

**Ritenour, Susan D.**

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**From:** Raymond, Phil C.  
**Sent:** Wednesday, January 20, 2010 10:08 AM  
**To:** Ritenour, Susan D.; Erickson, Constance J. (Connie); McMillan, Richard J.; Story, Susan N.; Terry, Bentina C.; McCullough, Theodore J.; Jacob, P. Bernard; Davis, Terry A.; Buck, William G., III  
**Subject:** FW: Rating agency

**Fyi. With the activity in Florida, our May meeting with the rating agencies will, to say the least, elevated... We should fly under the radar until then.**

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**From:** Long, Earl C.  
**Sent:** Wednesday, January 20, 2010 9:19 AM  
**To:** Raymond, Phil C.; Bowers, Paul; Lantrip, Mark S.  
**Cc:** Tucker, Daniel S.  
**Subject:** Rating agency

Talked to Moody's late last night. He stated that Gulf is not currently at risk for any further rating action until meeting in May. He stated Gulf had been on the edge as compared to Georgia and Mississippi for the negative outlook (meaning the consensus to put them on negative outlook was not as strong as for Georgia and Mississippi) therefore he saw no need to review Gulf at this point. Also have talked to Fitch and S&P on other subjects and no mention of Gulf on either of those calls.

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Asst. Treasurer  
Southern Company  
30 Ivan Allen Jr. Boulevard  
Bin 1407  
Atlanta, GA 30308  
404-506-0783 ph  
404-506-0717 fax

**Ritenour, Susan D.**

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**From:** Kim, Mary Ann  
**Sent:** Wednesday, May 12, 2010 8:02 AM  
**To:** Bowers, Paul; Hinson, W. Ron; Lantrip, Mark S.; Hobson, Chris M.; Miller, Buzz (Joseph); Cherry, Pedro P.; Tucker, Daniel S.; Labrato, Ronnie R.; Barrs, W. Craig; Daiss, Ann P.; Harper, Oscar C.; Thom, Christine M.; Cook, Tyler M.; Jackson, Brian C.; Topazi, Anthony J.; Turnage, Frances V.; Shaw, Cindy F.; Anderson, Thomas O.; Pierce, Vicki L.; O'Neal, Dan L.; Grice, Matthew P.; Alexander, David B.; Bates, Ronnie L. (SPC); Southern, Michael W. (Mike) (SPC); Capomaccio, Steven J. (SPC); Beattie, Arthur P.; Feagin, Moses H.; Smith, Zeke W.; Liu, Xia; George, Brian; Blake, Chris; Raymond, Phil C.; Terry, Bentina C.; McCullough, Theodore J.; Ritenour, Susan D.; Davis, Terry A.; Buck, William G., III; Grantham, William C.; Sitton, Larry E.; Fanning, Thomas A.  
**Cc:** Long, Earl C.  
**Subject:** FW: Special Comment - 21st century utility  
**Attachments:** SC - 21st century utility.pdf

Attached is the Moody's report, *The 21<sup>st</sup> Century Electric Utility: Substantial uncertainties exist when assessing long-term credit implications*, provided from Jim Hemstead .

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**From:** Long, Earl C.  
**Sent:** Wednesday, May 12, 2010 8:24 AM  
**To:** Kim, Mary Ann  
**Subject:** FW: Special Comment - 21st century utility

Can you forward this to everyone at the meetings

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**From:** Hempstead, James [<mailto:James.Hempstead@moodys.com>]  
**Sent:** Wednesday, May 12, 2010 7:01 AM  
**To:** Long, Earl C.  
**Subject:** FW: Special Comment - 21st century utility

Earl:

Can you please pass this report to your team.

We discussed elements of the report with Georgia and Mississippi and at dinner last night.

Thanks

jim

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**From:** Hempstead, James  
**Sent:** Monday, May 03, 2010 5:26 PM  
**To:** Hempstead, James  
**Subject:** Special Comment - 21st century utility

<<SC - 21st century utility.pdf>>

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**Davis, Terry A.**

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**From:** Ritenour, Susan D.  
**Sent:** Tuesday, June 08, 2010 8:55 PM  
**To:** Davis, Terry A.  
**Subject:** FW: Moody's review process

*Susan Ritenour*

x 6231

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**From:** Raymond, Phil C.  
**Sent:** Wednesday, June 02, 2010 11:20 AM  
**To:** Ritenour, Susan D.  
**Subject:** Fwd: Moody's review process

Phil

Begin forwarded message:

**From:** "Long, Earl C." <[eclong@southernco.com](mailto:eclong@southernco.com)>  
**Date:** June 1, 2010 9:58:18 AM EDT  
**To:** "Labrato, Ronnie R." <[RRLABRAT@southernco.com](mailto:RRLABRAT@southernco.com)>, "Lantrip, Mark S." <[m LANTRI@southernco.com](mailto:m LANTRI@southernco.com)>, "Tucker, Daniel S." <[DSTUCKER@southernco.com](mailto:DSTUCKER@southernco.com)>, "Turnage, Frances V." <[FVTURNAG@southernco.com](mailto:FVTURNAG@southernco.com)>, "Raymond, Phil C." <[PCRAYMON@southernco.com](mailto:PCRAYMON@southernco.com)>, "Thom, Christine M." <[cmthom@southernco.com](mailto:cmthom@southernco.com)>  
**Cc:** "Brooks, David B." <[dbbrooks@southernco.com](mailto:dbbrooks@southernco.com)>, "Symons, David" <[DSYMONS@southernco.com](mailto:DSYMONS@southernco.com)>  
**Subject:** Moody's review process

Discussion with Mike Haggarty regarding Moody's process - a bit surprising to me

**Negative Outlook**

Generally a 12 month review period. If things have not improved, you will generally be placed on Negative Watch for a 3-6 month review process. Not a sure thing that you go from Negative Outlook to Watch before downgrade but generally you do - He mentioned Mississippi as a possibility for being directly downgraded from negative outlook. The negative outlook also can be extended beyond the initial 12 month period by the Committee.

**Negative Watch**

3 month process and odds are high that you will be downgraded if put on Negative Watch. Sounds highly likely that Georgia, Gulf and Southern would go through the Watch process or have the negative outlook extended by the Committee. Mississippi, is not as certain.

Other agency processes may be a bit different but wanted you to know Moody's process. He also mentioned that while he might like to go to Committee later this month, he does not have anything currently scheduled.

