011.
(g) Recorded as earned by employees and recovered as paid, generally within one year.
(h) Recovered over the remaining life of the original issue/lease or, if refinanced, over the life of the new issue/lease, which may range up to 50 years.
(i) Amortized over a period beginning in 2004 that is not to exceed seven years.
(j) 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).
(k) Not earning a return as offset by a corresponding asset or liability.
(l) Recovery expected to be determined by the Mississippi PSC by May 1, 2010. For additional information, see Note 3 under "Retail Regulatory Matters – Integrated Coal Gasification Combined Cycle."
(m) For additional information, see Note 1 under "Provision for Property Damage" and Note 3 under "Retail Regulatory Matters – System Restoration Rider."

In the event that a portion of the Company's operations is no longer subject to applicable accounting rules for rate regulation, the Company would be required to write off or reclassify to accumulated other comprehensive income 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 values. All regulatory assets and liabilities are to be reflected in rates.

Government Grants

The Company received a grant in October 2006 from the Mississippi Development Authority (MDA) for $276.4 million, primarily for storm damage cost recovery. In 2007, the Company received $109.3 million of storm restoration bond proceeds under the state bond program of which $25.2 million was for retail storm restoration cost, $60.0 million was to increase the Company's retail property damage reserve, and $24.1 million was to cover the retail portion of construction of a new storm operations center. In 2008, the Company received grant payments in the amount of $7.3 million and anticipates the receipt of approximately $3.2 million in 2010. The grant proceeds do not represent a future obligation of the Company. The portion of any grants received related to retail storm recovery was applied to the retail regulatory asset that was established as restoration costs were incurred. The portion related to wholesale storm recovery was recorded either as a reduction to operations and maintenance expense or as a reduction to total property, plant, and equipment depending on the restoration work performed and the appropriate allocations of cost of service.

Revenues

Energy and other revenues are recognized as services are provided. Wholesale 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 related to retail sales 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 these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered or returned to customers through adjustments to the billing factors. The Company is required to file with the Mississippi PSC for an adjustment to the fuel cost recovery factor annually.

The Company has a diversified base of customers. For years ended December 31, 2009 and 2008, no single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense generally includes the cost of purchased emissions allowances as they are used. Fuel costs also include gains and/or losses from fuel hedging programs as approved by the Mississippi PSC.

Income and Other 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. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with accounting standards related to the uncertainty in income taxes, the Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

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 for projects over $10 million.

The Company's property, plant, and equipment consisted of the following at December 31:

	2009	2008
	(in thousands)	
Generation	$ 963,145	$ 919,149
Transmission	449,452	436,280
Distribution	748,066	720,124
General	155,831	159,020
Total plant in service	$2,316,494	$2,234,573

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.

Depreciation and Amortization

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 3.3%, in 2009, 2008, and 2007. Depreciation studies are conducted periodically to update the composite rates. 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. On September 8, 2009 and September 9, 2009, the Company filed with the Mississippi PSC and the FERC, respectively, a depreciation study as of December 31, 2008. The FERC accepted this study on October 20, 2009.

In April 2007, the Mississippi PSC issued an order allowing the Company to defer certain reliability related maintenance costs beginning January 1, 2007 and recover them evenly over a four-year period beginning January 1, 2008. These costs related to maintenance that was needed as follow-up to emergency repairs that were made subsequent to Hurricane Katrina. At December 31, 2007, the Company had incurred and deferred the retail portion of $9.5 million of such costs. At December 31, 2009, the Company had a balance of the deferred retail portion of $4.7 million with $2.3 million included in current assets as other regulatory assets and $2.4 million included in other regulatory assets, deferred.

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 (MWs) 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 reduce depreciation and amortization expenses over a four-year period. The amount amortized in 2007 was $5.7 million. The regulatory liability was fully amortized as of December 31, 2007.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are 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. The Company has received accounting guidance from the Mississippi PSC allowing the continued accrual of other future retirement costs for long-lived assets that the Company does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability.

The Company has retirement obligations related to various landfill sites, underground storage tanks, and asbestos removal. The Company also has 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 assets have not been recorded because the range of time over which the Company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income allowed removal costs in accordance with its regulatory treatment. Any differences between costs recognized and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the Mississippi PSC, and are reflected in the balance sheets.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2009	2008
	(in thousands)	
Balance, beginning of year	**$17,977**	$17,290
Liabilities incurred	**378**	-
Liabilities settled	**(1,892)**	(55)
Accretion	**1,049**	967
Cash flow revisions	**(81)**	(225)
Balance, end of year	**$17,431**	$17,977

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 asset and recording a loss for the amount if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

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 regulatory liability accounts for the retail and wholesale jurisdictions. The cost of repairing actual damage resulting from such events that individually exceed $50,000 is charged to the reserve. A 1999 Mississippi PSC order allowed the Company to accrue $1.5 million to $4.6 million to the reserve annually, with a maximum reserve totaling $23 million. In October 2006, in conjunction with the Mississippi PSC Hurricane Katrina-related financing order, the Mississippi PSC ordered the Company to cease all accruals to the retail property damage reserve until a new reserve cap is established. However, in the same financing order, the Mississippi PSC approved the replenishment of the retail property damage reserve with $60 million to be funded with a portion of the proceeds of bonds to be issued by the Mississippi Development Bank on behalf of the State of Mississippi and reported as liabilities by the State of Mississippi. The Company received the $60 million bond proceeds in June 2007. The Company made no discretionary retail accruals in 2008 and 2007 as a result of the order. On January 9, 2009, the Mississippi PSC approved the System Restoration Rider (SRR) stipulation between the Company and the Mississippi Public Utilities Staff. In accordance with the stipulation, every three years the Mississippi PSC, Mississippi Public Utilities Staff, and the Company will agree on SRR revenue level(s) for the ensuing period, based on historical data, expected exposure, type and amount of insurance coverage, excluding insurance cost, and any other relevant information. The accrual amount and the reserve balance are determined based on the SRR revenue level(s). If a significant change in circumstances occurs, then the SRR revenue level can be adjusted more frequently if the Company and the Mississippi Public Utilities Staff or the Mississippi PSC deem the change appropriate. Each year the Company will set rates to collect the approved SRR revenues. The property damage reserve accrual will be the difference between the approved SRR revenues and the SRR revenue requirement, excluding any accrual to the reserve. In 2009, the Company made retail accruals of $3.7 million per the SRR order. In addition, SRR allows the Company to set up a regulatory asset, pending review, if the allowable actual retail property damage costs exceed the amount in the retail property damage reserve. See Note 3 under "Retail Regulatory Matters – Storm Damage Cost Recovery" and "Retail Regulatory Matters – System Restoration Rider" for additional information regarding the depletion of these reserves following Hurricane Katrina and the deferral of additional costs, as well as additional rate riders or other cost recovery mechanisms which have and/or may be approved by the Mississippi PSC to recover the deferred costs and accrue reserves. The Company accrued $0.3 million in 2009 and $0.2 million annually in 2008 and 2007 for the wholesale jurisdiction. See Note 3 under "FERC Matters – Wholesale Rate Filing" for additional information.

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, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the average costs of oil, coal, natural gas, and emissions allowances. Fuel is charged to inventory when purchased and then expensed as used and recovered by the Company through fuel cost recovery rates approved by the Mississippi PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero cost.

Financial Instruments

The Company uses derivative financial instruments to limit exposure to fluctuations in the prices of certain fuel purchases and electricity purchases and sales. All derivative financial instruments are recognized as either assets or liabilities (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 9 for additional information. 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 or are recoverable through the Mississippi PSC approved fuel hedging program as discussed below. This results in the deferral of related gains and losses in other comprehensive income or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges 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. See Note 10 for additional information.

The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. Additionally, the Company has no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2009.

The Mississippi PSC has approved the Company's request to implement an 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 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.

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 reclassifications for amounts included in net income.

2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, pension plan covering substantially all employees. The plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). No contributions to the plan are expected for the year ending December 31, 2010. The Company also provides certain defined benefit pension plans for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, the Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The Company funds trusts to the extent required by the FERC. For the year ending December 31, 2010, postretirement trust contributions are expected to total approximately $0.2 million.

The measurement date for plan assets and obligations for 2009 and 2008 was December 31 while the measurement date for prior years was September 30. Pursuant to accounting standards related to defined postretirement benefit plans, the Company was required to change the measurement date for its defined postretirement benefit plans from September 30 to December 31 beginning with the year ended December 31, 2008. As permitted, the Company adopted the measurement date provisions effective January 1, 2008, resulting in an increase in long-term liabilities of $1.6 million and a decrease in prepaid pension costs of approximately $0.1 million.

Pension Plans

The total accumulated benefit obligation for the pension plans was $289 million in 2009 and $252 million in 2008. Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the projected benefit obligations and the fair value of plan assets were as follows:

	2009	2008
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$266,879**	$256,903
Service cost	**6,792**	8,557
Interest cost	**17,577**	19,753
Benefits paid	**(11,965)**	(14,721)
Actuarial loss (gain)	**29,896**	(3,613)
Balance at end of year	**309,179**	266,879
Change in plan assets		
Fair value of plan assets at beginning of year	**198,510**	300,866
Actual return (loss) on plan assets	**30,088**	(89,420)
Employer contributions	**1,382**	1,785
Benefits paid	**(11,965)**	(14,721)
Fair value of plan assets at end of year	**218,015**	198,510
Accrued liability	**$(91,164)**	$(68,369)

At December 31, 2009, the projected benefit obligations for the qualified and non-qualified pension plans were $285.9 million and $23.3 million, respectively. All pension plan assets are related to the qualified pension plan.

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). In 2009, in determining the optimal asset allocation for the pension fund, the Company performed an extensive study based on projections of both assets and liabilities over a 10-year forward horizon. The primary goal of the study was to maximize plan funded status. The Company's investment policy covers a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

The actual composition of the Company's pension plan assets as of December 31, 2009 and 2008, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	29%	33%	34%
International equity	28	29	23
Fixed income	15	15	14
Special situations	3	-	-
Real estate investments	15	13	19
Private equity	10	10	10
Total	100%	100%	100%

The investment strategy for plan assets related to the Company's defined benefit plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is actively managed through an allocation to long-dated, investment grade corporate and government bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of pension plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$ 43,279	$17,897	$ -	$ 61,176
International equity*	55,948	5,575	-	61,523
Fixed income:				
U.S. Treasury, government, and agency bonds	-	16,118	-	16,118
Mortgage- and asset-backed securities	-	4,382	-	4,382
Corporate bonds	-	10,803	-	10,803
Pooled funds	-	390	-	390
Cash equivalents and other	108	13,211	-	13,319
Special situations	-	-	-	-
Real estate investments	6,747	-	21,195	27,942
Private equity	-	-	21,498	21,498
Total	$106,082	$68,376	$42,693	$217,151
Liabilities:				
Derivatives	(172)	(43)	-	(215)
Total	$105,910	$68,333	$42,693	$216,936

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

	Fair Value Measurements Using			
As of December 31, 2008:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$40,886	$16,650	$ -	$ 57,536
International equity*	36,783	3,382	-	40,165
Fixed income:				
U.S. Treasury, government, and agency bonds	-	17,191	-	17,191
Mortgage- and asset-backed securities	-	8,145	-	8,145
Corporate bonds	-	11,147	-	11,147
Pooled funds	-	120	-	120
Cash equivalents and other	861	7,865	-	8,726
Special situations	-	-	-	-
Real estate investments	5,604	-	32,700	38,304
Private equity	-	-	19,092	19,092
Total	$84,134	$64,500	$51,792	$200,426
Liabilities:				
Derivatives	(301)	-	-	(301)
Total	$83,833	$64,500	$51,792	$200,125

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	Private Equity	Real Estate Investments	Private Equity
		(in thousands)		
Beginning balance	$32,700	$19,092	$40,755	$20,280
Actual return on investments:				
Related to investments held at year end	(9,492)	1,322	(6,651)	(5,517)
Related to investments sold during the year	(2,516)	387	156	975
Total return on investments	(12,008)	1,709	(6,495)	(4,542)
Purchases, sales, and settlements	503	697	(1,560)	3,354
Transfers into/out of Level 3	-	-	-	-
Ending balance	$21,195	$21,498	$32,700	$19,092

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's pension plan consist of the following:

	2009	2008
	(in thousands)	
Other regulatory assets, deferred	$85,357	$66,602
Other current liabilities	(1,484)	(1,498)
Employee benefit obligations	(89,680)	(66,871)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	Net (Gain) Loss
		(in thousands)
Balance at December 31, 2009:		
Regulatory assets	$ 9,222	$76,135
Balance at December 31, 2008:		
Regulatory assets	$10,800	$55,802
Estimated amortization in net periodic pension cost in 2010:		
Regulatory assets	$ 1,391	$ 634

The changes in the balances of regulatory assets and regulatory liabilities related to the defined benefit pension plans for the year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets	Regulatory Liabilities
	(in thousands)	
Balance at December 31, 2007	$ 11,114	$ (53,396)
Net loss (gain)	56,721	54,849
Change in prior service costs/transition obligation	-	-
Reclassification adjustments:		
Amortization of prior service costs	(489)	(1,596)
Amortization of net gain	(744)	143
Total reclassification adjustments	(1,233)	(1,453)
Total change	55,488	53,396
Balance at December 31, 2008	$ 66,602	$ -
Net loss (gain)	**20,872**	-
Change in prior service costs/transition obligation	-	-
Reclassification adjustments:		
Amortization of prior service costs	**(1,578)**	-
Amortization of net gain	**(539)**	-
Total reclassification adjustments	**(2,117)**	-
Total change	**18,755**	-
Balance at December 31, 2009	**$ 85,357**	$ -

Components of net periodic pension cost (income) were as follows:

	2009	2008	2007
		(in thousands)	
Service cost	**$ 6,792**	$ 6,846	$6,934
Interest cost	**17,577**	15,802	14,767
Expected return on plan assets	**(21,065)**	(20,611)	(19,099)
Recognized net loss	**539**	481	634
Net amortization	**1,578**	1,668	1,591
Net periodic pension cost (income)	**$ 5,421**	$ 4,186	$4,827

Net periodic pension cost (income) is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets.

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, 2009, estimated benefit payments were as follows:

	Benefit Payments
	(in thousands)
2010	$13,509
2011	14,349
2012	15,373
2013	16,495
2014	18,078
2015 to 2019	108,602

Other Postretirement Benefits

Changes during the plan year ended December 31, 2009 and the 15-month period ended December 31, 2008 in the accumulated postretirement benefit obligations (APBO) and in the fair value of plan assets were as follows:

	2009	2008
	(in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 84,733**	$ 84,495
Service cost	**1,328**	1,745
Interest cost	**5,535**	6,498
Benefits paid	**(4,041)**	(5,333)
Actuarial gain	**(1,550)**	(3,275)
Plan amendments	**(2,592)**	-
Retiree drug subsidy	**361**	603
Balance at end of year	**83,774**	84,733
Change in plan assets		
Fair value of plan assets at beginning of year	**18,623**	25,593
Actual return (loss) on plan assets	**2,902**	(5,653)
Employer contributions	**2,447**	3,414
Benefits paid	**(3,680)**	(4,731)
Fair value of plan assets at end of year	**20,292**	18,623
Accrued liability	**$(63,482)**	$(66,110)

Other postretirement benefit 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. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk. The actual composition of the Company's other postretirement benefit plan assets as of the end of year, along with the targeted mix of assets, is presented below:

	Target	2009	2008
Domestic equity	22%	**26%**	26%
International equity	22	**22**	18
Fixed income	34	**34**	35
Special situations	2	**-**	-
Real estate investments	12	**10**	14
Private equity	8	**8**	7
Total	100%	**100%**	100%

Detailed below is a description of the investment strategies for each major asset category disclosed above:

- ***Domestic equity.*** This portion of the portfolio comprises a mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes managed both actively and through passive index approaches.
- ***International equity.*** This portion of the portfolio is actively managed with a blend of growth stocks and value stocks with both developed and emerging market exposure.
- ***Fixed income.*** This portion of the portfolio is comprised of domestic bonds.
- ***Special situations.*** Though currently unfunded, this portion of the portfolio was established both to execute opportunistic investment strategies with the objectives of diversifying and enhancing returns and exploiting short-term inefficiencies, as well as to invest in promising new strategies of a longer-term nature.

- ***Trust-owned life insurance.*** Some of the Company's taxable trusts invest in these investments in order to minimize the impact of taxes on the portfolio.
- ***Real estate investments.*** Assets in this portion of the portfolio are invested in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** This portion of the portfolio generally consists of investments in private partnerships that invest in private or public securities typically through privately negotiated and/or structured transactions. Leveraged buyouts, venture capital, and distressed debt are examples of investment strategies within this category.

The fair values of other postretirement benefit plan assets as of December 31, 2009 and 2008 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases.

	Fair Value Measurements Using			
As of December 31, 2009:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$ 3,011	$ 1,245	$ -	$ 4,256
International equity*	3,893	387	-	4,280
Fixed income:				
U.S. Treasury, government, and agency bonds	-	5,155	-	5,155
Mortgage- and asset-backed securities	-	304	-	304
Corporate bonds	-	751	-	751
Pooled funds	-	27	-	27
Cash equivalents and other	8	1,295	-	1,303
Trust-owned life insurance	-	-	-	-
Special situations	-	-	-	-
Real estate investments	468	-	1,475	1,943
Private equity	-	-	1,497	1,497
Total	$ 7,380	$ 9,164	$ 2,972	$19,516
Liabilities:				
Derivatives	(12)	(3)	-	(15)
Total	$ 7,368	$ 9,161	$ 2,972	$19,501

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

As of December 31, 2008:	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Domestic equity*	$ 2,857	$ 1,164	$ -	$ 4,021
International equity*	2,571	238	-	2,809
Fixed income:				
U.S. Treasury, government, and agency bonds	-	5,558	-	5,558
Mortgage- and asset-backed securities	-	570	-	570
Corporate bonds	-	779	-	779
Pooled funds	-	9	-	9
Cash equivalents and other	59	888	-	947
Trust-owned life insurance	-	-	-	-
Special situations	-	-	-	-
Real estate investments	391	-	2,287	2,678
Private equity	-	-	1,335	1,335
Total	$ 5,878	$ 9,206	$ 3,622	$18,706
Liabilities:				
Derivatives	(22)	-	-	(22)
Total	$ 5,856	$ 9,206	$ 3,622	$18,684

*Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Real Estate Investments	Private Equity	Real Estate Investments	Private Equity
		(in thousands)		
Beginning balance	$2,287	$1,335	$2,755	$1,371
Actual return on investments:				
Related to investments held at year end	(676)	87	(372)	(328)
Related to investments sold during the year	(171)	28	10	65
Total return on investments	(847)	115	(362)	(263)
Purchases, sales, and settlements	35	47	(106)	227
Transfers into/out of Level 3	-	-	-	-
Ending balance	$ 1,475	$1,497	$2,287	$1,335

The fair values presented above are prepared in accordance with applicable accounting standards regarding fair value. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Securities for which the activity is observable on an active market or traded exchange are categorized as Level 1. Fixed income securities classified as Level 2 are valued using matrix pricing, a common model using observable inputs. Domestic and international equity securities classified as Level 2 consist of pooled funds where the value is not quoted on an exchange but where the value is determined using observable inputs from the market. Securities that are valued using unobservable inputs are classified as Level 3 and include investments in real estate and investments in limited partnerships. The Company invests (through the pension plan trustee) directly in the limited partnerships which then invest in various types of funds or various private entities within a fund. The fair value

of the limited partnerships' investments is based on audited annual capital accounts statements which are generally prepared on a fair value basis. The Company also relies on the fact that, in most instances, the underlying assets held by the limited partnerships are reported at fair value. External investment managers typically send valuations to both the custodian and to the Company within 90 days of quarter end. The custodian reports the most recent value available and adjusts the value for cash flows since the statement date for each respective fund.

Amounts recognized in the balance sheets related to the Company's other postretirement benefit plans consist of the following:

	2009	2008
	(in thousands)	
Other regulatory assets, deferred	**$ 14,332**	$ 20,491
Employee benefit obligations	**(63,482)**	(66,110)

Presented below are the amounts included in regulatory assets at December 31, 2009 and 2008 related to the other postretirement benefit plans that had not yet been recognized in net periodic postretirement benefit cost along with the estimated amortization of such amounts for 2010.

	Prior Service Cost	Net (Gain) Loss	Transition Obligation
		(in thousands)	
Balance at December 31, 2009:			
Regulatory assets	**$ (1,107)**	**$ 14,811**	**$ 628**
Balance at December 31, 2008:			
Regulatory assets	$ 1,054	$ 18,020	$ 1,417
Estimated amortization as net periodic postretirement benefit cost in 2010:			
Regulatory assets	$ (57)	$ 403	$ 228

The changes in the balance of regulatory assets related to the other postretirement benefit plans for the plan year ended December 31, 2009 and the 15 months ended December 31, 2008 are presented in the following table:

	Regulatory Assets
	(in thousands)
Balance at December 31, 2007	$ 17,217
Net loss	4,607
Change in prior service costs/transition obligation	-
Reclassification adjustments:	
Amortization of transition obligation	(433)
Amortization of prior service costs	(132)
Amortization of net gain	(768)
Total reclassification adjustments	(1,333)
Total change	3,274
Balance at December 31, 2008	$ 20,491
Net gain	**(2,648)**
Change in prior service costs/transition obligation	**(2,592)**
Reclassification adjustments:	
Amortization of transition obligation	**(307)**
Amortization of prior service costs	**(51)**
Amortization of net gain	**(561)**
Total reclassification adjustments	**(919)**
Total change	**(6,159)**
Balance at December 31, 2009	**$ 14,332**

Components of the other postretirement benefit plans' net periodic cost were as follows:

	2009	2008	2007
		(in thousands)	
Service cost	**$ 1,328**	$ 1,396	$ 1,372
Interest cost	**5,535**	5,199	5,254
Expected return on plan assets	**(1,783)**	(1,805)	(1,673)
Net amortization	**919**	1,066	1,633
Net postretirement cost	**$ 5,999**	$ 5,856	$ 6,586

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Act) provides a 28% prescription drug subsidy for Medicare eligible retirees. The effect of the subsidy reduced the Company's expenses for the years ended December 31, 2009, 2008, and 2007 by approximately $1.7 million, $1.8 million, and $1.8 million, respectively.

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)	
2010	$ 4,731	$ (520)	$ 4,211
2011	5,157	(583)	4,574
2012	5,520	(663)	4,857
2013	5,943	(730)	5,213
2014	6,217	(821)	5,396
2015 to 2019	35,141	(5,395)	29,746

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2006 for the 2007 plan year using a discount rate of 6.00% and an annual salary increase of 3.50%.

	2009	2008	2007
Discount rate:			
Pension plans	**5.92%**	6.75%	6.30%
Other postretirement benefit plans	**5.83**	6.75	6.30
Annual salary increase	**4.18**	3.75	3.75
Long-term return on plan assets:			
Pension plans	**8.50**	8.50	8.50
Other postretirement benefit plans	**7.62**	7.85	7.77

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the APBO was a weighted average medical care cost trend rate of 8.50% for 2010, decreasing gradually to 5.25% through the year 2016 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2009 as follows:

	1 Percent Increase	1Percent Decrease
	(in thousands)	
Benefit obligation	$ 5,025	$ 4,571
Service and interest costs	398	404

Employee Savings Plan

The Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides an 85% matching contribution up to 6% of an employee's base salary. Total matching contributions made to the plan for 2009, 2008, and 2007 were $3.9 million, $3.7 million, and $3.5 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 such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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 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 certain coal-fired generating facilities. These actions were filed concurrently with the issuance of notices of violations to the Company with respect to the Company's Plant Watson. After Alabama Power was dismissed from the original action, the EPA filed a separate action in January 2001 against Alabama Power in the U.S. District Court for the Northern District of Alabama. In these lawsuits, the EPA alleges that NSR violations occurred at eight coal-fired generating facilities operated by Alabama Power and Georgia Power, including one facility co-owned by the Company. The civil actions request penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. In early 2000, the EPA filed a motion to amend its complaint to add the Company as a defendant based on the allegations in the notices of violation. However, in March 2001, the court denied the motion based on lack of jurisdiction, and the EPA has not re-filed. The original action, now solely against Georgia Power, has been administratively closed since the spring of 2001, and the case has not been reopened.

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

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 $37,500 per day, per violation at each

generating unit, depending on the date of the alleged violation. An adverse outcome in either of these cases could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. Such expenditures could affect future results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates.

Carbon Dioxide Litigation

New York Case

In July 2004, three environmental groups and attorneys general from eight states, each outside of Southern Company's service territory, and the corporation counsel for New York City filed complaints in the U.S. District Court for the Southern District of New York against Southern Company and four other electric power companies. The complaints allege that the companies' emissions of carbon dioxide, a greenhouse gas, contribute to global warming, which the plaintiffs assert is a public nuisance. Under common law public and private nuisance theories, the plaintiffs seek a judicial order (1) holding each defendant jointly and severally liable for creating, contributing to, and/or maintaining global warming and (2) requiring each of the defendants to cap its emissions of carbon dioxide and then reduce those emissions by a specified percentage each year for at least a decade. The plaintiffs have not, however, requested that damages be awarded in connection with their claims. Southern Company believes these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. In September 2005, the U.S. District Court for the Southern District of New York granted Southern Company's and the other defendants' motions to dismiss these cases. The plaintiffs filed an appeal to the U.S. Court of Appeals for the Second Circuit in October 2005 and, on September 21, 2009, the U.S. Court of Appeals for the Second Circuit reversed the district court's ruling, vacating the dismissal of the plaintiffs' claim, and remanding the case to the district court. On November 5, 2009, the defendants, including Southern Company, sought rehearing en banc, and the court's ruling is subject to potential appeal. Therefore, the ultimate outcome of these matters cannot be determined at this time.

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Remediation

The 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 regulatory mechanisms.

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 2007, 2008, and 2009 related to this work were not material. Hundreds of entities have received notices from the TCEQ requesting their participation in the anticipated site remediation. The final impact of this matter on the Company will depend upon further environmental assessment and the ultimate number of potentially responsible parties. The remediation expenses incurred by the Company are expected to be recovered through the Environmental Compliance Overview (ECO) Plan.

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

FERC Matters

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

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

On December 23, 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that the Company possesses or has exercised any market power. The agreement likewise does not require the Company to make any refunds related to sales during the 15-month refund period. Under the agreement, the Company will donate $0.1 million to nonprofit organizations in the State of Mississippi for the purpose of offsetting the electricity bills of low-income retail customers. The agreement is subject to review and approval by the FERC.

Intercompany Interchange Contract

The Company's generation fleet is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies (including the Company), Southern Power, and Southern Company Services, Inc., as agent, under the terms of which the power pool of Southern Company is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining Southern Power as a "system company" rather than a "marketing affiliate" is just and reasonable. In connection with the formation of Southern Power, the FERC authorized Southern Power's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

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

Wholesale Rate Filing

In August 2008, the Company filed with the FERC a request for revised wholesale electric tariff and rates. Prior to making this filing, the Company reached a settlement with all of its customers who take service under the tariff. This settlement agreement was filed with the FERC as part of the request. The settlement agreement provided for an increase in annual base wholesale revenues in the amount of $5.8 million, effective January 1, 2009. In addition, the settlement agreement allows the Company to increase its annual accrual for the wholesale portion of property damage to $303,000 per year, to defer any property damage costs prudently incurred in excess of the wholesale property damage reserve balance, and to defer the wholesale portion of the generation screening and evaluation costs associated with the integrated coal gasification combined cycle (IGCC) project to be located in Kemper County Mississippi. The settlement agreement also provided that the Company will not seek a change in wholesale full-requirements rates before November 1, 2010, except for changes associated with the fuel adjustment clause and the ECM, changes associated with property damages that exceed the amount in the wholesale property damage reserve, and changes associated with costs and expenses associated with environmental requirements affecting fossil fuel generating facilities. In October 2008, the Company received notice that the FERC had accepted the filing effective November 1, 2008, and the revised monthly charges were applied beginning January 1, 2009. As result of the order, the Company reclassified $9.3 million of previously expensed generation screening and evaluation costs to a regulatory asset. See "Integrated Coal Gasification Combined Cycle" herein for additional information.

Right of Way Litigation

Southern Company and certain of its subsidiaries, including the Company, 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 the Company believes that it has complied with applicable laws and that the plaintiffs' claims are without merit.

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

In addition, in late 2001, certain subsidiaries of Southern Company, including the Company, were named as defendants in a lawsuit brought in Troup County, Georgia, Superior Court by Interstate Fibernet, Inc., a subsidiary of telecommunications company ITC DeltaCom, Inc. 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. In January 2005, the Georgia Court of Appeals dismissed the telecommunications company's appeal of the trial court's order for lack of jurisdiction. An adverse outcome in this matter, combined with an adverse outcome against the telecommunications company in one or more of the right of way lawsuits, could result in substantial judgments; however, the final outcome of these matters cannot now be determined.

Retail Regulatory Matters

Performance Evaluation Plan

The Company's retail base rates are set under the 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 the PEP and to reclassify to jurisdictional cost of service the 266 MWs 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 amortized the regulatory liability pursuant to the

Mississippi PSC's order, over a four-year period, resulting in increases to earnings in each of those years. The final amortization of $5.7 million occurred in 2007.

In addition, in May 2004, the Mississippi PSC 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 are limited to 4% of retail revenues annually under the revised PEP. PEP will remain in effect until the Mississippi PSC modifies, suspends, or terminates the plan. In the May 2004 order, the Mississippi PSC ordered that the Mississippi Public Utilities Staff and the Company review the operations of the PEP in 2007. By mutual agreement, this review was deferred until 2008 and continued into 2009. On March 2, 2009, concurrent with this review, the annual PEP evaluation filing for 2009 was suspended. On August 3, 2009, the Mississippi Public Utilities Staff and the Company filed a joint report with the Mississippi PSC proposing several changes to the PEP. On November 9, 2009, the Mississippi PSC approved the revised PEP, which resulted in a lower performance incentive under the PEP and therefore smaller and/or less frequent rate changes in the future. On November 16, 2009, the Company resumed annual evaluations and filed its annual PEP filing for 2010 under the revised PEP, which resulted in a lower allowed return on investment but no rate change.

In April 2007, the Mississippi PSC issued an order allowing the Company to defer certain reliability-related maintenance costs beginning January 1, 2007 and recover them evenly over a four-year period beginning January 1, 2008. These costs related to maintenance that was needed as follow-up to emergency repairs that were made subsequent to Hurricane Katrina. At December 31, 2007, the Company had incurred and deferred the retail portion of $9.5 million of such costs. At December 31, 2009, the Company had a balance of the deferred retail portion of $4.7 million with $2.3 million included in current assets as other regulatory assets and $2.4 million included in long-term other regulatory assets.

In September 2007, the Mississippi Public Utilities Staff and the Company entered into a stipulation that included adjustments to expenses which resulted in a one-time credit to retail customers of approximately $1.1 million. In November 2007, the Mississippi PSC issued an order requiring the Company to refund this amount to its retail customers no later than December 2007. This amount was totally refunded as a credit to customer bills by December 31, 2007.

In December 2007, the Company submitted its annual PEP filing for 2008, which resulted in a rate increase of 1.983% or $15.5 million annually, effective January 2008. In December 2006, the Company submitted its annual PEP filing for 2007, which resulted in no rate change.

In December 2007, the Company received an order from the Mississippi PSC requiring it to defer $1.4 million associated with the retail portion of certain tax credits and adjustments related to permanent differences pertaining to its 2006 income tax returns filed in September 2007. These tax differences were recorded in a regulatory liability included in the current portion of other regulatory liabilities and were amortized ratably over the 12-month period beginning January 2008. The amortization of $1.4 million is included in income taxes on the statement of income for 2008.

On March 16, 2009, the Company submitted its annual PEP lookback filing for 2008, which recommended no surcharge or refund. At the conclusion of the Mississippi Public Utilities Staff's review of the PEP lookback filing for 2008, the Company and Mississippi Public Utilities Staff jointly submitted a stipulation to the Mississippi PSC which recommended no surcharge or refund.

System Restoration Rider

In September 2006, the Company filed with the Mississippi PSC a request to implement a SRR to increase the Company's cap on the property damage reserve and to authorize the calculation of an annual property damage accrual based on a formula. The purpose of the SRR is to provide for recovery of costs associated with property damage (including certain property insurance and the costs of self insurance) and to facilitate the Mississippi PSC's review of these costs. The Company would be required to make annual SRR filings to determine the revenue requirement associated with the property damage. In November 2007, the Company along with the Mississippi Public Utilities Staff agreed and stipulated to a revised SRR calculation method that would no longer require the Mississippi PSC to set a cap on the property damage reserve or to authorize the calculation of an annual property damage accrual. Under the revised SRR calculation method, the Mississippi PSC would periodically agree on SRR revenue levels that would be developed based on historical data, expected exposure, type and amount of insurance coverage excluding insurance costs, and other relevant information.

On January 9, 2009, the Mississippi PSC issued an order accepting the stipulation and the revised SRR calculation method. The applicable SRR rate level will be adjusted every three years, unless a significant change in circumstances occurs such that the Company and the Mississippi Public Utilities Staff or the Mississippi PSC deems that a more frequent change would be appropriate. The Company will submit annual filings setting forth SRR-related revenues, expenses, and investment for the projected filing period, as well as the true-up for the prior period. As a result, the December 2008 retail regulatory liability of $6.8 million was reclassified to the property damage reserve. On February 2, 2009, the Company submitted its 2009 SRR rate filing with the Mississippi PSC, which proposed that the 2009 SRR rate level remain at zero and the Company be allowed to accrue approximately $4.0 million to the property damage reserve in 2009. On September 10, 2009, the Mississippi PSC issued an order requiring the Company to develop SRR factors designed to reduce SRR revenue by approximately $1.5 million from November 2009 to March 2010 under the new rate. On January 29, 2010, the Company submitted its 2010 SRR rate filing with the Mississippi PSC, which proposed that the Company be allowed to accrue approximately $3.0 million to the property damage reserve in 2010. The final outcome of this matter cannot now be determined.

Environmental Compliance Overview Plan

On February 12, 2010, the Company submitted its 2010 ECO Plan notice which proposed an increase in annual revenues for the Company of approximately $3.9 million. In its 2010 ECO filing, the Company is proposing to change the true-up provision of the ECO rate schedule to consider actual revenues collected in addition to actual costs. The final outcome of this matter cannot now be determined. On February 3, 2009, the Company submitted its 2009 ECO Plan notice which proposed an increase in annual revenues for the Company of approximately $1.5 million. On June 19, 2009, the Mississippi PSC approved the ECO Plan with the new rates effective June 2009. In February 2008, the Company filed with the Mississippi PSC its annual ECO Plan evaluation for 2008. After the filing of the ECO Plan evaluation in February 2008, the regulations addressing mercury emissions were altered by a decision issued by the U.S. Court of Appeals for the District of Columbia Circuit in February 2008. In April 2008, the Company filed with the Mississippi PSC a supplemental ECO Plan evaluation in which the projects included in the ECO Plan evaluation in February 2008 being undertaken primarily for mercury control were removed. In this supplemental ECO Plan filing, the Company requested a 15 cent per 1,000 kilowatt-hour decrease for retail residential customers. The Mississippi PSC approved the supplemental ECO Plan evaluation in June 2008, with the new rates effective in June 2008.

Fuel Cost Recovery

The Company establishes, annually, a retail fuel cost recovery factor that is approved by the Mississippi PSC. The Company is required to file for an adjustment to the retail fuel cost recovery factor annually; such filing occurred on November 16, 2009. The Mississippi PSC approved the retail fuel cost recovery factor on December 15, 2009, with the new rates effective in January 2010. The retail fuel cost recovery factor will result in an annual decrease in an amount equal to 11.3% of total 2009 retail revenue. At December 31, 2009, the amount of over recovered retail fuel cost included in the balance sheets was $29.4 million compared to $36.0 million under recovered at December 31, 2008. The Company also has a wholesale Municipal and Rural Associations (MRA) and a Market Based (MB) fuel cost recovery factor. Effective January 1, 2010, the wholesale MRA fuel rate decreased, resulting in an annual decrease in an amount equal to 20.9% of total 2009 MRA revenue. Effective February 1, 2010, the wholesale MB fuel rate decreased, resulting in an annual decrease in an amount equal to 16.9% of total 2009 MB revenue. At December 31, 2009, the amount of over recovered wholesale MRA and MB fuel costs included in the balance sheets was $16.8 million and $2.4 million compared to $15.4 million and $3.7 million, respectively, under recovered at December 31, 2008. The Company's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, this decrease to the billing factor will have no significant effect on the Company's revenues or net income, but will decrease annual cash flow.