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30 Ivan Allen Jr. Boulevard  
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**Ritenour, Susan D.**

---

**From:** Haggarty, Michael [Michael.Haggarty@moodys.com]  
**Sent:** Tuesday, June 15, 2010 5:02 PM  
**To:** Raymond, Phil C.  
**Cc:** Ritenour, Susan D.; Davis, Terry A.  
**Subject:** RE:

Thanks Phil - that will be helpful. The credit opinions are not due for another few months, so we should be able to include the renewed lines when we do update them. Mike

-----Original Message-----

**From:** Raymond, Phil C. [mailto:PCRAYMON@southernco.com]  
**Sent:** Tuesday, June 15, 2010 5:58 PM  
**To:** Haggarty, Michael  
**Cc:** Ritenour, Susan D.; Davis, Terry A.  
**Subject:**

Mike, Thanks for calling me back today. Tomorrow, I am going to send you an update to our financial liquidity section. On page 42, we show that our existing lines of credit as of March 31, 2010, was 220 million with \$100 million of one year term out provisions. We have been updating and renewing those lines since then and have extended the term out provision to \$190 million out of the \$220 million LOCs. We are currently negotiating for an additional \$20 with existing facilities that will have the term out provision as well.

Since you specifically write about that, I wanted you to have the most up to date information. Also, if there is anything else you need please do not hesitate to give me a call.

Thanks Mike

Phil

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**Ritenour, Susan D.**

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**From:** Haggarty, Michael [Michael.Haggarty@moodys.com]  
**Sent:** Wednesday, June 16, 2010 4:09 PM  
**To:** Ritenour, Susan D.  
**Cc:** Raymond, Phil C.; Davis, Terry A.  
**Subject:** RE: Gulf 2010 RA Liquidity Page Update.docx

Thanks Susan. Mike

-----Original Message-----

**From:** Ritenour, Susan D. [<mailto:SDRITENO@southernco.com>]  
**Sent:** Wednesday, June 16, 2010 5:05 PM  
**To:** Haggarty, Michael  
**Cc:** Raymond, Phil C.; Davis, Terry A.  
**Subject:** Gulf 2010 RA Liquidity Page Update.docx

Mike - At Phil's request, the attached file provides updated information related to Gulf Power's credit facilities (page 42 in the rating agency book from our May meeting). If you have any questions or need additional information, please let me or Phil know. Thanks,

Susan Ritenour  
850-444-6254

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**Gulf Power Company**

Liquidity as of June 15, 2010  
(\$ in Millions)

1. Credit Facilities		364-Day		364-Day	364-Day	Multi-Year
Amount	Current	Term-Out	Term-Out	Term-Out	Term-Out	Term-Out
Total	\$220	\$30	\$0	\$190	\$0	\$0
<b>Terms and Conditions</b>						
Rating Triggers	\$0					
MAC Provisions	\$0					
65% Debt/Capital Covenant <sup>(1)</sup>	\$165	Debt to Capital 50%				
<b>2. Total Liquidity</b>						
Credit Facilities	Total	Commercial Paper		Tax-Exempt Floaters		Other
		\$0	\$69	\$0	\$0	
Potential Collateral Requirements <sup>(2)</sup>	Total	\$220	\$0	\$69	\$0	\$151
	Power Purchase Agreements	\$279				
	Fuel Contracts <sup>(3)</sup>	\$293				
	Interest Rate Hedges	\$0				
Total	\$572					

(1) Trust Preferred and subordinated debt are excluded from "Debt" but included in "Capitalization"

(2) Maximum collateral required if ratings drop below investment grade. Shell PPA not included.

(3) Includes fuel contracts which could require collateral in the event of a downgrade to below investment grade to Alabama Power and/or Georgia Power





**2010 Rating Agency Presentation**

**Financial Flexibility**

## Davis, Terry A.

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**From:** Raymond, Phil C.  
**Sent:** Thursday, August 12, 2010 4:14 PM  
**To:** Ritenour, Susan D.; Davis, Terry A.; Erickson, Constance J. (Connie); McMillan, Richard J.; Buck, William G., III  
**Subject:** FW: Moody's

Seems like some of the facts he cites are weak...bs..most of our LOC have term out provisions...not just some..some would imply 20 – 30 percent

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**From:** Tucker, Daniel S.  
**Sent:** Thursday, August 12, 2010 4:04 PM  
**To:** Lantrip, Mark S.; Beattie, Arthur P.; Bowers, Paul; Fanning, Thomas A.; Labrato, Ronnie R.; Garrett, Michael D.; Ratcliffe, David Moore; Long, Earl C.; Day, Ed; Feagin, Moses H.; Story, Susan N.; Teel, Scott; Raymond, Phil C.; Liu, Xia; Kundert, Glen A.; Kurlander, Carrie; Stewart, Jimmy W.; Caen, Melissa K.; Hinson, W. Ron  
**Cc:** Odom, Meredith E.; Kim, Mary Ann; Sitton, Larry E.; Thom, Christine M.  
**Subject:** RE: Moody's

Attached is the press release that was just issued.



pr-SO-081210.  
pdf

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**From:** Lantrip, Mark S.  
**Sent:** Thursday, August 12, 2010 3:44 PM  
**To:** Beattie, Arthur P.; Bowers, Paul; Fanning, Thomas A.; Labrato, Ronnie R.; Garrett, Michael D.; Ratcliffe, David Moore; Long, Earl C.; Tucker, Daniel S.; Day, Ed; Feagin, Moses H.; Story, Susan N.; Teel, Scott; Raymond, Phil C.; Tucker, Daniel S.; Liu, Xia; Kundert, Glen A.; Kurlander, Carrie; Stewart, Jimmy W.  
**Cc:** Odom, Meredith E.; Kim, Mary Ann; Sitton, Larry E.; Thom, Christine M.  
**Subject:** Moody's

I just got a call from Mike Haggerty at Moody's with some bad news. They went to committee today on the question of our review for downgrade and after deliberation of the material and discussion we had with them on August 2<sup>nd</sup> they have decided to go forward with downgrading the senior unsecured debt and commercial paper of Southern Company, Georgia Power, Gulf Power and Mississippi Power 1 notch with stable outlook. I of course expressed our disappointment with Mike particularly with not waiting until the Ga rate case concluded. He told me they discussed this point specifically and the consensus of the group was that even if GPC gets everything that has been asked for it would not change their overall opinion. One positive outcome of the trip is Moody's decision to go with a stable outlook. Prior to the meeting Moody's was uncertain as to whether they would leave the companies on negative outlook but the august 2<sup>nd</sup> meeting did move them on this. A press release should hit the wires within the hour.