In October 2008, the Mississippi PSC opened a docket to investigate and review interest and carrying charges under the fuel adjustment clause for utilities within the State of Mississippi including the Company. On March 4, 2009, the Mississippi PSC issued an order to apply the prime rate in calculating the carrying costs on the retail over or under recovery balances related to fuel cost recovery. On May 20, 2009, the Company filed the carrying cost calculation methodology as part of its compliance filing.

In August 2009, the Mississippi PSC engaged an independent professional audit firm to conduct an audit of the Company's fuel-related expenditures included in the fuel adjustment clause and energy cost management clause of 2008 and 2009. The audit was completed in December 2009. There were no audit findings identified in the audit.

Storm Damage Cost Recovery

In August 2005, Hurricane Katrina hit the Gulf Coast of the United States and caused significant damage within the Company's service area. The estimated total storm restoration costs relating to Hurricane Katrina through December 31, 2007 of $302.4 million, which was net of expected insurance proceeds of approximately $77 million, without offset for the property damage reserve of $3.0 million, was affirmed by the Mississippi PSC in June 2006, and the Company was ordered to establish a regulatory asset for the retail portion. The Mississippi PSC issued an order directing the Company to file an application with the MDA for a Community Development Block Grant (CDBG). In October 2006, the Company received from the MDA a CDBG in the amount of $276.4 million, which was allocated to both the retail and wholesale jurisdictions. In the same month, the Mississippi PSC issued a financing order that authorized the issuance of system restoration bonds for the remaining $25.2 million of the retail portion of storm recovery costs not covered by the CDBG. These funds were received in June 2007. The Company affirmed the $302.4 million total storm costs incurred as of December 31, 2007. On March 2, 2009, the Company filed with the Mississippi PSC its final accounting of the restoration cost relating to Hurricane Katrina and the storm operations center. The final net retail receivable of approximately $3.2 million is expected to be recovered in 2010.

Integrated Coal Gasification Combined Cycle

On January 16, 2009, the Company filed for a Certificate of Public Convenience and Necessity with the Mississippi PSC to allow construction of a new electric generating plant located in Kemper County, Mississippi. The plant would utilize an IGCC technology with an output capacity of 582 MWs. The Kemper IGCC will use locally mined lignite (an abundant, lower heating value coal) from a proposed mine adjacent to the plant as fuel. This certificate, if approved by the Mississippi PSC, would authorize the Company to acquire, construct, and operate the Kemper IGCC and related facilities. The Kemper IGCC, subject to federal and state reviews and certain regulatory approvals, is expected to begin commercial operation in May 2014. As part of its filing, the Company has requested certain rate recovery treatment in accordance with the State of Mississippi Baseload Act of 2008.

The Company filed an application in June 2006 with the U.S. Department of Energy (DOE) for certain tax credits available to projects using clean coal technologies under the Energy Policy Act of 2005. The DOE subsequently certified the Kemper IGCC, and in November 2006 the Internal Revenue Service (IRS) allocated Internal Revenue Code Section 48A tax credits of $133 million to the Company. On May 11, 2009, the Company received notification from the IRS formally certifying these tax credits. The utilization of these credits is dependent upon meeting the certification requirements for the Kemper IGCC, including an in-service date no later than May 2014. The Company has secured all environmental reviews and permits necessary to commence construction of the Kemper IGCC and has entered into a binding contract for the steam turbine generator, completing two milestone requirements for the Section 48A credits.

In February 2008, the Company also requested that the DOE transfer the remaining funds previously granted to a cancelled Southern Company project that would have been located in Orlando, Florida. In December 2008, an agreement was reached to assign the remaining funds to the Kemper IGCC. The estimated construction cost of the Kemper IGCC is approximately $2.4 billion, which is net of $245 million related to funding to be received from the DOE related to project construction. The remaining DOE funding of $25 million is projected to be used for demonstration over the first few years of operation.

On April 6, 2009, the Governor of the State of Mississippi signed into law a bill that will provide an ad valorem tax exemption for a portion of the assessed value of all property utilized in certain electric generating facilities with integrated gasification process facilities. This tax exemption, which may not exceed 50% of the total value of the project, is for projects with a capital investment from private sources of $1 billion or more. The Company expects the Kemper IGCC, including the gasification portion, to be a qualifying project under the law.

Beginning in December 2006, the Mississippi PSC has approved the Company's requested accounting treatment to defer the costs associated with the Company's generation resource planning, evaluation, and screening activities as a regulatory asset. In December 2008, the Company requested an amendment to its original order that would allow these costs to continue to be charged to and remain in a regulatory asset until January 1, 2010. On April 6, 2009, the Company received an accounting order from the Mississippi PSC directing the Company to continue to charge all generation resource planning, evaluation, and screening costs to regulatory assets including those costs associated with activities to obtain a certificate of public convenience and necessity and costs necessary and prudent to preserve the availability, economic viability, and/or required schedule of the Kemper IGCC generation resource planning, evaluation, and screening activities until the Mississippi PSC makes findings and determination as to the recovery of the Company's prudent expenditures. The Mississippi PSC's determination of prudence for the Company's pre-construction costs is scheduled to occur by May 2010. As of December 31, 2009, the Company had spent a total of $73.5 million associated with the Company's

generation resource planning, evaluation, and screening activities, including regulatory filing costs. Costs incurred for the year ended December 31, 2009 totaled $31.2 million as compared to $24.2 million for the year ended December 31, 2008. Of the total $73.5 million, $68.5 million was deferred in other regulatory assets, $4.0 million was related to land purchases capitalized, and $1.0 million was expensed.

On June 5, 2009, the Mississippi PSC issued an order initiating an evaluation of the Kemper IGCC and establishing a two-phase procedural schedule. On August 4, 2009, the Mississippi PSC ordered a two-part hearing process to evaluate the need for and the resources and cost of the new generating capacity separately. On November 9, 2009, the Mississippi PSC issued an order that found the Company has a demonstrated need for additional capacity of approximately 304 MWs to 1,276 MWs based on an analysis of expected load forecasts, costs, and anticipated retirements. Hearings related to the appropriate resource to meet that need as well as cost recovery of that resource through application of the State of Mississippi's Baseload Act of 2008 were held in February 2010. A decision on the resources and cost recovery is expected to be made by May 1, 2010.

On September 15, 2009, South Mississippi Electric Power Association (SMEPA) signed a non-binding letter of intent to explore the acquisition of an interest in the Kemper IGCC. The Company and SMEPA are evaluating a combination of a joint ownership arrangement and a power purchase agreement which would provide SMEPA with up to 20% of the capacity and associated energy output from the Kemper IGCC.

The final outcome of this matter cannot now be determined.

4. JOINT OWNERSHIP AGREEMENTS

The Company and Alabama Power own, as tenants in common, Units 1 and 2 (total capacity of 500 MWs) 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 (total capacity of 1,000 MWs) at Plant Daniel, which is located in Mississippi and operated by the Company.

At December 31, 2009, the Company's percentage ownership and investment in these jointly owned facilities were as follows:

Generating Plant	Percent Ownership	Gross Investment	Accumulated Depreciation
		(in thousands)	
Greene County Units 1 and 2	40%	$ 85,498	$ 42,068
Daniel Units 1 and 2	50%	$274,415	$ 139,608

The Company's proportionate share of plant operating expenses is included in the statements of income and the Company is responsible for its own financing.

5. INCOME TAXES

Southern Company files a consolidated federal income tax return and combined income tax returns for the State of Alabama and the State of Mississippi. Under a joint consolidated income tax allocation agreement, 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 it filed a separate income tax return. In accordance with IRS regulations, each company is jointly and severally liable for the tax liability.

Current and Deferred Income Taxes

Details of the income tax provisions were as follows:

	2009	2008	2007
		(in thousands)	
Federal –			
Current	**$ 77,619**	$ 20,834	$ 79,127
Deferred	**(32,980)**	22,054	(34,524)
	44,639	42,888	44,603
State –			
Current	**12,444**	2,675	9,274
Deferred	**(6,869)**	2,786	(2,047)
	5,575	5,461	7,227
Total	**$ 50,214**	$ 48,349	$ 51,830

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:

	2009	2008
		(in thousands)
Deferred tax liabilities –		
Accelerated depreciation	**$279,683**	$261,091
Basis differences	**19,730**	29,089
Fuel clause under recovered	**-**	25,534
Energy cost management clause under recovered	**25,232**	-
Regulatory assets associated with asset retirement obligations	**6,876**	7,100
Regulatory assets associated with employee benefit obligations	**43,535**	37,003
Other	**21,679**	20,915
Total	**396,735**	380,732
Deferred tax assets –		
Federal effect of state deferred taxes	**8,979**	10,724
Fuel clause over recovered	**44,009**	-
Energy cost management clause over recovered	**-**	2,264
Other property basis differences	**7,367**	7,338
Pension and other benefits	**64,553**	56,024
Property insurance	**22,365**	21,997
Unbilled fuel	**12,194**	10,400
Long-term service agreement	**21,317**	16,595
Asset retirement obligations	**6,876**	7,100
Other	**18,246**	17,758
Total	**205,906**	150,200
Total deferred tax liabilities, net	**190,829**	230,532
Portion included in (accrued) prepaid income taxes, net	**32,237**	(8,208)
Accumulated deferred income taxes	**$223,066**	$222,324

At December 31, 2009, the tax-related regulatory assets and liabilities were $9.0 million and $14.9 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.

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, $1.2 million, and $1.1 million for 2009, 2008, and 2007, respectively. At December 31, 2009, all investment tax credits available to reduce federal income taxes payable had been utilized.

Effective Tax Rate

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:

	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**2.7**	2.6	3.0
Non-deductible book depreciation	**0.3**	0.3	0.3
Production activities deduction	**(1.1)**	(0.4)	(0.5)
Medicare subsidy	**(0.4)**	(0.5)	(0.5)
Amortization of permanent tax items[a]	**0.0**	(0.7)	-
Other	**0.2**	(0.8)	0.4
Effective income tax rate	**36.7%**	35.5%	37.7%

[a]Amortization of Regulatory Liability Tax Credits. See Note 3 under "Retail Regulatory Matters - Performance Evaluation Plan."

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in the Internal Revenue Code Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, the Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements.

Unrecognized Tax Benefits

For 2009, the total amount of unrecognized tax benefits increased by $1.2 million, resulting in a balance of $3.0 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	2009	2008	2007
		(in thousands)	
Unrecognized tax benefits at beginning of year	**$1,772**	$ 935	$656
Tax positions from current periods	**1,309**	653	177
Tax positions from prior periods	**(55)**	265	102
Reductions due to settlements	**-**	(81)	-
Reductions due to expired statute of limitations	**-**	-	-
Balance at end of year	**$3,026**	$1,772	$935

The tax positions from current periods increase for 2009 relate primarily to the production activities deduction tax position and other miscellaneous uncertain tax positions. The tax positions increase from prior periods for 2009 relates primarily to the production activities deduction tax position. See "Effective Tax Rate" above for additional information.

Impact on the Company's effective tax rate, if recognized, is as follows:

	2009	2008	2007
		(in thousands)	
Tax positions impacting the effective tax rate	**$3,026**	$1,772	$935
Tax positions not impacting the effective tax rate	-	-	-
Balance of unrecognized tax benefits	**$3,026**	$1,772	$935

Accrued interest for unrecognized tax benefits was as follows:

	2009	2008	2007
		(in thousands)	
Interest accrued at beginning of year	**$203**	$106	$37
Interest reclassified due to settlements	-	(17)	-
Interest accrued during the year	**27**	114	69
Balance at end of year	**$230**	$203	$106

The Company classifies interest on tax uncertainties as interest expense. The Company did not accrue any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized benefit with respect to a majority of the Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. The possible conclusion or settlement of state audits could impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

6. FINANCING

Bank Term Loans

In 2008, the Company borrowed $80 million under a three-year term loan agreement. The proceeds were used for general corporate purposes, including the Company's continuous construction program.

Senior Notes

In March 2009, the Company issued $125 million of Series 2009A 5.55% Senior Notes due March 1, 2019. Proceeds were used to repay at maturity the Company's $40.0 million aggregate principal amount of Series F Floating Rate Senior Notes due March 9, 2009, to repay a portion of its short-term indebtedness and for general corporate purposes, including the Company's continuous construction program. In November 2008, the Company issued $50.0 million of Series 2008A 6.00% Senior Notes due November 15, 2013. At December 31, 2009 and 2008, the Company had a total of $330 million and $245 million, respectively, of senior notes outstanding.

Securities Due Within One Year

At December 31, 2009 and 2008, the Company has scheduled maturities of capital leases due within one year of $1.3 million and $1.2 million, respectively. At December 31, 2008, the Company also had senior notes of $40.0 million due within one year.

Maturities through 2013 applicable to total long-term debt are as follows: $1.3 million in 2010; $81.4 million in 2011; $0.6 million in 2012; and $50.0 million in 2013. There are no scheduled maturities in 2014.

Pollution Control Revenue 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, 2009 and 2008 was $82.7 million. In September 2008, the Company was required to purchase a total of approximately $7.9 million of variable rate pollution control revenue bonds that were tendered by investors. In December 2008, the bonds were successfully remarketed. On the statement of cash flow for 2008, the $7.9 million is presented as proceeds and redemptions.

Outstanding Classes of Capital Stock

The Company currently has preferred stock (including depositary shares which represent one-fourth of a share of preferred stock) and common stock authorized and outstanding. The preferred stock of the Company contains a feature that allows the holders to elect a majority of the Company's board of directors if dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of the Company, this preferred stock is presented as "Cumulative Redeemable Preferred Stock" in a manner consistent with temporary equity under applicable accounting standards. The Company's preferred stock and depositary preferred stock, without preference between classes, rank senior to the Company's common stock with respect to payment of dividends and voluntary or involuntary dissolution. Certain series of the preferred stock and depositary preferred stock are subject to redemption at the option of the Company on or after a specified date (typically five or 10 years after the date of issuance) at a redemption price equal to 100% of the liquidation amount of the stock.

Dividend Restrictions

The Company can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Bank Credit Arrangements

At the beginning of 2010, the Company had total unused committed credit agreements with banks of $156 million, all of which expire in 2010. Approximately $41 million of the facilities contain two-year term loan options and $15 million contain one-year term loan options. The Company expects to renew its credit facilities, as needed, prior to expiration.

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 average less than 1/4 of 1% for the Company. Compensating balances are not legally restricted from withdrawal.

The credit arrangements contain covenants that limit the ratio of indebtedness to capitalization (each as defined in the arrangements) to 65%. For purposes of these definitions, indebtedness excludes long-term debt payable to affiliated trusts and, in certain cases, other hybrid securities.

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. At December 31, 2009, the Company was in compliance with all such covenants. None of the arrangements contain material adverse change clauses at the time of borrowing.

This $156 million in unused credit arrangements provides required liquidity support to the Company's borrowings through a commercial paper program. At December 31, 2009, the Company had no commercial paper outstanding. The credit arrangements also provide support to the Company's variable rate tax-exempt pollution control bonds totaling $40.1 million. During 2009, the peak amount outstanding for short-term debt was $66.7 million and the average amount outstanding was $15.9 million. The average annual interest rate on short-term debt was 0.3% for 2009 and 2.6% for 2008.

7. COMMITMENTS

Construction Program

The Company is engaged in continuous construction programs, currently estimated to total $472 million in 2010, $661 million in 2011, and $1.3 billion in 2012. The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; revised load growth

estimates; storm impacts; changes in environmental statutes and regulations; changes in FERC rules and regulations; Mississippi PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. At December 31, 2009, significant purchase commitments were outstanding in connection with the construction program. 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. The LTSA provides that GE will cover all planned inspections on the covered equipment, which generally 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 limits and scope specified in the LTSA.

In general, the LTSA is in effect through two major inspection cycles of the units. Scheduled payments to GE under the LTSA, which are subject to price escalation, 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 $13.3 million, $9.4 million, and $9.7 million for 2009, 2008, and 2007, respectively, which is included in maintenance expense in the statements of income. Remaining payments to GE under the LTSA are currently estimated to total $121 million over the next 11 years. However, the LTSA contains various cancellation provisions at the option of the Company.

The Company also has entered into a LTSA with Alstom Power, Inc. for the purpose of securing maintenance support for its Chevron Unit 5 combustion turbine plant. In summary, the LTSA stipulates that Alstom Power, Inc. will perform all planned maintenance on the covered equipment, which includes the cost of all labor and materials. Alstom Power, Inc is also obligated to cover the costs of unplanned maintenance on the covered equipment subject to a limit specified in the LTSA.

In general, this LTSA is in effect through two major inspection cycles. Scheduled payments to Alstom Power, Inc., which are subject to price escalation, are made at various intervals based on actual operating hours of the unit. Payments to Alstom Power, Inc. under the LTSA are currently estimated to total $22.3 million over the remaining term of the LTSA, which is approximately eight years. However, the LTSA contains various cancellation provisions at the option of the Company. Payments made to Alstom Power, Inc. under the LTSA 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. After the LTSA expires, the Company expects to replace it with a new contract with similar terms.

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 fossil 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 and nitrogen oxide emissions allowances. 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, 2009.

Total estimated minimum long-term obligations at December 31, 2009 were as follows:

	Commitments	
	Natural Gas	Coal
	(in thousands)	
2010	$185,120	$316,006
2011	154,004	322,858
2012	97,800	111,226
2013	75,708	23,005
2014	61,622	7,800
2015 and thereafter	182,662	-
Total	$756,916	$780,895

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 the other traditional operating companies and Southern Power. Under these agreements, each of the traditional operating companies and Southern Power may be jointly and severally liable. The creditworthiness of Southern Power is currently inferior to the creditworthiness of the traditional operating companies. Accordingly, Southern Company has entered into keep-well agreements with the Company and each of the other traditional operating companies to ensure the Company will not subsidize or be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of Southern Power as a contracting party under these agreements.

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-MW natural gas combined cycle generating facility built at Plant Daniel (Facility). 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 – Performance Evaluation Plan" for a description of the Company's formulary 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% 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 $370 million. The Company is required to amortize approximately 4% of the initial acquisition cost over the initial lease term. In April 2010, 18 months prior to the end of the initial lease, the Company must notify Juniper if the lease will be terminated. The Company may elect to renew the lease for 10 years. If the lease is renewed, the agreement calls for the Company to amortize an additional 17% 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. If the Company does not exercise either its purchase option or its renewal option, the Company could lose its rights to some or all of the 1,064 MWs of capacity at that time.

The lease provides for a residual value guarantee, approximately 73% 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 $3 million, $5 million, and $7 million for the fair market value of this residual value guarantee is included in the balance sheets at December 31, 2009, 2008, and 2007, respectively. Lease expenses were $26 million, $26 million, and $27 million in 2009, 2008, and 2007, 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, 2009, are as follows:

Minimum Lease Payments	
	(in thousands)
2010	$ 28,398
2011	28,291
2012 and thereafter	-
Total commitments	$ 56,689

Other Operating Leases

The Company and Gulf Power have jointly entered into operating lease agreements for the use of 745 aluminum railcars. The Company has the option to purchase the railcars at the greater of lease termination value or fair market value, or to renew the leases at the end of the lease term. The Company also has multiple operating lease agreements for the use of additional railcars that do not contain a purchase option. All of these leases are for the transport of coal to Plant Daniel.

The Company's share (50%) of the leases, charged to fuel stock and recovered through the fuel cost recovery clause, was $4.0 million in 2009, $4.0 million in 2008, and $4.4 million in 2007. The Company's annual railcar lease payments for 2010 through 2014 will average approximately $1.7 million and after 2014, lease payments total in aggregate approximately $1.6 million.

In addition to railcar leases, the Company has other operating leases for fuel handling equipment at Plants Daniel and Watson and operating leases for barges and tow/shift boats for the transport of coal at Plant Watson. The Company's share (50% at Plant Daniel and 100% at Plant Watson) of the leases for fuel handling was charged to fuel handling expense in the amount of $0.6 million in 2009 and $0.6 million in 2008. The Company's annual lease payments for 2010 through 2014 will average approximately $0.3 million for fuel handling equipment. The Company charged to fuel stock and recovered through fuel cost recovery the barge transportation leases in the amount of $8.4 million in 2009 and $9.8 million in 2008 related to barges and tow/shift boats. The Company's annual lease payments for 2010 through 2014 with respect to these barge transportation leases will average approximately $7.7 million.

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, 2009, there were 282 current and former employees of the Company participating in the stock option plan and there were 21 million shares of Southern Company common stock remaining available for awards under this plan. 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. The Company generally recognizes stock option expense on a straight-line basis over the vesting period which equates to the requisite service period; however, for employees who are eligible for retirement the total cost is expensed at the grant date. 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. For certain stock option awards, a change in control will provide accelerated vesting.

The estimated fair values of stock options granted in 2009, 2008, and 2007 were derived using the Black-Scholes stock option pricing model. Expected volatility was based on historical volatility of Southern Company's stock over a period equal to the expected term. The Company used historical exercise data to estimate the expected term that represents the period of time that options granted to employees are expected to be outstanding. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant that covers the expected term of the stock options. The following table shows the assumptions used in the pricing model and the weighted average grant-date fair value of stock options granted:

Year Ended December 31	2009	2008	2007
Expected volatility	**15.6%**	13.1%	14.8%
Expected term *(in years)*	**5.0**	5.0	5.0
Interest rate	**1.9%**	2.8%	4.6%
Dividend yield	**5.4%**	4.5%	4.3%
Weighted average grant-date fair value	**$1.80**	$2.37	$4.12

The Company's activity in the stock option plan for 2009 is summarized below:

	Shares Subject to Option	Weighted Average Exercise Price
Outstanding at December 31, 2008	1,431,127	$31.72
Granted	452,956	31.39
Exercised	(26,217)	18.64
Cancelled	(1,210)	31.21
Outstanding at December 31, 2009	**1,856,656**	**$31.83**
Exercisable at December 31, 2009	**1,153,249**	**$31.09**

The number of stock options vested, and expected to vest in the future, as of December 31, 2009 was not significantly different from the number of stock options outstanding at December 31, 2009 as stated above. As of December 31, 2009, the weighted average remaining contractual term for the options outstanding and options exercisable was 6.3 years and 4.8 years, respectively, and the aggregate intrinsic value for the options outstanding and options exercisable was $4.3 million and $3.4 million, respectively.

As of December 31, 2009, there was $0.2 million of total unrecognized compensation cost related to stock option awards not yet vested. That cost is expected to be recognized over a weighted-average period of approximately 10 months.

For the years ended December 31, 2009, 2008, and 2007, total compensation cost for stock option awards recognized in income was $0.9 million, $0.7 million, and $1.0 million, respectively, with the related tax benefit also recognized in income of $0.3 million, $0.3 million, and $0.4 million, respectively.

The compensation cost and tax benefits related to the grant and exercise of Southern Company stock options to the Company's employees are recognized in the Company's financial statements with a corresponding credit to equity, representing a capital contribution from Southern Company.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $0.4 million, $3.7 million, and $2.2 million, respectively. The actual tax benefit realized by the Company for the tax deductions from stock option exercises totaled $0.2 million, $1.4 million, and $0.9 million, respectively, for the years ended December 31, 2009, 2008, and 2007.

9. FAIR VALUE MEASUREMENTS

The fair value measurement is based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The fair value measurements performed on a recurring basis and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	Fair Value Measurements Using			
At December 31, 2009:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in thousands)		
Assets:				
Energy-related derivatives	$ -	$ 563	$ -	$ 563
Cash equivalents	60,000	-	-	60,000
Total	$60,000	$ 563	$ -	$60,563
Liabilities:				
Energy-related derivatives	$ -	$42,297	$ -	$42,297

Energy-related derivatives primarily consist of over-the-counter contracts. See Note 10 for additional information. The cash equivalents consist of securities with original maturities of 90 days or less. All of these financial instruments and investments are valued primarily using the market approach.

As of December 31, 2009, the fair value measurements of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those investments, are as follows:

As of December 31, 2009:	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			
Cash equivalents:				
Money market funds	$60,000	None	Daily	Not applicable

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

As of December 31, 2009, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	Fair Value
	(in thousands)	
Long-term debt:		
2009	**$491,410**	**$497,933**
2008	$407,061	$405,957

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

10. DERIVATIVES

The 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 its exposures, where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

Energy-Related Derivatives

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 manages fuel-hedging programs, implemented per the guidelines of the Mississippi PSC, through the use of financial derivative contracts.

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

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

- *Regulatory Hedges* – Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the Company's fuel hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as the underlying fuel is used in operations and ultimately recovered through the respective fuel cost recovery clauses.
- *Cash Flow Hedges* – Gains and losses on energy-related derivatives designated as cash flow hedges, are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income (OCI) before being recognized in income in the same period as the hedged transactions are reflected in earnings.

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

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

At December 31, 2009, the net volume of energy-related derivative contracts for natural gas positions for the Company, together with the longest hedge date over which it is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

Net Purchased mmBtu*	Longest Hedge Date	Longest Non-Hedge Date
(in thousands)		
24,000	2014	-

* mmBtu - million British thermal units

For cash flow hedges, the amounts expected to be reclassified from OCI to revenue and fuel expense for the next 12-month period ending December 31, 2010 are immaterial.

Derivative Financial Statement Presentation and Amounts

At December 31, 2009 and 2008, the fair value of energy-related derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in thousands)			*(in thousands)*	
Derivatives designated as hedging instruments for regulatory purposes						
Energy-related derivatives:	Other current assets	**$446**	$761	Liabilities from risk management activities	**$19,454**	$28,660
	Other deferred charges and assets	**105**	-	Other deferred credits and liabilities	**22,843**	24,057
Total derivatives designated as hedging instruments for regulatory purposes		**$551**	$761		**$42,297**	$52,717
Derivatives designated as hedging instruments in cash flow hedges						
Energy-related derivatives:	Other current assets	**$ -**	$159	Liabilities from risk management activities	**$ -**	$ 17
Derivatives not designated as hedging instruments						
Energy-related derivatives:	Other current assets	**$ 12**	$443	Liabilities from risk management activities	**$ -**	$ 614
Total		**$563**	$1,363		**$42,297**	$53,348

All derivative instruments are measured at fair value. See Note 9 for additional information.

At December 31, 2009 and 2008, the pre-tax effect of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred on the balance sheets were as follows:

	Unrealized Losses			Unrealized Gains		
Derivative Category	**Balance Sheet Location**	**2009**	2008	**Balance Sheet Location**	**2009**	2008
		(in thousands)			*(in thousands)*	
Energy-related derivatives:	Other regulatory assets, current	**$ (19,454)**	$ (28,660)	Other regulatory liabilities, current	**$ 446**	$ 761
	Other regulatory assets, deferred	**(22,843)**	(24,057)	Other regulatory liabilities, deferred	**105**	-
Total energy-related derivative gains (losses)		**$ (42,297)**	$ (52,717)		**$ 551**	$ 761

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	**Gain (Loss) Recognized in OCI on Derivative (Effective Portion)**			**Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**			
					Amount		
Derivative Category	**2009**	2008	2007	**Statements of Income Location**	**2009**	2008	2007
		(in thousands)				*(in thousands)*	
Energy-related derivatives	$ -	$(929)	$(41)	Fuel	$ -	$ -	$ -

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

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were immaterial.

Contingent Features

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 derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain affiliated companies. At December 31, 2009, the fair value of derivative liabilities with contingent features was $3.9 million.

At December 31, 2009, the Company had no collateral posted with its derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is $33.3 million.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to debt and preferred stock.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. The Company participated in certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade.

11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 2009 and 2008 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
		(in thousands)	
March 2009	**$268,723**	**$31,418**	**$17,971**
June 2009	**286,681**	**40,899**	**21,933**
September 2009	**330,680**	**63,075**	**34,898**
December 2009	**263,337**	**20,665**	**10,165**
March 2008	$285,416	$28,712	$16,172
June 2008	297,932	39,410	24,005
September 2008	381,415	58,718	36,217
December 2008	291,779	20,488	9,566

The Company's business is influenced by seasonal weather conditions.

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SELECTED FINANCIAL AND OPERATING DATA 2005-2009

Mississippi Power Company 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in thousands)	**$1,149,421**	$1,256,542	$1,113,744	$1,009,237	$969,733
Net Income after Dividends on Preferred Stock (in thousands)	**$84,967**	$85,960	$84,031	$82,010	$73,808
Cash Dividends on Common Stock (in thousands)	**$68,500**	$68,400	$67,300	$65,200	$62,000
Return on Average Common Equity (percent)	**13.12**	13.75	13.96	14.25	13.33
Total Assets (in thousands)	**$2,072,681**	$1,952,695	$1,727,665	$1,708,376	$1,981,269
Gross Property Additions (in thousands)	**$95,573**	$139,250	$114,927	$127,290	$158,084
Capitalization (in thousands):					
Common stock equity	**$658,522**	$636,451	$613,830	$589,820	$561,160
Redeemable preferred stock	**32,780**	32,780	32,780	32,780	32,780
Long-term debt	**493,480**	370,460	281,963	278,635	278,630
Total (excluding amounts due within one year)	**$1,184,782**	$1,039,691	$928,573	$901,235	$872,570
Capitalization Ratios (percent):					
Common stock equity	**55.6**	61.2	66.1	65.4	64.3
Redeemable preferred stock	**2.8**	3.2	3.5	3.6	3.8
Long-term debt	**41.6**	35.6	30.4	31.0	31.9
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0	100.0
Security Ratings:					
First Mortgage Bonds -					
Moody's	-	-	-	-	-
Standard and Poor's	-	-	-	-	-
Fitch	-	-	-	-	-
Preferred Stock -					
Moody's	**A3**	A3	A3	A3	A3
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	A1
Standard and Poor's	**A**	A	A	A	A
Fitch	**AA-**	AA-	AA-	AA-	AA-
Customers (year-end):					
Residential	**151,375**	152,280	150,601	147,643	142,077
Commercial	**33,147**	33,589	33,507	32,958	30,895
Industrial	**513**	518	514	507	512
Other	**180**	183	181	177	176
Total	**185,215**	186,570	184,803	181,285	173,660
Employees (year-end)	**1,285**	1,317	1,299	1,270	1,254

	2009	2008	2007	2006	2005
Operating Revenues (in thousands):					
Residential	**$245,357**	$248,693	$230,819	$214,472	$209,546
Commercial	**269,423**	271,452	247,539	215,451	213,093
Industrial	**269,128**	258,328	242,436	211,451	190,720
Other	**7,041**	6,961	6,420	5,812	5,501
Total retail	**790,949**	785,434	727,214	647,186	618,860
Wholesale - non-affiliates	**299,268**	353,793	323,120	268,850	283,413
Wholesale - affiliates	**44,546**	100,928	46,169	76,439	50,460
Total revenues from sales of electricity	**1,134,763**	1,240,155	1,096,503	992,475	952,733
Other revenues	**14,658**	16,387	17,241	16,762	17,000
Total	**$1,149,421**	$1,256,542	$1,113,744	$1,009,237	$969,733
Kilowatt-Hour Sales (in thousands):					
Residential	**2,091,825**	2,121,389	2,134,883	2,118,106	2,179,756
Commercial	**2,851,248**	2,856,744	2,876,247	2,675,945	2,725,274
Industrial	**4,329,924**	4,187,101	4,317,656	4,142,947	3,798,477
Other	**38,855**	38,886	38,764	36,959	37,905
Total retail	**9,311,852**	9,204,120	9,367,550	8,973,957	8,741,412
Wholesale - non-affiliates	**4,651,606**	5,016,655	5,185,772	4,624,092	4,811,250
Wholesale - affiliates	**839,372**	1,487,083	1,026,546	1,679,831	896,361
Total	**14,802,830**	15,707,858	15,579,868	15,277,880	14,449,023
Average Revenue Per Kilowatt-Hour (cents):					
Residential	**11.73**	11.72	10.81	10.13	9.61
Commercial	**9.45**	9.50	8.61	8.05	7.82
Industrial	**6.22**	6.17	5.61	5.10	5.02
Total retail	**8.49**	8.53	7.76	7.21	7.08
Wholesale	**6.26**	6.99	5.94	5.48	5.85
Total sales	**7.67**	7.90	7.04	6.50	6.59
Residential Average Annual Kilowatt-Hour Use Per Customer	**13,762**	13,992	14,294	14,480	14,111
Residential Average Annual Revenue Per Customer	**$1,614**	$1,640	$1,545	$1,466	$1,357
***Plant Nameplate Capacity* Ratings** (year-end) (megawatts)	**3,156**	3,156	3,156	3,156	3,156
Maximum Peak-Hour Demand (megawatts):					
Winter	**2,392**	2,385	2,294	2,204	2,178
Summer	**2,522**	2,458	2,512	2,390	2,493
Annual Load Factor (percent)	**60.7**	61.5	60.9	61.3	56.6
Plant Availability Fossil-Steam (percent)	**94.1**	91.6	92.2	81.1	82.8
Source of Energy Supply (percent):					
Coal	**40.0**	58.7	60.0	63.1	58.1
Oil and gas	**43.6**	28.6	27.1	26.1	24.4
Purchased power -					
From non-affiliates	**3.3**	4.4	3.0	3.5	5.1
From affiliates	**13.1**	8.3	9.9	7.3	12.4
Total	**100.0**	100.0	100.0	100.0	100.0

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SOUTHERN POWER COMPANY

FINANCIAL SECTION

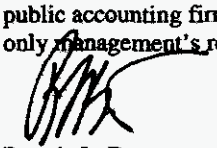
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Southern Power Company and Subsidiary Companies 2009 Annual Report

The management of Southern Power Company (the "Company") 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 the 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. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.



Ronnie L. Bates
President and Chief Executive Officer



Michael W. Southern
Senior Vice President and Chief Financial Officer

February 25, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Southern Power Company

We have audited the accompanying consolidated balance sheets of Southern Power Company and Subsidiary Companies (the "Company") (a wholly owned subsidiary of Southern Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2009. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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 consolidated financial statements (pages II-407 to II-428) present fairly, in all material respects, the financial position of Southern Power Company and Subsidiary Companies at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

OVERVIEW

Business Activities

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

In October 2009, the Company acquired all of the outstanding membership interests of Nacogdoches Power LLC (Nacogdoches) from American Renewables, LLC, the developer of the project. The Company is constructing a biomass generating plant near Sacul, Texas with an estimated capacity of 100 megawatts (MWs). The generating plant will be fueled from wood waste. Construction commenced in late 2009 and the plant is expected to begin commercial operation in 2012. The output of the plant will be sold under a long-term PPA.

In December 2009, the Company acquired all of the outstanding membership interests of West Georgia Generating Company, LLC (West Georgia) from Broadway Gen Funding, LLC (Broadway), an affiliate of LS Power. West Georgia was merged into the Company and the Company now owns a 669-MW nameplate capacity generating facility consisting of four combustion turbine natural gas generating units with oil back-up. The output from two units is sold under long-term PPAs.

In December 2009, the Company transferred all of the outstanding membership interests of DeSoto County Generating Company LLC (DeSoto) to Broadway as part of the acquisition of West Georgia.

The Company continued construction of an electric generating plant in Cleveland County, North Carolina. This plant will consist of four combustion turbine natural gas generating units with a total expected generating capacity of 720 MWs. The units are expected to begin commercial operation in 2012. The Company has entered into long-term PPAs for 540 MWs of the generating capacity of the plant.

As of December 31, 2009, the Company had units totaling 7,880 MWs nameplate capacity in commercial operation. The weighted average duration of the Company's wholesale contracts exceeds 11.7 years, which reduces remarketing risk. The Company's future earnings will depend on the parameters of the wholesale market and the efficient operation of its wholesale generating assets. See FUTURE EARNINGS POTENTIAL herein for additional information.

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 several key performance indicators. These indicators include peak season equivalent forced outage rate (EFOR), return on invested capital (ROIC), and net income. EFOR defines the hours during peak demand times when the Company's generating units are not available due to forced outages (the lower the better). ROIC is focused on earning a return on all invested capital that meets or exceeds the Company's weighted average cost of capital. Net income is the primary measure of the Company's financial performance. The Company's actual performance in 2009 met or surpassed targets in these key performance areas. See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance.