**Mark S. Lantrip**  
SOUTHERN COMPANY SERVICES  
Sr. Vice President, Finance & Treasurer  
(404) 506-0742 Office  
(404) 915-9697 Mobile

# MOODY'S

INVESTORS SERVICE

## Rating Action: Moody's Downgrades Southern Company and Three Utilities

Global Credit Research - 12 Aug 2010

### Approximately \$12 Billion of Debt Securities Downgraded

New York, August 12, 2010 – Moody's Investors Service downgraded the ratings of The Southern Company (Senior Unsecured to Baa1 from A3); Georgia Power Company (Senior Unsecured to A3 from A2); Gulf Power Company (Senior Unsecured to A3 from A2); Mississippi Power Company (Senior Unsecured to A2 from A1); and Southern Company Capital Funding, Inc. (Senior Unsecured to Baa1 from A3). Moody's downgraded the short-term ratings for commercial paper of The Southern Company and Southern Company Funding Corporation to Prime-2 from Prime-1 and the variable rate demand obligation ratings of Georgia Power Company, Gulf Power Company, and Mississippi Power Company to VMIG-2 from VMIG-1. The rating outlook of Southern Company, Georgia Power, Gulf Power, Mississippi Power, and Southern Company Capital Funding is stable. These rating actions conclude the review for possible downgrade that was initiated on June 17, 2010.

"The downgrade of The Southern Company and three of its utility subsidiaries considers financial metrics that are weak for the single A rating category; a higher business and operating risk profile emanating from new nuclear and IGCC construction; a less supportive Florida regulatory and political environment; regulatory risk in Georgia with a large pending rate case; a weak regional economy, and longer-term pressures from potential carbon controls and renewable portfolio standards" said Michael G. Haggarty, Senior Vice President.

The downgrade of Georgia Power reflects cash flow coverage metrics that are weak for the A rating category, particularly considering the utility's high capital spending levels and rapidly increasing investment in new nuclear generation. Moody's has indicated that utilities pursuing new nuclear generation would be ascribed a higher business and operating risk profile and be expected to exhibit commensurately stronger cash flow coverage metrics to offset this higher risk profile. Instead, Georgia Power's cash flow from operations pre-working capital to debt ratio has declined over the last three years and at 19.7% in 2009 is now well below our 22% minimum guideline for an A credit rating and below most other A rated vertically integrated utility peers. The downgrade also considers the potential regulatory risk associated with a substantial rate case pending at a time when the Georgia economy remains weak. Because of the size of the rate request and a sensitivity to economic conditions, the Georgia Public Service Commission has announced plans to hold several public hearings on the rate case throughout the state. The rating action also reflects longer-term risks to this predominantly coal-fired utility from potential carbon controls and renewable portfolio standards, and a more constrained liquidity profile with over half of its bank credit facilities supporting put-able variable rate demand bond obligations.

The downgrade of Gulf Power reflects cash flow coverage metrics that are weak for the A rating category; high capital expenditure requirements for environmental compliance that are expected to remain elevated; a continued weak Florida economy; and the recent decline in the political and regulatory environment for investor-owned utilities in Florida. The company's cash flow from operations pre-working capital to debt was 18% in 2008 and 21% in 2009, both below our parameters for an A rating. Moody's believes that material improvement in cash flow coverage metrics is less likely considering the recent decline in the credit supportiveness in the current perceived Florida political and regulatory environment. Like Southern's other utility subsidiaries, Gulf Power is highly reliant on coal as a generation source and is thus also vulnerable to potential carbon controls and renewable portfolio standards. The utility's liquidity is reliant exclusively on 364-day bank facilities (some with term-out provisions), most of which is used to provide liquidity support to outstanding commercial paper and put-able variable rate demand obligations.

The downgrade of Mississippi Power is prompted by its decision to construct the large, complex Kemper County Integrated Gasification Combined Cycle (IGCC) plant which, at a currently estimated cost of \$2.4 billion, is larger than current the \$2.1 billion asset size of the utility. Construction of the plant will dramatically increase the utility's capital expenditures and will put pressure on coverage metrics as well, although the utility is expected to continue to exhibit metrics well within our parameters for an A rating. The Mississippi Public Service Commission has approved cost recovery up to \$2.88 billion, a 20% contingency, although Moody's notes that at least one other IGCC plant under construction by another IOU has experienced cost overruns well in excess of this level.

The downgrade of the ratings of The Southern Company reflects the downgrade of three of its four utility subsidiaries; the higher business and operating risk profile of these utilities; a potentially growing renewable energy business outside of the Southeast region; and consolidated cash flow coverage metrics that are within our Baa rating range parameters and similar to most other mid to high-Baa rated utility holding company peers. The downgrade of the rating of Southern Company Capital Funding reflects the guarantee of its debt by The Southern Company. The downgrade of the rating of Southern Company Funding Corporation reflects the downgrades of Georgia Power, Gulf Power, and Mississippi Power, three of the four utilities participating in this finance subsidiary's commercial paper program.

Ratings downgraded include:

The Southern Company's senior unsecured and Issuer Rating, to Baa1 from A3; and short-term rating for commercial paper, to Prime-2 from Prime-1;

Georgia Power Company's senior unsecured and Issuer Rating, to A3 from A2; preferred stock, to Baa2 from Baa1; variable rate demand obligation, to VMIG-2 from VMIG-1, and the trust preferred rating of Georgia Power Capital Trust VII, to Baa1 from A3;

Gulf Power Company's senior unsecured and Issuer Rating, to A3 from A2; preferred stock, to Baa2 from Baa1; and variable rate demand obligation, to VMIG-2 from VMIG-1;

Mississippi Power Company's senior unsecured and Issuer Rating, to A2 from A1; preferred stock, to Baa1 from A3; and variable rate demand obligation, to VMIG-2 from VMIG-1;

Southern Company Capital Funding's senior unsecured, to Baa1 from A3;

Southern Company Funding Corporation's short-term rating for commercial paper, to Prime-2 from Prime-1.

The last rating action on The Southern Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Southern Company Capital Funding was on June 17, 2010, when their ratings were placed on review for possible downgrade. The principal methodology

used in rating these issuers was Moody's Regulated Electric and Gas Utilities, published in August 2009, and available on www.moody's.com in the Ratings Methodologies sub-directory under the Research and Ratings tab. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Ratings Methodologies sub-directory on Moody's website.

The Southern Company is a utility holding company headquartered in Atlanta, Georgia and the parent company of utility subsidiaries Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Southern Electric Generating Company, wholesale power company Southern Power Company, financing subsidiary Southern Company Capital Funding, Inc., and commercial paper Issuer Southern Company Funding Corporation.

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INVESTORS SERVICE

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**Davis, Terry A.**

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**From:** Ritenour, Susan D.  
**Sent:** Tuesday, September 28, 2010 7:58 PM  
**To:** Davis, Terry A.  
**Subject:** FW: S&P Ratings

**Sensitivity:** Confidential

FYI

*Susan Ritenour*

x 6231

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**From:** Long, Earl C.  
**Sent:** Tuesday, September 28, 2010 12:45 PM  
**To:** Tucker, Daniel S.; Beattie, Arthur P.; Raymond, Phil C.; Labrato, Ronnie R.; Teel, Scott; Feagin, Moses H.; Lantrip, Mark S.; Bowers, Paul  
**Cc:** Sitton, Larry E.; Cherry, Pedro P.; Kundert, Glen A.; Liu, Xia; Kim, Mary Ann; Blake, Chris; George, Brian; Thom, Christine M.; Cook, Tyler M.; Ritenour, Susan D.; McMillan, Richard J.; Buck, William G., III; Pierce, Vicki L.; O'Neal, Dan L.; Grice, Matthew P.; Odom, Meredith E.; Brooks, David B.; Miller, Buzz (Joseph)  
**Subject:** RE: S&P Ratings  
**Sensitivity:** Confidential

**Follow-up comments from Dimitri Nikas of S&P:**

- **S&P credit committee vote was unanimous for affirmation of the ratings and stable outlook.**
- **Key factors supporting the rating are:**
  - **Continued constructive regulatory environment**
  - **Economy showing signs of recovery**
  - **Conservative management...characterized as a “stand-out” in the industry and an important qualitative benefit**
- **A constructive outcome for the GPC rate case that more closely aligns the regulatory/rate-making framework with Alabama and the other subs is a credit positive that would position Southern in the top end of the “Excellent” business risk category (they have been clear in recent months that we are currently living near the bottom of that category)**
- **Southern Power currently has no impact on Southern ratings as long as limited to conservative business model and moderate growth**
- **They have a renewed focus on liquidity and, while their initial assessment of us is “adequate”, there is some concern that we could measure as less-than-adequate in the near future based on their methodology (which is not utility specific). The methodology**

**is a sources (FFO and available credit facilities)/ Uses (non-discretionary capex, dividends and maturities) measure.**

- **S&P focus in the near term is on the GPC rate case and Vogtle 3&4 and the Kemper Co IGCC construction**

**Earl, Dan and Mary Ann**

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**From:** Tucker, Daniel S.  
**Sent:** Friday, September 24, 2010 3:13 PM  
**To:** Beattie, Arthur P.; Raymond, Phil C.; Labrato, Ronnie R.; Teel, Scott; Feagin, Moses H.; Lantrip, Mark S.; Bowers, Paul  
**Cc:** Long, Earl C.; Sitton, Larry E.; Cherry, Pedro P.; Kundert, Glen A.; Liu, Xia; Kim, Mary Ann; Blake, Chris; George, Brian; Thom, Christine M.; Cook, Tyler M.; Ritenour, Susan D.; McMillan, Richard J.; Buck, William G., III; Pierce, Vicki L.; O'Neal, Dan L.; Grice, Matthew P.; Odom, Meredith E.; Brooks, David B.  
**Subject:** S&P Ratings  
**Importance:** High  
**Sensitivity:** Confidential

**THIS IS NOT PUBLIC INFORMATION**

**Dimitri Nikas called today to let us know that S&P's credit review committee met on Southern Company (and by default the 4 regulated OpCo's) and they have affirmed all of our ratings and outlook. Because there is no change in ratings, S&P will not be releasing a press statement today. The information will be communicated publicly when they issue their normal ratings summary reports in a week or two.**

**Dimitri will be giving us feedback from the committee early next week. We will share any pertinent information that comes out of those discussions with you then.**

**Please let me or Earl know if you have any questions.**

**Dan**

STANDARD & POOR'S  
REGULATORY SURVEY

**UPDATE - February 2011**

Please fill out a separate update for each rated utility with new information since the January 2010 survey.

If the utility is in more than one jurisdiction, please provide separate survey for each.

Attach additional materials (e.g. company documents) or explanations if necessary to completely answer any of the questions.

For assistance, contact your primary analyst or Todd Shipman (212.438.7676) or [todd\\_shipman@sandp.com](mailto:todd_shipman@sandp.com)

**IMPORTANT: CLEARLY INDICATE IF AN ANSWER CONTAINS CONFIDENTIAL, NON-PUBLIC INFORMATION THAT YOU WOULD NOT WANT DISCLOSED**

Thank you very much for your assistance. Please send the completed survey(s) to your analyst by the end of February.

COMPANY

Gulf Power

JURISDICTION

Florida

REGULATORY BODY

Florida Public Service Commission

1. RESOURCE PROCUREMENT PROCESS

If your utility has obligation-to-serve or POLR responsibilities, please note any new developments in the procurement process in 2010 (e.g. IRP, competitive procurement, regulatory oversight, or regulatory approval).