Earnings

The Company's 2009 net income was $155.9 million, an $11.5 million increase over 2008. This increase was primarily due to increased margins associated with the operation of Plant Franklin Unit 3 for all of 2009, increased generation from the Company's combined cycle units due to lower natural gas prices, and profit recognized under a construction contract with the Orlando Utilities Commission (OUC) whereby the Company provided engineering, procurement, and construction services to build a combined cycle unit for the OUC. These favorable impacts were partially offset by a loss recognized on the transfer of DeSoto to Broadway in December 2009, gains recognized in income in 2008 related to the sale of an undeveloped tract of land in Orange County, Florida to the OUC, and the receipt of a fee for participating in an asset auction as an unsuccessful bidder. Additionally, depreciation increased due to the completion of Plant Franklin Unit 3 in June 2008 and an increase in depreciation rates. Interest expense increased due to a reduction of capitalized interest as a result of the completion of Plant Franklin Unit 3 in June 2008.

The Company's 2008 net income was $144.4 million, a $12.7 million increase over 2007. This increase was primarily due to increased capacity sales to requirements service customers, market sales of uncontracted generating capacity, a gain on the sale of an undeveloped tract of land in 2008, a loss on the gasifier portion of the integrated coal gasification combined cycle (IGCC) project in 2007, and the receipt of a fee for participating in an asset auction in 2008 as an unsuccessful bidder. These increases were partially offset by transmission service expenses and tariff penalties incurred in 2008, timing of plant maintenance activities, increased general and administrative expenses associated with the implementation of the Federal Energy Regulatory Commission (FERC) separation order, and increased depreciation associated with Plant Oleander Unit 5 and Plant Franklin Unit 3 being placed into commercial operation in December 2007 and June 2008, respectively.

The Company's 2007 net income was $131.6 million, a $7.2 million increase over 2006. This increase was primarily due to increased energy sales due to more favorable weather in 2007. Also contributing to the increase were additional sales from the acquisition of Plant Rowan in September 2006. These increases were partially offset by the $10.7 million after tax loss as a result of the termination of the construction of the gasifier portion of the IGCC project.

RESULTS OF OPERATIONS

A condensed statement of income follows:

	Amount	Increase (Decrease) from Prior Year		
	2009	2009	2008	2007
		(in millions)		
Operating revenues	$ 946.7	$ (366.9)	$ 341.5	$ 195.0
Fuel	232.5	(192.3)	186.1	93.4
Purchased power	143.9	(184.0)	128.1	29.3
Other operations and maintenance	136.7	(11.1)	12.7	39.7
Loss (gain) on sale of property	5.0	11.0	(6.0)	-
Loss on IGCC project	-	-	(17.6)	17.6
Depreciation and amortization	98.1	9.6	14.5	8.0
Taxes other than income taxes	16.9	(0.8)	2.0	0.2
Total operating expenses	633.1	(367.6)	319.8	188.2
Operating income	313.6	0.7	21.7	6.8
Interest expense	85.0	1.8	4.0	(1.0)
Profit recognized on construction contract	13.3	13.3	-	-
Other income (expense), net	(0.4)	(8.0)	4.3	1.1
Income taxes	85.6	(7.3)	9.3	1.7
Net income	$ 155.9	$ 11.5	$ 12.7	$ 7.2

Operating Revenues

Operating revenues in 2009 were $946.7 million, a $366.9 million (27.9%) decrease from 2008. This decrease was primarily due to lower natural gas prices that reduced energy revenues. This decrease was partially offset by increased capacity and energy revenues from the operation of Plant Franklin Unit 3 and a PPA relating to four units at Plant Dahlberg that began in June 2009.

Operating revenues in 2008 were $1.31 billion, a $341.5 million (35.1%) increase from 2007. This increase was primarily due to increased short-term energy revenues from uncontracted generating units, increased energy revenues due to higher natural gas prices, and increased revenues from a full year of operations at Plant Oleander Unit 5. These increases were partially offset by decreased demand under existing PPAs due to less favorable weather in 2008 compared to 2007. The increase in fuel revenues was accompanied by an increase in related fuel costs and did not have a significant impact on net income.

Operating revenues in 2007 were $972 million, a $195.0 million (25.1%) increase from 2006. This increase was primarily due to increased short-term energy sales, a full year of operations at Plant Rowan acquired in September 2006, new sales with EnergyUnited Electric Membership Cooperative (EnergyUnited), increased demand under existing PPAs with affiliates as a result of favorable weather within the Southern Company system service territory, and higher fuel revenues due to an increase in natural gas prices in 2007. The increase in fuel revenues was accompanied by an increase in related fuel costs and did not have a significant impact on net income.

Capacity revenues are an integral component of the Company's PPAs with both affiliate and non-affiliate customers and represent the greatest contribution to net income. Energy under the PPAs is generally sold at variable cost or is indexed to published gas indices. Energy revenues also include fees for support services, fuel storage, and unit start charges. Details of these PPA capacity and energy revenues are as follows:

	2009	2008	2007
		(in millions)	
Capacity revenues –			
Affiliates	**$ 287.6**	$ 279.2	$ 279.7
Non-affiliates	**185.7**	165.2	136.9
Total	**473.3**	444.4	416.6
Energy revenues –			
Affiliates	**192.8**	263.6	227.1
Non-affiliates	**173.8**	249.0	189.1
Total	**366.6**	512.6	416.2
Total PPA revenues	**$ 839.9**	$ 957.0	$ 832.8

Wholesale revenues that were not covered by PPAs totaled $98.9 million in 2009, which included $64.0 million of revenues from affiliated companies. Wholesale revenues that were not covered by PPAs totaled $349.2 million in 2008, which included $95.5 million of revenues from affiliated companies. Wholesale revenues that were not covered by PPAs totaled $131.0 million in 2007, which included $40.0 million of revenues from affiliated companies. These wholesale sales were made in accordance with the Intercompany Interchange Contract (IIC), as approved by the FERC. These non-PPA wholesale revenues will vary from year to year 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 system fleet of generating plants (power pool).

Fuel and Purchased Power Expenses

Fuel costs constitute the single largest expense for the Company. Additionally, the Company purchases a portion of its electricity needs from the wholesale market.

Details of the Company's fuel and purchased power expenditures are as follows:

	2009	2008	2007
		(in millions)	
Fuel	**$ 232.5**	$ 424.8	$ 238.7
Purchased power-non-affiliates	**79.3**	132.2	64.6
Purchased power-affiliates	**64.6**	195.8	135.3
Total fuel and purchased power expenses	**$ 376.4**	$ 752.8	$ 438.6

In 2009, total fuel and purchased power expenses decreased by $376.4 million (50.0%) compared to 2008. This decrease was driven by a 56.0% decrease in the average cost of natural gas and a 41.3% decrease in the average cost of purchased power. Additionally, purchased power volume decreased 25.2% primarily due to increased generation at the Company's combined cycle units as a result of lower natural gas prices. These decreases were partially offset by a 31.2% increase in generation at the Company's combined cycle units as a result of lower natural gas prices. In 2008, total fuel and purchased power expenses increased by $314.2 million (71.6%) compared to 2007. This increase was driven by a 58.9% increase in generation due to operations at Plant Franklin Unit 3, an 11.9% increase in the average cost of natural gas, and a 107.9% increase in the average cost of purchased power. In 2007, total fuel and purchased power expenses increased by $122.7 million (38.8%) compared to 2006. This increase was driven by a 43.7% increase in generation at Plants Wansley and Dahlberg, a 5.2% increase in the average cost of natural gas, increased purchases of lower cost energy resources from the power pool and non-affiliates, and contracts with Georgia Electric Membership Corporations and Dalton Utilities.

In 2009, fuel expense decreased by $192.3 million (45.3%) compared to 2008. This decrease was driven by a 56.0% decrease in the average cost of natural gas. This decrease was partially offset by a 31.2% increase in generation at the Company's combined cycle units as a result of lower natural gas prices. In 2008, fuel expense increased by $186.1 million (78.0%) compared to 2007. This increase was driven by a 58.9% increase in generation primarily due to operations at Plant Franklin Unit 3 and an 11.9% increase in the average cost of natural gas. In 2007, fuel expense increased by $93.4 million (64.3%) compared to 2006. This increase was driven by a 43.7% increase in generation at Plants Wansley and Dahlberg and a 5.2% increase in the average cost of natural gas.

In 2009, purchased power expense decreased $184.0 million (56.1%) compared to 2008, primarily due to a 41.3% decrease in the average cost of purchased power. Additionally, purchased power volume in 2009 decreased 25.2% due to increased generation at the Company's combined cycle units as a result of lower natural gas prices. Purchased power expense increased $128.1 million (64.1%) in 2008 when compared to 2007, primarily due to a 107.9% increase in the average cost of purchased power. Purchased power expense increased $29.3 million (17.1%) in 2007 when compared to 2006, primarily due to increased purchases of lower cost energy resources from the power pool and non-affiliates and contracts with Georgia Electric Membership Corporation and Dalton Utilities.

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

Purchased power expenses will vary depending on demand and the availability and cost of generating resources available throughout the Southern Company system and other contract resources. Load requirements are submitted to the power pool on an hourly basis and are fulfilled with the lowest cost alternative, whether that is generation owned by the Company, affiliate-owned generation, or external purchases.

Other Operations and Maintenance Expenses

In 2009, other operations and maintenance expenses decreased $11.1 million (7.5%) compared to 2008. This decrease was due primarily to transmission tariff penalties recognized in 2008, reduced transmission expenses due to a decrease in power sales into the market, and the timing of plant outages.

In 2008, other operations and maintenance expenses increased $12.7 million (9.4%) compared to 2007. This increase was due primarily to the timing of plant maintenance activities, transmission tariff penalties, and additional administrative and general expenses as a result of costs incurred to implement the FERC compliance plan. See Note 3 to the financial statements under "FERC Matters – Intercompany Interchange Contract" for additional information.

In 2007, other operations and maintenance expenses increased $39.7 million (41.7%) compared to 2006. This increase was due primarily to a full year of operations at Plant DeSoto and Plant Rowan acquired in June 2006 and September 2006, respectively, and additional administrative and general expenses as a result of costs incurred to implement the FERC compliance plan. See Note 3 to the financial statements under "FERC Matters – Intercompany Interchange Contract" for additional information.

Loss (Gain) on Sale of Property

In December 2009, the Company recorded a loss of $5.0 million on the transfer of DeSoto to Broadway. See FUTURE EARNINGS POTENTIAL – "Acquisitions and Divestitures – West Georgia Acquisition and Plant DeSoto Divestiture" herein and Note 2 to the financial statements under "Acquisitions and Divestitures – West Georgia Generating Company, LLC Acquisition and DeSoto County Generating Company, LLC Divestiture" for additional information.

In January 2008, the Company recorded a gain of $6.0 million on the sale of an undeveloped tract of land.

Loss on IGCC Project

In November 2007, the Company and the OUC mutually agreed to terminate the construction of the gasifier portion of the IGCC project, originally planned as a joint venture; however, the Company continued construction of the gas-fired combined cycle generating facility, owned solely by the OUC. The Company recorded a loss in the fourth quarter 2007 of $17.6 million related to the cancellation of the gasifier portion of the IGCC project. This loss consists of the write-off of construction costs of $14.0 million and an accrual for termination payments of $3.6 million. All termination payments were completed in 2008.

Depreciation and Amortization

In 2009, depreciation and amortization increased $9.6 million (10.9%) compared to 2008. This increase was primarily due to the completion of Plant Franklin Unit 3 in June 2008 and higher depreciation rates implemented during 2009.

In 2008, depreciation and amortization increased $14.5 million (19.7%) due to the completion of Plant Franklin Unit 3 in June 2008 and higher depreciation rates implemented in January 2008.

In 2007, depreciation and amortization increased $8.0 million (12.2%) due to the completion of Plant Oleander Unit 5 in December 2007 and additional depreciation related to Plants DeSoto and Rowan acquired in June 2006 and September 2006, respectively, and higher depreciation rates from a study adopted in March 2006.

See FUTURE EARNINGS POTENTIAL – "Other Matters" herein for additional information regarding the Company's ongoing review of depreciation estimates. See also Note 1 to the financial statements under "Depreciation" for additional information.

Taxes Other Than Income Taxes

The 2009 decrease in taxes other than income taxes was not material.

In 2008, taxes other than income taxes increased $2.0 million (12.4%) compared to 2007. This increase was primarily due to property taxes related to the completion of Plant Oleander Unit 5 and Plant Franklin Unit 3 in December 2007 and June 2008, respectively.

The 2007 increase in taxes other than income taxes was not material.

Interest Expense, Net of Amounts Capitalized

In 2009, interest expense, net of amounts capitalized increased $1.8 million (2.1%) compared to 2008. This increase was primarily due to a $5.5 million decrease in capitalized interest as a result of the completion of Plant Franklin Unit 3 in June 2008, partially offset by a $1.7 million decrease in short-term borrowing levels during 2009 and a decrease in amortization of interest rate derivatives of $2.1 million.

In 2008, interest expense, net of amounts capitalized increased $4.0 million (5.1%) compared to 2007. This increase was primarily the result of a decrease in capitalized interest as a result of the completion of Plant Oleander Unit 5 in December 2007 and Plant Franklin Unit 3 in June 2008, partially offset by a decrease in short-term borrowing levels in 2008.

In 2007, interest expense, net of amounts capitalized decreased $1.0 million (1.2%) compared to 2006. This decrease was primarily due to additional capitalized interest of $10.9 million on active construction projects and reduced interest on commercial paper of $2.0 million due to lower borrowing levels. This decrease was partially offset by an $11.9 million increase in interest on $200 million of senior notes that were issued in November 2006.

Profit Recognized on Construction Contract

Profit recognized on the construction contract with the OUC whereby the Company has provided engineering, procurement, and construction services to build a combined cycle unit for the OUC was $13.3 million in 2009. No profit or loss on this contract was recognized in 2008 or 2007.

Other Income (Expense), Net

Other income (expense), net was an expense of $0.4 million in 2009 versus income of $7.6 million in 2008. This change was primarily due to a $6.4 million fee received in 2008 for participating in an asset auction. The Company was not the successful bidder in the asset auction.

Other income (expense), net increased $4.3 million (131.1%) in 2008. This increase was primarily due to a $6.4 million fee received in 2008 for participating in an asset auction. The Company was not the successful bidder in the asset auction.

Changes in other income (expense), net in 2007 were not material.

Income Taxes

In 2009, income taxes decreased $7.3 million (7.8%) compared to 2008. This decrease was due to changes in the Internal Revenue Code of 1986, as amended (Internal Revenue Code), Section 199 production activities deduction, lower state income taxes, and tax benefits received under convertible investment tax credits. Higher pre-tax earnings partially offset these decreases. See Note 5 to the financial statements for additional information.

Income taxes increased $9.3 million (11.2%) in 2008 and $1.7 million (2.1%) in 2007 primarily due to higher pre-tax earnings and changes in the Section 199 production activities deduction.

Effects of Inflation

The Company is party to long-term contracts reflecting market-based rates, including inflation expectations. Any adverse effect of inflation on the Company's results of operations has not been substantial.

FUTURE EARNINGS POTENTIAL

General

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of the Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of the Company's competitive wholesale business. These factors include the Company's ability to achieve sales growth while containing costs. The level of future earnings also depends on numerous factors including regulatory matters (such as those related to affiliate contracts), creditworthiness of customers, total generating capacity available in the Southeast, the successful remarketing of capacity as current contracts expire, and the Company's ability to execute its acquisition strategy and to construct generating facilities. Other factors that could influence future earnings include weather, demand, generation patterns, and operational limitations. Recent recessionary conditions have lowered demand and have negatively impacted capacity revenues under the Company's PPAs where the amounts purchased are based on demand. The Company is unable to predict whether demand under these PPAs will return to pre-recession levels. The timing and extent of the economic recovery will impact future earnings.

The Company's system generating capacity increased 325 MWs due to the acquisition of West Georgia and divestiture of DeSoto in December 2009 as described herein. In general, the Company has constructed or acquired new generating capacity only after entering into long-term capacity contracts for the new facilities which are optimized by limited energy trading activities. See "Acquisitions and Divestitures" and "Construction Projects" herein for additional information.

Power Sales Agreements

The Company's sales are primarily through long-term PPAs. The Company is working to maintain and expand its share of the wholesale market. The Company expects that many areas of the market will need capacity in 2016.

The Company's PPAs consist of two types of agreements. The first type, referred to as a unit or block sale, is a customer purchase from a dedicated plant unit where all or a portion of the generation from that unit is reserved for that customer. The Company typically has the ability to serve the unit or block sale customer from an alternate resource. The second type, referred to as requirements service, provides that the Company serve the customer's capacity and energy requirements from a combination of the customer's own generating units and from Company resources not dedicated to serve unit or block sales. The Company has rights to purchase power provided by the requirements customers' resources when economically viable.

The Company has entered into the following PPAs over the past three years:

	Date	Megawatts	Plant	Contract Term
2009				
Municipal Electric Authority of Georgia (MEAG Power) (a)	December 2009	157[g]	West Georgia	12/09-4/29
Georgia Energy Cooperative, Inc. (GEC) (a)	December 2009	151	West Georgia	6/10-5/30
Austin Energy (b)	October 2009	100	Nacogdoches	6/12-5/32
Seminole Electric Cooperative, Inc. (Seminole) (c)	June 2009	509	Oleander	1/16-5/21
2008				
North Carolina Municipal Power Agency No. 1 (NCMPA1)	December 2008	180	Cleveland	1/12-12/31
North Carolina Electric Membership Corporation (NCEMC)	November 2008	180	Cleveland	1/12-12/36
NCEMC	November 2008	180[d]	Cleveland	1/12-12/36
EnergyUnited	November 2008	100	Purchased [e]	1/12-12/21
The Energy Authority, Inc.	August 2008	151	Rowan	1/11-12/14
Georgia Electric Membership Corporations (EMCs)[f]	July 2008	360[g]	Unassigned	1/10-12/34[f]
Florida Municipal Power Agency (FMPA)[h]	July 2008	85	Stanton	10/13-9/23
2007				
Progress Energy Carolina Inc.	December 2007	155	Rowan	1/10-12/10
Progress Energy Carolina Inc.	December 2007	160	Wansley	1/11-12/11
Georgia Power	April 2007	561	Wansley	6/10-5/17
Georgia Power	April 2007	292	Dahlberg	6/10-5/25
Progress Energy Carolina Inc.	February 2007	150	Rowan	1/10-12/19

(a) Assumed contract through the West Georgia acquisition in 2009.
(b) Assumed contract through the Nacogdoches acquisition in 2009. Commercial operation of Plant Nacogdoches is expected to begin in June 2012.
(c) This agreement is an extension of the current agreement with Seminole for Plant Oleander.
(d) Power purchases under this agreement will increase over the term of the agreement. 45 MWs will be sold from 2012 through 2016, 90 MWs will be sold from 2017 through 2018, and 180 MWs will be sold from 2019 through 2036.
(e) Power to serve this agreement will be purchased under a third party agreement for resale to EnergyUnited. The purchases will be resold at cost.
(f) These agreements are extensions of current agreements with 10 Georgia EMCs. Eight agreements were extended from 2010 through 2031and two agreements were extended from 2013 through 2034.
(g) Represents average annual capacity purchases.
(h) This agreement is an extension of the current agreement with FMPA for Plant Stanton.

The Company has PPAs with some of Southern Company's traditional operating companies and with other investor owned utilities, independent power producers, municipalities, and electric cooperatives. Although some of the Company's PPAs are with the traditional operating companies, the Company's generating facilities are not in the traditional operating companies' regulated rate bases, and the Company is not able to seek recovery from the traditional operating companies' ratepayers for construction, repair, environmental, or maintenance costs. The Company expects that the capacity payments in the PPAs will produce sufficient cash flow to cover 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 and demand under the Company's PPAs.

As a general matter, existing PPAs provide that the purchasers are responsible for either procuring the fuel or reimbursing the Company for 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 the 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 transporting the fuel to the particular generating facility.

Fixed and variable operation and maintenance costs will be recovered through capacity charges based on dollars-per-kilowatt year or energy charges based on dollars-per-MW hour. In general, the Company has long-term service contracts with General Electric and Siemens AG to reduce its exposure to certain operation and maintenance costs relating to such vendors' applicable equipment. See Note 7 to the financial statements under "Long-Term Service Agreements" for additional information.

Many of the Company's PPAs have provisions that require the posting of collateral or an acceptable substitute guarantee in the event that Standard and Poor's Rating Services, a division of the McGraw Hill Companies, Inc. (S&P) or Moody's Investors Service (Moody's) downgrades the credit ratings of the counterparty to an unacceptable credit rating or if 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.

The Company has entered into long-term power sales agreements for an average of 84% of its available capacity for the next five years and 74% of its available capacity for the next 10 years as follows:

	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019
Average available capacity (MWs) [a]	7,964	8,774	8,774	8,494	8,494
Average contracted capacity (MWs)	6,940	7,199	7,083	5,432	4,959
Percent contracted	**87%**	**82%**	**81%**	**64%**	**58%**

(a) Includes confirmed third party power purchases for 2010 through 2019.

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. Applicable statutes 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; the Endangered Species Act; and related federal and state regulations. Compliance with possible additional federal or state legislation or regulations related to global climate change, air quality, or other environmental and health concerns could also significantly affect the Company.

New environmental legislation or regulations, such as requirements related to greenhouse gases or changes to existing statutes or regulations, could affect many areas of the Company's operations. While 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.

Because 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 cannot be determined at this time.

Global Climate Issues

Federal legislative proposals that would impose mandatory requirements related to greenhouse gas emissions renewable energy standards, and energy efficiency standards continue to be considered in Congress, and the reduction of greenhouse gas emissions has been identified as a high priority by the current Administration. On June 26, 2009, the American Clean Energy and Security Act of 2009 (ACES), which would impose mandatory greenhouse gas restrictions through implementation of a cap and trade program, a renewable energy standard, and other measures, was passed by the House of Representatives. ACES would require reductions of greenhouse gas emissions on a national basis to a level that is 17% below 2005 levels by 2020, 42% below 2005 levels by 2030, and 83% below 2005 levels by 2050. In addition, ACES would provide for renewable energy standards of 6% by 2012 and 20% by 2020. Similar legislation is being considered by the Senate. The financial and operational impact of such legislation, if enacted, will depend on a variety of factors. These factors include the specific greenhouse gas emissions limits or renewable energy requirements, the timing of implementation of these limits or requirements, the level of emissions allowances allocated and the level that must be purchased, the purchase price of emissions allowances, the development and commercial availability of technologies for renewable energy and for the reduction of emissions, the degree to which offsets may be used for compliance, provisions for cost containment (if any), the impact on natural gas prices, and cost recovery through PPAs. There can be no assurance that any legislation will be enacted or as to the ultimate form of any legislation. Additional or alternative legislation may be adopted as well.

In April 2007, the U.S. Supreme Court ruled that the Environmental Protection Agency (EPA) has authority under the Clean Air Act to regulate greenhouse gas emissions from new motor vehicles. On December 15, 2009, the EPA published a final determination, which became effective on January 14, 2010, that certain greenhouse gas emissions from new motor vehicles endanger public health and welfare due to climate change. On September 28, 2009, the EPA published a proposed rule regulating greenhouse gas emissions from new motor vehicles under the Clean Air Act. The EPA has stated that once this rule is effective, it will cause carbon dioxide and other greenhouse gases to become regulated pollutants under the Prevention of Significant Deterioration (PSD) preconstruction permit program and the Title V operating permit program, which both apply to power plants. As a result, the construction of new facilities or the major modification of existing facilities could trigger the requirement for a PSD permit and the installation of the best available control technology for carbon dioxide and other greenhouse gases. The EPA also published a proposed rule governing how these programs would be applied to stationary sources, including power plants, on October 27, 2009. The EPA has stated that it expects to finalize these proposed rules in March 2010. The ultimate outcome of the endangerment finding and these proposed rules cannot be determined at this time and will depend on additional regulatory action and any legal challenges.

International climate change negotiations under the United Nations Framework Convention on Climate Change also continue. A nonbinding agreement was announced during the most recent round of negotiations in December 2009 that included a pledge from both developed and developing countries to reduce their greenhouse gas emissions. The outcome and impact of the international negotiations cannot be determined at this time.

Although the outcome of federal, state, or international initiatives cannot be determined at this time, mandatory restrictions on the Company's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency on the federal or state level are likely to result in significant additional compliance costs, including significant capital expenditures. Also, additional compliance costs could affect results of operations, cash flows, and financial condition if such costs are not recovered through PPAs. Further, higher costs that are recovered through regulated rates at other utilities could contribute to an overall reduction in demand for electricity, which could negatively impact the Company's results of operations, cash flows, and financial condition.

In 2008, the total carbon dioxide emissions from the fossil fuel-fired electric generating units owned by the Company were approximately 6 million metric tons. The preliminary estimate of carbon dioxide emissions from these units in 2009 is approximately 7 million metric tons. The level of carbon dioxide emissions from year to year will be dependent on the level of generation, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

The Company continues to evaluate its future energy and emissions profiles and is participating in voluntary programs to reduce greenhouse gas emissions and to help develop and advance technology to reduce emissions, including the construction of a biomass plant in Sacul, Texas.

Carbon Dioxide Litigation

Kivalina Case

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled that the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

In February 2004, the EPA finalized the Industrial Boiler (IB) MACT rule, which imposed limits on hazardous air pollutants from industrial boilers, including biomass boilers. Compliance with the final rule was scheduled to begin in September 2007; however, in response to challenges to the final rule, the U.S. Court of Appeals for the District of Columbia Circuit vacated the IB MACT rule in its entirety in July 2007 and ordered the EPA to develop a new IB MACT rule. In September 2009, the deadline to promulgate a proposed rule was extended from July 15, 2009 to April 15, 2010, with a final rule required by December 16, 2010. The EPA is currently developing the new rule and may change the methodology to determine the MACT limits for industrial boilers.

Income Tax Matters

Legislation

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Major tax incentives in the ARRA include an extension of bonus depreciation and multiple renewable energy incentives. The Company estimates the cash flow reduction to 2009 tax payments as a result of the bonus depreciation provisions of the ARRA to be immaterial. The Company is receiving investment tax credits (ITCs) under the renewable energy incentives related to the Nacogdoches biomass facility which will have a material impact on cash flows and net income. On December 8, 2009, President Obama announced proposals to accelerate job growth that include an extension of the bonus depreciation provision for the ARRA for 2010, which could have a significant impact on the future cash flow and net income of the Company. The Company is currently assessing the other financial implications of the ARRA.

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

Internal Revenue Code Section 199 Domestic Production Deduction

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in Section 199 of the Internal Revenue Code. The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. See Note 5 to the financial statements under "Effective Tax Rate" for additional information.

Acquisitions and Divestitures

Nacogdoches Acquisition

On October 8, 2009, the Company acquired all of the outstanding membership interests of Nacogdoches from American Renewables LLC, the original developer of the project, for approximately $50.1 million in cash consideration. Nacogdoches is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 MWs. The generating plant will be fueled from wood waste. Construction commenced in 2009 and the plant is expected to begin commercial operation in 2012. Costs incurred through December 31, 2009 were $86.6 million. The total estimated cost of the project is expected to be between $475 million and $500 million. The output of the plant is contracted under a PPA with Austin Energy that begins in 2012 and expires in 2032 or until a contractual limit of $2.3 billion in billings is reached. See Note 2 to the financial statements under "Acquisitions and Divestitures – Nacogdoches Power LLC Acquisition" for additional information.

West Georgia Acquisition and Plant DeSoto Divestiture

On December 17, 2009, the Company acquired all of the outstanding membership interests of West Georgia from Broadway, an affiliate of LS Power. The acquisition agreement provided for the transfer of all the outstanding membership interests of DeSoto from the Company to Broadway and the payment by the Company of approximately $144.0 million in cash consideration. West Georgia was merged into the Company and the Company now owns a 669-MW nameplate capacity generating facility consisting of four combustion turbine natural gas generating units with oil back-up. The output from two units is contracted under PPAs with MEAG Power and GEC. The MEAG Power agreement began in 2009 and expires in 2029. The GEC agreement begins in 2010 and expires in 2030. See Note 2 to the financial statements under "Acquisitions and Divestitures – West Georgia Generating Company, LLC Acquisition and DeSoto County Generating Company, LLC Divestiture" for additional information.

Construction Projects

Cleveland County Units 1-4

In December 2008, the Company announced that it will build an electric generating plant in Cleveland County, North Carolina. The plant will consist of four combustion turbine natural gas generating units with a total generating capacity of 720 MWs. The units are expected to begin commercial operation in 2012. Costs incurred through December 31, 2009 were $62.7 million. The total estimated construction cost is expected to be between $350 million and $400 million, which is included in the capital program estimates described under FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein.

The Company has also entered into PPAs with NCEMC and NCMPA1 for a portion of the generating capacity from the plant that will begin in 2012 and expire in 2036 and 2031, respectively. NCEMC will purchase 180 MWs of capacity that will be supported by one unit at the plant and will purchase capacity from a second unit at the plant that will increase to 180 MWs over a seven-year phase-in period. NCMPA1 will purchase 180 MWs from a third unit at the plant. The NCEMC PPAs were approved by the Rural Utilities Service on March 6, 2009.

Nacogdoches Biomass Plant

The Company is currently constructing a biomass plant in Sacul, Texas. See "Acquisitions and Divestitures – Nacogdoches Acquisition" herein and Note 2 to the financial statements under "Acquisitions and Divestitures – Nacogdoches Power LLC Acquisition" for additional information.

Other Matters

The Company completed depreciation studies in 2008 and 2009. The composite depreciation rates for its property, plant, and equipment were updated in these studies. These changes in estimates arise from changes in useful life assumptions for certain components of plant in service. These changes increased depreciation expense prospectively beginning January 1, 2008 and January 1, 2009 and reduced net income. The net income impacts of these changes were $2.8 million and $3.1 million in 2008 and 2009, respectively. See Note 1 to the financial statements under "Depreciation" for additional information. The Company reviews its estimated useful lives and salvage values on an ongoing basis. The results of these reviews could have a material impact on net income in the near term. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" herein for additional information.

From time to time, the Company is involved in various matters being litigated and regulatory matters that could affect future earnings. In addition, the Company is subject to certain claims and legal actions arising in the ordinary course of business. 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 and other damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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. See Note 3 to the financial statements for information regarding material issues.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed 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 generally accepted accounting principles (GAAP). 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 9 to the financial statements. 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 (including purchased capacity);
- Identifying the hedging instrument, the hedged transaction, and the nature of the risk being hedged; and
- Assessing hedge effectiveness at inception and throughout the contract term

Normal Sale and Non-Derivative Transactions

The Company has entered into capacity contracts that provide for the sale of electricity and that involve physical delivery in quantities within the Company's available generating capacity. These contracts either do not meet the definition of a derivative or are designated as normal sales, thus exempting them from fair value accounting in accordance with GAAP. As a result, such transactions are accounted for as executory contracts; additionally, the related revenue is recognized on an accrual basis in amounts equal to the lesser of the cumulative levelized amount or the cumulative amount billable under the contract over the respective contract periods. Revenues are recorded on a gross or net basis in accordance with GAAP. Contracts recorded on the accrual basis represented the majority of the Company's operating revenues for the year ended December 31, 2009.

Cash Flow Hedge Transactions

The Company designates other derivative contracts for the sale 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.

Mark-to-Market Transactions

Contracts for sales and purchases of electricity, which meet the definition of a derivative and that are not designated as normal sales and purchases or designated as cash flow hedges, are marked to market and recorded directly through net income. Net unrealized gains (losses) on such contracts recognized in wholesale revenues for the years ended December 31, 2009 and 2008 were $5.3 million and $(1.9) million, respectively. Mark-to-market transactions were immaterial in 2007.

Percentage of Completion

The Company is currently engaged in a long-term contract for engineering, procurement, and construction services to build a combined cycle unit for the OUC. Construction activities commenced in 2006 and were substantially completed in 2009. Billings and costs are recognized using the percentage of completion method. The Company utilizes the cost-to-cost approach as this method is less subjective than relying on assessments of physical progress. The percentage of completion represents the percentage of the total costs incurred to the estimated total cost of the contract. Billings and costs are recognized on a net basis in other income (expense) by applying this percentage to the total billings and estimated costs of the contract.

Impairment of Long Lived Assets and Intangibles

The Company's investments in long-lived assets are primarily generation assets, whether in service or under construction. The Company's intangible assets consist of acquired PPAs that are amortized over the term of the PPAs and goodwill resulting from acquisitions. The Company evaluates the carrying value of these assets in accordance with accounting standards whenever indicators of potential impairment exist, or annually in the case of goodwill. 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, a significant decrease in market prices, and the inability to remarket generating capacity for an extended period. 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; and
- Future operating costs.

Acquisition Accounting

The Company has been engaged in a strategy of acquiring assets. The Company has accounted for these acquisitions under the purchase method in accordance with GAAP. Accordingly, the Company has included these operations in the consolidated financial statements from the respective date of acquisition. The purchase price of each acquisition was allocated to the fair value of the identifiable assets and liabilities. Any due diligence or transition costs incurred by the Company for successful or potential acquisitions after December 31, 2008 have been expensed as incurred.

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, in accordance with accounting standards, records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. 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 (IRS) or state revenue department interpretations of existing regulations.
- Identification of sites that require environmental remediation or the filing of other complaints in which the Company may be asserted to be a potentially responsible party.
- Identification and evaluation of other potential lawsuits or complaints in which the Company may be named as a defendant.
- Resolution or progression of new or existing matters through the legislative process, the court systems, the IRS, state revenue departments, the FERC, or the EPA.

Depreciation

Depreciation of the original cost of assets is computed under the straight-line method and applies a composite depreciation rate based on the assets' estimated useful lives determined by management. The primary assets in property, plant, and equipment are power plants, all of which have an estimated composite life ranging from 24 to 35 years. These lives reflect a weighted average of the significant components (retirement units) that make up the plants. The Company reviews its estimated useful lives and salvage values on an ongoing basis. The results of these reviews could result in changes which could have a material impact on net income in the near term. See Note 1 to the financial statements under "Depreciation" for a discussion of changes in depreciation assumptions made by the Company effective January 1, 2008 and January 1, 2009.

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.

Convertible Investment Tax Credits

Under the ARRA, certain costs related to the Nacogdoches plant construction are eligible for ITCs or cash grants. The Company has elected to receive ITCs. The credits are recorded as a deferred credit, which will be amortized over the life of the asset, and the tax basis of the asset is reduced by 50% of the credits received, resulting in a deferred tax asset. The Company has elected to recognize the tax benefit of this basis difference as a reduction to income tax expense as costs are incurred during the construction period. This basis difference will reverse and be recorded to income tax expense over the useful life of the asset once placed in service. The credits received during the year will be shown within operating activities in the consolidated statements of cash flows.

New Accounting Standards

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity, and requires additional disclosures about an enterprise's involvement in variable interest entities. The Company adopted this new guidance effective January 1, 2010 with no material impact on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company's financial condition remained stable at December 31, 2009. The Company has successfully accessed the commercial paper market as needed during 2009. There was $118.9 million of commercial paper outstanding as of December 31, 2009. The Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements as needed to meet its future capital and liquidity needs. Market rates for committed credit have increased and the Company may be subject to higher costs as its existing facilities are replaced or renewed. See "Sources of Capital" herein for additional information on lines of credit.

Net cash provided from operating activities totaled $318.1 million in 2009, increasing 20.4% from 2008. This increase is primarily due to a reduction in costs incurred on the OUC construction contract, receipt of convertible investment tax credits, and timing of tax payments. Net cash used for investing activities totaled $364.1 million in 2009, increasing 324.5% from 2008. This increase was primarily due to the Nacogdoches and West Georgia acquisitions in October 2009 and December 2009, respectively. Gross property additions to utility plant of $137.1 million in 2009 were primarily related to the construction of the Cleveland County and Nacogdoches facilities. Net cash provided from financing activities was $15.2 million in 2009, compared to $140.6 million used in 2008. This change was primarily due to the issuance of short-term debt in 2009.