(If necessary, attach separate document):

None

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



2. RATE CASE INFORMATION

Provide the following information for base rate cases completed in 2010:

Date Filed	<u>N/A</u>
Initiated By	<u>N/A</u>
Interim Rate Increase Amount and Date	<u>N/A</u>
Amount and % of Requested Rate Increase	<u>N/A</u>
Amount and % Rate Increase Granted	<u>N/A</u>
Date Permanent Rates Went Into Effect	<u>N/A</u>
Rate Base Amount	<u>N/A</u>
Test Year Used	<u>N/A</u>
(If updated, through what date?)	<u>N/A</u>
Return on Equity Authorized	<u>N/A</u>
Capital Structure (% debt, preferred, common)	<u>N/A</u>
Settlement (Y, N, Partial)	<u>N/A</u>

3. LARGE CAPITAL EXPENDITURES

Please note 2010 changes to programs or riders authorized for significant capital projects (e.g. pre-approvals, separate rate mechanism, regulatory oversight, rate base treatment):

None  
\_\_\_\_\_  
\_\_\_\_\_

4. TARIFF CLAUSES FOR SIGNIFICANT EXPENSES

Note significant 2010 changes (e.g. added, withdrawn, timing of rate adjustments, incentives) to any separate rate mechanisms for significant expenses such as purchased power or fuel:

None  
\_\_\_\_\_  
\_\_\_\_\_

Any amounts disallowed in 2010? (note % of total cost):

None

5. RATE DESIGN

Any significant regulatory changes to the monthly fixed charge in any of your customer classes?

None  
\_\_\_\_\_

6. FINANCIAL REPORTING

Please attach financial reports submitted to your regulator in 2010 (or, if applicable, a summary part of the report with financial data) or provide a website address where they can be found:

Surveillance Report for December 2009 filed with the FPSC is attached.

Please provide the actual, jurisdictional earned return on equity for 2009: 11.01%

7. NON-TRADITIONAL RATEMAKING PRACTICES

Please note if any of the following were added or withdrawn in 2010:

Incentive Ratemaking	<u>No</u>
Revenue Decoupling	<u>No</u>
Weather Normalization	<u>No</u>
Other	<u>No</u>

Describe changes:

N/A

8. OTHER

Describe any practices or policy changes made by your regulator in 2010 that you think affects credit quality.

None

THANK YOU!

SURVEY COMPLETED BY:

NAME Richard Dodd

PHONE NUMBER (850) 444-6253

E-MAIL rwdodd@southernco.com

**GULF POWER COMPANY**  
**Earnings Surveillance Report Summary**  
**December, 2009**

Schedule 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
<b>I. Average Rate of Return</b>					
<b>(Jurisdictional)</b>					
<hr/>					
Net Operating Income	(a) 149,089,483	(b) (56,805,967)	92,283,516	0	92,283,516
Average Rate Base	2,158,584,405	(777,923,104)	1,380,661,301	0	1,380,661,301
Average Rate of Return	6.91%		6.68%		6.68%
<b>II. Year End Rate of Return</b>					
<b>(Jurisdictional)</b>					
<hr/>					
Net Operating Income	(a) 149,071,640	(b) (57,175,452)	91,896,188	0	91,896,188
Year End Rate Base	2,300,911,433	(893,535,463)	1,407,375,970	0	1,407,375,970
Year End Rate of Return	6.48%		6.53%		6.53%

(a) Includes AFUDC Earnings  
(b) Includes Reversal of AFUDC Earnings

**III. Required Rates of Return**  
**Average Capital Structure**  
**(FPSC Adjusted Basis)**

---

Low	6.58%
Midpoint	7.09%
High	7.40%

**IV. Financial Integrity Indicators**

A. Tie With AFUDC	4.56 x (System per Books Basis)
B. Tie Without AFUDC	3.87 x (System per Books Basis)
C. AFUDC To Net Income	26.64% (System per Books Basis)
D. Internally Generated Funds	12.21% (System per Books Basis)
E. LTD To Total Investor Funds	47.96% (FPSC Adjusted Basis)
F. STD To Total Investor Funds	0.06% (FPSC Adjusted Basis)
G. Return on Common Equity	11.01% (FPSC Adjusted Basis)
H. Return on Common Equity	11.01% (Proforma Basis)

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Name and Title	Signature	Date
Richard J. McMillan Corporate Planning Manager	<hr/>	<hr/>

GULF POWER COMPANY  
 AVERAGE RATE OF RETURN  
 RATE BASE  
 December, 2009

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
<b>SYSTEM PER BOOKS</b>	2,898,770,039	1,179,718,579	1,719,051,460	2,747,893	495,120,437	0	2,216,919,790	202,744,371	2,419,664,161
<b>JURISDICTIONAL PER BOOKS</b>	2,597,789,830	1,053,735,136	1,544,054,694	2,861,913	426,177,890	0	1,972,894,497	185,689,908	2,158,584,405
<b>FPSC ADJUSTMENTS:</b>									
ENVIRONMENTAL RECOVERY CLAUSE	(322,150,644)	(25,264,840)	(296,885,804)		(4,207,543)		(301,093,347)	(18,448,362)	(319,541,709)
INT BEARING CWIP	(10,195,701)	244,828	(10,440,529)		(387,687,935)		(387,687,935)	0	(387,687,935)
ENERGY CONSERVATION CLAUSE					(0)		(10,440,529)	(2,059,508)	(12,500,037)
LOANS TO EMPLOYEES / RETIREES							(50,541)	(50,541)	(50,541)
INTEREST AND DIVIDENDS RECEIVABLE							(291,676)	(291,676)	(291,676)
FUNDED PROP RES & OTHER INVESTMENTS							(6,304,715)	(6,304,715)	(6,304,715)
FUEL RELATED DEFERRED DEBITS							0	0	0
IVAN STORM RECOVERY							(51,861,094)	(51,861,094)	(51,861,094)
FUELED RELATED DEFERRED DEBITS							(2,478)	(2,478)	(2,478)
FLAME RESISTANT CLOTHING							200,175	200,175	200,175
ACCRUED PROVISION FOR REFUND							116,908	116,908	116,908
SALE OF RAILCARS							0	0	0
<b>TOTAL FPSC ADJUSTMENTS</b>	(332,346,345)	(25,020,012)	(307,326,333)	0	(391,895,478)	0	(699,221,811)	(78,701,293)	(777,923,104)
<b>FPSC ADJUSTED</b>	2,265,443,485	1,028,715,124	1,236,728,361	2,661,913	34,282,412	0	1,273,672,686	106,988,615	1,380,661,301
<b>PRO FORMA REVENUE AND ANNUALIZATION ADJUSTMENTS</b>	0	0	0	0	0	0	0	0	0
<b>TOTAL PRO FORMA ADJUST</b>	0	0	0	0	0	0	0	0	0
<b>PRO FORMA ADJUSTED</b>	2,265,443,485	1,028,715,124	1,236,728,361	2,661,913	34,282,412	0	1,273,672,686	106,988,615	1,380,661,301

GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
INCOME STATEMENT  
December, 2009