Net cash provided from operating activities totaled $264.3 million in 2008, decreasing 16.2% from 2007. This decrease is primarily due to cash outflows for engineering, procurement, and construction services to build a combined cycle unit for the OUC. Net cash used for investing activities totaled $85.8 million in 2008, decreasing 53.4% from 2007. This decrease was primarily due to the completion of Plant Oleander Unit 5 in 2007 and the completion of Plant Franklin Unit 3 in 2008. Gross property additions to utility plant of $50.0 million in 2008 were primarily related to the completion of Plant Franklin Unit 3. Net cash used for financing activities was $140.6 million in 2008, decreasing 12.9% from 2007. This decrease was primarily due to reduced levels of short-term debt in 2008.

Net cash provided from operating activities totaled $315.4 million in 2007, increasing 29.8% from 2006. This increase was primarily due to the increase in sales due to favorable weather and cash received under billings for the engineering, procurement, and construction services to build a combined cycle unit for the OUC. Net cash used for investing activities totaled $183.9 million in 2007, decreasing 61% from 2006. This decrease was primarily due to the acquisition of Plants DeSoto and Rowan in June 2006 and September 2006, respectively. Gross property additions to utility plant of $139.2 million in 2007 were primarily related to the on-going construction activity at Plant Franklin Unit 3 and the completion of construction at Plant Oleander Unit 5. Net cash used for financing activities was $161.5 million in 2007 compared to $233.4 million provided to the Company in 2006. This change was primarily due to the cash proceeds of $200 million from the issuance of 30-year senior notes in 2006 and borrowings and equity contributions to finance the acquisitions of Plants DeSoto and Rowan.

Significant asset changes in the balance sheet during 2009 include increases related to the West Georgia and Nacogdoches acquisitions. Construction work in progress increased due to Cleveland County and Nacogdoches construction activities. Prepaid long-term service agreements increased due to the timing of outage activities. Additionally, prepaid income taxes decreased due to the timing of income tax payments. Cash decreased due to the West Georgia and Nacogdoches acquisitions and increased construction activity.

Significant asset changes in the balance sheet during 2008 include increases in accounts receivable related to higher energy revenues due to an increase in natural gas prices, increases in prepaid long-term service agreements due to the timing of outage activities, and an increase in cash due to a reduction of investing activities of the Company in 2008 due to the completion of construction projects at Plant Oleander Unit 5 in December 2007 and Plant Franklin Unit 3 in June 2008.

Significant liability and stockholder's equity changes in the balance sheet during 2009 include the issuance of $118.9 million in notes payable, an increase in accounts payable related to construction projects, and a decrease in net billings in excess of cost due to the timing of scheduled payments and costs incurred with regard to the OUC construction contract. In 2009, the Company also paid $106.1 million in dividends to Southern Company.

Significant liability and stockholder's equity changes in the balance sheet during 2008 include the payment of short-term debt obligations, increases in affiliate payables due to increases in natural gas and purchased power prices, a reduction of other current liabilities due to payment of IGCC termination costs, and a decrease in the net billings in excess of cost on the OUC construction contract due to on-going construction activities. In 2008, the Company also paid $94.5 million in dividends to Southern Company.

Sources of Capital

The Company may use operating cash flows, external funds, or equity capital or loans from Southern Company to finance any new projects, acquisitions, 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. However, the amount, type, and timing of any financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors.

The Company's current liabilities frequently exceed current assets due to the use of short-term indebtedness as a funding source, as well as cash needs which can fluctuate significantly due to the seasonality of the business. To meet liquidity and capital resource requirements, at December 31, 2009, the Company had $400 million of committed credit arrangements with banks that expire in 2012. There were no borrowings under this facility outstanding at December 31, 2009. Proceeds from these credit arrangements may be used for working capital and general corporate purposes as well as liquidity support for the Company's commercial paper program. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	December 31, 2009 Fair Value Measurements			
	Total Fair Value	Maturity		
		Year 1	Years 2&3	Years 4&5
		(in millions)		
Level 1	$ -	$ -	$ -	$ -
Level 2	(3.5)	(3.2)	(0.4)	0.1
Level 3	-	-	-	-
Fair value of contracts outstanding at end of period	$(3.5)	$ (3.2)	$ (0.4)	$ 0.1

The Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, and thus fall into Level 2. See Note 8 to the financial statements for further discussion on fair value measurements.

The Company is exposed to market-price risk in the event of nonperformance by counterparties to energy-related derivative contracts. The Company's policy is to enter into derivative agreements with counterparties that have investment grade credit ratings by S&P 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 Note 1 to the financial statements under "Financial Instruments."

Capital Requirements and Contractual Obligations

The capital program of the Company is currently estimated to be $627.4 million for 2010, $856.5 million for 2011, and $379.0 million for 2012. These amounts include estimates for potential plant acquisitions and new construction as well as ongoing capital improvements. Planned expenditures for plant acquisitions may vary due to market opportunities and the Company's ability to execute its growth strategy. Actual construction costs may vary from these estimates because of changes in factors such as: business conditions; environmental statutes and regulations; FERC rules and regulations; load projections; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. The Company is currently constructing four combustion turbine units in North Carolina and a biomass generating facility in Texas. See FUTURE EARNINGS POTENTIAL – "Construction Projects" herein and Note 2 to the financial statements under "Acquisitions and Divestitures – Nacogdoches Power LLC Acquisition" for additional information.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, leases, derivative obligations, and other purchase commitments are as follows. See Notes 1, 6, 7, and 9 to the financial statements for additional information.

Contractual Obligations

	2010	2011-2012	2013-2014	After 2014	Uncertain Timing [c]	Total
			(in millions)			
Long-term debt[a] –						
Principal	$ -	$ 575.0	$ -	$ 725.0	$ -	$1,300.0
Interest	74.3	148.6	76.7	306.1	-	605.7
Energy-related derivative obligations[b]	8.1	0.5	-	-	-	8.6
Operating leases	0.6	1.0	1.0	22.3	-	24.9
Unrecognized tax benefits and interest[c]	-	-	-	-	0.1	0.1
Purchase commitments[d] –						
Capital[e]	627.4	1,235.5	-	-	-	1,862.9
Natural gas[f]	165.8	323.9	239.5	277.6	-	1,006.8
Biomass fuel[g]	-	17.0	35.1	127.6	-	179.7
Purchased power[h]	13.6	57.0	102.0	295.2	-	467.8
Long-term service agreements[i]	46.6	101.2	78.9	953.6	-	1,180.3
Total	$ 936.4	$ 2,459.7	$533.2	$ 2,707.4	$ 0.1	$ 6,636.8

(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) For additional information, see Notes 1 and 9 to the financial statements.

(c) The timing related to the realization of $0.1 million in unrecognized tax benefits and interest payments cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Note 5 to the financial statements for additional information.

(d) The Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for the last three years were $136.7 million, $147.7 million, and $135.0 million, respectively.

(e) The Company forecasts capital expenditures over a three-year period. Amounts represent estimates for potential plant acquisitions and new construction as well as ongoing capital improvements.

(f) 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, 2009.

(g) Biomass fuel commitments are based on minimum committed tonnage of wood waste purchases for Plant Nacogdoches. Plant Nacogdoches is expected to begin commercial operation in 2012. Amounts reflected include price escalation based on inflation indices.

(h) Purchased power commitments of $35.4 million in 2011-2012, $72.9 million in 2013-2014, and $279.3 million after 2014 will be resold under a third party agreement to EnergyUnited. The purchases will be resold at cost.

(i) Long-term service agreements include price escalation based on inflation indices.

Cautionary Statement Regarding Forward-Looking Statements

The Company's 2009 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning environmental regulations and expenditures, financing activities, access to sources of capital, impacts of the adoption of new accounting rules, impact of the American Recovery and Reinvestment Act of 2009, estimated sales and purchases under new power sale and purchase agreements, impacts of revisions to depreciation estimates, start and completion of construction projects, plans and estimated costs for new generation resources, 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, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, particulate matter, and other substances, and also changes in 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 FERC matters;
- 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 recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;
- effects of inflation;
- advances in technology;
- state and federal rate regulations;
- the ability to control costs and avoid cost overruns during the development and construction of facilities;
- 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 and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- 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, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Company's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the Company from time to time with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Southern Power Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Revenues:			
Wholesale revenues, non-affiliates	**$394,366**	$667,979	$416,648
Wholesale revenues, affiliates	**544,415**	638,266	547,229
Other revenues	**7,870**	7,296	8,137
Total operating revenues	**946,651**	1,313,541	972,014
Operating Expenses:			
Fuel	**232,466**	424,800	238,680
Purchased power, non-affiliates	**79,355**	132,222	64,604
Purchased power, affiliates	**64,587**	195,743	135,336
Other operations and maintenance	**136,655**	147,711	134,971
Loss (gain) on sale of property	**4,977**	(6,015)	-
Loss on IGCC project	**-**	-	17,619
Depreciation and amortization	**98,135**	88,511	73,985
Taxes other than income taxes	**16,920**	17,700	15,744
Total operating expenses	**633,095**	1,000,672	680,939
Operating Income	**313,556**	312,869	291,075
Other Income and (Expense):			
Interest expense, net of amounts capitalized	**(84,963)**	(83,212)	(79,175)
Profit recognized on construction contract	**13,296**	-	-
Other income (expense), net	**(374)**	7,594	3,285
Total other income and (expense)	**(72,041)**	(75,618)	(75,890)
Earnings Before Income Taxes	**241,515**	237,251	215,185
Income taxes	**85,663**	92,892	83,548
Net Income	**$155,852**	$144,359	$131,637

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008, and 2007

Southern Power Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Operating Activities:			
Net income	**$155,852**	$144,359	$131,637
Adjustments to reconcile net income			
to net cash provided from operating activities --			
Depreciation and amortization, total	**110,427**	102,783	89,221
Deferred income taxes	**22,950**	70,338	31,665
Convertible investment tax credits received	**16,800**	-	-
Deferred revenues	**2,288**	(703)	(4,852)
Mark-to-market adjustments	**5,204**	(925)	(3,033)
Accumulated billings on construction contract	**48,451**	85,619	60,417
Accumulated costs on construction contract	**(46,765)**	(110,096)	(29,645)
Loss on IGCC project	**-**	-	17,619
Profit recognized on construction contract	**(13,296)**	-	-
Loss (gain) on sale of property	**4,977**	(6,015)	-
Other, net	**5,630**	4,851	7,875
Changes in certain current assets and liabilities --			
-Receivables	**(9,717)**	(11,156)	(3,155)
-Fossil fuel stock	**2,738**	(2,640)	(4,105)
-Materials and supplies	**(5,345)**	2,773	(1,169)
-Prepaid income taxes	**16,296**	(21,338)	-
-Other current assets	**(298)**	1,413	(1,863)
-Accounts payable	**2,043**	10,451	23,027
-Accrued taxes	**88**	(1,622)	1,474
-Accrued interest	**7**	(252)	319
-Other current liabilities	**(199)**	(3,575)	-
Net cash provided from operating activities	**318,131**	264,265	315,432
Investing Activities:			
Property additions	**(137,133)**	(49,964)	(139,198)
Cash paid for acquisitions	**(194,156)**	-	-
Sale of property	**84**	5,073	-
Sale of property to affiliates	**-**	-	4,291
Change in construction payables, net	**13,435**	(7,529)	(1,960)
Payments pursuant to long-term service agreements	**(46,120)**	(31,725)	(44,471)
Other investing activities	**(184)**	(1,625)	(2,514)
Net cash used for investing activities	**(364,074)**	(85,770)	(183,852)
Financing Activities:			
Increase (decrease) in notes payable, net	**118,948**	(49,748)	(74,004)
Proceeds - Capital contributions	**2,353**	3,642	3,533
Redemptions - Other long-term debt	**-**	-	(1,209)
Payment of common stock dividends	**(106,100)**	(94,500)	(89,800)
Other	**-**	-	(24)
Net cash provided from (used for) financing activities	**15,201**	(140,606)	(161,504)
Net Change in Cash and Cash Equivalents	**(30,742)**	37,889	(29,924)
Cash and Cash Equivalents at Beginning of Year	**37,894**	5	29,929
Cash and Cash Equivalents at End of Year	**$ 7,152**	$ 37,894	$ 5
Supplemental Cash Flow Information:			
Cash paid during the period for --			
Interest (net of $1,624, $7,075 and $16,541 capitalized, respectively)	**$73,064**	$ 69,716	$ 63,766
Income taxes (net of refunds and investment tax credits)	**30,220**	47,611	50,724
Noncash value of business exchanged in West Georgia acquisition	**70,839**	-	-

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

At December 31, 2009 and 2008

Southern Power Company and Subsidiary Companies 2009 Annual Report

Assets	2009	2008
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 7,152**	$ 37,894
Receivables --		
Customer accounts receivable	**28,873**	23,640
Other accounts receivable	**2,064**	2,162
Affiliated companies	**38,561**	33,401
Fossil fuel stock, at average cost	**15,351**	17,801
Materials and supplies, at average cost	**31,607**	26,527
Prepaid service agreements - current	**44,090**	26,304
Prepaid income taxes	**5,177**	18,066
Other prepaid expenses	**3,176**	2,756
Assets from risk management activities	**4,901**	10,799
Other current assets	**6,754**	4,532
Total current assets	**187,706**	203,882
Property, Plant, and Equipment:		
In service	**2,994,463**	2,847,757
Less accumulated provision for depreciation	**439,457**	351,193
Plant in service, net of depreciation	**2,555,006**	2,496,564
Construction work in progress	**153,982**	8,775
Total property, plant, and equipment	**2,708,988**	2,505,339
Other Property and Investments:		
Goodwill	**1,794**	-
Other intangible assets, net of amortization of $17	**49,102**	-
Total other property and investments	**50,896**	-
Deferred Charges and Other Assets:		
Prepaid long-term service agreements	**74,513**	81,542
Other deferred charges and assets -- affiliated	**3,540**	3,827
Other deferred charges and assets -- non-affiliated	**17,410**	18,550
Total deferred charges and other assets	**95,463**	103,919
Total Assets	**$3,043,053**	$2,813,140

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

At December 31, 2009 and 2008

Southern Power Company and Subsidiary Companies 2009 Annual Report

Liabilities and Stockholder's Equity	**2009**	2008
	(in thousands)	
Current Liabilities:		
Notes payable	**$ 118,948**	$ -
Accounts payable --		
Affiliated	**58,493**	62,732
Other	**31,128**	11,278
Accrued taxes --		
Accrued income taxes	**1,449**	88
Other accrued taxes	**2,576**	2,343
Accrued interest	**29,923**	29,916
Liabilities from risk management activities	**8,119**	7,452
Billings in excess of cost on construction contract	**297**	11,907
Other current liabilities	**26**	224
Total current liabilities	**250,959**	125,940
Long-Term Debt:		
Senior notes --		
6.25% due 2012	**575,000**	575,000
4.875% due 2015	**525,000**	525,000
6.375% due 2036	**200,000**	200,000
Unamortized debt discount	**(2,393)**	(2,647)
Long-term debt	**1,297,607**	1,297,353
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**238,293**	209,960
Deferred convertible investment tax credits	**16,800**	-
Deferred capacity revenues -- affiliated	**36,369**	32,211
Other deferred credits and liabilities -- affiliated	**5,651**	6,667
Other deferred credits and liabilities -- non-affiliated	**2,252**	2,648
Total deferred credits and other liabilities	**299,365**	251,486
Total Liabilities	**1,847,931**	1,674,779
Common Stockholder's Equity:		
Common stock, par value $0.01 per share --		
Authorized - 1,000,000 shares		
Outstanding - 1,000 shares	**-**	-
Paid-in capital	**864,462**	862,109
Retained earnings	**352,061**	302,309
Accumulated other comprehensive income (loss)	**(21,401)**	(26,057)
Total common stockholder's equity	**1,195,122**	1,138,361
Total Liabilities and Stockholder's Equity	**$3,043,053**	$2,813,140
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

For the Years Ended December 31, 2009, 2008, and 2007

Southern Power Company and Subsidiary Companies 2009 Annual Report

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)			
Balance at December 31, 2006	1	$-	$854,933	$211,295	$(40,724)	$1,025,504
Net income	-	-	-	131,637	-	131,637
Capital contributions from parent company	-	-	3,533	-	-	3,533
Other comprehensive income (loss)	-	-	-	-	7,014	7,014
Cash dividends on common stock	-	-	-	(89,800)	-	(89,800)
Other	-	-	-	(1)	-	(1)
Balance at December 31, 2007	1	-	858,466	253,131	(33,710)	1,077,887
Net income	-	-	-	144,359	-	144,359
Capital contributions from parent company	-	-	3,643	-	-	3,643
Other comprehensive income (loss)	-	-	-	-	7,653	7,653
Cash dividends on common stock	-	-	-	(94,500)	-	(94,500)
Other	-	-	-	(681)	-	(681)
Balance at December 31, 2008	**1**	**-**	**862,109**	**302,309**	**(26,057)**	**1,138,361**
Net income	-	-	-	**155,852**	-	**155,852**
Capital contributions from parent company	-	-	**2,353**	-	-	**2,353**
Other comprehensive income (loss)	-	-	-	-	**4,656**	**4,656**
Cash dividends on common stock	-	-	-	**(106,100)**	-	**(106,100)**
Balance at December 31, 2009	**1**	**$-**	**$864,462**	**$352,061**	**$(21,401)**	**$1,195,122**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008, and 2007

Southern Power Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007
		(in thousands)	
Net income	**$155,852**	$144,359	$131,637
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of $(664), $351, and $(558), respectively	**(1,044)**	529	(842)
Reclassification adjustment for amounts included in net income, net of tax of $3,875, $4,554, and $5,244, respectively	**5,700**	7,124	7,856
Total other comprehensive income (loss)	**4,656**	7,653	7,014
Comprehensive Income	**$160,508**	$152,012	$138,651

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 four traditional operating companies, Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies, Alabama Power Company (APC), Georgia Power Company (GPC), Gulf Power Company (Gulf Power), and Mississippi Power Company, are vertically integrated utilities providing electric service in four Southeastern states. The Company constructs, acquires, owns, and manages generation assets and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary for Southern Company's investments in leveraged leases. Southern Nuclear operates and provides services to Southern Company's nuclear power plants.

The Company is subject to regulation by the Federal Energy Regulatory Commission (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. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries, Southern Company – Florida LLC, Oleander Power Project, LP (Oleander), Southern Power Company – Orlando Gasification LLC (SPC-OG), and Nacogdoches Power LLC, which own, operate, and maintain the Company's ownership interests in Plant Stanton Unit A and Plant Oleander, construct the combined cycle for the Orlando Utilities Commission (OUC), and construct a biomass generating facility, respectively. See Note 2 under "Nacogdoches Power LLC Acquisition." 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 amounts in compliance with FERC regulation: 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, digital wireless communications, labor, and other services with respect to business and operations and Southern Company system fleet of generating units (power pool) transactions. Because the Company has no employees, all employee-related charges are rendered at amounts in compliance with FERC regulation under agreements with SCS. Costs for these services from SCS amounted to approximately $133.0 million in 2009, $207.4 million in 2008, and $125.4 million in 2007. Approximately $83.1 million in 2009, $87.9 million in 2008, and $74.1 million in 2007 were operations and maintenance expenses; the remainder was recorded to construction work in progress, other assets, and billings in excess of cost on construction contract. Cost allocation methodologies used by SCS were approved by the Securities and Exchange Commission prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies.

In 2003, the Company entered into agreements with APC and GPC under which APC and GPC operated and maintained Plants Dahlberg, Wansley, Franklin, and Harris. GPC also supplied various services for other plants. In August 2007, those agreements were terminated and replaced with service agreements under which APC and GPC provide specifically requested services to the Company. These services are billed at amounts in compliance with FERC regulation on a monthly basis and are recorded as operations and maintenance expenses in the consolidated statements of income. For the periods ended December 31, 2009, 2008, and 2007, billings under these agreements totaled approximately $1.4 million, $2.9 million, and $9.2 million, respectively.

Total billings for all purchased power agreements (PPAs) in effect with affiliates totaled $485.1 million, $539.6 million, and $505.2 million in 2009, 2008, and 2007, respectively. Included in these billings were $36.4 million and $32.2 million of "Deferred capacity revenues – affiliated" recorded on the balance sheets at December 31, 2009 and 2008, respectively. The Company and the traditional operating companies 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 the traditional operating companies 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.

In 2009, there were no material transactions involving the sale of property to affiliated companies.

In 2008, Gulf Power and APC sold turbine rotor assemblies to the Company for $9.4 million and $6.3 million, respectively. Additionally, the Company sold a turbine rotor assembly to APC for $8.2 million and sold a compressor assembly to GPC for $3.9 million. No gain or loss was recognized in the Company's consolidated statements of income. These affiliate transactions were made in accordance with FERC and state Public Service Commission (PSC) rules and guidelines.

In 2007, the Company sold plots of land in Prattville, Alabama and Chilton County, Alabama to APC. The total sales price was $4.3 million and is recorded in "Sale of property to affiliates" on the consolidated statements of cash flows. In addition, the Company sold a turbine rotor to Gulf Power for $7.9 million. No gain or loss was recognized in the Company's consolidated statements of income. These affiliate transactions were made in accordance with FERC and state PSC rules and guidelines.

Acquisition Accounting

The Company has been engaged in a strategy of acquiring assets. The Company has accounted for these acquisitions under the purchase method in accordance with generally accepted accounting principles (GAAP). Accordingly, the Company has included these operations in the consolidated financial statements from the respective date of acquisition. The purchase price of each acquisition was allocated to the fair value of the identifiable assets and liabilities. Any due diligence or transition costs incurred by the Company for successful or potential acquisitions after December 31, 2008 have been expensed as incurred.

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. Transmission revenues and other fees are recognized as incurred as other operating revenue. Revenues are recorded on a gross basis for all full requirements PPAs. See "Financial Instruments" for additional information.

Significant portions of the Company's revenues have been derived from certain customers pursuant to PPAs. For the year ended December 31, 2009, GPC accounted for 43.7% of total revenues, APC accounted for 6.6% of total revenues, and Sawnee Electric Membership Corporation accounted for 6.0% of total revenues. For the year ended December 31, 2008, GPC accounted for 36.5% of total revenues, Sawnee Electric Membership Corporation accounted for 6.1% of total revenues, and Flint Electric Membership Corporation accounted for 5.3% of total revenues. For the year ended December 31, 2007, GPC accounted for 45.6% of total revenues, APC accounted for 6.9% of total revenues, and Sawnee Electric Membership Corporation accounted for 5.5% of total revenues.

Fuel Costs

Fuel costs are expensed as the fuel is consumed. Fuel costs also include emissions allowances which are expensed as the emissions occur.

ncome and Other 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. In accordance with accounting standards related to the uncertainty in income taxes, the Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

onvertible Investment Tax Credits

nder the American Recovery and Reinvestment Act of 2009, certain costs related to the Nacogdoches plant construction are eligible r investment tax credits (ITCs) or cash grants. The Company has elected to receive ITCs. The credits are recorded as a deferred edit, which will be amortized over the life of the asset, and the tax basis of the asset is reduced by 50% of the credits received,

resulting in a deferred tax asset. The Company has elected to recognize the tax benefit of this basis difference as a reduction to income tax expense as costs are incurred during the construction period. This basis difference will reverse and be recorded to income tax expense over the useful life of the asset once placed in service. The credits received during the year will be shown within operating activities in the consolidated statements of cash flows.

Property, Plant, and Equipment

The Company's depreciable property, plant, and equipment consists entirely of generation assets.

Property, plant, and equipment is stated at original cost. Original cost includes materials, direct labor incurred by contractors and affiliated companies, minor items of property, and interest capitalized. Interest is capitalized on qualifying projects during the development and construction period. 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.

Depreciation

Depreciation of the original cost of assets is computed under the straight-line method and applies a composite depreciation rate 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 composite depreciable life ranging from 24-35 years. These lives reflect a composite of the significant components (retirement units) that make up the plants. The Company reviews its estimated useful lives and salvage values on an ongoing basis. The results of these reviews could result in changes which could have a material impact on net income in the near term.

A depreciation study was completed and the applicable remaining plant lives and associated depreciation rates were revised in January 2008 and January 2009. This change in estimate was due to revised useful life assumptions for certain components of plant in service. Depreciation rates by generating facility changed from a range of 2.8 % to 3.8% to an adjusted range of 1.8% to 4.1% in January 2008. Depreciation rates by generating facility changed to an adjusted range of 1.9% to 5.6% in January 2009. These changes increased depreciation and reduced income from continuing operations and net income by $4.6 million and $2.8 million, respectively, for 2008 and $5.1 million and $3.1 million, respectively, for 2009.

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

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.

At December 31, 2009, the Company had no material liability for asset retirement obligations.

Impairment of Long-Lived Assets and Intangibles

The Company evaluates long-lived assets and intangibles for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company's intangible assets consist of acquired PPAs that are amortized over the term of the PPA and goodwill resulting from acquisitions. The average term of the PPAs is 20 years. The determination of whether 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 impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. Impairment of goodwill is assessed on an annual basis. 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.

The amortization expense for the PPAs is as follows:

	Amortization Expense
	(in millions)
2010	$ 0.7
2011	0.8
2012	1.8
2013	2.5
2014	2.5
2015 and beyond	40.9
Total	$ 49.2

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 $9.0 million at December 31, 2009, $8.9 million at December 31, 2008, and $8.4 million at December 31, 2007.

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 generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.

Fuel Inventory

Fuel inventory includes the cost of oil and emissions allowances. The Company maintains minimal oil levels for use at Plant Dahlberg, Plant Oleander, Plant Rowan, and Plant West Georgia. Inventory is maintained using the weighted average cost method. Fuel inventory and emissions allowances are recorded at actual cost when purchased and then expensed at weighted average cost as used.

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 (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 8 for additional information. Substantially all of the Company's bulk energy purchases and sales contracts that meet the definition of a derivative are excluded from fair value accounting requirements because they qualify and are designated for the "normal" scope exception, 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 in the financial statement line item where they will eventually settle. See Note 9 for additional information.

The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. Additionally, the Company had no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2009.

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 fair values were based on either closing market prices (Level 1) or closing prices of comparable instruments (Level 2). See Note 8 for all other items recognized at fair value in the financial statements.

Other Income and (Expense)

Other income and (expense) includes non-operating revenues and expenses. Revenues are recognized when earned and expenses are recognized when incurred.

The Company has a long-term contract for engineering, procurement, and construction services to build a combined cycle unit for the OUC. Construction activities commenced in 2006 and were substantially completed in 2009. Billings and costs are recognized using the percentage of completion method. The Company utilizes the cost-to-cost approach as this method is less subjective than relying on assessments of physical progress. The percentage of completion represents the percentage of the total costs incurred to the estimated total cost of the contract. Billings and costs are recognized on a net basis by applying this percentage to the total revenues and estimated costs of the contract and are recorded in other income and (expense) in the consolidated statements of income. Net profit recognized under the long-term construction contract for the OUC was $13.3 million in 2009. No profit or loss was recognized in 2008 or 2007.

In 2008, the Company received a fee of $6.4 million for participating in an asset auction. The Company was not the successful bidder in the asset auction.

Interest related to the construction of new facilities is capitalized in accordance with GAAP.

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 reclassifications of amounts included in net income.

2. ACQUISITIONS AND DIVESTITURES

Nacogdoches Power LLC Acquisition

On October 8, 2009, the Company acquired all of the outstanding membership interests of Nacogdoches Power LLC (Nacogdoches) from American Renewables LLC, the original developer of the project. The Company is constructing a biomass generating plant in Sacul, Texas with an estimated capacity of 100 megawatts (MWs). The generating plant will be fueled from wood waste. Construction commenced in late 2009 and the plant is expected to begin commercial operation in 2012. The total estimated cost of the project is expected to be between $475 million and $500 million. The output of the plant is contracted under a PPA with Austin Energy that begins in 2012 and expires in 2032 or until a contractual limit of $2.3 billion is reached. This PPA will be accounted for as an operating lease.

The Company's acquisition of the interests in Nacogdoches included cash consideration of approximately $50.1 million. The Nacogdoches acquisition is in accordance with the Company's overall growth strategy. There are no contingent consideration arrangements and no significant assets or liabilities arising from contingencies. No goodwill was recorded as a result of this acquisition. An intangible asset related to the assumed PPA with Austin Energy was recognized. Due diligence and transition costs for Nacogdoches were expensed as incurred and were not material. The fair value of the consideration transferred and the fair value of each major class of assets and liabilities at the acquisition date was as follows:

As of October 8, 2009	
	(in millions)
Construction work in progress	$16.2
Other assets	0.1
Intangible assets	33.8
Total fair value of the membership interests in Nacogdoches	$50.1

West Georgia Generating Company, LLC Acquisition and DeSoto County Generating Company, LLC Divestiture

On December 17, 2009, the Company acquired all of the outstanding membership interests of West Georgia Generating Company, LLC (West Georgia) from Broadway Gen Funding, LLC (Broadway), an affiliate of LS Power. West Georgia was merged into the Company and the Company now owns a 669-MW nameplate capacity generating facility consisting of four combustion turbine natural gas generating units with oil back-up. The output from two units is contracted under PPAs with the Municipal Electric Authority of Georgia (MEAG Power) and the Georgia Energy Cooperative, Inc. (GEC). The MEAG Power agreement began in 2009 and expires in 2029. The GEC agreement begins in 2010 and expires in 2030.

The Company's acquisition of the interests in West Georgia was pursuant to an agreement which included the transfer of all the outstanding membership interests of DeSoto County Generating Company LLC (DeSoto) from the Company to Broadway and the payment by the Company of $144.0 million in cash consideration. The carrying values of the major classes of assets disposed of were $2.0 million in fossil fuel stock, $1.2 million in materials and supplies, $72.1 million in property, plant and equipment, and $0.8 million in other deferred assets. The transaction was treated as a like-kind exchange for income tax purposes. The West Georgia acquisition is in accordance with the Company's overall growth strategy. There are no contingent consideration arrangements and no significant assets or liabilities arising from contingencies. The goodwill arising from the acquisition consists largely of synergies and economies of scale from combining the operations of the Company and West Georgia and is expected to be tax deductible. Due diligence and transition costs for West Georgia were expensed as incurred and were not material.

The fair value of the consideration transferred and the fair value of each major class of assets and liabilities at the acquisition date was as follows:

As of December 17, 2009	
	(in millions)
Customer accounts receivable	$ 0.4
Fossil fuel stock	1.8
Materials and supplies	0.9
Property, plant, and equipment	192.4
Other assets	2.5
Goodwill	1.8
Intangible assets (PPAs)	15.3
Accounts payable	(0.3)
Total fair value of the membership interests in West Georgia	214.8
Fair value of DeSoto interests	(70.8)
Cash consideration transferred	$ 144.0

Fair value amounts allocated to materials and supplies and other assets are preliminary estimates pending final application of the Company's accounting policies.

Revenues and expenses recognized by the Company for West Georgia operations after the closing date were not material. PPA amortization expense for 2009 was not material.

Pro Forma Information

The following unaudited pro forma financial information gives effect to the Nacogdoches acquisition, the West Georgia acquisition, and the DeSoto divestiture as if they had occurred as of the beginning of the periods presented. The pro forma financial information is not intended to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the acquisitions and divestiture been completed as of the dates presented nor should the information be taken as representative of any future consolidated results of operations or financial condition of the Company.

For the Twelve Months Ended December 31		
	2009	2008
	(in millions)	
Pro forma revenues	**$ 957.4**	$1,353.3
Pro forma net income	**151.1**	146.6

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 and other damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein, 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.

FERC Matters

Market-Based Rate Authority

The Company has authorization from the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

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

On December 23, 2009, Southern Company and the FERC trial staff reached an agreement in principle that would resolve the proceeding in its entirety. The agreement does not reflect any finding or suggestion that the Company possessed or has exercised any market power. The agreement likewise does not require the Company to make any refunds related to sales during the 15-month refund period. Under the agreement, the Company will donate $0.2 million to nonprofit organizations in the States of Alabama and Georgia for the purpose of offsetting the electricity bills of low-income retail customers. The agreement is subject to review and approval by the FERC.

Intercompany Interchange Contract

The majority of the Company's generation fleet is operated under the Intercompany Interchange Contract (IIC), as approved by the FERC. In May 2005, the FERC initiated a new proceeding to examine (1) the provisions of the IIC among the traditional operating companies, the Company, and SCS, as agent, under the terms of which the power pool of Southern Company is operated, (2) whether any parties to the IIC have violated the FERC's standards of conduct applicable to utility companies that are transmission providers, and (3) whether Southern Company's code of conduct defining the Company as a "system company" rather than a "marketing affiliate" is just and reasonable. In connection with the formation of the Company, the FERC authorized the Company's inclusion in the IIC in 2000. The FERC also previously approved Southern Company's code of conduct.

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

Carbon Dioxide Litigation

Kivalina Case

In February, 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. On September 30, 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case based on lack of jurisdiction and ruled the claims were barred by the political question doctrine and by the plaintiffs' failure to establish the standard for determining that the defendants' conduct caused the injury alleged. On November 5, 2009, the plaintiffs filed an appeal with the U.S. District Court of Appeals for the Ninth Circuit challenging the district court's order dismissing the case. The ultimate outcome of this matter cannot be determined at this time.

Other Litigation

Common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas emissions have become more frequent, and courts have recently determined that private parties and states have standing to bring such claims. For example, on October 16, 2009, the U.S. Court of Appeals for the Fifth Circuit reversed the U.S. District Court for the Southern District of Mississippi's dismissal of private party claims against certain oil, coal, chemical, and utility companies alleging damages as a result of Hurricane Katrina. In reversing the dismissal, the U.S. Court of Appeals for the Fifth Circuit held that plaintiffs have standing to assert their nuisance, trespass, and negligence claims and none of these claims are barred by the political question doctrine. The Company is not currently a party to this litigation but was named as a defendant in an amended complaint which was rendered moot in August 2007 by the U.S. District Court for the Southern District of Mississippi when such court dismissed the original matter. The ultimate outcome of this matter cannot be determined at this time.

4. JOINT OWNERSHIP AGREEMENTS

The Company is a 65% owner of Plant Stanton A, a combined-cycle project with a nameplate capacity of 630 MWs. The unit is co-owned by the OUC (28%), Florida Municipal Power Agency (3.5%), and Kissimmee Utility Authority (3.5%). The Company has a service agreement with SCS whereby SCS is responsible for the operation and maintenance of Plant Stanton A. As of December 31, 2009, $151.2 million was recorded in plant in service with associated accumulated depreciation of $19.8 million. These amounts represent the Company's share of the total plant assets and each owner must provide its own financing. The Company's proportionate share of Plant Stanton A's operating expense 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 combined tax returns for the State of Georgia, the State of Alabama, and the State of Mississippi. Under a joint consolidated income tax allocation agreement, 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 it filed a separate income tax return. In accordance with Internal Revenue Service (IRS) regulations, each company is jointly and severally liable for the tax liability.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2009	2008	2007
		(in millions)	
Federal –			
Current	**$ 55.0**	$ 18.9	$ 42.8
Deferred	**19.3**	57.2	26.8
	74.3	76.1	69.6
State –			
Current	**7.7**	3.6	9.0
Deferred	**3.7**	13.2	4.9
	11.4	16.8	13.9
Total	**$ 85.7**	$ 92.9	$ 83.5

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:

	2009	2008
		(in millions)
Deferred tax liabilities–		
Accelerated depreciation and other property basis differences	**$ 303.9**	$ 274.1
Basis difference on asset transfers	**3.9**	4.3
Other	**-**	2.5
Total	**307.8**	280.9
Deferred tax assets–		
Federal effect of state deferred taxes	**13.7**	12.9
Basis difference on convertible investment tax credits	**2.9**	-
Basis differences on asset transfers	**6.7**	7.9
Other comprehensive loss on interest rate swaps	**28.1**	32.4
Levelized capacity revenues	**15.2**	14.3
Other	**1.7**	-
Total	**68.3**	67.5
Total deferred tax liabilities, net	**239.5**	213.4
Portion included in current income taxes	**(1.2)**	(3.4)
Accumulated deferred income taxes in the balance sheets	**$ 238.3**	$ 210.0

Deferred tax liabilities are the result of property related timing differences. The transfer of the Plant McIntosh construction project to GPC in 2004 resulted in a deferred gain for federal income tax purposes. GPC is reimbursing the Company for the related tax liability balance of $3.9 million. Of this total, $0.4 million is included in the balance sheets in "Receivables – Affiliated companies" and the remainder is included in "Other deferred charges and assets – affiliated."

Deferred tax assets consist primarily of timing differences related to the recognition of capacity revenues and the deferred loss on interest rate swaps reflected in other comprehensive income. The transfer of Plants Dahlberg, Wansley, and Franklin to the Company from GPC in 2001 also resulted in a deferred gain for federal income tax purposes. The Company will reimburse GPC for the related tax asset of $6.7 million. Of this total, $1.0 million is included in the balance sheets in "Accounts payable – Affiliated" and the remainder is included in "Other deferred credits and liabilities – affiliated."

Effective Tax Rate

A reconciliation of the federal statutory tax rate to the effective income tax rate is as follows:

	2009	2008	2007
Federal statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal deduction	3.1	4.6	4.2
ITC basis difference	(1.2)	-	-
Other	(1.4)	(0.4)	(0.4)
Effective income tax rate	35.5%	39.2%	38.8%

The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in the Internal Revenue Code of 1986, as amended, Section 199 (production activities deduction). The deduction is equal to a stated percentage of qualified production activities net income. The percentage is phased in over the years 2005 through 2010 with a 3% rate applicable to the years 2005 and 2006, a 6% rate applicable for the years 2007 through 2009, and a 9% rate thereafter. The IRS has not clearly defined a methodology for calculating this deduction. However, Southern Company reached an agreement with the IRS on a calculation methodology and signed a closing agreement in December 2008. Therefore, in 2008, the Company reversed the unrecognized tax benefit related to the calculation methodology and adjusted the deduction for all previous years to conform to the agreement which resulted in a decrease in the 2008 deduction when compared to the 2007 deduction. Certain aspects of the production activities deduction remain unresolved. The net impact of the reversal of the unrecognized tax benefits combined with the application of the new methodology had no material effect on the Company's financial statements.

Convertible ITCs received in 2009 for the construction of Plant Nacogdoches were $16.8 million; the tax benefit of the basis difference reduced income tax expense by $2.9 million. See Note 1 under "Summary of Significant Accounting Policies – Convertible Investment Tax Credits" for additional information.

Unrecognized Tax Benefits

For 2009, the total amount of unrecognized tax benefits decreased $0.4 million, resulting in a balance of $0.1 million as of December 31, 2009.

Changes during the year in unrecognized tax benefits were as follows:

	2009	2008	2007
		(in millions)	
Unrecognized tax benefits at beginning of year	$ 0.5	$ 1.4	$ 0.2
Tax positions from current periods	0.3	0.3	0.4
Tax positions from prior periods	(0.7)	0.1	0.8
Reductions due to settlements	-	(1.3)	-
Reductions due to expired statute of limitations	-	-	-
Balance at end of year	$ 0.1	$ 0.5	$ 1.4

The tax positions from the current periods increase for 2009 relate primarily to the production activities deduction tax position and other miscellaneous uncertain tax positions. The tax positions decrease from prior periods for 2009 relates primarily to the production activities deduction tax position. See "Effective Tax Rate" above for additional information.

Impact on the Company's effective tax rate, if recognized, is as follows:

	2009	2008	2007
		(in millions)	
Tax positions impacting the effective tax rate	$ 0.1	$ 0.5	$ 1.4
Tax positions not impacting the effective tax rate	-	-	-
Balance of unrecognized tax benefits	$ 0.1	$ 0.5	$ 1.4

Accrued interest for unrecognized tax benefits was as follows:

	2009	2008	2007
		(in millions)	
Interest accrued at beginning of year	$ -	$ 0.1	$ -
Interest reclassified due to settlements	-	(0.1)	-
Interest accrued during the year	-	-	0.1
Balance at end of year	$ -	$ -	$ 0.1

The Company classifies interest on tax uncertainties as interest expense. The Company did not accrue any penalties on uncertain tax positions.

It is reasonably possible that the amount of the unrecognized benefit with respect to a majority of the Company's unrecognized tax positions will increase or decrease within the next 12 months. The possible conclusion or settlement of state audits could impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

The IRS has audited and closed all tax returns prior to 2004. The audits for the state returns have either been concluded, or the statute of limitations has expired, for years prior to 2006.

6. FINANCING

Senior Notes

In 2009 and 2008, the Company did not issue any long-term debt securities. Long-term debt outstanding was $1.3 billion at December 31, 2009 and 2008.

Bank Credit Arrangements

The Company has a $400 million unsecured syndicated revolving credit facility (Facility) expiring in July 2012. The purpose of the Facility is to provide liquidity support to the Company's commercial paper program and for other general corporate purposes. There were no borrowings outstanding under the Facility at December 31, 2009 and 2008.

The Company is required to pay a commitment fee on the unused balance of the Facility. This fee is less than $^1/_8$ of 1%. In 2009 and 2008, the Company incurred approximately $0.4 million and $0.4 million, respectively, in expenses from commitment fees under the Facility.

The Facility contains a covenant that limits the ratio of debt to capitalization (each as defined in the Facility) to a maximum of 65%. The Facility also contains a cross default provision that would be triggered if the Company defaulted on other indebtedness above a specified threshold. As of December 31, 2009, the Company was in compliance with all such covenants.

The Company has established a commercial paper program. For the year ended December 31, 2009, the peak commercial paper balance outstanding was $118.9 million. The average amount outstanding was $6.6 million in 2009. The average annual interest rate was 0.4%. At December 31, 2009, the commercial paper program had $118.9 million outstanding. At December 31, 2008, the commercial paper program had no outstanding balances.

Dividend Restrictions

The Company can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

The Facility and the indenture related to certain series of the Company's senior notes also contain certain limitations on the payment of common stock dividends. No dividends may be paid unless, as of the end of any calendar quarter, the Company's projected cash flows from fixed priced capacity PPAs are at least 80% of total projected cash flows for the next 12 months or the Company's debt to capitalization ratio is no greater than 60%. At December 31, 2009, the Company was in compliance with these ratios and had no other restrictions on its ability to pay dividends.

7. COMMITMENTS

Expansion Program

The capital program of the Company is currently estimated to be $627.4 million for 2010, $856.5 million for 2011, and $379.0 million for 2012. These amounts include estimates for potential plant acquisitions and new construction as well as ongoing capital improvements. Planned expenditures for plant acquisitions may vary due to market opportunities and the Company's ability to execute its growth strategy. Actual construction costs may vary from these estimates because of changes in factors such as: business conditions; environmental statutes and regulations; FERC rules and regulations; load projections; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital.

Long-Term Service Agreements

The Company has entered into Long-Term Service Agreements (LTSAs) with General Electric and Siemens AG for the purpose of securing maintenance support for its combined cycle and combustion turbine generating facilities. In summary, the LTSAs provide that the vendors will perform all planned inspections and certain unplanned maintenance on the covered equipment, which includes the cost of all labor and materials.

Scheduled payments to the vendors, which are subject to price escalation, are made at various intervals based on actual operating hours or number of gas turbine starts of the respective units. Total remaining payments to the vendors under these agreements are currently estimated at $1.2 billion over the remaining term of the agreements, which may range up to 24 years. However, the LTSAs contain various cancellation provisions at the Company's and the applicable vendor's option. In the event of cancellation prior to scheduled work being performed, the Company is entitled to a refund of amounts paid as calculated in accordance with termination provisions of the agreements.

Payments made to the vendors prior to the performance of any planned inspections or unplanned maintenance are recorded as a prepayment in current assets or deferred charges and other assets on the balance sheets and are recorded as payments pursuant to long-term service agreements in the statements of cash flows. Inspection and maintenance costs are capitalized or charged to expense based on the nature of the work when performed and are non-cash and are not reflected in the statements of cash flows.

Fuel and Purchased Power Commitments

SCS, as agent for the traditional 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 fixed volumes with prices based on various indices at the actual time of delivery; amounts included in the chart below represent estimates based on the New York Mercantile Exchange future prices at December 31, 2009. Also, the Company has entered into various long-term commitments for the purchase of biomass fuel for the biomass generating plant being constructed by the Company and for the purchase of electricity.

Total estimated minimum long-term obligations at December 31, 2009 were as follows:

	Natural Gas Commitments	Biomass Fuel Commitments	Purchased Power Commitments[a]
		(in millions)	
2010	$ 165.8	$ -	$ 13.6
2011	182.4	-	7.8
2012	141.5	17.0	49.2
2013	129.6	17.4	50.4
2014	109.9	17.7	51.6
2015 and beyond	277.6	127.6	295.2
Total	$ 1,006.8	$ 179.7	$ 467.8

(a) Represents contractual capacity payments.

Additional commitments for fuel will be required to supply the Company's future needs.

During 2008, the Company entered into agreements to purchase 452 MWs of power from three counterparties. Approximately 352 MWs of these commitment obligations will be used to serve the Company's requirements service customers. Another power purchase agreement for 100 MWs will be resold to EnergyUnited Electric Membership Corporation (EnergyUnited) at cost for the period 2012 through 2021. The purchase power commitments for the EnergyUnited agreement are $35.4 million in 2012, $36.1 million in 2013, $36.8 million in 2014, and $279.3 million in 2015 and beyond.

In addition, the Company has entered into an agreement to purchase power of up to 200 MWs at the discretion of the counterparty for the period 2011 through 2018. There is no contractual capacity payment required under this agreement. Additionally, for all amounts purchased under this arrangement, the Company will pay the counterparty an amount per MW which approximates the Company's cost.

Acting as an agent for all of Southern Company's traditional operating companies and the Company, SCS may enter into various types of wholesale energy and natural gas contracts. Under these agreements, each of the traditional operating companies and the Company may be jointly and severally liable. The creditworthiness of the Company is currently inferior to the creditworthiness of the traditional operating companies; therefore, Southern Company has entered into keep-well agreements with each of the traditional operating companies to ensure they will not subsidize nor be responsible for any costs, losses, liabilities, or damages resulting from the inclusion of the Company 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 $0.5 million, $0.5 million, and $0.5 million for 2009, 2008, and 2007, respectively. The majority of the lease expense amounts and committed future expenditures are with a joint owner of Plant Stanton Unit A.

At December 31, 2009, estimated minimum rental commitments for noncancelable operating leases were as follows:

	Operating Lease Commitments
	(in millions)
2010	$ 0.6
2011	0.5
2012	0.5
2013	0.5
2014	0.5
2015 and beyond	22.3
Total	$ 24.9

8. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information. The need to use unobservable inputs would typically apply to long-term energy-related derivative contracts and generally results from the nature of the energy industry, as each participant forecasts its own power supply and demand and those of other participants, which directly impact the valuation of each unique contract.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The fair value measurements performed on a recurring basis and the level of the fair value hierarchy in which they fall at December 31, 2009 are as follows:

	Fair Value Measurements Using			
As of December 31, 2009:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(in millions)		
Assets:				
Energy-related derivatives	$ -	$ 5.1	$ -	$ 5.1
Liabilities:				
Energy-related derivatives	$ -	$ 8.6	$ -	$ 8.6

Energy-related derivatives primarily consist of over-the-counter contracts. See Note 9 for additional information. All of these financial instruments are valued primarily using the market approach.

As of December 31, 2009, other financial instruments for which the carrying amount did not equal fair value were as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
2009	**$ 1,298**	**$ 1,379**
2008	1,297	1,270

9. DERIVATIVES

The 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 its exposures, where possible, 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. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities.

Energy-Related Derivatives

The Company enters into energy-related derivatives to hedge exposures to electricity, gas, and other fuel price changes. The Company has limited exposure to market volatility in commodity fuel prices and prices of electricity because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, the Company has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity.

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

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

- *Cash Flow Hedges* – Gains and losses on energy-related derivatives designated as cash flow hedges are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income (OCI) before being recognized in income in the same period as the hedged transactions are reflected in earnings.
- *Not Designated* – Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

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

At December 31, 2009, the net volume of energy-related derivative contracts for power and natural gas positions for the Company, together with the longest hedge date over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions and the longest date for derivatives not designated as hedges, were as follows:

Power			Gas		
Net Sold Megawatt-hours	Longest Hedge Date	Longest Non-Hedge Date	Net Purchased mmBtu	Longest Hedge Date	Longest Non-Hedge Date
(in millions)			*(in millions)*		
2.6	2010	2010	11*	2012	2014

* Includes location basis of 2 million British thermal units (mmBtu).

For cash flow hedges, the amounts expected to be reclassified from OCI to revenue and fuel expense for the next 12-month period ending December 31, 2010 are losses of $1.1 million and $1.0 million, respectively.

Interest Rate Derivatives

The Company also enters into interest rate derivatives from time to time, which include forward-starting interest rate swaps, to hedge exposure to changes in interest rates. Derivatives related to existing variable rate securities or forecasted transactions are accounted for as cash flow hedges, where the fair value gains or losses are recorded in OCI and are reclassified into earnings at the same time the hedged transactions affect earnings. The derivatives employed as hedging instruments are structured to minimize ineffectiveness. At December 31, 2009, there were no interest rate derivatives outstanding.

The estimated pre-tax loss that will be reclassified from OCI to interest expense for the next 12-month period ending December 31, 2010 is $10.7 million. The Company has deferred gains and losses that are expected to be amortized into earnings through 2016.

Derivative Financial Statement Presentation and Amounts

At December 31, 2009 and 2008, the fair value of energy-related derivatives was reflected in the balance sheets as follows:

	Asset Derivatives			Liability Derivatives		
Derivative Category	Balance Sheet Location	2009	2008	Balance Sheet Location	2009	2008
		(in millions)			*(in millions)*	
Derivatives designated as hedging instruments in cash flow hedges						
Energy-related derivatives:	Assets from risk management activities	**$3.2**	$ -	Liabilities from risk management activities	**$5.3**	$0.6
	Other deferred charges and assets – non-affiliated	-	-	Other deferred credits and liabilities – non-affiliated	**0.4**	0.2
Total derivatives designated as hedging instruments in cash flow hedges		**$3.2**	$ -		**$5.7**	$0.8
Derivatives not designated as hedging instruments						
Energy-related derivatives:	Assets from risk management activities	**$1.7**	$10.8	Liabilities from risk management activities	**$2.8**	$6.9
	Other deferred charges and assets – non-affiliated	**0.2**	0.3	Other deferred credits and liabilities – non-affiliated	**0.1**	-
Total derivatives not designated as hedging instruments		**$1.9**	$11.1		**$2.9**	$6.9
Total		**$5.1**	$11.1		**$8.6**	$7.7

All derivative instruments are measured at fair value. See Note 8 for additional information.

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives and interest rate derivatives designated as cash flow hedging instruments on the statements of income were as follows:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
					Amount		
Derivative Category	2009	2008	2007	Statements of Income Location	2009	2008	2007
		(in millions)				*(in millions)*	
Energy-related derivatives	$(1.7)	$0.9	$(1.4)	Fuel	$ -	$ -	$ (0.1)
				Amortization and Depreciation	0.4	0.4	0.4
Interest rate derivatives	-	-	-	Interest expense	(10.0)	(12.0)	(13.4)
Total	$(1.7)	$0.9	$(1.4)		$ (9.6)	$(11.6)	$(13.1)

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

For the years ended December 31, 2009, 2008, and 2007, the pre-tax effect of energy-related derivatives not designated as hedging instruments on the statements of income were as follows:

Derivatives *not* Designated as Hedging Instruments	Unrealized Gain (Loss) Recognized in Income			
			Amount	
Derivative Category	Statements of Income Location	2009	2008	2007
			(in millions)	
Energy-related derivatives:	Wholesale revenues	$ 5.3	$(1.9)	$ -
	Fuel	(6.0)	5.1	-
	Purchased power	(4.5)	(2.3)	-
	Other income (expense), net	-	-	2.8
Total		$ (5.2)	$ 0.9	$2.8

Contingent Features

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 derivatives that could require collateral, but not accelerated payment, in the event of various credit rating changes of certain affiliated companies. At December 31, 2009, the fair value of derivative liabilities with contingent features was $1.7 million.

At December 31, 2009, the Company had no collateral posted with their derivative counterparties; however, because of the joint and several liability features underlying these derivatives, the maximum potential collateral requirements arising from the credit-risk-related contingent features, at a rating below BBB- and/or Baa3, is $33.3 million.

Currently, the Company has investment grade credit ratings from the major rating agencies with respect to debt.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Included in these amounts are certain agreements that could require collateral in the event that one or more power pool participants has a credit rating change to below investment grade.

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2009 and 2008 is as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income
		(in thousands)	
March 2009	**$ 231,517**	**$ 66,981**	**$ 27,916**
June 2009	**230,598**	**73,276**	**31,054**
September 2009	**283,369**	**127,165**	**67,280**
December 2009	**201,168**	**46,134**	**29,602**
March 2008	$ 215,532	$ 52,661	$ 28,975
June 2008	316,584	79,732	35,420
September 2008	515,871	118,592	59,562
December 2008	265,554	61,884	20,402

The Company's business is influenced by seasonal weather conditions. Fourth quarter 2009 net income includes profit recognized on the OUC construction contract of $10.6 million pretax and $6.5 million after tax.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 2005-2009

Southern Power Company and Subsidiary Companies 2009 Annual Report

	2009	2008	2007	2006	2005
Operating Revenues (in thousands):					
Wholesale - non-affiliates	**$394,366**	$667,979	$416,648	$279,384	$223,058
Wholesale - affiliates	**544,415**	638,266	547,229	491,762	556,664
Total revenues from sales of electricity	**938,781**	1,306,245	963,877	771,146	779,722
Other revenues	**7,870**	7,296	8,137	5,902	1,282
Total	**$946,651**	$1,313,541	$972,014	$777,048	$781,004
Net Income (in thousands)	**$155,852**	$144,359	$131,637	$124,469	$114,791
Cash Dividends on Common Stock (in thousands)	**$106,100**	$ 94,500	$ 89,800	$ 77,700	$ 72,400
Return on Average Common Equity (percent)	**13.36**	13.03	12.52	13.16	13.68
Total Assets (in thousands)	**$3,043,053**	$2,813,140	$2,768,774	$2,690,943	$2,302,976
Gross Property Additions/Plant Acquisitions (in thousands)	**$331,289**	$49,964	$139,198	$465,026	$241,103
Capitalization (in thousands):					
Common stock equity	**$1,195,122**	$1,138,361	$1,077,887	$1,025,504	$866,343
Long-term debt	**1,297,607**	1,297,353	1,297,099	1,296,845	1,099,520
Total (excluding amounts due within one year)	**$2,492,729**	$2,435,714	$2,374,986	$2,322,349	$1,965,863
Capitalization Ratios (percent):					
Common stock equity	**47.9**	46.7	45.4	44.2	44.1
Long-term debt	**52.1**	53.3	54.6	55.8	55.9
Total (excluding amounts due within one year)	**100.0**	100.0	100.0	100.0	100.0
Security Ratings:					
Unsecured Long-Term Debt -					
Moody's	**Baa1**	Baa1	Baa1	Baa1	Baa1
Standard and Poor's	**BBB+**	BBB+	BBB+	BBB+	BBB+
Fitch	**BBB+**	BBB+	BBB+	BBB+	BBB+
Kilowatt-Hour Sales (in thousands):					
Wholesale - non-affiliates	**7,513,569**	7,573,713	6,985,592	5,093,527	3,932,638
Wholesale - affiliates	**12,293,585**	9,402,020	10,766,003	8,493,441	6,355,249
Total	**19,807,154**	16,975,733	17,751,595	13,586,968	10,287,887
Average Revenue Per Kilowatt-Hour (cents)	**4.74**	7.69	5.43	5.68	7.58
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**7,880**	7,555	6,896	6,733	5,403
Maximum Peak-Hour Demand (megawatts):					
Winter	**3,224**	3,042	2,815	2,780	2,037
Summer	**3,308**	3,538	3,717	2,869	2,420
Annual Load Factor (percent)	**52.6**	50.0	48.2	53.6	48.9
Plant Availability (percent)	**96.7**	96.0	96.7	98.3	97.6
***Source of Energy* Supply** (percent):					
Gas	**84.4**	75.6	70.4	68.3	72.6
Purchased power -					
From non-affiliates	**7.9**	11.3	8.8	9.6	9.6
From affiliates	**7.7**	13.1	20.8	22.1	17.8
Total	**100.0**	100.0	100.0	100.0	100.0

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PART III

Items 10, 11, 12 (except for "Equity Compensation Plan Information" which is included herein on page III-41), 13, and 14 for Southern Company are incorporated by reference to Southern Company's Definitive Proxy Statement relating to the 2010 Annual Meeting of Stockholders. Specifically, reference is made to "Nominees for Election as Directors," "Corporate Governance," and "Section 16(a) Beneficial Ownership Reporting Compliance" for Item 10, "Executive Compensation," "Compensation Discussion and Analysis," "Compensation and Management Succession Committee Report," "Director Compensation," and "Director Compensation Table" for Item 11, "Stock Ownership Table" for Item 12, "Certain Relationships and Related Transactions" and "Director Independence" for Item 13, and "Principal Public Accounting Firm Fees" for Item 14.

Items 10, 11, 12, 13, and 14 for Alabama Power, Georgia Power, and Mississippi Power are incorporated by reference to the Definitive Information Statements of Alabama Power, Georgia Power, and Mississippi Power relating to each of their respective 2010 Annual Meetings of Shareholders. Specifically, reference is made to "Nominees for Election as Directors," "Corporate Governance," and "Section 16(a) Beneficial Ownership Reporting Compliance" for Item 10, "Executive Compensation Information," "Compensation Discussion and Analysis," "Compensation and Management Succession Committee Report," "Director Compensation," and "Director Compensation Table" for Item 11, "Stock Ownership Table" for Item 12, "Certain Relationships and Related Transactions" and "Director Independence" for Item 13, and "Principal Public Accounting Firm Fees" for Item 14.

Items 10, 11, 12, 13, and 14 for Gulf Power are contained herein.

Items 10, 11, 12 and 13 for Southern Power are omitted pursuant to General Instruction I(2)(c) of Form 10-K. Item 14 for Southern Power is contained herein.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Identification of directors of Gulf Power.

Susan N. Story **President and Chief Executive Officer** **Age 49** **Served as Director since 2003**	**Fred C. Donovan, Sr. (1)** **Age 69** **Served as Director since 1991**
C. LeDon Anchors (1) **Age 69** **Served as Director since 2001**	**William A. Pullum (1)** **Age 62** **Served as Director since 2001**
William C. Cramer, Jr. (1) **Age 57** **Served as Director since 2002**	**Winston E. Scott (1)** **Age 59** **Served as Director since 2003**

(1) *No position other than director.*

Each of the above is currently a director of Gulf Power, serving a term running from the last annual meeting of Gulf Power's shareholders (June 30, 2009) 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 or she was or is to be selected as a director, other than any arrangements or understandings with directors or officers of Gulf Power acting solely in their capacities as such.

Identification of executive officers of Gulf Power.

Susan N. Story **President and Chief Executive Officer** **Age 49** **Served as Executive Officer since 2003**	**Theodore J. McCullough** **Vice President – Senior Production Officer** **Age 46** **Served as Executive Officer since 2007**
P. Bernard Jacob **Vice President – Customer Operations** **Age 55** **Served as Executive Officer since 2003**	**Bentina C. Terry** **Vice President – External Affairs and Corporate Services** **Age 39** **Served as Executive Officer since 2007**
Philip C. Raymond **Vice President and Chief Financial Officer** **Age 50** **Served as Executive Officer since 2008**	

Each of the above is currently an executive officer of Gulf Power, serving a term running from the last annual organizational meeting of the directors (July 23, 2009) for one year until the next annual organizational 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 or she was or is to be selected as an officer, other than any arrangements or understandings with directors or officers of Gulf Power acting solely in their capacities as such.

Identification of certain significant employees. *None.*

Family relationships. *None.*

Business experience. *Unless noted otherwise, each director has served in his or her present position for at least the past five years.*

DIRECTORS

Gulf Power's Board of Directors possesses collective knowledge and experience in accounting, finance, leadership, business operations, risk management, corporate governance, and Gulf Power's industry.

Susan N. Story – President and Chief Executive Officer of Gulf Power. Ms. Story has previously served in leadership roles in a number of areas, including engineering and construction, supply chain, real estate and corporate services with affiliated subsidiaries. Currently, Ms. Story also serves on the Board of Directors of Raymond James Financial, Inc.

C. LeDon Anchors – Attorney and President of Anchors Smith Grimsley, Attorneys at Law, Fort Walton Beach, Florida. As an attorney, Mr. Anchors areas of practice include real estate, family law, banking, business law, commercial law, corporate law, government, and probate. He is also a director of Beach Community Bank, Fort Walton Beach, Florida, where he serves on the audit committee and the assets and liabilities committee. Mr. Anchors has also served in leadership roles at a number of civic organizations.

William C. Cramer, Jr. - President and Owner of automobile dealerships in Florida, Georgia, and Alabama. Mr. Cramer has been an authorized Chevrolet dealer since 1978. In 2009, Mr Cramer became an authorized dealer of Cadillac, Buick, and GMC vehicles.

Fred C. Donovan, Sr. - Chairman and Chief Executive Officer of Baskerville-Donovan, Inc. (an architectural and engineering firm), Pensacola, Florida. Mr. Donovan is responsible for establishing the strategic direction and providing the overall management of the firm. He also serves as Chairman of the Baptist Healthcare Board of Directors. Previously, he has served in leadership roles with Chambers of Commerce in his area.

William A. Pullum – President and Director of Bill Pullum Realty, Inc., Navarre, Florida. Mr. Pullum is also a real estate developer.

Winston E. Scott – Dean, College of Aeronautics, Florida Institute of Technology, Melbourne, Florida since August 2008. He previously served as Vice President and Deputy General Manager, Engineering and Science Contract Group at Jacobs Engineering, Houston, Texas, from 2006 to 2008 and Executive Director of the Florida Space Authority, Cape Canaveral, Florida, from 2003 to 2006. Mr. Scott's experience also included serving as a pilot in the U.S. Navy and an astronaut with the National Aeronautic and Space Administration.

EXECUTIVE OFFICERS

P. Bernard Jacob – Vice President of Customer Operations since 2007. He previously served as Vice President of External Affairs and Corporate Services from 2003 to 2007.

Philip C. Raymond - Vice President and Chief Financial Officer since April 2008. He previously served as Vice President and Comptroller of Alabama Power from January 2005 to April 2008 and Eastern Region Internal Auditing Director of SCS from September 2003 through January 2005.

Theodore J. McCullough – Vice President and Senior Production Officer since 2007. He previously served as the Manager of Georgia Power's Plant Branch from December 2003 to August 2007.

Bentina C. Terry – Vice President of External Affairs and Corporate Services since 2007. She previously served as General Counsel and Vice President of External Affairs for Southern Nuclear from January 2005 to March 2007 and Area Distribution Manager of Georgia Power from February 2004 through January 2005.

Involvement in certain legal proceedings. None.

Promoters and Certain Control Persons. None.

Section 16(a) Beneficial Ownership Reporting Compliance. None.

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 www.southerncompany.com. The code of business conduct and ethics is also available free of charge in print to any shareholder by requesting a copy from Melissa K. Caen, Assistant Corporate Secretary, Southern Company, 30 Ivan Allen Jr. Boulevard NW, Atlanta, Georgia 30308. 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

Southern Company has adopted corporate governance guidelines and committee charters. The corporate governance guidelines and the charters of Southern Company's Audit Committee, Compensation and Management Succession Committee, Finance Committee, Governance Committee, and Nuclear/Operations Committee can be found on Southern Company's website located at www.southerncompany.com. The corporate governance guidelines and charters are also available free of charge in print to any shareholder by requesting a copy from Melissa K. Caen, Assistant Corporate Secretary, Southern Company, 30 Ivan Allen Jr. Boulevard NW, Atlanta, Georgia 30308.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

In this Compensation Discussion and Analysis (CD&A) and this Form 10-K, references to the "Compensation Committee" are to the Compensation and Management Succession Committee of the Board of Directors of Southern Company.

GUIDING PRINCIPLES AND POLICIES

Southern Company, through a single executive compensation program for all officers of its subsidiaries, drives and rewards both Southern Company financial performance and individual business unit performance.

This executive compensation program is based on a philosophy that total executive compensation must be competitive with the companies in our industry, must be tied to and motivate our executives to meet our short- and long-term performance goals, must foster and encourage alignment of executive interests with the interests of our stockholders and our customers, and must not encourage excessive risk-taking. The program generally is designed to motivate all employees, including executives, to achieve operational excellence and financial goals while maintaining a safe work environment.

The executive compensation program places significant focus on rewarding performance. The program is performance-based in several respects:

- Southern Company's actual earnings per share (EPS) and Gulf Power's business unit performance, which includes return on equity (ROE), compared to target performance levels established early in the year, determine actual payouts under the short-term (annual) performance-based compensation program (Performance Pay Program).

- Southern Company common stock (Common Stock) price changes result in higher or lower ultimate values of stock options.

- Southern Company's dividend payout and total shareholder return compared to those of its industry peers lead to higher or lower payouts under the Performance Dividend Program (performance dividends).

In support of the performance-based pay philosophy, we have no general employment contracts with our named executive officers or guaranteed severance, except upon a change in control, and no pay is conditioned solely upon continued employment of any of the named executive officers, other than base salary.

The pay-for-performance principles apply not only to the named executive officers, but to hundreds of Gulf Power employees. The Performance Pay Program covers almost all of the approximately 1,300 Gulf Power employees. Stock options and performance dividends cover approximately 250 Gulf Power employees. These programs engage our people in our business, which ultimately is good not only for them, but for Gulf Power's customers and Southern Company's stockholders.

OVERVIEW OF EXECUTIVE COMPENSATION COMPONENTS

The executive compensation program is composed of several components, each of which plays a different role. The chart below discusses the intended role of each material pay component, what it rewards, and why we use it. Following the chart is additional information that describes how we made 2009 pay decisions.

Pay Element	Intended Role and What the Element Rewards	Why We Use the Element
Base Salary	Base salary is pay for competence in the executive role, with a focus on scope of responsibilities.	Market practice. Provides a threshold level of cash compensation for job performance.
Annual Performance-Based Compensation: Performance Pay Program	The Performance Pay Program rewards achievement of operational, EPS, and business unit financial goals.	Market practice. Focuses attention on achievement of short-term goals that ultimately work to fulfill our mission to customers and lead to increased stockholder value in the long term.
Long-Term Performance-Based Compensation: Stock Options	Stock options reward price increases in Common Stock over the market price on the date of grant, over a 10-year term.	Market practice. Performance-based compensation. Aligns executives' interests with those of Southern Company's stockholders.
Long-Term Performance-Based Compensation: Performance Dividends	Performance dividends provide cash compensation dependent on the number of stock options held at year end, Southern Company's dividends on the Common Stock paid during the year, and Southern Company's four-year total shareholder return versus industry peers.	Market practice. Performance-based compensation. Enhances the value of stock options and focuses executives on maintaining a significant dividend yield for Southern Company's stockholders. Aligns executives' interests with Southern Company's stockholders' interests since payouts are dependent on the returns realized by Southern Company's stockholders versus those of our industry peers.
Retirement Benefits	The Southern Company Deferred Compensation Plan provides the opportunity to defer to future years all or part of base salary and performance-based compensation, except stock options, in either a prime interest rate or Common Stock account. Executives participate in employee benefit plans available to all employees of Gulf Power, including a 401(k) savings plan and the funded Southern Company Pension Plan (Pension Plan).	Market practice. Permitting compensation deferral is a cost-effective method of providing additional cash flow to Gulf Power while enhancing the retirement savings of executives. The purpose of these supplemental plans is to eliminate the effect of tax limitations on the payment of retirement benefits.

Pay Element	Intended Role and What the Element Rewards	Why We Use the Element
	The Supplemental Benefit Plan counts pay, including deferred salary, ineligible to be counted under the Pension Plan and the 401(k) plan due to Internal Revenue Service rules. The Supplemental Executive Retirement Plan counts annual performance-based pay above 15% of base salary for pension purposes.	Represents an important component of competitive market-based compensation in Southern Company's peer group and generally.
Perquisites and Other Personal Benefits	Personal financial planning maximizes the perceived value of our executive compensation program to executives and allows them to focus on Gulf Power's operations. Home security systems lower the risk of harm to executives. Club memberships are provided primarily for business use. Relocation benefits cover the costs associated with geographic relocations at the request of the employer. Limited personal use of corporate-owned aircraft associated with business travel.	Perquisites benefit both Gulf Power and executives, at low cost to Gulf Power.
Post-Termination Pay	Change-in-control plans provide severance pay, accelerated vesting, and payment of short- and long-term performance-based compensation upon a change in control of Gulf Power or Southern Company coupled with involuntary termination not for "Cause" or a voluntary termination for "Good Reason."	Market practice. Providing protections to senior executives upon a change in control minimizes disruption during a pending or anticipated change in control. Payment and vesting occur only upon the occurrence of both an actual change in control and loss of the executive's position.

MARKET DATA

For the named executive officers, the Compensation Committee reviews compensation data from large, publicly-owned electric and gas utilities. The data was developed and analyzed by Towers Perrin, the compensation consultant retained by the Compensation Committee. The companies included each year in the primary peer group are those whose data is available through the consultant's database. Those companies are drawn from this list of primarily regulated utilities of $2 billion in revenues and up.

AGL Resources Inc.	El Paso Corporation	PG&E Corporation
Allegheny Energy, Inc.	Entergy Corporation	Pinnacle West Capital Corporation
Alliant Energy Corporation	EPCO	PPL Corporation
Ameren Corporation	Exelon Corporation	Progress Energy, Inc.
American Electric Power Company, Inc.	FirstEnergy Corp.	Public Service Enterprise Group Inc.
Atmos Energy Corporation	FPL Group, Inc.	Puget Energy, Inc.
Calpine Corporation	Integrys Energy Company, Inc.	Reliant Energy, Inc.
CenterPoint Energy, Inc	MDU Resources, Inc.	Salt River Project
CMS Energy Corporation	Mirant Corporation	SCANA Corporation
Consolidated Edison, Inc.	New York Power Authority	Sempra Energy
Constellation Energy Group, Inc.	Nicor, Inc.	Southern Union Company
CPS Energy	Northeast Utilities	Spectra Energy
DCP Midstream	NRG Energy, Inc.	TECO Energy
Dominion Resources Inc.	NSTAR	Tennessee Valley Authority
Duke Energy Corporation	NV Energy, Inc.	The Williams Companies, Inc.
Dynegy Inc.	OGE Energy Corp.	Wisconsin Energy Corporation
Edison International	Pepco Holdings, Inc.	Xcel Energy Inc.

Southern Company is one of the largest U.S. utility companies based on revenues and market capitalization, and its largest business units are some of the largest in the industry as well. For that reason, the consultant size-adjusts the survey market data in order to fit it to the scope of our business.

In using this market data, market is defined as the size-adjusted 50th percentile of the data, with a focus on pay opportunities at target performance (rather than actual plan payouts). Market data for chief executive officer positions and other positions in terms of scope of responsibilities that most closely resemble the positions held by the named executive officers are reviewed. Based on that data, a total target compensation opportunity is established for each named executive officer. Total target compensation opportunity is the sum of base salary, annual performance-based compensation at the target performance level, and stock option awards with associated performance dividends at a target value. Actual compensation paid may be more or less than the total target compensation opportunity based on actual performance above or below target performance levels. As a result, the compensation program is designed to result in payouts that are market-appropriate given Gulf Power's and Southern Company's performance for the year or period.

We did not target a specified weight for base salary or annual or long-term performance-based compensation as a percentage of total target compensation opportunities, nor did amounts realized or realizable from prior compensation serve to increase or decrease 2009 compensation amounts. Total target compensation opportunities for senior management as a group are managed to be at the median of the market for companies of our size and in our industry. The total target compensation opportunity established in 2009 for each named executive officer is shown below.