SCHEDULE 2  
PAGE 2 OF 3

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	1,302,433,325	640,982,578	284,885,464	95,000,854	94,505,684	71,983,071	(16,541,199)	(1,602,984)	0	1,189,213,548	133,219,777
JURISDICTIONAL PER BOOKS	1,176,689,240	557,672,549	273,097,291	88,057,246	92,920,405	63,878,036	(14,529,532)	(1,239,598)	0	1,059,856,398	118,831,843
LESS FPSC ADJUSTMENTS:											
ENVIRONMENTAL RECOVERY CLAUSE	(69,786,676)									(48,665,269)	(21,123,409)
GROSS RECEIPTS TAX REVENUE	(30,064,930)		(25,540,226)	(9,363,118)	(496,390)	(13,265,535)				(11,597,547)	(18,467,393)
MARKETING SUPPORT ACTIVITIES			(63,376)			24,447				(38,929)	38,929
GAIN/LOSS ON DISPOSITION										0	0
IVAN STORM RECOVERY	(10,754,021)		(10,746,276)			(2,987)				(10,749,265)	(4,756)
FRANCHISE FEE REVENUES	(37,325,938)					(14,398,461)				(14,398,461)	(22,927,457)
RETAIL FUEL REVENUES	(528,695,438)					(203,944,265)				(203,944,265)	(324,751,173)
ECCR and PPCC REVENUES	(41,800,999)					(16,124,735)				(16,124,735)	(25,676,264)
INT ON TAX ASSESSMENT										0	0
ECON DEV EXPENSE TOTAL			(814,381)			314,147				(500,234)	500,234
ECON DEV EXPENSE ALLOWED			773,662			(298,440)				475,222	(475,222)
LIASON EXPENSES			(213,689)		(11,196)	86,749				(138,136)	138,136
CORPORATE ADVERTISING			(66,267)			25,562				(40,705)	40,705
INDUSTRY ASSOCIATION DUES			(476)			184				(292)	292
RETAIL FUEL EXPENSES	(528,246,977)			(281,976)		203,771,272				(324,475,705)	324,475,705
ECCR AND PPCC EXPENSES	(29,425,572)		(9,304,006)			15,165,130				(24,148,234)	24,148,234
FRANCHISE FEE						14,024,024				(22,331,190)	22,331,190
GRT, FPSC FEES ON CLAUSES & FEES						(1,438,856)				(863,817)	863,817
ECCR AND PPCC EXPENSES						555,039				(18,381,514)	18,381,514
RETAIL FUEL EXPENSES						11,543,621				2,061,419	(2,061,419)
INTEREST SYNCHRONIZATION						2,061,419					
TOTAL FPSC ADJUSTMENTS	(718,430,004)	(557,672,549)	(45,975,037)	(9,845,094)	(68,528,801)	(12,060,396)	0	0	0	(693,881,678)	(24,548,327)
FPSC ADJUSTED	458,258,236	0	227,122,254	78,412,152	24,391,804	51,817,640	(14,529,532)	(1,239,598)	0	365,974,720	92,283,516
PRO FORMA REVENUE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	458,258,236	0	227,122,254	78,412,152	24,391,804	51,817,640	(14,529,532)	(1,239,598)	0	365,974,720	92,283,516
(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY											
CURRENT MO. SYSTEM PER BOOKS	110,345,306	55,410,666	26,196,186	39,297,618	6,750,327	18,577,635	(14,766,246)	(133,582)	0	100,054,052	10,291,254
CURRENT MO. JURIS PER BOOKS	97,806,906	45,479,674	26,117,204	7,422,910	6,815,509	14,693,732	(11,379,732)	(103,320)	0	89,045,978	8,762,928

GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
SYSTEM ADJUSTMENTS  
December, 2009

SCHEDULE 2  
PAGE 3 OF 3

<u>RATE BASE ADJUSTMENTS</u>		<u>AMOUNT</u>	<u>INCOME STATEMENT ADJUSTMENTS</u>		<u>AMOUNT</u>	<u>TAX EFFECT</u>
PLANT SCHERER			FRANCHISE FEE REVENUES	(37,325,938)	(14,398,481)	
INVESTMENT	(233,819,020)		IIC FUEL REVENUES	(29,458,186)	(11,363,495)	
ACCUMULATED DEPRECIATION	98,439,007		FUEL REVENUES	(581,145,810)	(224,176,996)	
ENERGY CONSERVATION COST RECOVERY			ECONOMY PROFITS	(982,078)	(378,836)	
INVESTMENT	(10,195,701)		ECCR, PPCC, AND ECRC REVENUES	(111,118,955)	(42,864,137)	
ACCUMULATED DEPRECIATION	(244,828)		GROSS RECEIPTS TAX REVENUES/STORM RECOVERY REV	(40,818,951)	(15,745,910)	
ENVIRONMENTAL RECOVERY CLAUSE			COMPETITIVE SALES REVTRANS REV/G/L ON SALE OF GAS	56,859	21,933	
INVESTMENT	(333,455,438)		CORPORATE ADVERTISING	(67,696)	26,114	
ACCUMULATED DEPRECIATION	26,162,193		INDUSTRY ASSOCIATION DUES	(487)	188	
PROPERTY HELD FOR FUTURE USE	0		FUEL EXPENSES	(640,922,420)	247,235,824	
INTEREST BEARING CWIP	(400,186,896)		GAIN/LOSS ON DISPOSITION OF PROPERTY	0	0	
SCHERER CWIP	(55,188,912)		ECON DEVELOP EXPENSE- TOTAL	(814,381)	314,147	
ECRC CWIP	(4,356,961)		ECON DEV EXPENSE - ALLOWED	773,662	(298,440)	
ECCR CWIP	(0)		INTEREST ON TAX ADJUSTMENT	0	0	
TALLAHASSEE OFFICE INVESTMENT	(357)		CONSERVATION EXPENSES - O & M	(9,304,006)	3,589,020	
ACCUM. DEPRECIATION	357		CONSERVATION EXPENSES - OTHER TAXES	(178,331)	68,791	
WORKING CAPITAL:			TALLAHASSEE OFFICE DEPRECIATION	0	0	
ECRC WORKING CAPITAL	(19,092,621)		IVAN STORM RECOVERY EXPENSE	(10,746,278)	4,145,377	
LOANS TO EMPLOYEES AND RETIREES	(52,644)		MARKETING SUPPORT ACTIVITIES	(63,376)	24,447	
FAS 133 ASSOCIATED AMOUNTS (NET)	(3,863)		FRANCHISE FEE	(36,355,214)	14,024,024	
CONSERVATION/AEM INVENTORY	(2,059,508)		GROSS RECEIPTS TAX EXPENSE	(29,925,135)	11,543,621	
INTEREST & DIVIDENDS RECEIVABLE	(303,815)		LIAISON EXPENSE	(229,812)	88,650	
PLANT SCHERER	(8,820,108)		ECRC/ECCR EXPENSES	(37,000,897)	14,273,096	
TEMPORARY CASH INVESTMENTS	(1,158,388)		COMPETITIVE SALES EXPENSES	0	0	
FUNDED PROP RES & OTHER INVESTMENTS	(5,192,609)		GRT/FPSC FEES ON CLAUSE REV ADJ & FRAN FEES	(1,438,856)	555,039	
FUEL RELATED DEFERRED DEBITS	(51,861,094)		INTEREST SYNCHRONIZATION	2,546,966	2,546,966	
FLAME RESISTANT CLOTHING	(3,056)					
SALE OF RAIL CARS	144,176					
IVAN STORM RECOVERY	0					
ACCUM. PROV. FOR RATE REFUNDS	246,870					