Name	Salary	Annual Performance-Based Compensation	Long-Term Performance-Based Compensation	Total Target Compensation Opportunity
S. N. Story	$396,084	$237,650	$495,105	$1,128,839
P. C. Raymond	$ 228,433	$102,795	$137,055	$468,283
P. B. Jacob	$230,346	$103,656	$138,206	$472,208
T. J. McCullough	$182,973	$73,189	$73,186	$329,348
B. C. Terry	$228,433	$102,795	$137,055	$468,283

For purposes of comparing the value of our compensation program to the market data, stock options are valued at 5.7%, and performance dividend target at 10%, of the average daily Common Stock price for the year preceding the

grant, both of which represent risk-adjusted present values on the date of grant and are consistent with the methodologies used to develop the market data. For the 2009 grant of stock options and the performance dividend target established for the 2009-2012 performance-measurement period, this value was $4.94 per stock option granted. In the long-term column, 36% of the value shown is attributable to stock options and 64% is attributable to performance dividends. The value of stock options, with the associated performance dividends, declined from 2008. In 2008 and 2009, the value of the dividend equivalents was 10% of the Common Stock price on the stock option grant date, but the value of the stock option declined from 12% to 5.7%. In 2008, the performance dividends represented 45% of the long-term target value and stock options represented 55% of that value. More information on how stock options are valued is reported in the Grants of Plan-Based Award table and the information accompanying it.

As discussed above, the Compensation Committee targets total target compensation opportunities for senior executives as a group at market. Therefore, some executives may be paid somewhat above and others somewhat below market. This practice allows for minor differentiation based on time in the position, scope of responsibilities, and individual performance. The differences in the total pay opportunities for each named executive officer are based almost exclusively on the differences indicated by the market data for persons holding similar positions. The average total target compensation opportunities for the named executive officers for 2009 were at the median of the market data described above. Because of the use of market data from a large number of peer companies for positions that are not identical in terms of scope of responsibility from company to company, we do not consider slight differences material and continue to believe that our compensation program is market-appropriate. Generally, we consider compensation to be within an appropriate range if it is not more or less than 10% of the applicable market data.

In 2008, the Compensation Committee received a detailed comparison of our executive benefits program to the benefits of a group of other large utilities and general industry companies. The results indicated that our overall executive benefits program was at market. Because this data does not change significantly year over year, this study is only updated every few years.

DESCRIPTION OF KEY COMPENSATION COMPONENTS

2009 Base Salary

The named executive officers are each within a position level with a base salary range that is established under the direction of the Compensation Committee using the market data described above. Consistent with the broad-based compensation program for 2009, there were no base salary adjustments for the named executive officers.

2009 Performance-Based Compensation

This section describes our performance-based compensation program in 2009. The Compensation Committee approved changes to that program in 2009, to be effective in 2010. These changes are described in the last section of this CD&A entitled 2010 Executive Compensation Program Changes.

Achieving Operational and Financial Goals — Our Guiding Principle for Performance-Based Compensation

Our number one priority is to provide our customers outstanding reliability and superior service at low prices while achieving a level of financial performance that benefits Southern Company's stockholders in the short and long term.

In 2009, we strove for and rewarded:

- Continued industry-leading reliability and customer satisfaction, while maintaining our low retail prices relative to the national average; and
- Meeting energy demand with the best economic and environmental choices.

In 2009, we also focused on and rewarded:

- Southern Company EPS growth;
- Gulf Power ROE in the top quartile of comparable electric utilities;
- Common Stock dividend growth;
- Long-term, risk-adjusted Southern Company total shareholder return; and
- Financial Integrity — an attractive risk-adjusted return, sound financial policy, and a stable "A" credit rating.

The performance-based compensation program is designed to encourage Gulf Power to achieve these goals.

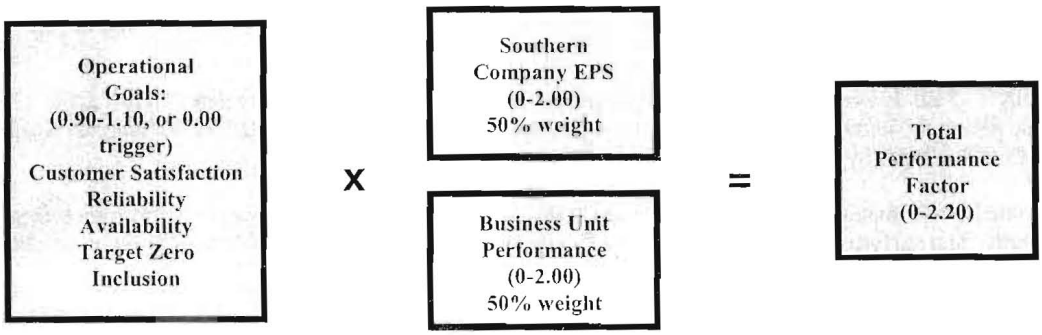
The Southern Company Chief Executive Officer, with the assistance of Southern Company's Human Resources staff, recommends to the Compensation Committee program design and award amounts for senior executives, including the named executive officers.

2009 Annual Performance Pay Program

Program Design
The Performance Pay Program is Southern Company's annual performance-based compensation program. Almost all employees of Gulf Power are participants, including the named executive officers, for a total of over 1,300 Gulf Power participants.

The performance measured by the program uses goals set at the beginning of each year by the Compensation Committee.

An illustration of the annual Performance Pay Program goal structure for 2009 is provided below.



- Operational goals for 2009 were safety, customer satisfaction, plant availability, transmission and distribution system reliability, inclusion, and for Southern Company Generation, operations and maintenance cost performance. Each of these operational goals is explained in more detail under Goal Details below. The result of all operational goals is averaged and multiplied by the bonus impact of the EPS and business unit financial goals. The amount for each goal can range from 0.90 to 1.10 or can be 0.00 if a threshold performance level is not achieved as more fully described below. The level of achievement for each operational goal is determined and the results are averaged.

- Southern Company EPS is weighted at 50% of the financial goals. EPS is defined as earnings from continuing operations divided by average shares outstanding during the year. The EPS performance measure is applicable to all participants in the Performance Pay Program, including the named executive officers.

- Business unit financial performance is weighted at 50% of the financial goals. Gulf Power's financial performance goal is ROE, which is defined as Gulf Power's net income divided by average equity for the year. For Southern Company Generation, it is calculated using a corporate-wide weighted average of all the business unit financial performance goals, including primarily the ROE of Gulf Power and affiliated companies, Alabama Power, Georgia Power, and Mississippi Power. For Mr. McCullough, the business unit financial goal was weighted 30% Gulf Power ROE and 20% Southern Company Generation financial goal. .

The Compensation Committee may make adjustments, both positive and negative, to goal achievement for purposes of determining payouts. Such adjustments include the impact of items considered extraordinary or unusual in nature, infrequent in occurrence, outside of normal operations, or not anticipated in the business plan when the earnings goal was established, and of sufficient magnitude to warrant recognition. The Compensation Committee made an adjustment in 2009 to eliminate the effect of a $202 million charge to Southern Company earnings taken in 2009. The charge related to the settlement agreement with MC Asset Recovery, LLC (MCAR) to resolve an action which arose out of the bankruptcy proceeding of Mirant Corporation, a former subsidiary of Southern Company until its spin-off in April 2001. The settlement included an agreement by Southern Company to pay MCAR $202 million, which was paid in mid-2009. This adjustment increased the average payout for 2009 performance by approximately 30%.

Under the terms of the program, no payout can be made if Southern Company's current earnings are not sufficient to fund its Common Stock dividend at the same level or higher than the prior year.

Goal Details

Operational Goals:

Customer Satisfaction – Gulf Power uses customer satisfaction surveys to evaluate its performance. The survey results provide an overall ranking for Gulf Power, as well as a ranking for each customer segment: residential, commercial, and industrial.

Reliability — Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance, expected weather conditions, and expected capital expenditures.

Availability — Peak season equivalent forced outage rate is an indicator of 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.

Safety – Southern Company's Target Zero program is focused on continuous improvement in having a safe work environment. The performance is measured by the Occupational Safety and Health Administration recordable incident rate.

Inclusion/Diversity – The inclusion program seeks to improve our inclusive workplace. This goal includes measures for work environment (employee satisfaction survey), representation of minorities and females in leadership roles, and supplier diversity.

Southern Company capital expenditures "gate" or threshold goal – For 2009, Southern Company strived to manage total capital expenditures, excluding nuclear fuel, for the participating business units at or below $4.5 billion and Gulf Power strived to manage such expenditures at or below $478 million. If the Southern Company or Gulf Power capital expenditure target is exceeded, total operational goal performance is capped at 0.90 regardless of the actual operational goal results. Adjustments to the goal may occur due to significant events not anticipated in Southern Company's and Gulf Power's business plans established early in 2009, such as acquisitions or disposition of assets, new capital projects, and other events.

For Mr. McCullough, the operational goals were weighted 60% based on Gulf Power's operational goals and 40% based on Southern Company Generation's operational goals.

The range of performance levels established for each operational goal is detailed below.

Level of Performance	Customer Satisfaction	Reliability	Availability – Gulf Power/ Southern Company Generation (%)	Safety	Inclusion
Maximum (1.10)	Top quartile for each customer segment	Improve historical performance	2.25/2.00	0.62 or top quartile	Significant improvement
Target (1.00)	Top quartile overall	Maintain historical performance	3.00/2.75	0.988	Improve
Threshold (0.90)	2nd quartile	Below historical performance	4.00/3.75	1.373	Below expectations
0 Trigger	At or below median	Significant issues	9.00/6.00	Each quarter at threshold or below	Significant issues

EPS and Business Unit Financial Performance:

The range of EPS and business unit financial goals for 2009 is shown below. The ROE goal varies from the allowed retail ROE range due to state regulatory accounting requirements, wholesale activities, other non-jurisdictional revenues and expenses, and other activities not subject to state regulation.

Level of Performance	EPS, excluding MCAR Settlement Impact	Business Unit Financial Performance ROE	Payout Factor	Payout Factor at Associated Level of Operational Goal Achievement	Payout Below Threshold for Operational Goal Achievement
Maximum	$2.50	13.7%	2.00	2.20	0.00
Target	$2.375	12.7%	1.00	1.00	0.00
Threshold	$2.25	11.00%	0.01	0.01	0.00
Below threshold	<$2.25	<11.00%	0.00	0.00	0.00

2009 Achievement

Each named executive officer had a target Performance Pay Program opportunity, based on his or her position, set by the Compensation Committee at the beginning of 2009. Targets are set as a percentage of base salary. Ms. Story's target was set at 60%. For Ms. Terry and Messrs. Jacob and Raymond, it was set at 45% and for Mr. McCullough, it was set at 40%. Actual payouts were determined by adding the payouts derived from EPS and business unit financial performance goal achievement for 2009 and multiplying that sum by the result of the operational goal achievement. The gate goal target was not exceeded and therefore did not affect payouts. Actual 2009 goal achievement is shown in the following table. The EPS result shown in the table is adjusted for the MCAR settlement charge taken in 2009 as described above. Therefore, payouts were determined using EPS performance results that differed from the results reported in the financial statements of Southern Company in Item 8 herein. EPS, as determined in accordance with accounting principles generally accepted in the United States and as reported by Southern Company, was $2.07 per share.

Business Unit	Operational Goal Multiplier (A)	EPS Excluding MCAR Settlement Impact	EPS Goal Performance Factor (50% Weight)	Business Unit Financial Performance	Business Unit Financial Performance Factor (50% Weight)	Total Weighted Financial Performance Factor (B)	Total Payout Factor (AxB)
Gulf Power	1.08	$2.32	0.57	12.18%	0.69	0.63	0.68
Southern Company Generation	1.08	$2.32	0.57	Corporate Average	0. 90	0.73	0.79

Note that the Total Payout Factor may vary from the Total Weighted Financial Performance Factor multiplied by the Operational Goal Multiplier due to rounding. To calculate the Performance Pay Program amount, the target opportunity is multiplied by the Total Payout Factor.

Actual performance, as adjusted, was below the target performance levels established by the Compensation Committee in early 2009; therefore, the payout levels were below the target pay opportunities that were established. More information on how target pay opportunities are established is provided under the Market Data section in this CD&A.

The table below shows the pay opportunity set in early 2009 for the annual Performance Pay Program payout at target-level performance and the actual payout based on the actual performance, as adjusted, shown above.

Name	Target Annual Performance Pay Program Opportunity ($)	Actual Annual Performance Pay Program Payout ($)
S. N. Story	237,650	161,602
P. C. Raymond	102,795	69,901
P. B. Jacob	103,656	70,486
T. J. McCullough	73,189	53,428
B. C. Terry	102,795	69,901

Stock Options

Options to purchase Common Stock are granted annually and were granted in 2009 to the named executive officers and about 250 other employees of Gulf Power. Options have a 10-year term, vest over a three-year period, fully vest upon retirement or termination of employment following a change in control, and expire at the earlier of five years from the date of retirement or the end of the 10-year term. The Compensation Committee changed the stock option vesting provisions associated with retirement for stock options granted in 2009 to the executive officers of Southern Company, including Ms. Story. For these grants made in 2009, unvested options are forfeited if she retires and accepts a position with a peer company within two years of retirement. The Compensation Committee made this change to provide more retention value to the stock option awards, to provide an inducement to not seek a position with a peer company, and to limit the post-termination compensation of executive officers of Southern Company who do accept positions with a peer company. Ms. Story became retirement-eligible in early 2010.

As described in the Market Data section above, the Compensation Committee established a target long-term performance-based compensation value for each named executive officer. The number of stock options granted, with associated performance dividends, was determined by dividing that long-term value by the value of a stock option with associated performance dividends. The value of each stock option was derived using the Black-Scholes stock option pricing model. The assumptions used in calculating that amount are discussed in Note 8 to the financial statements of Gulf Power in Item 8 herein. For 2009, the Black-Scholes value on the grant date was $1.80 per stock option. As described in the Market Data section above, the value of the associated performance dividends was $3.14

per stock option which was 10% of the Common Stock price on the grant date. Therefore, the target value of each stock option, with associated performance dividends, was $4.94 per stock option. The calculation of the 2009 stock option grants for the named executive officers is shown below.

The calculation of the 2009 stock option grants for the named executive officers is shown below.

Name	Long-Term Value	Value Per Stock Option	Number of Stock Options Granted
S. N. Story	495,105	$4.94	100,223
P. C. Raymond	137,055	$4.94	27,744
P. B. Jacob	138,206	$4.94	27,977
T. J. McCullough	73,186	$4.94	14,815
B. C. Terry	137,055	$4.94	27,744

More information about the stock option program is contained in the Grant of Plan Based Awards table and the information accompanying it.

Performance Dividends

All option holders, including the named executive officers, can receive performance-based dividend equivalents on stock options held at the end of the year. Performance dividends can range from 0% to 100% of the Common Stock dividend paid during the year per option held at the end of the year. Actual payout will depend on Southern Company's total shareholder return over a four-year performance measurement period compared to a group of other electric and gas utility companies. The peer group is determined at the beginning of each four-year performance-measurement period. The peer group varies from the Market Data peer group due to the timing and criteria of the peer selection process. The peer group for performance dividends is set by the Compensation Committee at the beginning of the four-year performance-measurement period. However, despite these timing differences, there is substantial overlap in the companies included.

Total shareholder return is calculated by measuring the ending value of a hypothetical $100 invested in each company's common stock at the beginning of each of 16 quarters. In the final year of the performance-measurement period, Southern Company's ranking in the peer group is determined at the end of each quarter and the percentile ranking is multiplied by the actual Common Stock dividend paid in that quarter. To determine the total payout per stock option held at the end of the performance-measurement period, the four quarterly amounts earned are added together.

No performance dividends are paid if Southern Company's earnings are not sufficient to fund a Common Stock dividend at least equal to that paid in the prior year.

2009 Payout

The peer group used to determine the 2009 payout for the 2006-2009 performance-measurement period consisted of utilities with revenues of $1.2 billion or more with regulated revenues of 60% or more. Those companies are listed below.

Allegheny Energy, Inc.	Entergy Corporation	Pinnacle West Capital Corp.
Alliant Energy Corporation	Exelon Corporation	Progress Energy, Inc.
Ameren Corporation	FPL Group, Inc.	SCANA Corporation
American Electric Power Company, Inc.	NiSource Inc.	Sempra Energy
CenterPoint Energy, Inc.	Northeast Utilities	Westar Energy Corporation
CMS Energy Corporation	NSTAR	Wisconsin Energy Corporation
Consolidated Edison, Inc.	NV Energy, Inc.	Xcel Energy Inc.
DPL, Inc.	Pepco Holdings, Inc.	
Edison International	PG&E Corporation	

The scale below determined the percentage of each quarter's dividend paid in the last year of the performance-measurement period to be paid on each stock option held at December 31, 2009 based on the 2006-2009 performance-measurement period. Payout for performance between points was interpolated on a straight-line basis.

Performance vs. Peer Group	Payout (% of Each Quarterly Dividend Paid)
90th percentile or higher	100
50th percentile (target)	50
10th percentile or lower	0

Southern Company's total shareholder return performance as measured at the end of each quarter of the final year of the four-year performance-measurement period ending with 2009 was the 83rd, 83rd, 53rd, and 38th percentile, respectively, resulting in a total payout of 64% of the full year's Common Stock dividend, or $1.10. This amount was multiplied by each named executive officer's outstanding stock options at December 31, 2009 to calculate the payout under the program. The amount paid is included in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

2012 Opportunity

The Compensation Committee selected two peer groups for the 2009-2012 performance-measurement period (which will be used to determine the 2012 payout amount). The results of the two peer groups will be averaged to determine the payment level. One peer group selected is a published index, the Philadelphia Utility Index. The other peer group (custom peer group) is a group of companies that the Company believes are similar to the Company in terms of business models, including a mix of regulated and non-regulated revenues.

The companies in the Philadelphia Utility Index are listed below.

Ameren Corporation	Exelon Corporation
American Electric Power Company, Inc.	FirstEnergy Corp.
CenterPoint Energy, Inc.	FPL Group, Inc.
Consolidated Edison, Inc.	Northeast Utilities
Constellation Energy Group, Inc.	PG&E Corporation
Dominion Resources Inc.	Progress Energy, Inc.
DTE Energy Company	Public Service Enterprise Group Inc.
Duke Energy Corporation	The AES Corporation
Edison International	Xcel Energy Inc.
Entergy Corporation	

The companies in the custom peer group are listed below.

American Electric Power Company, Inc.	PG&E Corporation
Consolidated Edison, Inc.	Progress Energy, Inc.
Duke Energy Corporation	Wisconsin Energy Corporation
Northeast Utilities	Xcel Energy Inc.
NSTAR	

The scale below will determine the percentage of each quarter's dividend paid in the last year of the performance-measurement period to be paid on each option held at December 31, 2012, based on the 2009-2012 performance-measurement period. Payout for performance between points will be interpolated on a straight-line basis.

Performance vs. Peer Groups	Payout (% of Each Quarterly Dividend Paid)
90th percentile or higher	100
50th percentile (target)	50
10th percentile or lower	0

See the Grants of Plan-Based Awards table and the accompanying information for more information about threshold, target, and maximum payout opportunities for the 2009-2012 Performance Dividend Program.

Timing of Performance-Based Compensation

As discussed above, Southern Company EPS and Gulf Power's financial performance goal for the 2009 Performance Pay Program were established at the February 2009 Compensation Committee meeting. Annual stock option grants also were made at that meeting. The establishment of performance-based compensation goals and the granting of stock options were not timed with the release of material, non-public information. This procedure was consistent with prior practices. Stock option grants are made to new hires or newly-eligible participants on preset, regular quarterly dates that were approved by the Compensation Committee. The exercise price of options granted to employees in 2009 was the closing price of the Common Stock on the grant date or the last trading day before the grant date if the grant date was not a trading day.

Post-Employment Compensation

As mentioned above, we provide certain post-employment compensation to employees, including the named executive officers:

Retirement Benefits

Generally, all full-time employees of Gulf Power, including the named executive officers, participate in our funded Pension Plan after completing one year of service. Normal retirement benefits become payable when participants both attain age 65 and complete five years of participation. We also provide unfunded benefits that count salary and annual Performance Pay Program payouts that are ineligible to be counted under the Pension Plan. (These plans are the Supplemental Benefit Plan and the Supplemental Executive Retirement Plan that are described in the chart on pages III-5 and III-6 of this CD&A.) See the Pension Benefits table and the information accompanying it for more information about pension-related benefits.

Gulf Power also provides the Deferred Compensation Plan which is an unfunded plan that permits participants to defer income as well as certain federal, state, and local taxes until a specified date or their retirement, disability, death, or other separation from service. Up to 50% of base salary and up to 100% of performance-based compensation, except stock options, may be deferred at the election of eligible employees. All of the named executive officers are eligible to participate in the Deferred Compensation Plan. See the Nonqualified Deferred Compensation table and the information accompanying it for more information about the Deferred Compensation Plan.

Change-in-Control Protections

The Compensation Committee initially approved the change-in-control protection program in 1998. The program provided some level of severance benefits to all employees not part of a collective bargaining unit, if the conditions of the program were met, as described below. The Compensation Committee established this program and the levels of severance amount in order to provide certain compensatory protections to executives upon a change in control and thereby allow them to negotiate aggressively with a prospective purchaser. Providing such protections to our employees in general would minimize disruption during a pending or anticipated change in control. For all participants, payment and vesting would occur only upon the occurrence of both an actual change in control and loss of the individual's position. In 2009, the Compensation Committee directed Towers Perrin to review best practices for change-in-control programs and directed management to recommend any necessary changes to the program to meet those best practices. The review of the program was completed in 2009 and changes were made effective in late 2009.

Change-in-control protections, including severance pay and, in some situations, vesting or payment of long-term performance-based awards, are provided upon a change in control of Southern Company or Gulf Power coupled with an involuntary termination not for "Cause" or a voluntary termination for "Good Reason." This means there is a "double trigger" before severance benefits are paid; *i.e.,* there must be both a change in control and a termination of employment.

If the conditions described above are met, the named executive officers are entitled to severance payments equal to one or three times their base salary plus the annual performance-based compensation amount assuming target-level performance. Most officers, including Gulf Power's named executive officers, are entitled to severance payments equal to one times their base salary plus the annual Performance Pay Program amount assuming target-level performance. Ms. Story is entitled to the larger amount.

Prior to the changes made in 2009, the named executive officers, other than Ms. Story, were entitled to severance payments of two times their base salary plus the target-level annual Performance Pay Program amount. The changes made in 2009 also eliminated the broad-based change-in-control severance program.

More information about post-employment compensation, including severance arrangements under our change-in-control program, is included in the section entitled Potential Payments upon Termination or Change in Control.

Executive Stock Ownership Requirements

Effective January 1, 2006, the Compensation Committee adopted Common Stock ownership requirements for officers of Southern Company and its subsidiaries that are in a position of vice president or above. All of the named executive officers are covered by the requirements. The guidelines were implemented to further align the interest of officers and Southern Company's stockholders by promoting a long-term focus and long-term share ownership.

The types of ownership arrangements counted toward the requirements are shares owned outright, those held in Southern Company-sponsored plans, and Common Stock accounts in the Deferred Compensation Plan and the Supplemental Benefit Plan. One-third of vested Southern Company stock options may be counted, but if so, the ownership requirement is doubled.

The requirements are expressed as a multiple of base salary as per the table below.

Name	Multiple of Salary Without Counting Stock Options	Multiple of Salary Counting 1/3 of Vested Options
S. N. Story	3 Times	6 Times
P. C. Raymond	2 Times	4 Times
P. B. Jacob	2 Times	4 Times
T. J. McCullough	1 Times	2 Times
B. C. Terry	2 Times	4 Times

Current officers have until September 30, 2011 to meet the applicable ownership requirement. Newly-elected officers have five years from the date of their election to meet the applicable ownership requirement.

Impact of Accounting and Tax Treatments on Compensation

None of the compensation paid to Gulf Power's employees, including the named executive officers, is subject to the restrictions under Section 162(m) of the Internal Revenue Code of 1986, as amended (Code).

Policy on Recovery of Awards

Southern Company's 2006 Omnibus Incentive Compensation Plan provides that if Southern Company or Gulf Power is required to prepare an accounting restatement due to material noncompliance as a result of misconduct, and if an executive officer knowingly or grossly negligently engaged in or failed to prevent the misconduct or is subject to automatic forfeiture under the Sarbanes-Oxley Act of 2002, the executive officer will reimburse Gulf Power the amount of any payment in settlement of awards earned or accrued during the 12-month period following the first public issuance or filing that was restated.

Southern Company Policy Regarding Hedging the Economic Risk of Stock Ownership

Southern Company's policy is that insiders, including outside directors, will not trade in Southern Company options on the options market and will not engage in short sales.

2010 Executive Compensation Program Changes

In 2009, the Compensation Committee made certain key changes to the performance-based compensation program that affect all employees of Gulf Power, including the named executive officers. Changes were made to both the annual and long-term performance-based compensation programs.

Annual Performance Pay Program

For annual performance-based compensation to be earned in 2010, the Compensation Committee changed the goal weights and lowered the maximum payout opportunity. Under the program in effect since 2000, the 2009 goals were weighted 50% EPS and 50% ROE with an adjustment of plus or minus 10% based on operational goal performance. The maximum payout opportunity was 220% of the target opportunity. (For more information, see the description of the Performance Pay Program in the 2009 Performance Based Compensation section in this CD&A.) Under the program effective in 2010, the goals are weighted one-third EPS, one-third ROE, and one-third operational goals. The maximum payout opportunity is reduced to 200% of target.

Long-Term Performance-Based Compensation Program

The long-term performance-based compensation program that has been in effect for many years has consisted of stock options with associated performance dividends. Effective in 2010, stock options were granted without associated performance dividends. Performance dividends accounted for approximately 64% of the total long-term performance-based compensation target value for 2009. In 2010, stock options represent 40% of the total value and a new long-term performance-based compensation component was granted: performance share units. Performance share units represent 60% of the total long-term performance-based compensation target value. A grant date fair value per unit is determined. For the grant made in 2010, the value per unit was $30.13. The total target value for performance share units is divided by the value per unit to determine the number of performance share units granted to each participant, including the named executive officers. Each performance share unit represents one share of Common Stock. At the end of a three-year performance-measurement period, the number of units will be adjusted up or down (zero to 200%) based on Southern Company's total shareholder return relative to that of its peers in the Philadelphia Utility Index and the custom peer group. (The performance metric, performance scale, and the peer groups used for the performance share units are the same as that currently used for the Performance Dividend Program.) The number of performance share units earned will be paid in Common Stock. No dividends or dividend equivalents will be paid or earned on the performance share units.

The Compensation Committee also approved a transition period for the Performance Dividend Program. There are three performance-measurement periods that are still open: 2007-2010, 2008-2011, and 2009-2012. For these open

periods, the performance at the end of each period will be determined as described above in this CD&A, and the amount earned will be paid on the number of stock options granted prior to 2010 that a participant holds at the end of each period. Therefore, there will be three additional payouts under the Performance Dividend Program, but the number of stock options upon which payment will be based will be limited to those granted prior to 2010.

COMPENSATION COMMITTEE REPORT

The Compensation Committee met with management to review and discuss the CD&A. Based on such review and discussion, the Compensation Committee recommended to the Southern Company Board of Directors that the CD&A be included in Gulf Power's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The Southern Company Board of Directors approved that recommendation.

Members of the Compensation Committee:

J. Neal Purcell, Chair
Henry A. Clark, III
H. William Habermeyer, Jr.
Donald M. James

SUMMARY COMPENSATION TABLE

The Summary Compensation Table shows the amount and type of compensation received by the Chief Executive Officer, any Chief Financial Officer, and the next three most highly-paid executive officers who served in 2009. Collectively, these officers are referred to as the "named executive officers."

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (i)	Total ($) (j)
Susan N. Story	2009	411,318	0	0	180,401	455,257	403,615	41,374	1,491,965
President, Chief	2008	390,602	0	0	102,872	509,067	128,423	39,109	1,170,073
Executive Officer, and Director	2007	366,578	0	0	179,105	404,421	231,120	37,196	1,218,420
Philip C. Raymond*	2009	237,219	0	0	49,939	146,636	147,437	180,666	761,897
Vice President and Chief Financial Officer	2008	215,880	23,731	0	21,283	181,206	48,120	44,446	534,666
P. Bernard Jacob	2009	239,205	0	0	50,359	146,661	199,239	23,487	658,951
Vice President	2008	227,419	0	0	32,670	181,151	103,293	22,219	566,752
	2007	213,374	0	0	57,371	152,730	125,674	22,726	571,875
Theodore J. McCullough	2009	190,010	0	0	26,667	105,148	111,520	17,805	451,150
	2008	180,717	0	0	20,790	139,937	30,798	78,720	450,962
Vice President	2007	154,087	17,000	0	22,450	107,045	30,674	29,962	361,218
Bentina C.	2009	237,219	0	0	49,939	134,728	48,437	25,427	495,750
Terry	2008	222,172	5,150	0	30,616	166,985	13,845	26,250	465,018
Vice President	2007	193,869	18,232	0	38,592	140,268	13,802	64,210	468,973

*Mr. Raymond became an executive officer of Gulf Power in 2008.

Column (e)

No equity-based compensation has been awarded to the named executive officers, or any other employees of Gulf Power, other than Stock Option Awards which are reported in column (f).

Column (f)

This column reports the aggregate grant date fair value. See Note 8 to the financial statements of Gulf Power in Item 8 herein for a discussion of the assumptions used in calculating these amounts.

Column (g)

The amounts in this column are the aggregate of the payouts under the annual Performance Pay Program and the Performance Dividend Program attributable to performance periods ended December 31, 2009 that are discussed in detail in the CD&A. The amounts paid under each program to the named executive officers are shown below.

Name	Annual Performance-Based Compensation ($)	Performance Dividends ($)	Total ($)
S. N. Story	161,602	293,655	455,257
P. C. Raymond	69,901	76,735	146,636
P. B. Jacob	70,486	76,175	146,661
T. J. McCullough	53,428	51,720	105,148
B. C. Terry	69,901	64,827	134,728

Column (h)

This column reports the aggregate change in the actuarial present value of each named executive officer's accumulated benefit under the Pension Plan and the supplemental pension plans (collectively, Pension Benefits) during 2007, 2008, and 2009. The amount included for 2007 is the difference between the actuarial present values of the Pension Benefits measured as of September 30, 2006 and September 30, 2007. However, the amount for 2008 is the difference between the actuarial values of the Pension Benefits measured as of September 30, 2007 and December 31, 2008 - 15 months rather than one year. September 30 was used as the measurement date prior to 2008, because it was the date as of which Southern Company measured its retirement benefit obligations for accounting purposes. Starting in 2008, Southern Company changed its measurement date to December 31. The amount for 2009 is the difference between the actuarial values of the Pension Benefits measured as of December 31, 2008 and December 31, 2009. The Pension Benefits as of each measurement date are based on the named executive officer's age, pay, and service accruals and the plan provisions applicable as of the measurement date. The actuarial present values as of each measurement date reflect the assumptions Gulf Power selected for cost purposes as of that measurement date; however, the named executive officers were assumed to remain employed at Gulf Power or other Southern Company subsidiary until their benefits commence at the pension plans' stated normal retirement date, generally age 65. As a result, the amounts in column (h) related to Pension Benefits represent the combined impact of several factors: growth in the named executive officer's Pension Benefits over the measurement year; impact on the total present values of one year shorter discounting period due to the named executive officer being one year closer to normal retirement; impact on the total present values attributable to changes in assumptions from measurement date to measurement date; and impact on the total present values attributable to plan changes between measurement dates.

The present values of accumulated Pension Benefits as of September 30, 2007 reflect new provisions regarding the form and timing of payments from the supplemental pension plans. These changes brought those plans into compliance with Section 409A of the Code. The key change was to the form of payment. Instead of providing monthly payments for the lifetime of each named executive officer and his/her spouse, these plans will pay the single sum value of those benefits for an average lifetime in 10 annual installments. Calculations of the present value of accumulated benefits calculations shown prior to September 30, 2007 reflect supplemental pension benefits being paid monthly for the lifetimes of named executive officers and their spouses. The 2007 change in pension value reported in column (h) for each named executive officer is greater than what it otherwise would have been due to the change in the form of payment.

For more information about the Pension Benefits and the assumptions used to calculate the actuarial present value of accumulated benefits as of December 31, 2009, see the information following the Pension Benefits table. The key differences between assumptions used for the actuarial present values of accumulated benefits calculations as of December 31, 2008 and December 31, 2009 follow:

- Discount rate for the Pension Plan was decreased to 5.95% as of December 31, 2009 from 6.75% as of December 31, 2008

- Discount rate for the supplemental pension plans was decreased to 5.60% as of December 31, 2009 from 6.75% as of December 31, 2008
- Unpaid annual performance-based compensation was assumed to be 130% of target as of December 31, 2009 and 135% of target was assumed as of December 31, 2008

This column also reports above-market earnings on deferred compensation under the Deferred Compensation Plan (DCP). There were no above-market earnings on deferred compensation in 2009. For more information about the DCP, see the Nonqualified Deferred Compensation table and information accompanying it.

The table below itemizes the amounts reported in this column.

Name	Year	Change in Pension Value ($)	Above-Market Earnings on Deferred Compensation ($)	Total ($)
S. N. Story	2009	403,615	0	403,615
	2008	128,423	0	128,423
	2007	221,213	9,907	231,120
P. C. Raymond	2009	147,437	0	147,437
	2008	48,120	0	48,120
P. B. Jacob	2009	199,239	0	199,239
	2008	103,293	0	103,293
	2007	125,316	358	125,674
T. J. McCullough	2009	111,520	0	111,520
	2008	30,798	0	30,798
	2007	30,607	67	30,674
B. C. Terry	2009	48,437	0	48,437
	2008	13,845	0	13,845
	2007	13,729	73	13,802

Column (i)

This column reports the following items: perquisites; tax reimbursements by the employing company on certain perquisites; the employing company's contributions in 2009 to the Southern Company Employee Savings Plan (ESP), which is a tax-qualified defined contribution plan intended to meet requirements of Section 401(k) of the Code; and the employing company's contributions in 2009 under the Southern Company Supplemental Benefit Plan (Non-Pension Related) (SBP). The SBP is described more fully in the information following the Nonqualified Deferred Compensation table.

The amounts reported are itemized below.

Name	Perquisites ($)	Tax Reimbursements ($)	ESP ($)	SBP ($)	Total ($)
S. N. Story	20,391	6	12,495	8,482	41,374
P. C. Raymond	123,748	44,820	12,098	0	180,666
P. B. Jacob	9,838	3,088	10,561	0	23,487
T. J. McCullough	7,346	1,220	9,239	0	17,805
B. C. Terry	10,358	4,479	10,590	0	25,427

Description of Perquisites

Personal Financial Planning is provided for most officers of Gulf Power, including all of the named executive officers. Gulf Power pays for the services of the financial planner on behalf of the officers, up to a maximum amount of $8,700 per year, after the initial year that the benefit is provided. In the initial year, the allowed amount is $15,000. The employing company also provides a five-year allowance of $6,000 for estate planning and tax return preparation fees.

Personal Use of Company-Provided Club Memberships. The employing company provides club memberships to certain officers, including all of the named executive officers. The memberships are provided for business use; however, personal use is permitted. The amount included reflects the pro-rata portion of the membership fees paid by the employing company that are attributable to the named executive officers' personal use. Direct costs associated with any personal use, such as meals, are paid for or reimbursed by the employee and therefore are not included.

Relocation Benefits. These benefits are provided to cover the costs associated with geographic relocation. In 2009, Mr. Raymond received relocation benefits in the amount of $110,596.

Personal Use of Corporate-Owned Aircraft. Southern Company owns aircraft that are used to facilitate business travel. If seating is available, Southern Company permits a spouse or other family member to accompany an employee on a flight. However, because in such cases the aircraft is being used for a business purpose, there is no incremental cost associated with the family travel and no amounts are included for such travel. Any additional expenses incurred that are related to family travel are included. Also, for Ms. Story only, effective in 2009, limited personal use that is associated with business travel is permitted; however, she had no such use in 2009.

Home Security Systems. Gulf Power pays for the services of third-party providers for the installation, maintenance, and monitoring of the named executive officers' home security systems.

Other Miscellaneous Perquisites. The amount included reflects the full cost to Gulf Power of providing the following items: personal use of company provided tickets for sporting and other entertainment events and gifts distributed to and activities provided to attendees at company-sponsored events.

For Ms. Story, effective in 2009, tax reimbursements are no longer made on perquisites, except on any relocation benefits.

GRANTS OF PLAN-BASED AWARDS MADE IN 2009

This table provides information on stock option grants made and goals established for future payouts under Gulf Power's performance-based compensation programs during 2009 by the Compensation Committee. In this table, the annual Performance Pay Program and performance dividend payouts are referred to as PPP and PDP, respectively.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards					
Name (a)	Grant Date (b)		Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	All Other Option Awards: Number of Securities Underlying Options (#) (f)	Exercise or Base Price of Option Awards ($/Sh) (g)	Grant Date Fair Value of Stock and Option Awards ($) (h)
S. N. Story	2/16/2009	PPP	2,139	237,650	522,830			
		PDP	11,546	230,920	461,839	100,223	31.39	180,401
P. C. Raymond	2/16/2009	PPP	925	102,795	226,149			
		PDP	3,017	60,342	120,683	27,744	31.39	49,939
P. B. Jacob	2/16/2009	PPP	933	103,656	228,043			
		PDP	2,995	59,901	119,803	27,977	31.39	50,359
T. J. McCullough	2/16/2009	PPP	659	73,189	161,016			
		PDP	2,034	40,671	81,341	14,815	31.39	26,667
B. C. Terry	2/16/2009	PPP	925	102,795	226,149			
		PDP	2,549	50,978	101,956	27,744	31.39	49,939

Columns (c), (d), and (e)

The amounts reported as PPP reflect the amounts established by the Compensation Committee in early 2009 to be paid for certain levels of performance as of December 31, 2009 under the annual Performance Pay Program. Under that program, the Compensation Committee assigns each named executive officer a target opportunity, expressed as a percentage of base salary, which is paid for target-level performance under the Performance Pay Program. The target opportunities established for the named executive officers for 2009 performance were 60% for Ms. Story, 45% for Ms. Terry and Messrs. Jacob and Raymond, and 40% for Mr. McCullough. The payout for threshold performance was set at a determined amount of less than one percent of the target opportunity and the maximum amount payable was set at 2.20 times the target. The amount paid to each named executive officer under the Performance Pay Program for actual 2009 performance is included in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table and is itemized in the notes following that table. More information about the annual Performance Pay Program, including the applicable performance criteria established by the Compensation Committee, is provided in the CD&A.

Southern Company also has a long-term performance-based compensation program, the Performance Dividend Program, which has been adopted by Gulf Power and SCS. It pays performance-based dividend equivalents based on Southern Company's total shareholder return (TSR) compared with the TSR of its peer companies over a four-year performance-measurement period. The Compensation Committee establishes the level of payout for prescribed levels of performance over the performance-measurement period.

In February 2009, the Compensation Committee established the Performance Dividend Program goal for the four-year performance-measurement period beginning on January 1, 2009 and ending on December 31, 2012. The amount earned in 2012 based on the performance for 2009-2012 will be paid following the end of the period. However, no amount is earned and paid unless the Compensation Committee approves the payment at the beginning

of the final year of the performance-measurement period. Also, nothing is earned unless Southern Company's earnings are sufficient to fund a Common Stock dividend at least equal to that paid in the prior year.

The Performance Dividend Program pays to all option holders a percentage of the Common Stock dividend paid to Southern Company's stockholders in the last year of the performance-measurement period. It can range from approximately 2.5% for performance above the 10th percentile compared with the performance of the peer companies to 100% of the dividend if Southern Company's total shareholder return is at or above the 90th percentile. That amount is then paid per option granted prior to 2010 and held at the end of the four-year period. The amount, if any, ultimately paid to the option holders, including the named executive officers, at the end of the last year of the 2009-2012 performance-measurement period will be based on (1) Southern Company's average total shareholder return compared to that of its peer companies as of December 31, 2012, (2) the actual dividend paid in 2012 to Southern Company's stockholders, if any, and (3) the number of options granted prior to 2010 held by the named executive officers on December 31, 2012.

The number of options held on December 31, 2012 will be affected by the number of options exercised by the named executive officers prior to December 31, 2012, if any. None of these components necessary to calculate the range of payout under the Performance Dividend Program for the 2009-2012 performance-measurement period is known at the time the goal is established.

The amounts reported as PDP in columns (c), (d), and (e) were calculated based on the number of options held by the named executive officers on December 31, 2009, as reported in columns (b) and (c) of the Outstanding Equity Awards at Fiscal Year-End table and the Common Stock dividend of $1.73 per share paid to Southern Company's stockholders in 2009. These factors are itemized below.

Name	Stock Options Held as of December 31, 2009 (#)	Performance Dividend Per Option Paid at Threshold Performance ($)	Performance Dividend Per Option Paid at Target Performance ($)	Performance Dividend Per Option Paid at Maximum Performance ($)
S. N. Story	266,959	0.04325	0.86500	1.7300
P. C. Raymond	69,759	0.04325	0.86500	1.7300
P. B. Jacob	69,250	0.04325	0.86500	1.7300
T. J. McCullough	47,018	0.04325	0.86500	1.7300
B. C. Terry	58,934	0.04325	0.86500	1.7300

More information about the Performance Dividend Program is provided in the CD&A.

Columns (f) and (g)

The stock options vest at the rate of one-third per year, on the anniversary date of the grant. Also, 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. Please see Potential Payments upon Termination or Change in Control for more information about the treatment of stock options under different termination and change-in-control events.

The Compensation Committee granted these stock options to the named executive officers at its regularly-scheduled meeting on February 19, 2009. Under the terms of the Omnibus Incentive Compensation Plan, the exercise price was set at the closing price ($31.39 per share) on the last trading day prior to the grant date of February 16, 2009.

Column (h)

The value of stock options granted in 2009 was derived using the Black-Scholes stock option pricing model. The assumptions used in calculating these amounts are discussed in Note 8 to the financial statements of Gulf Power in Item 8 herein.

OUTSTANDING EQUITY AWARDS AT 2009 FISCAL YEAR-END

This table provides information pertaining to all outstanding stock options held by the named executive officers as of December 31, 2009.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (j)
S. N. Story	38,529	0	–	32.70	02/18/2015	–	–	–	–
	41,329	0		33.81	02/20/2016				
	28,981	14,491		36.42	02/19/2017				
	14,469	28,937		35.78	02/18/2018				
	0	100,223		31.39	02/16/2019				
P. C. Raymond	1,230	0	–	27.98	02/14/2013	–	–	–	–
	4,196	0		29.50	02/13/2014				
	9,463	0		32.70	02/18/2015				
	8,882	0		33.81	02/20/2016				
	6,176	3,088		36.42	02/19/2017				
	2,994	5,986		35.78	02/18/2018				
	0	27,744		31.39	02/16/2019				
P. B. Jacob	4,738	0	–	32.70	02/18/2015	–	–	–	–
	8,825	0		33.81	02/20/2016				
	9,283	4,642		36.42	02/19/2017				
	4,595	9,190		35.78	02/18/2018				
	0	27,977		31.39	02/16/2019				
T. J. McCullough	1,985	0	–	27.98	02/14/2013	–	–	–	–
	5,421	0		29.50	02/13/2014				
	5,468	0		32.70	02/18/2015				
	5,108	0		33.81	02/20/2016				
	3,633	1,816		36.42	02/19/2017				
	2,924	5,848		35.78	02/18/2018				
	0	14,815		31.39	02/16/2019				
B. C. Terry	8,905	0	–	33.81	02/20/2016	–	–	–	–
	6,245	3,122		36.42	02/19/2017				
	4,306	8,612		35.78	02/18/2018				
	0	27,744		31.39	02/16/2019				

Stock options vest one-third per year on the anniversary of the grant date. Options granted from 2002 through 2006 with expiration dates from 2012 through 2016 were fully vested as of December 31, 2009. The options granted in 2007, 2008, and 2009 become fully vested as shown below.

Year Option Granted	Expiration Date	Date Fully Vested
2007	February 19, 2017	February 19, 2010
2008	February 18, 2018	February 18, 2011
2009	February 16, 2019	February 16, 2012

Options also fully vest upon death, total disability, or retirement and expire three years following death or total disability or five years following retirement, or on the original expiration date if earlier. Please see Potential Payments upon Termination or Change in Control for more information about the treatment of stock options under different termination and change-in-control events.

OPTION EXERCISES AND STOCK VESTED IN 2009

None of the named executive officers exercised stock options in 2009 and none were granted Stock Awards.

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting ($) (e)
S. N. Story	0	0	–	–
P. C. Raymond	0	0	–	–
P. B. Jacob	0	0	–	–
T. J. McCullough	0	0	–	–
B. C. Terry	0	0	–	–

PENSION BENEFITS AT 2009 FISCAL YEAR-END

Name (a)	Plan Name (b)	Number of Years Credited Service (#) (c)	Present Value of Accumulated Benefit ($) (d)	Payments During Last Fiscal Year ($) (e)
S. N. Story	Pension Plan	27.00	493,190	0
	SBP-P	27.00	769,884	0
	SERP	27.00	316,861	0
P. C. Raymond	Pension Plan	18.00	285,396	0
	SBP-P	18.00	80,192	0
	SERP	18.00	86,423	0
P. B. Jacob	Pension Plan	26.42	599,150	0
	SBP-P	26.42	194,082	0
	SERP	26.42	158,583	0
T. J. McCullough	Pension Plan	21.75	241,527	0
	SBP-P	21.75	51,546	0
	SERP	21.75	59,008	0
B. C. Terry	Pension Plan	7.50	72,732	0
	SBP-P	7.50	16,383	0
	SERP	7.50	23,438	0

The named executive officers earn employer-paid pension benefits from three coordinated retirement plans. More information about pension benefits is provided in the CD&A.

Pension Plan

The Pension Plan is a tax-qualified, funded plan. It is Southern Company's primary retirement plan. Generally, all full-time employees participate in this plan after one year of service. Normal retirement benefits become payable when participants both attain age 65 and complete five years of participation. The plan benefit equals the greater of amounts computed using a "1.7% offset formula" and a "1.25% formula," as described below. Benefits are limited to a statutory maximum.

The 1.7% offset formula amount equals 1.7% of final average pay times years of participation less an offset related to Social Security benefits. The offset equals a service ratio times 50% of the anticipated Social Security benefits in excess of $4,200. The service ratio adjusts the offset for the portion of a full career that a participant has worked. The highest three rates of pay out of a participant's last 10 calendar years of service are averaged to derive final average pay. The pay considered for this formula is the base rate of pay reduced for any voluntary deferrals. A statutory limit restricts the amount considered each year; the limit for 2009 was $245,000.

The 1.25% formula amount equals 1.25% of final average pay times years of participation. For this formula, the final average pay computation is the same as above, but annual performance-based compensation paid during each year is added to the base rates of pay.

Early retirement benefits become payable once plan participants have during employment both attained age 50 and completed 10 years of participation. Participants who retire early from active service receive benefits equal to the amounts computed using the same formulas employed at normal retirement. However, a 0.3% reduction applies for each month (3.6% for each year) prior to normal retirement that participants elect to have their benefit payments commence. For example, 64% of the formula benefits are payable starting at age 55. As of December 31, 2009, only Messrs. Jacob and Raymond were eligible to retire immediately.

The Pension Plan's benefit formulas produce amounts payable monthly over a participant's post-retirement lifetime. At retirement, plan participants can choose to receive their benefits in one of seven alternative forms of payment. All forms pay benefits monthly over the lifetime of the retiree or the joint lifetimes of the retiree and a spouse. A reduction applies if a retiring participant chooses a payment form other than a single life annuity. The reduction makes the value of the benefits paid in the form chosen comparable to what it would have been if benefits were paid as a single life annuity over the retiree's life.

Participants vest in the Pension Plan after completing five years of service. All the named executive officers are vested in their Pension Plan benefits. Participants who terminate employment after vesting can elect to have their pension benefits commencing at age 50 if they participated in the Pension Plan for 10 years. If such an election is made, the early retirement reductions that apply are actuarially determined factors and are larger than 0.3% per month.

If a participant dies while actively employed, benefits will be paid to a surviving spouse. A survivor's benefit equals 45% of the monthly benefit that the participant had earned before his or her death. Payments to a surviving spouse of a participant who could have retired will begin immediately. Payments to a survivor of a participant who was not retirement-eligible will begin when the deceased participant would have attained age 50. After commencing, survivor benefits are payable monthly for the remainder of a survivor's life. Participants who are eligible for early retirement may opt to have an 80% survivor benefit paid if they die; however, there is a charge associated with this election.

If participants become totally disabled, periods that Social Security or employer-provided disability income benefits are paid will count as service for benefit calculation purposes. The crediting of this additional service ceases at the point a disabled participant elects to commence retirement payments. Outside of the extra service crediting, the normal plan provisions apply to disabled participants.

The Southern Company Supplemental Benefit Plan (Pension-Related) (SBP-P)

The SBP-P is an unfunded retirement plan that is not tax qualified. This plan provides to high-paid employees any benefits that the Pension Plan cannot pay due to statutory pay/benefit limits and voluntary pay deferrals. The SBP-P's vesting, early retirement, and disability provisions mirror those of the Pension Plan.

The amounts paid by the SBP-P are based on the additional monthly benefit that the Pension Plan would pay if the statutory limits and pay deferrals were ignored. When a SBP-P participant separates from service, vested monthly benefits provided by the benefit formulas are converted to a single sum value. It equals the present value of what would have been paid monthly for an actuarially determined average post-retirement lifetime. The discount rate used in the calculation is based on the 30-year Treasury bonds for the September preceding the calendar year of separation, but not more than six percent. Vested participants terminating prior to becoming eligible to retire will be paid their single sum value as of September 1 following the calendar year of separation. If the terminating participant is retirement eligible, the single sum value will be paid in 10 annual installments starting shortly after separation. The unpaid balance of a retiree's single sum will be credited with interest at the prime rate published in *The Wall Street Journal*. If the separating participant is a "key man" under Section 409A of the Code, the first installment will be delayed for six months after the date of separation.

If an SBP-P participant dies after becoming vested in the Pension Plan, the spouse of the deceased participant will receive the installments the participant would have been paid upon retirement. If a vested participant's death occurs prior to age 50, the installments will be paid to a survivor as if the participant had survived to age 50.

The Southern Company Supplemental Executive Retirement Plan (SERP)

The SERP also is an unfunded retirement plan that is not tax qualified. This plan provides to high-paid employees additional benefits that the Pension Plan and the SBP-P would pay if the 1.7% offset formula calculations reflected a portion of annual cash incentives. To derive the SERP benefits, a final average pay is determined reflecting participants' base rates of pay and their annual performance-based compensation amounts to the extent they exceed 15% of those base rates (ignoring statutory limits and pay deferrals). This final average pay is used in the 1.7% offset formula to derive a gross benefit. The Pension Plan and the SBP-P benefits are subtracted from the gross benefit to calculate the SERP benefit. The SERP's early retirement, survivor benefit, and disability provisions mirror the SBP-P's provisions. However, except upon a change in control, SERP benefits do not vest until participants retire, so no benefits are paid if a participant terminates prior to becoming eligible to retire. More information about vesting and payment of SERP benefits following a change in control is included in the section entitled Potential Payments upon Termination or Change in Control.

The following assumptions were used in the present value calculations:

- Discount rate – 5.95% Pension Plan and 5.60% supplemental plans as of December 31, 2009
- Retirement date – Normal retirement age (65 for all named executive officers)
- Mortality after normal retirement — RP2000 Combined Healthy with generational projections
- Mortality, withdrawal, disability, and retirement rates prior to normal retirement — None
- Form of payment for Pension Benefits
    - Male retirees: 25% single life annuity; 25% level income annuity; 25% joint and 50% survivor annuity; and 25% joint and 100% survivor annuity
    - Female retirees: 40% single life annuity; 40% level income annuity; 10% joint and 50% survivor annuity; and 10% joint and 100% survivor annuity
- Spouse ages — Wives two years younger than their husbands
- Annual performance-based compensation earned but unpaid as of the measurement date — 130% of target opportunity percentages times base rate of pay for year amount is earned.
- Installment determination—4.25% discount rate for single sum calculation and 5.25% prime rate during installment payment period

For all of the named executive officers, the number of years of credited service is one year less than the number of years of employment.

NONQUALIFIED DEFERRED COMPENSATION AS OF 2009 FISCAL YEAR-END

Name (a)	Executive Contributions in Last FY ($) (b)	Registrant Contributions in Last FY ($) (c)	Aggregate Earnings in Last FY ($) (d)	Aggregate Withdrawals/ Distributions ($) (e)	Aggregate Balance at Last FYE ($) (f)
S. N. Story	0	8,482	22,005	0	1,591,696
P. C. Raymond	0	0	(23)	0	473
P. B. Jacob	53,655	0	14,824	0	134,565
T. J. McCullough	9,807	0	3,477	0	58,694
B. C. Terry	0	0	2,045	0	68,241

Southern Company provides the DCP which is designed to permit participants to defer income as well as certain federal, state, and local taxes until a specified date or their retirement, or other separation from service. Up to 50% of base salary and up to 100% of performance-based compensation, except stock options, may be deferred, at the election of eligible employees. All of the named executive officers are eligible to participate in the DCP.

Participants have two options for the deemed investments of the amounts deferred – the Stock Equivalent Account and the Prime Equivalent Account. Under the terms of the DCP, participants are permitted to transfer between investments at any time.

The amounts deferred in the Stock Equivalent Account are treated as if invested at an equivalent rate of return to that of an actual investment in Common Stock, including the crediting of dividend equivalents as such are paid by Southern Company from time to time. It provides participants with an equivalent opportunity for the capital appreciation (or loss) and income of that of a Southern Company stockholder. During 2009, the rate of return in the Stock Equivalent Account was (4.83%), which was Southern Company's TSR for 2009.

Alternatively, participants may elect to have their deferred compensation deemed invested in the Prime Equivalent Account which is treated as if invested at a prime interest rate compounded monthly, as published in *The Wall Street Journal* as the base rate on corporate loans posted as of the last business day of each month by at least 75% of the United States' largest banks. The interest rate earned on amounts deferred during 2009 in the Prime Equivalent Account was 3.25%.

Column (b)

This column reports the actual amounts of compensation deferred under the DCP by each named executive officer in 2009. The amount of salary deferred by the named executive officers, if any, is included in the Salary column in the Summary Compensation Table. The amounts of performance-based compensation deferred in 2009 were the amounts paid for performance under the annual Performance Pay Program and the Performance Dividend Program that were earned as of December 31, 2008 but not payable until the first quarter of 2009. These amounts are not reflected in the Summary Compensation Table because that table reports performance-based compensation that was earned in 2009, but not payable until early 2010. These deferred amounts may be distributed in a lump sum or in up to 10 annual installments at termination of employment or in a lump sum at a specified date, at the election of the participant.

Column (c)

This column reflects contributions under the SBP. Under the Code, employer matching contributions are prohibited under the ESP on employee contributions above stated limits in the ESP, and, if applicable, above legal limits set forth in the Code. The SBP is a nonqualified deferred compensation plan under which contributions are made that are prohibited from being made in the ESP. The contributions are treated as if invested in Common Stock and are

payable in cash upon termination of employment in a lump sum or in up to 20 annual installments, at the election of the participant. The amounts reported in this column also were reported in the All Other Compensation column in the Summary Compensation Table.

Column (d)

This column reports earnings or losses on both compensation the named executive officers elected to defer and on employer contributions under the SBP. See the notes to column (h) of the Summary Compensation Table for a discussion of amounts of nonqualified deferred compensation earnings included in the Summary Compensation Table.

Column (f)

This column includes amounts that were deferred under the DCP and contributions under the SBP in prior years and reported in Gulf Power's prior years' Information Statements or Annual Reports on Form 10-K. The chart below shows the amounts reported in Gulf Power's prior years' Information Statements or Annual Reports on Form 10-K.

Name	Amounts Deferred under the DCP Prior to 2009 and Reported in Prior Years' Information Statements or Annual Reports on Form 10-K ($)	Employer Contributions under the SBP Prior to 2009 and Reported in Prior Years' Information Statements or Annual Reports on Form 10-K ($)	Total ($)
S. N. Story	18,373	266,792	285,165
P. C. Raymond	0	0	0
P. B. Jacob	43,870	22,674	66,544
T. J. McCullough	18,653	0	18,653
B. C. Terry	121,427	0	121,427

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

This section describes and estimates payments that could be made to the named executive officers under different termination and change-in-control events. The estimated payments would be made under the terms of Southern Company's compensation and benefits programs or the change-in-control severance program. All of the named executive officers are participants in Southern Company's change-in-control severance plan for officers. The amount of potential payments is calculated as if the triggering events occurred as of December 31, 2009 and assumes that the price of Common Stock is the closing market price on December 31, 2009.

Description of Termination and Change-in-Control Events

The following charts list different types of termination and change-in-control events that can affect the treatment of payments under the compensation and benefit programs. These events also affect payments to the named executive officers under their change-in-control severance agreements. No payments are made under the severance agreements unless, within two years of the change in control, the named executive officer is involuntarily terminated or he or she voluntarily terminates for Good Reason. (See the description of Good Reason below.)

Traditional Termination Events

- Retirement or Retirement Eligible – Termination of a named executive officer who is at least 50 years old and has at least 10 years of credited service.
- Resignation – Voluntary termination of a named executive officer who is not retirement-eligible.

- Lay Off – Involuntary termination of a named executive officer not for cause, who is not retirement-eligible.
- Involuntary Termination – Involuntary termination of a named executive officer for cause. Cause includes individual performance below minimum performance standards and misconduct, such as violation of Gulf Power's Drug and Alcohol Policy.
- Death or Disability – Termination of a named executive officer due to death or disability.

Change-in-Control-Related Events

At the Southern Company or Gulf Power level:

- Southern Company Change-in-Control I – Acquisition by another entity of 20% or more of Common Stock, or following a merger with another entity Southern Company's stockholders own 65% or less of the entity surviving the merger.
- Southern Company Change-in-Control II – Acquisition by another entity of 35% or more of Common Stock, or following a merger with another entity Gulf Power's stockholders own less than 50% of Gulf Power surviving the merger.
- Southern Company Termination – A merger or other event and Southern Company is not the surviving company or the Common Stock is no longer publicly traded.
- Gulf Power Change in Control – Acquisition by another entity, other than another subsidiary of Southern Company, of 50% or more of the stock of Gulf Power, a merger with another entity and Gulf Power is not the surviving company, or the sale of substantially all the assets of Gulf Power.

At the employee level:

- Involuntary Change-in-Control Termination or Voluntary Change-in-Control Termination for Good Reason – Employment is terminated within two years of a change in control, other than for cause, or the employee voluntarily terminates for Good Reason. Good Reason for voluntary termination within two years of a change in control generally is satisfied when there is a material reduction in salary, performance-based compensation opportunity or benefits, relocation of over 50 miles, or a diminution in duties and responsibilities.

The following chart describes the treatment of different pay and benefit elements in connection with the Traditional Termination Events described above.

Program	Retirement/ Retirement Eligible	Lay Off (Involuntary Termination Not For Cause)	Resignation	Death or Disability	Involuntary Termination (For Cause)
Pension Benefits Plans	Benefits payable as described in the notes following the Pension Benefits table.	Same as Retirement.	Same as Retirement.	Same as Retirement.	Same as Retirement.
Annual Performance Pay Program	Pro-rated if terminate before 12/31.	Same as Retirement.	Forfeit.	Same as Retirement.	Forfeit.
Performance Dividend Program	Paid year of retirement plus two additional years.	Forfeit.	Forfeit.	Payable until options expire or exercised.	Forfeit.
Stock Options	Vest; expire earlier of original expiration date or five years.	Vested options expire in 90 days; unvested are forfeited.	Same as Lay Off.	Vest; expire earlier of original expiration or three years.	Forfeit.
Financial Planning Perquisite	Continues for one year.	Terminates.	Terminates.	Same as Retirement.	Terminates.
Deferred Compensation Plan	Payable per prior elections (lump sum or up to 10 annual installments).	Same as Retirement.	Same as Retirement.	Payable to beneficiary or disabled participant per prior elections; amounts deferred prior to 2005 can be paid as a lump sum per benefit administration committee's discretion.	Same as Retirement.
Supplemental Benefit Plan – non-pension related	Payable per prior elections (lump sum or up to 20 annual installments).	Same as Retirement.	Same as Retirement.	Same as the Deferred Compensation Plan.	Same as Retirement.

The chart below describes the treatment of payments under pay and benefit programs under different change-in-control events, except the Pension Plan. The Pension Plan is not affected by change-in-control events.

Program	Southern Company Change-in-Control I	Southern Company Change-in-Control II	Southern Company Termination or Gulf Power Change in Control	Involuntary Change-in-Control-Related Termination or Voluntary Change-in-Control-Related Termination for Good Reason
Nonqualified Pension Benefits	All SERP-related benefits vest if participants vested in tax-qualified pension benefits; otherwise, no impact. SBP – pension related benefits vest for all participants and single sum value of beneffits earned to change-in-control date paid following termination or retirement.	Benefits vest for all participants and single sum value of benefits earned to the change-in-control date paid following termination or retirement.	Same as Southern Company Change-in-Control II.	Based on type of change-in-control event.
***Annual* Performance Pay Program**	No program termination is paid at greater of target or actual performance. If program terminated within two years of change in control, pro-rated at target performance level.	Same as Southern Company Change-in-Control I.	Pro-rated at target performance level.	If not otherwise eligible for payment, if the program still in effect, pro-rated at target performance level.
Performance Dividend *Program*	No program termination is paid at greater of target or actual performance. If program terminated within two years of change in control, pro-rated at greater of target or actual performance level.	Same as Southern Company Change-in-Control I.	Pro-rated at greater of actual or target performance level.	If not otherwise eligible for payment, if the program is still in effect, greater of actual or target performance level for year of severance only.
Stock *Options*	Not affected by change-in-control events.	Not affected by change-in-control events.	Vest and convert to surviving company's securities; if cannot convert, pay spread in cash.	Vest.
DCP	Not affected by change-in-control events.	Not affected by change-in-control events.	Not affected by change-in-control events.	Not affected by change-in-control events.

Program	Southern Company Change-in-Control I	Southern Company Change-in-Control II	Southern Company Termination or Gulf Power Change in Control	Involuntary Change-in-Control-Related Termination or Voluntary Change-in-Control-Related Termination for Good Reason
SBP	Not affected by change-in-control events.	Not affected by change-in-control events.	Not affected by change-in-control events.	Not affected by change-in-control events.
Severance Benefits	Not applicable.	Not applicable.	Not applicable.	One or three times base salary plus target annual performance-based compensation plus tax gross up for the president and chief executive officer if the severance amount exceeds the Code Section 280G - "excess parachute payment" by 10% or more.
Health Benefits	Not applicable.	Not applicable.	Not applicable.	Up to five years participation in group health plan plus payment of two or three years' premium amounts.
Outplacement Services	Not applicable.	Not applicable.	Not applicable.	Six months.

Potential Payments

This section describes and estimates payments that would become payable to the named executive officers upon a termination or change in control as of December 31, 2009.

Pension Benefits

The amounts that would have become payable to the named executive officers if the Traditional Termination Events occurred as of December 31, 2009 under the Pension Plan, the SBP-P, and the SERP are itemized in the chart below. The amounts shown under the column Retirement are amounts that would have become payable to the named executive officers that were retirement-eligible on December 31, 2009 and are the monthly Pension Plan benefits and the first of 10 annual installments from the SBP-P and the SERP. The amounts shown under the column Resignation or Involuntary Termination are the amounts that would have become payable to the named executive officers who were not retirement-eligible on December 31, 2009 and are the monthly Pension Plan benefits that would become payable as of the earliest possible date under the Pension Plan and the single sum value of benefits earned up to the termination date under the SBP-P, paid as a single payment rather than in 10 annual installments. Benefits under the SERP would be forfeited. The amounts shown that are payable to a spouse in the event of the death of the named executive officer are the monthly amounts payable to a spouse under the Pension Plan and the first of 10 annual installments from the SBP-P and the SERP. The amounts in this chart are very different from the pension values shown in the Summary Compensation Table and the Pension Benefits table. Those tables show the

present values of all the benefits amounts anticipated to be paid over the lifetimes of the named executive officers and their spouses. Those plans are described in the notes following the Pension Benefits table. Of the named executive officers, only Messrs. Jacob and Raymond were retirement eligible on December 31, 2009.

Name		Retirement ($)	Resignation or Involuntary Termination ($)	Death (payments to a spouse) ($)
S. N. Story	Pension	n/a	2,345	3,852
	SBP-P		978,397	110,175
	SERP		0	45,345
P. C. Raymond	Pension	2,345	All plans treated as	2,279
	SBP-P	11,507	retiring	11,507
	SERP	12,401		12,401
P. B. Jacob	Pension	5,162	All plans treated as	3,531
	SBP-P	27,010	retiring	27,010
	SERP	22,069		22,069
T. J. McCullough	Pension	n/a	1,448	2,379
	SBP-P		68,550	8,967
	SERP		0	10,265
B C. Terry	Pension	n/a	619	1,016
	SBP-P		23,643	4,098
	SERP		0	5,863

As described in the Change-in-Control Chart, the only change in the form of payment, acceleration, or enhancement of the pension benefits is that the single sum value of benefits earned up to the change-in-control date under the SBP-P and the SERP could be paid as a single payment rather than in 10 annual installments. Also, the SERP benefits vest for participants who are not retirement-eligible upon a change in control. Estimates of the single sum payment that would have been made to the named executive officers, assuming termination as of December 31, 2009 following a change-in-control event, other than a Southern Company Change-in-Control I (which does not impact how pension benefits are paid), are itemized below. These amounts would be paid instead of the benefits shown in the Traditional Termination Events chart above; they are not paid in addition to those amounts.

Name	SBP-P ($)	SERP ($)	Total ($)
S. N. Story	954,821	392,976	1,347,797
P. C. Raymond	115,068	124,010	239,078
P. B. Jacob	270,098	220,694	490,792
T. J. McCullough	66,899	76,594	143,493
B. C. Terry	23,073	33,009	56,082

The pension benefit amounts in the tables above were calculated as of December 31, 2009 assuming payments would begin as soon as possible under the terms of the plans. Accordingly, appropriate early retirement reductions were applied. Any unpaid annual performance-based compensation was assumed to be paid at 1.30 times the target level. Pension Plan benefits were calculated assuming each named executive officer chose a single life annuity form of payment, because that results in the greatest monthly benefit. The single sum values of the SBP-P and the SERP benefits were based on a 4.25% discount rate as prescribed by the terms of the plan.

Annual Performance Pay Program

The amount payable if a change in control had occurred on December 31, 2009 is the greater of target or actual performance. Because actual payouts for 2009 performance were below the target level, the amount that would have been payable was the target level amount as reported in the Grants of Plan-Based Awards table.

Performance Dividends

Because the assumed termination date is December 31, 2009, there is no additional amount that would be payable other than what was reported in the Summary Compensation Table. As described in the Traditional Termination Events chart, there is some continuation of benefits under the Performance Dividend Program for retirees.

However, under the Change-in-Control-Related Events, performance dividends are payable at the greater of target performance or actual performance. For the 2006-2009 performance-measurement period, actual performance exceeded target-level performance.

Stock Options

Stock Options would be treated as described in the Termination and Change-in-Control charts above. Under a Southern Company Termination, all stock options vest. In addition, if there is an Involuntary Change-in-Control Termination or Voluntary Change-in-Control Termination for Good Reason, stock options vest. There is no payment associated with stock options unless there is a Southern Company Termination and the participants' stock options cannot be converted into surviving company stock options. In that event, the excess of the exercise price and the closing price of the Common Stock on December 31, 2009 would be paid in cash for all stock options held by the named executive officers. The chart below shows the number of stock options for which vesting would be accelerated under a Southern Company Termination and the amount that would be payable under a Southern Company Termination if there were no conversion to the surviving company's stock options.

Name	Number of Options with Accelerated Vesting (#)	Total Number of Options Following Accelerated Vesting under a Southern Company Termination (#)	Total Payable in Cash under a Southern Company Termination without Conversion of Stock Options ($)
S. N. Story	143,651	266,959	217,318
P. C. Raymond	36,818	69,759	82,010
P. B. Jacob	41,809	69,250	56,934
T. J. McCullough	22,479	47,018	63,291
B. C. Terry	39,478	58,934	53,546

DCP and SBP

The aggregate balances reported in the Nonqualified Deferred Compensation table would be payable to the named executive officers as described in the Traditional Termination and Change-in-Control-Related Events charts above. There is no enhancement or acceleration of payments under these plans associated with termination or change-in-control events, other than the lump-sum payment opportunity described in the above charts. The lump sums that would be payable are those that are reported in the Nonqualified Deferred Compensation table.

Health Benefits

Messrs. Jacob and Raymond are retirement-eligible and health care benefits are provided to retirees, and there is no incremental payment associated with the termination or change-in-control events. At the end of 2009, Mss. Story and Terry and Mr. McCullough were not retirement-eligible and thus health care benefits would not become available until each reaches age 50, except in the case of a change-in-control-related termination, as described in the Change-in-Control-Related Events chart. The estimated cost of providing three years of group health insurance premiums for Ms. Story is $14,000, two years for Ms. Terry is $9,000, and two years for Mr. McCullough is $20,000.

Financial Planning Perquisite

Since Messrs. Jacob and Raymond are retirement-eligible, an additional year of the Financial Planning perquisite, which is set at a maximum of $8,700 per year, will be provided after retirement. Mss. Story and Terry and Mr. McCullough are not retirement-eligible.

There are no other perquisites provided to the named executive officers under any of the traditional termination or change-in-control-related events.

Severance Benefits

The named executive officers are participants in a change-in-control severance plan. In addition to the treatment of health benefits, the annual Performance Pay Program, and the Performance Dividend Program described above, the named executive officers are entitled to a severance benefit, including outplacement services, if within two years of a change in control, they are involuntarily terminated, not for Cause, or they voluntarily terminate for Good Reason. The severance benefits are not paid unless the named executive officer releases the employing company from any claims he or she may have against the employing company.

The estimated cost of providing the six months of outplacement services is $6,000 per named executive officer. The severance payment is three times the base salary and target payout under the annual Performance Pay Program for Ms. Story and one times the base salary and target payout under the annual Performance Pay Program for the other named executive officers. For Ms. Story, if any portion of the severance payment is an "excess parachute payment" as defined under Section 280G of the Code, Gulf Power will pay her an additional amount to cover the taxes that would be due on the excess parachute payment – a "tax gross-up." However, that additional amount will not be paid unless the severance amount plus all other amounts that are considered parachute payments under the Code exceed 110% of the severance payment.

The table below estimates the severance payments that would be made to the named executive officers if they were terminated as of December 31, 2009 in connection with a change in control. There is no estimated tax gross-up included for Ms. Story because her estimated severance amount payable is below the amount considered excess parachute payments under the Code. None of the other named executive officer is eligible for a tax gross-up.

Name	Severance Amount ($)
S. N. Story	1,901,202
P. C. Raymond	331,228
P. B. Jacob	334,002
T. J. McCullough	256,162
B. C. Terry	331,228

COMPENSATION RISK ASSESSMENT

Southern Company reviewed its compensation policies and practices, including those of Gulf Power, and concluded that excessive risk-taking is not encouraged. This conclusion was based on an assessment of the mix of pay components and performance goals, the annual pay/performance analysis by the Compensation Committee's consultant, stock ownership requirements, our compensation governance practices, and our "claw-back" provision.

The assessment was reviewed with the Compensation Committee.

DIRECTOR COMPENSATION

Only non-employee directors of Gulf Power are compensated for service on the board of directors. The pay components for non-employee directors are:

Annual retainers:

- $12,000 annual retainer

Equity grants:

- 340 shares of Common Stock in quarterly grants of 85 shares

Meeting fees:

- $1,200 for participation in a meeting of the board
- $1,000 for participation in a meeting of a committee of the board

DIRECTOR DEFERRED COMPENSATION PLAN

Any deferred quarterly equity grants are required to be deferred in the Deferred Compensation Plan For Directors of Gulf Power Company (Director Deferred Compensation Plan) and are invested in Common Stock units which earn dividends as if invested in Common Stock. Earnings are reinvested in additional stock units. Upon leaving the board, distributions are made in shares of Common Stock.