GULF POWER COMPANY  
 YEAR END RATE OF RETURN  
 RATE BASE  
 December, 2009

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
SYSTEM PER BOOKS	3,419,375,848	1,201,055,042	2,218,320,806	2,747,893	167,982,275	0	2,389,050,974	202,744,371	2,591,795,345
JURISDICTIONAL PER BOOKS	3,089,765,137	1,072,701,839	2,017,063,298	2,661,913	94,273,215	0	2,113,998,426	186,913,007	2,300,911,433
<u>FPSC ADJUSTMENTS:</u>									
ENVIRONMENTAL RECOVERY CLAUSE	(783,502,641)	(28,766,188)	(754,736,453)		(2,608,265)		(757,344,718)	(18,448,362)	(775,793,080)
INT BEARING CWIP					(46,583,059)		(46,583,059)	0	(46,583,059)
ENERGY CONSERVATION CLAUSE	(10,525,928)	380,465	(10,906,393)				(10,906,393)	(2,059,508)	(12,965,901)
LOANS TO EMPLOYEES AND RETIREES							(50,541)	(50,541)	(50,541)
INTEREST AND DIVIDENDS RECEIVABLE							(291,676)	(291,676)	(291,676)
NOTES RECEIVABLE							0	0	0
FUNDED PROP RES & OTHER INVESTMENTS								(6,304,715)	(6,304,715)
IVAN STORM RECOVERY								0	0
FUEL RELATED DEFERRED DEBITS								(51,861,094)	(51,861,094)
FLAME RESISTANT CLOTHING								(2,478)	(2,478)
ACCRUED PROVISION FOR REFUND								200,175	200,175
SALE OF RAILCARS								116,906	116,906
<u>TOTAL FPSC ADJUSTMENTS</u>	<u>(794,028,569)</u>	<u>(28,385,723)</u>	<u>(765,642,846)</u>	<u>0</u>	<u>(49,191,324)</u>	<u>0</u>	<u>(814,834,170)</u>	<u>(78,701,293)</u>	<u>(893,535,463)</u>
FPSC ADJUSTED	2,295,736,568	1,044,316,116	1,251,420,452	2,661,913	45,081,891	0	1,299,164,256	108,211,714	1,407,375,970
PRO FORMA REVENUE AND ANNUALIZATION ADJUSTMENTS	0	0	0	0	0	0	0	0	0
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	2,295,736,568	1,044,316,116	1,251,420,452	2,661,913	45,081,891	0	1,299,164,256	108,211,714	1,407,375,970

GULF POWER COMPANY  
 YEAR END RATE OF RETURN  
 INCOME STATEMENT  
 December, 2009

SCHEDULE 3  
 PAGE 2 OF 3

	O & M OPERATING REVENUES	FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & TAXES OTHER AMORTIZATION THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	1,302,433,325	640,982,678	284,885,464	95,000,854	71,983,071	(16,541,199)	(1,602,984)	0	1,169,213,548	133,219,777
JURISDICTIONAL PER BOOKS	1,176,868,240	557,672,549	273,097,291	88,057,246	63,903,238	(14,536,891)	(1,239,598)	0	1,059,874,241	116,814,000
LESS FPSC ADJUSTMENTS:										
ENVIRONMENTAL RECOVERY CLAUSE	(69,788,678)			(9,363,118)	(13,285,535)			(48,665,269)		(21,123,409)
GROSS RECEIPTS TAX REVENUE	(30,064,930)		(25,540,226)		(11,597,547)			(11,597,547)		(18,467,383)
MARKETING SUPPORT ACTIVITIES			(63,376)		24,447			(38,929)		38,929
GAIN/LOSS ON DISPOSITION			(10,746,278)					0		0
IVAN STORM RECOVERY	(10,754,021)				(2,987)			(10,749,266)		(4,756)
FRANCHISE FEE REVENUES	(37,325,936)				(14,398,481)			(14,398,481)		(22,927,457)
RETAIL FUEL REVENUES	(528,695,436)				(203,944,265)			(203,944,265)		(324,751,173)
ECCR & FPCC REVENUES	(41,800,999)				(16,124,735)			(16,124,735)		(25,676,264)
INT ON TAX ASSESSMENT								0		0
ECON DEV EXPENSE ALLOWED					314,147			(500,234)		500,234
LIAISON EXPENSES			(814,381)		(298,440)			(475,222)		(475,222)
CORPORATE ADVERTISING			773,662		86,749			(138,136)		138,136
INDUSTRY ASSOCIATION DUES			(213,889)	(11,196)	25,562			(40,705)		40,705
RETAIL FUEL EXPENSES			(66,267)					(292)		292
ECCR AND FPCC EXPENSES	(528,246,977)		(476)		184			(324,475,705)		324,475,705
FRANCHISE FEE	(29,425,572)		(9,304,066)	(281,976)	203,771,272			(24,148,234)		24,148,234
GRT, FPSC FEES ON CLAUSES & FFEEES					15,165,130			(22,331,190)		22,331,190
GROSS RECEIPTS TAX ADJUST					14,024,024			(883,817)		883,817
INTEREST SYNCHRONIZATION					555,039			(18,381,514)		18,381,514
TOTAL FPSC ADJUSTMENTS	(718,430,004)	(557,672,549)	(45,975,037)	(9,645,094)	(11,690,811)	0	0	(693,512,193)	2,430,904	(2,430,904)
FPSC ADJUSTED	458,258,236	0	227,122,254	78,412,152	52,212,327	(14,536,891)	(1,239,598)	0	366,362,048	91,866,188
PRO FORMA REVENUE ANNUALIZATION ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	458,258,236	0	227,122,254	78,412,152	52,212,327	(14,536,891)	(1,239,598)	0	366,362,048	91,866,188
(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY				33,297,618						32,257,640