In addition, directors may elect to defer up to 100% of their remaining compensation in the Director Deferred Compensation Plan until membership on the board ends. Deferred compensation may be invested as follows, at the director's election:

- in Common Stock units which earn dividends as if invested in Common Stock and are distributed in shares of Common Stock upon leaving the board
- in Common Stock units which earn dividends as if invested in Common Stock and are distributed in cash upon leaving the board
- at prime interest which is paid in cash upon leaving the board

All investments and earnings in the Director Deferred Compensation Plan are fully vested and, at the election of the director, may be distributed in a lump sum payment or in up to 10 annual distributions after leaving the board.

DIRECTOR COMPENSATION TABLE

The following table reports all compensation to Gulf Power's non-employee directors during 2009, including amounts deferred in the Director Deferred Compensation Plan. Non-employee directors do not receive Non-Equity Incentive Plan Compensation, and there is no pension plan for non-employee directors.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(4)	Total ($)
C. LeDon Anchors	16,800	17,127	0	54	33,981
William C. Cramer, Jr.	0	33,927	0	54	33,981
Fred C. Donovan, Sr.	0	33,927	0	54	33,981
William A. Pullum	0	33,927	0	54	33,981
Winston E. Scott	33,858	0	0	3,866	37,724

(1) Includes amounts voluntarily deferred in the Director Deferred Compensation Plan.
(2) Includes fair market value of equity grants on grant dates. All such stock awards are vested immediately upon grant.
(3) Above-market earnings on amounts invested in the Director Deferred Compensation Plan. Above-market earnings are defined by the SEC as any amount above 120% of the applicable federal long-term rate as prescribed under Section 1274(d) of the Code.
(4) Consists of reimbursement for taxes on imputed income associated with gifts.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee is made up of non-employee directors of Southern Company who have never served as executive officers of Southern Company or Gulf Power. During 2009, none of Southern Company's or Gulf Power's executive officers served on the board of directors of any entities whose directors or officers serve on the Compensation Committee.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners. Southern Company is the beneficial owner of 100% of the outstanding common stock of Gulf Power.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	The Southern Company 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308		100%
	Registrant:		
	Gulf Power	3,642,717	

Security Ownership of Management. The following tables show the number of shares of Common Stock owned by the directors, nominees, and executive officers as of December 31, 2009. 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, 2009.

		Shares Beneficially Owned Include:	
Name of Directors, Nominees, and Executive Officers	**Shares Beneficially Owned (1)**	**Deferred Stock Units (2)**	**Shares Individuals Have Rights to Acquire Within 60 Days (3)**
Susan N. Story	191,938	0	185,675
C. LeDon Anchors	7,492	5,751	0
William C. Cramer, Jr.	9,115	9,115	0
Fred C. Donovan, Sr.	6,338	6,338	0
William A. Pullum	10,458	10,458	0
Winston E. Scott	1,407	0	0
P. Bernard Jacob	52,275	0	46,004
Theodore J. McCullough	34,887	0	34,218
Philip C. Raymond	50,615	0	48,270
Bentina C. Terry	37,458	0	36,162
Directors, Nominees, and Executive Officers as a group (10 people)	401,983	31,662	350,329

(1) "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 or any combination thereof.

(2) Indicates the number of deferred stock units held under the Director Deferred Compensation Plan.

(3) Indicates shares of Common Stock that certain executive officers have the right to acquire within 60 days. Shares indicated are included in the Shares Beneficially Owned column.

Changes in Control. Southern Company and Gulf Power 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, 2009 concerning shares of 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	48,247,319	$32.10	22,497,013
Equity compensation plans not approved by security holders	n/a	n/a	n/a

(1) Includes shares available for future issuances under the Omnibus Incentive Compensation Plan, the 2006 Omnibus Incentive Compensation Plan, and the Outside Directors Stock Plan.

(2) Includes shares available for future issuance under the 2006 Omnibus Incentive Compensation Plan (20,985,906) and the Outside Directors Stock Plan (1,511,107).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Transactions with Related Persons. None.

Review, Approval or Ratification of Transactions with Related Persons.

Gulf Power does not have a written policy pertaining solely to the approval or ratification of "related party transactions." Southern Company has a Code of Ethics as well as a Contract Guidance Manual and other formal written procurement policies and procedures that guide the purchase of goods and services, including requiring competitive bids for most transactions above $10,000 or approval based on documented business needs for sole sourcing arrangements.

Director Independence.

The board of directors of Gulf Power consists of five non-employee directors (Messrs. C. LeDon Anchors, William C. Cramer, Jr., Fred C. Donovan, Sr., William A. Pullum, and Winston E. Scott) and Ms. Story, the president and chief executive officer of Gulf Power.

Southern Company owns all of Gulf Power's outstanding common stock. Gulf Power has listed only debt securities on the NYSE. Accordingly, under the rules of the NYSE, Gulf Power is exempt from most of the NYSE's listing standards relating to corporate governance, including requirements relating to certain board committees. Gulf Power has voluntarily complied with certain of the NYSE's listing standards relating to corporate governance where such compliance was deemed to be in the best interests of Gulf Power's shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following represents the fees billed to Gulf Power and Southern Power for the last two fiscal years by Deloitte & Touche LLP, each company's principal public accountant for 2009 and 2008:

	2009	2008
	(in thousands)	
Gulf Power		
Audit Fees (1)	$1,308	$1,324
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
Total	$1,308	$1,324
Southern Power		
Audit Fees (1)	$1,136	$943
Audit-Related Fees (2)	38	0
Tax Fees	0	0
All Other Fees	0	0
Total	$1,174	$943

(1) Includes services performed in connection with financing transactions.
(2) Includes other non-statutory audit services and accounting consultations.

The Southern Company Audit Committee (on behalf of Southern Company and 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 2009 and 2008 (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 Form 10-K:

(1) Financial Statements:

Management's Report on Internal Control Over Financial Reporting for Southern Company and Subsidiary Companies is listed under Item 8 herein.

Management's Report on Internal Control Over Financial Reporting for Alabama Power is listed under Item 8 herein.

Management's Report on Internal Control Over Financial Reporting for Georgia Power is listed under Item 8 herein.

Management's Report on Internal Control Over Financial Reporting for Gulf Power is listed under Item 8 herein.

Management's Report on Internal Control Over Financial Reporting for Mississippi Power is listed under Item 8 herein.

Management's Report on Internal Control Over Financial Reporting for Southern Power 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, and Southern Power and Subsidiary Companies 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, and Southern Power and Subsidiary Companies 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, and Mississippi Power are included herein on pages IV-8, IV-9, IV-10, IV-11, and IV-12.

Financial Statement Schedules for Southern Company and Subsidiary Companies, Alabama Power, Georgia Power, Gulf Power, and Mississippi 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, 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: Melissa K. Caen

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

Date: February 25, 2010

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,
Chief Executive Officer, and Director
(Principal Executive Officer)

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

W. Ron Hinson
Comptroller and Chief Accounting Officer
(Principal Accounting Officer)

Directors:

Juanita Powell Baranco	*Warren A. Hood, Jr.*
Jon A. Boscia	*Donald M. James*
Thomas F. Chapman	*J. Neal Purcell*
Henry A. Clark III	*William G. Smith, Jr.*
H. William Habermeyer, Jr.	*Gerald J. St. Pé*
Veronica M. Hagen	

By: Melissa K Caen

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

Date: February 25, 2010

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: Melissa K. Caen

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

Date: February 25, 2010

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,
Chief Executive Officer, and Director
(Principal Executive Officer)

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

W. Ron Hinson
Comptroller and Chief Accounting Officer
(Principal Accounting Officer)

Directors:

Juanita Powell Baranco	*Warren A. Hood, Jr.*
Jon A. Boscia	*Donald M. James*
Thomas F. Chapman	*J. Neal Purcell*
Henry A. Clark III	*William G. Smith, Jr.*
H. William Habermeyer, Jr.	*Gerald J. St. Pé*
Veronica M. Hagen	

By: Melissa K Caen

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

Date: February 25, 2010

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: Melissa K. Caen

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

Date: February 25, 2010

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 Officer)

Moses H. Feagin
Vice President and Comptroller
(Principal Accounting Officer)

Directors:

Whit Armstrong	*Robert D. Powers*
Ralph D. Cook	*David M. Ratcliffe*
David J. Cooper, Sr.	*C. Dowd Ritter*
John D. Johns	*James H. Sanford*
Patricia M. King	*John Cox Webb, IV*
James K. Lowder	*James W. Wright*
Malcolm Portera	

By: Melissa K. Caen

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

Date: February 25, 2010

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: Melissa K. Caen

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

Date: February 25, 2010

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)

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

Constance J. Erickson
Comptroller
(Principal Accounting Officer)

Directors:

C. LeDon Anchors	*William A. Pullum*
William C. Cramer, Jr.	*Winston E. Scott*
Fred C. Donovan, Sr.	

By: Melissa K. Caen

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

Date: February 25, 2010

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: Melissa K. Caen

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

Date: February 25, 2010

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)

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

Cindy F. Shaw
Comptroller
(Principal Accounting Officer)

Directors:

Roy Anderson, III	*Christine L. Pickering*
Carl J. Chaney	*Philip J. Terrell*

By: Melissa K. Caen

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

Date: February 25, 2010

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: Melissa K. Caen

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

Date: February 25, 2010

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)

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

Cindy F. Shaw
Comptroller
(Principal Accounting Officer)

Directors:

Roy Anderson, III	*Christine L. Pickering*
Carl J. Chaney	*Philip J. Terrell*

By: Melissa K. Caen

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

Date: February 25, 2010

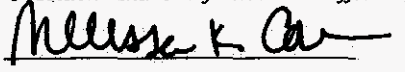
SOUTHERN POWER COMPANY

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: Ronnie L. Bates
President and Chief Executive Officer

By: 

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

Date: February 25, 2010

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.

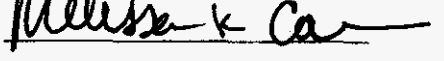
Ronnie L. Bates
President, Chief Executive Officer, and Director
(Principal Executive Officer)

Michael W. Southern
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Laura I. Patterson
Comptroller
(Principal Accounting Officer)

Directors:

W. Paul Bowers — *G. Edison Holland*
Thomas A. Fanning — *David M. Ratcliffe*

By: 

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

Date: February 25, 2010

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 Subsidiaries (the "Company") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and the Company's internal control over financial reporting as of December 31, 2009, and have issued our report thereon dated February 25, 2010; such report is included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company (page S-2) listed in the accompanying index at Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

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 (the "Company") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and have issued our report thereon dated February 25, 2010; such report is included elsewhere in this Form 10-K. Our audits also included the financial statement schedule of the Company (Page S-3) listed in the accompanying index at Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Birmingham, Alabama
February 25, 2010

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 (the "Company") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and have issued our report thereon dated February 25, 2010; such report is included elsewhere in this Form 10-K. Our audits also included the financial statement schedule of the Company (Page S-6) listed in the accompanying index at Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2010

Member of
Deloitte Touche Tohmatsu

EXHIBIT INDEX

The exhibits below with an asterisk (*) preceding the exhibit number are filed herewith. The remaining exhibits have previously been filed with the SEC 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 April 25, 2008. (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, in Form 8-K dated February 5, 2004, File No. 1-3164, as Exhibit 4.4, in Alabama Power's Form 10-Q for the quarter ended March 31, 2006, File No. 1-3164, as Exhibit 3(b)(1), in Form 8-K dated December 5, 2006, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated September 12, 2007, File No. 1-3164, as Exhibit 4.5, in Form 8-K dated October 17, 2007, File No. 1-3164, as Exhibit 4.5, and in Alabama Power's Form 10-Q for the quarter ended March 31, 2008, File No. 1-3164, as Exhibit 3(b)1.)

(b) 2 - By-laws of Alabama Power as amended effective January 26, 2007, and as presently in effect. (Designated in Form 8-K dated January 26, 2007, File No 1-3164, as Exhibit 3(b)2.)

Georgia Power

(c) 1 - Charter of Georgia Power and amendments thereto through October 9, 2007. (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, in Georgia Power's Form 10-K for the year ended December 31, 2000, File No. 1-6468, as Exhibit 3(c)2, in Form 8-K dated June 27, 2006, File No. 1-6468, as Exhibit 3.1, and in Form 8-K dated October 3, 2007, File No. 1-6468, as Exhibit 4.5.)

(c) 2 - By-laws of Georgia Power as amended effective May 20, 2009, and as presently in effect. (Designated in Form 8-K dated May 20, 2009, File No. 1-6468, as Exhibit 3(c)2.)

Gulf Power

(d) 1 - Amended and Restated Articles of Incorporation of Gulf Power and amendments thereto through October 17, 2007. (Designated in Form 8-K dated October 27, 2005, File No. 0-2429, as Exhibit 3.1, in Form 8-K dated November 9, 2005, File No. 0-2429, as Exhibit 4.7, and in Form 8-K dated October 16, 2007, File No. 0-2429, as Exhibit 4.5.)

(d) 2 - By-laws of Gulf Power as amended effective November 2, 2005, and as presently in effect. (Designated in Form 8-K dated November 2, 2005, File No. 0-2429, as Exhibit 3.2.)

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 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.)

Southern Power

(f) 1 - Certificate of Incorporation of Southern Power dated January 8, 2001. (Designated in Registration No. 333-98553 as Exhibit 3.1.)

(f) 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 - Senior Note Indenture dated as of February 1, 2002, among Southern Company, Southern Company Capital Funding, Inc. and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee, and indentures supplemental thereto through November 16, 2005. (Designated in Form 8-K dated January 29, 2002, File No. 1-3526, as Exhibits 4.1 and 4.2, in Form 8-K dated January 30, 2002, File No. 1-3526, as Exhibit 4.2, and in Form 8-K dated November 8, 2005, File No. 1-3526, as Exhibit 4.2.)

(a) 2 - Senior Note Indenture dated as of January 1, 2007, between Southern Company and Wells Fargo Bank, National Association, as Trustee, and indentures supplemental thereto through October 22, 2009. (Designated in Form 8-K dated January 11, 2006, File No. 1-3526, as Exhibits 4.1 and 4.2, in Form 8-K dated March 20, 2007, File No. 1-3526, as Exhibit 4.2, in Form 8-K dated August 13, 2008, File No. 1-3526, as Exhibit 4.2, in Form 8-K dated May 11, 2009, File No. 1-3526, as Exhibit 4.2, and in Form 8-K dated October 19, 2009, File No. 1-3526, as Exhibit 4.2.)

Alabama Power

(b) 1 - Subordinated Note Indenture dated as of January 1, 1997, between Alabama Power and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as 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) 2 - Senior Note Indenture dated as of December 1, 1997, between Alabama Power and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee, and indentures supplemental thereto through March 6, 2009. (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, in Form 8-K dated November 9, 2004, File No. 1-3164, as Exhibit 4.2, in Form

8-K dated March 8, 2005, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated January 11, 2006, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated January 13, 2006, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated February 1, 2006, File No. 1-3164, as Exhibits 4.2(a) and 4.2(b), in Form 8-K dated March 9, 2006, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated June 7, 2006, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated January 30, 2007, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated April 4, 2007, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated October 11, 2007, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated December 4, 2007, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated May 8, 2008, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated November 14, 2008, File No. 1-3164 as Exhibit 4.2, and in Form 8-K dated February 26, 2009, File No. 1-3164 as Exhibit 4.2.)

(b) 3 - 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) 4 - 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 The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as 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 The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee, and indentures supplemental thereto through December 15, 2009. (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, in Form 8-K dated January 13, 2005, File No. 1-6468, as Exhibit 4.1, in Form 8-K dated April 12, 2005, File No. 1-6468, as Exhibit 4.1, in Form 8-K dated November 30, 2005, File No. 1-6468, as Exhibit 4.1, in Form 8-K dated December 8, 2006, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated March 6, 2007, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated June 4, 2007, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated June 18, 2007, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated July 10, 2007, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated August 24, 2007, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated November 29, 2007, File No. 1-6468, as Exhibit 4.2, in

Form 8-K dated March 12, 2008, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated June 5, 2008, File No. 1-6468, as Exhibit 4.2, in Form 8-K dated November 12, 2008, File No. 1-6468, as Exhibits 4.2(a) and 4.2(b), in Form 8-K dated February 4, 2009, File No. 1-6468, as Exhibit 4.2, and in Form 8-K dated December 8, 2009, File No. 1-6468, as Exhibit 4.2.)

(c) 3 - Senior Note Indenture dated as of March 1, 1998 between Georgia Power, as successor to Savannah Electric, and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee, and indentures supplemental thereto through June 30, 2006. (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, in Form 8-K dated December 2, 2004, File No. 1-5072, as Exhibit 4.1, and in Form 8-K dated June 27, 2006, File No. 1-6468, as Exhibit 4.2.)

(c) 4 - 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) 5 - 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 - Senior Note Indenture dated as of January 1, 1998, between Gulf Power and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as Trustee, and indentures supplemental thereto through June 26, 2009. (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, in Form 8-K dated September 13, 2004, File No. 0-2429, as Exhibit 4.1, in Form 8-K dated August 11, 2005, File No. 0-2429, as Exhibit 4.1, in Form 8-K dated October 27, 2005, File No. 0-2429, as Exhibit 4.1, in Form 8-K dated November 28, 2006, File No. 0-2429, as Exhibit 4.2, in Form 8-K dated June 5, 2007, File No. 0-2429, as Exhibit 4.2, and in Form 8-K dated June 22, 2009, File No. 0-2429, as Exhibit 4.2.)

Mississippi Power

(e) 1 - Senior Note Indenture dated as of May 1, 1998 between Mississippi Power and Wells Fargo Bank, National Association, as Successor Trustee, and indentures supplemental thereto through March 6, 2009. (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, in Form 8-K dated March 3, 2004, File No. 001-11229, as Exhibit 4.2, in Form 8-K dated June 24, 2005, File No. 001-11229, as Exhibit 4.2, in Form 8-K dated November 8, 2007, File No. 001-11229, as Exhibit 4.2, in Form 8-K dated November 14, 2008, File No. 001-11229, as Exhibit 4.2, and in Form 8-K dated March 3, 2009, File No. 001-11229, as Exhibit 4.2.)

Southern Power

(f) 1 - Senior Note Indenture dated as of June 1, 2002, between Southern Power and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee, and indentures supplemental thereto through November 21, 2006. (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, and in Form 8-K dated November 13, 2006, File No. 333-98553, as Exhibit 4.2.)

(10) Material Contracts

Southern Company

(a) 1 - Amended and Restated Southern Company Omnibus Incentive Compensation Plan, effective January 1, 2007. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)1.)

(a) 2 - Form of 2009 Stock Option Award Agreement for Executive Officers of Southern Company under the Southern Company Omnibus Incentive Compensation Plan. (Designated in Southern Company's Form 10-Q for the quarter ended March 31, 2009, File No. 1-3526, as Exhibit 10(a)1.)

(a) 3 - Deferred Compensation Plan for Directors of The Southern Company, Amended and Restated effective January 1, 2008. (Designated in Southern Company's Form 10-K for the year ended December 31, 2007, File No. 1-3536, as Exhibit 10(a)3.)

(a) 4 - Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)4.)

* (a) 5 - First Amendment effective January 1, 2010 to the Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009.

(a) 6 - 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) 7 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)6.)

* (a) 8 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009.

(a) 9 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)7.)

* (a) 10 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009.

(a) 11 - Amended and Restated Change in Control Agreement dated December 31, 2008 between Southern Company, Alabama Power, and Charles D. McCrary. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)9.)

(a) 12 - Amended and Restated Change in Control Agreement dated December 31, 2008 between Southern Company, SCS, and David M. Ratcliffe. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)10.)

(a) 13 - The Southern Company Change in Control Benefits Protection Plan, effective December 31, 2008. (Designated in Form 8-K dated December 31, 2008, File No. 1-3526, as Exhibit 10.1.)

(a) 14 - 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) 15 - 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) 16 - 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) 17 - 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, SouthernLINC Wireless, Southern Company Energy Solutions, LLC, and Southern Nuclear and First Amendment thereto effective January 1, 2009. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)103 and in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)16.)

(a) 18 - 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, and Mississippi Power and First Amendment thereto effective January 1, 2009. (Designated in Southern Company's Form 10-K for the year ended December 31, 2000, File No. 1-3526, as Exhibit 10(a)104 and in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)18.)

(a) 19 - 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, and Mississippi Power and First Amendment thereto effective January 1, 2009. (Designated in Southern Company's Form 10-K for the year ended December 31, 2001, File No. 1-3526, as Exhibit 10(a)92 and in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)20.)

(a) 20 - Amended and Restated Change in Control Agreement effective December 31, 2008 between Southern Company, SCS, and Thomas A. Fanning. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)21.)

(a) 21 - Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)23.)

* (a) 22 - First Amendment effective January 1, 2010 to the Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008.

(a) 23 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)24.)

* (a) 24 - First Amendment effective January 1, 2010 to the Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008.

(a) 25 - Amended and Restated Change in Control Agreement effective December 31, 2008 between Southern Company, Georgia Power, and Michael D. Garrett. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)25.)

(a) 26 - Amended and Restated Change in Control Agreement effective December 31, 2008 between Southern Company, SCS, and William Paul Bowers. (Designated in Southern Company's Form 10-K for the year ended December 31, 2008, File No. 1-3536, as Exhibit 10(a)26.)

(a) 27 - Form of Restricted Stock Award Agreement. (Designated in Form 10-Q for the quarter ended September 30, 2007, File No. 1-3526, as Exhibit 10(a)1.)

* (a) 28 - Base Salaries of Named Executive Officers.

(a) 29 - Summary of Non-Employee Director Compensation Arrangements. (Designated in Form 10-K for the year ended December 31, 2007, File No. 1-3526, as Exhibit 10(a)27.)

(a) 30 - Form of Terms for Performance Share Awards granted under the Southern Company Omnibus Incentive Compensation Plan. (Designated in Form 8-K dated February 9, 2010, File No. 1-3526, as Exhibit 10.1.)

Alabama Power

(b) 1 - Intercompany Interchange Contract as revised effective May 1, 2007, among Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, and SCS. (Designated in Form 10-Q for the quarter ended March 31, 2007, File No. 1-3164, as Exhibit 10(b)5.)

(b) 2 - Amended and Restated Southern Company Omnibus Incentive Compensation Plan, effective January 1, 2007. See Exhibit 10(a)1 herein.

(b) 3 - Form of 2009 Stock Option Award Agreement for Executive Officers of Southern Company under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)2 herein.

(b) 4 - Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)4 herein.

(b) 5 - First Amendment effective January 1, 2010 to the Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)5 herein.

(b) 6 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)6 herein.

(b) 7 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)7 herein.

(b) 8 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)8 herein.

(b) 9 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)9 herein.

(b) 10 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)10 herein.

(b) 11 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)23 herein.

(b) 12 - First Amendment effective January 1, 2010 to the Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)24 herein.

(b) 13 - Deferred Compensation Plan for Directors of Alabama Power Company, Amended and Restated effective January 1, 2008. (Designated in Alabama Power's Form 10-Q for the quarter ended June 30, 2008, File No. 1-3164, as Exhibit 10(b)1.)

(b) 14 - The Southern Company Change in Control Benefits Protection Plan, effective December 31, 2008. See Exhibit 10(a)13 herein.

(b) 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, SouthernLINC Wireless, Southern Company Energy Solutions, LLC, and Southern Nuclear and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)17 herein.

(b) 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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)18 herein.

(b) 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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)19 herein.

(b) 18 - Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)21 herein.

(b) 19 - First Amendment effective January 1, 2010 to the Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)22 herein.

(b) 20 - Amended and Restated Change in Control Agreement dated December 31, 2008 between Southern Company, Alabama Power, and Charles D. McCrary. See Exhibit 10(a)11 herein.

* (b) 21 - Deferred Compensation Agreement between Southern Company, Alabama Power, and SCS and Mark A. Crosswhite dated July 30, 2008.

* (b) 22 - Base Salaries of Named Executive Officers.

(b) 23 - Summary of Non-Employee Director Compensation Arrangements. (Designated in Alabama Power's Form 10-K for the year ended December 31, 2004, File No. 1-3164, as Exhibit 10(b)20.)

(b) 24 - Form of Restricted Stock Award Agreement. See Exhibit 10(a)27 herein.

(b) 25 - Form of Terms for Performance Share Awards granted under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)30 herein.

Georgia Power

(c) 1 - Intercompany Interchange Contract as revised effective May 1, 2007, among Alabama Power, Georgia Power, Gulf Power, Mississippi Power, 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 - Amended and Restated Southern Company Omnibus Incentive Compensation Plan, effective January 1, 2007. See Exhibit 10(a)1 herein.

(c) 6 - Form of 2009 Stock Option Award Agreement for Executive Officers of Southern Company under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)2 herein.

(c) 7 - Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)4 herein.

(c) 8 - First Amendment effective January 1, 2010 to the Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)5 herein.

(c) 9 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)6 herein.

(c) 10 - The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)7 herein.

(c) 11 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)8 herein.

(c) 12 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)9 herein.

(c) 13 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)10 herein.

(c) 14 - Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)23 herein.

(c) 15 - First Amendment effective January 1, 2010 to the Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)24 herein.

(c) 16 - Deferred Compensation Plan For Directors of Georgia Power Company, Amended and Restated Effective January 1, 2008. (Designated in Form 10-K for the year ended December 31, 2007, File No. 1-6468, as Exhibit 10(c)12.)

(c) 17 - The Southern Company Change in Control Benefits Protection Plan, effective December 31, 2008. See Exhibit 10(a)13 herein.

(c) 18 - 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, SouthernLINC Wireless, Southern Company Energy Solutions, LLC, and Southern Nuclear and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)17 herein.

(c) 19 - 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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)18 herein.

(c) 20 - 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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)19 herein.

(c) 21 - Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)21 herein.

(c) 22 - First Amendment effective January 1, 2010 to the Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)22 herein.

* (c) 23 - Consulting Agreement between Cliff S. Thrasher and Georgia Power dated March 18, 2009.

(c) 24 - Amended and Restated Change in Control Agreement effective December 31, 2008 between Southern Company, Georgia Power, and Michael D. Garrett. See Exhibit 10(a)25 herein.

* (c) 25 - Base Salaries of Named Executive Officers.

* (c) 26 - Summary of Non-Employee Director Compensation Arrangements.

(c) 27 - Form of Restricted Stock Award Agreement. See Exhibit 10(a)27 herein.

(c) 28 - Engineering, Procurement and Construction Agreement, dated as of April 8, 2008, between Georgia Power, for itself and as agent for OPC, MEAG Power, and Dalton Utilities, as owners, and a consortium consisting of Westinghouse and Stone & Webster, as contractor, for Units 3 & 4 at the Vogtle Electric Generating Plant Site. (Georgia Power requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Georgia Power omitted such portions from the filing and filed them separately with the SEC.) (Designated in Form 10-Q/A for the quarter ended June 30, 2008, File No. 1-6468, as Exhibit 10(c)1.)

* (c) 29 - Amendment No. 1, dated as of December 11, 2009, to the Engineering, Procurement and Construction Agreement, dated as of April 8, 2008, between Georgia Power, for itself and as agent for OPC, MEAG Power, and Dalton Utilities, as owners, and a consortium consisting of Westinghouse and Stone & Webster, as contractor, for Units 3 & 4 at the Vogtle Electric Generating Plant Site. (Georgia Power has requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Georgia Power has omitted such portions from the filing and filed them separately with the SEC.)

\# (c) 30 - Form of Terms for Performance Share Awards granted under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)30 herein.

Gulf Power

(d) 1 - Intercompany Interchange Contract as revised effective May 1, 2007, among Alabama Power, Georgia Power, Gulf Power, Mississippi Power, 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, 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, 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 Jacksonville Electric Authority and Alabama Power, Georgia Power, Gulf Power, Mississippi Power, 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 - Amended and Restated Southern Company Omnibus Incentive Compensation Plan, effective January 1, 2007. See Exhibit 10(a)1 herein.

\# (d) 6 - Form of 2009 Stock Option Award Agreement for Executive Officers of Southern Company under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)2 herein.

\# (d) 7 - Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)4 herein.

\# (d) 8 - First Amendment effective January 1, 2010 to the Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)5 herein.

#	(d) 9	-	Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)6 herein.
#	(d) 10	-	The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)9 herein.
#	(d) 11	-	First Amendment effective January 1, 2010 to The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)10 herein.
#	(d) 12	-	Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)23 herein.
#	(d) 13	-	First Amendment effective January 1, 2010 to the Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)24 herein.
#	(d) 14	-	The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)7 herein.
#	(d) 15	-	First Amendment effective January 1, 2010 to The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)8 herein.
#	(d) 16	-	Deferred Compensation Plan For Outside Directors of Gulf Power Company, Amended and Restated effective January 1, 2008. (Designated in Gulf Power's Form 10-Q for the quarter ended March 31, 2008, File No. 0-2429, as Exhibit 10(d)1.)
#	(d) 17	-	The Southern Company Change in Control Benefits Protection Plan, effective December 31, 2008. See Exhibit 10(a)13 herein.
#	(d) 18	-	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, SouthernLINC Wireless, Southern Company Energy Solutions, LLC, and Southern Nuclear and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)17 herein.
#	(d) 19	-	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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)18 herein.
#	(d) 20	-	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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)19 herein.
#	(d) 21	-	Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)21 herein.
#	(d) 22	-	First Amendment effective January 1, 2010 to the Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)22 herein.
#	* (d) 23	-	Base Salaries of Named Executive Officers.

(d) 24 - Summary of Non-Employee Director Compensation Arrangements. (Designated in Gulf Power's Form 10-K for the year ended December 31, 2004, File No. 0-2429, as Exhibit 10(d)20.)

(d) 25 - Form of Restricted Stock Award Agreement. See Exhibit 10(a)27 herein.

(d) 26 - Power Purchase Agreement between Gulf Power and Shell Energy North America (US), L.P. dated March 16, 2009. (Designated in Gulf Power's Form 10-Q for the quarter ended March 31, 2009, File No. 0-2429, as Exhibit 10(d)1.) (Gulf Power requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Gulf Power omitted such portions from this filing and filed them separately with the SEC.)

(d) 27 - Form of Terms for Performance Share Awards granted under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)30 herein.

Mississippi Power

(e) 1 - Intercompany Interchange Contract as revised effective May 1, 2007, among Alabama Power, Georgia Power, Gulf Power, Mississippi Power, 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 - Amended and Restated Southern Company Omnibus Incentive Compensation Plan, effective January 1, 2007. See Exhibit 10(a)1 herein.

(e) 4 - Form of 2009 Stock Option Award Agreement for Executive Officers of Southern Company under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)2 herein.

(e) 5 - Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)4 herein.

(e) 6 - First Amendment effective January 1, 2010 to the Southern Company Deferred Compensation Plan as amended and restated as of January 1, 2009. See Exhibit 10(a)5 herein.

(e) 7 - Outside Directors Stock Plan for The Southern Company and its Subsidiaries, effective May 26, 2004. See Exhibit 10(a)6 herein.

(e) 8 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)9 herein.

(e) 9 - First Amendment effective January 1, 2010 to The Southern Company Supplemental Benefit Plan, Amended and Restated effective as of January 1, 2009. See Exhibit 10(a)10 herein.

#		(e) 10	-	Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)23 herein.
#		(e) 11	-	First Amendment effective January 1, 2010 to the Southern Company Executive Change in Control Severance Plan, Amended and Restated effective December 31, 2008. See Exhibit 10(a)24 herein.
#		(e) 12	-	The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)7 herein.
#		(e) 13	-	First Amendment effective January 1, 2010 to The Southern Company Supplemental Executive Retirement Plan, Amended and Restated effective January 1, 2009. See Exhibit 10(a)8 herein.
#		(e) 14	-	Deferred Compensation Plan for Outside Directors of Mississippi Power Company, Amended and Restated effective January 1, 2008. (Designated in Mississippi Power's Form 10-Q for the quarter ended March 31, 2008, File No. 0-6849 as Exhibit 10(e)1.)
#		(e) 15	-	The Southern Company Change in Control Benefits Protection Plan, effective December 31, 2008. See Exhibit 10(a)13 herein.
#		(e) 16	-	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, SouthernLINC Wireless, Southern Company Energy Solutions, LLC, and Southern Nuclear and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)17 herein.
#		(e) 17	-	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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)18 herein.
#		(e) 18	-	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, and Mississippi Power and First Amendment thereto effective January 1, 2009. See Exhibit 10(a)19 herein.
#		(e) 19	-	Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)21 herein.
#		(e) 20	-	First Amendment effective January 1, 2010 to the Amended and Restated Southern Company Senior Executive Change in Control Severance Plan effective December 31, 2008. See Exhibit 10(a)22 herein.
#	*	(e) 21	-	Base Salaries of Named Executive Officers.
#	*	(e) 22	-	Summary of Non-Employee Director Compensation Arrangements.
#		(e) 23	-	Form of Restricted Stock Award Agreement. See Exhibit 10(a)27 herein.
		(e) 24	-	Cooperative Agreement between the DOE and SCS dated as of December 12, 2008. (Designated in Mississippi Power's Form 10-K for the year ended December 31, 2008, File No. 001-11229, as Exhibit 10(e)22.) (Mississippi Power requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Mississippi Power omitted such portions from this filing and filed them separately with the SEC.)

(e) 25 - Form of Terms for Performance Share Awards granted under the Southern Company Omnibus Incentive Compensation Plan. See Exhibit 10(a)30 herein.

Southern Power

(f) 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).)

(f) 2 - Intercompany Interchange Contract as revised effective May 1, 2007, among Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, and SCS. See Exhibit 10(b)1 herein.

(f) 3 - 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.)

(f) 4 - 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.)

(f) 5 - 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.)

(f) 6 - Purchase and Sale Agreement, by and between CP Oleander, LP and CP Oleander I, Inc., as Sellers, Constellation Power, Inc. and SP Newco I LLC and SP Newco II LLC, as Purchasers, and Southern Power, as Purchaser's Parent, for the Sale of Partnership Interests of Oleander Power Project, LP, dated as of April 8, 2005. (Designated in Form 8-K dated June 7, 2005, File No. 333-98553, as Exhibit 2.1)

(f) 7 - Multi-Year Credit Agreement dated as of July 7, 2006 by and among Southern Power, the Lenders (as defined therein), Citibank, N.A., as Administrative Agent, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Initial Issuing Bank and Amendment Number One thereto. (Designated in Southern Power's Form 10-Q for the quarter ended June 30, 2006, File No. 333-98553, as Exhibit 10(f)1 and in Form 10-Q for the quarter ended June 30, 2007, File No. 333-98553, as Exhibit 10(f)2.) (Omits schedules and exhibits. Southern Power agreed to provide supplementally the omitted schedules and exhibits to the SEC upon request.)

(f) 8 - Purchase and Sale Agreement by and between Progress Genco Ventures, LLC and Southern Power Company – Rowan LLC dated May 8, 2006. (Designated in Southern Power's Form 10-Q for the quarter ended June 30, 2006, File No. 333-98553, as Exhibit 10(f)4.) (Omits schedules and exhibits. Southern Power agrees to provide supplementally the omitted schedules and exhibits to the SEC upon request.) (Southern Power requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the SEC. Southern Power omitted such portions from the filing and filed them separately with the SEC.)

(f) 9 - Assignment and Assumption Agreement between Southern Power Company – Rowan LLC and Southern Power effective May 24, 2006. (Designated in Southern Power's Form 10-Q for the quarter ended June 30, 2006, File No. 333-98553, as Exhibit 10(f)5.)

(14) Code of Ethics

Southern Company

* (a) - The Southern Company Code of Ethics.

Alabama Power

(b) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

Georgia Power

(c) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

Gulf Power

(d) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

Mississippi Power

(e) - The Southern Company Code of Ethics. See Exhibit 14(a) herein.

Southern Power

(f) - 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.

Southern Power

Omitted pursuant to General Instruction I(2)(b) of Form 10-K.

(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.

Southern Power

* (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.

Southern Power

* (f) - 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.

Southern Power

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

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

(32) Section 906 Certifications

Southern Company

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

Alabama Power

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

Georgia Power

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

Gulf Power

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

Mississippi Power

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

Southern Power

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

(101) XBRL-Related Documents

Southern Company

* INS - XBRL Instance Document

* SCH - XBRL Taxonomy Extension Schema Document

* CAL - XBRL Taxonomy Calculation Linkbase Document

* DEF - XBRL Definition Linkbase Document

* LAB - XBRL Taxonomy Label Linkbase Document

* PRE - XBRL Taxonomy Presentation Linkbase Document