GULF POWER COMPANY  
YEAR END RATE OF RETURN  
SYSTEM ADJUSTMENTS  
December, 2009

SCHEDULE 3  
PAGE 3 OF 3

<u>RATE BASE ADJUSTMENTS</u>	<u>AMOUNT</u>	<u>INCOME STATEMENT ADJUSTMENTS</u>	<u>AMOUNT</u>	<u>TAX EFFECT</u>
PLANT SCHERER		FRANCHISE FEE REVENUES	(37,325,938)	(14,398,481)
INVESTMENT	(244,072,982)	IIC FUEL REVENUES	(29,458,188)	(11,363,495)
ACCUMULATED DEPRECIATION	100,238,594	FUEL REVENUES	(581,145,810)	(224,176,996)
ENERGY CONSERVATION COST RECOVERY		ECONOMY PROFITS	(982,078)	(378,836)
INVESTMENT	(10,525,928)	ECCR, PPCC, AND ECRC REVENUES	(111,118,955)	(42,864,137)
ACCUMULATED DEPRECIATION	(380,465)	GROSS RECEIPTS TAX REVENUES/STORM RECOVERY REV	(40,818,951)	(15,745,910)
ENVIRONMENTAL RECOVERY CLAUSE		COMPETITIVE SALES REV/TRANS REV/G/L ON SALE OF GAS	56,859	21,933
INVESTMENT	(812,437,079)	CORPORATE ADVERTISING	(67,696)	26,114
ACCUMULATED DEPRECIATION	29,829,602	INDUSTRY ASSOCIATION DUES	(487)	188
PROPERTY HELD FOR FUTURE USE	0	FUEL EXPENSES	(640,922,420)	247,235,824
INTEREST BEARING CWIP	(48,084,885)	GAIN/LOSS ON DISPOSITION OF PROPERTY	0	0
SCHERER CWIP	(70,657,497)	ECON DEVELOP EXPENSE- TOTAL	(814,381)	314,147
ECRC CWIP	(2,704,572)	ECON DEV EXPENSE - ALLOWED	773,662	(298,440)
ECCR CWIP	(0)	INTEREST ON TAX ADJUSTMENT	0	0
TALLAHASSEE OFFICE INVESTMENT	(357)	CONSERVATION EXPENSES - O & M	(9,304,006)	3,589,020
ACCUM. DEPRECIATION	357	CONSERVATION EXPENSES - OTHER TAXES	(178,331)	68,791
WORKING CAPITAL:		TALLAHASSEE OFFICE DEPRECIATION	0	0
ECRC WORKING CAPITAL	(19,092,621)	IVAN STORM RECOVERY EXPENSE	(10,746,278)	4,145,377
LOANS TO EMPLOYEES AND RETIREES	(52,644)	MARKETING SUPPORT ACTIVITIES	(63,376)	24,447
FAS 133 ASSOCIATED AMOUNTS (NET)	(3,863)	FRANCHISE FEE	(36,355,214)	14,024,024
CONSERVATION/AEM INVENTORY	(2,059,508)	GROSS RECEIPTS TAX EXPENSE	(29,925,135)	11,543,621
INTEREST & DIVIDENDS RECEIVABLE	(303,815)	LIAISON EXPENSE	(229,812)	88,650
PLANT SCHERER	(5,801,848)	ECRC/ECCR EXPENSES	(37,000,897)	14,273,096
TEMPORARY CASH INVESTMENTS	(1,158,388)	COMPETITIVE SALES EXPENSES	0	0
FUNDED PROP RES & OTHER INVESTMENTS	(5,192,609)	GRT/FPSC FEES ON CLAUSE REV ADJ & FRAN FEES	(1,438,856)	555,039
FUEL RELATED DEFERRED DEBITS	(51,861,094)	INTEREST SYNCHRONIZATION	3,089,168	3,089,168
FLAME RESISTANT CLOTHING	(3,056)			
SALE OF RAIL CARS	144,176			
IVAN STORM RECOVERY	0			
ACCUM. PROV. FOR RATE REFUNDS	246,870			

GULF POWER COMPANY  
 CAPITAL STRUCTURE  
 FPSC ADJUSTED BASIS  
 December, 2009

SCHEDULE 4

AVERAGE	ADJUSTMENTS				LOW POINT			MIDPOINT			HIGH POINT		
	SYSTEM PER BOOKS	RETAIL PER BOOKS	PRO RATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATEWEIGHTED COST (%)	RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)
LONG TERM DEBT	995,251,090	891,957,376	(321,452,350)	0	570,515,026	41.32	4.27	1.77	4.27	1.77	4.27	1.77	4.27
SHORT TERM DEBT	52,986,590	1,120,386	(403,771)	0	716,615	0.05	1.97	0.00	1.97	0.00	1.97	0.00	1.77
PREFERRED STOCK	82,291,706	77,215,068	(27,827,212)	0	49,387,856	3.58	7.37	0.26	7.37	0.26	7.37	0.26	0.00
CUSTOMER DEPOSITS	30,493,960	30,355,513	(10,939,695)	0	19,415,818	1.41	6.09	0.09	6.09	0.09	6.09	0.09	0.26
COMMON EQUITY	958,128,865	889,594,522	(320,597,207)	0	568,997,315	41.21	10.75	4.43	12.00	4.95	12.75	6.09	0.09
DEFERRED INCOME TAXES	299,196,257	277,936,534	(100,164,372)	0	177,772,162	12.88							5.25
FASB 109 DEFERRED TAXES	(19,370,305)	(17,993,805)	6,484,711	0	(11,509,094)	(0.83)							
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00							
TAX CREDITS - WEIGHTED COST	10,453,908	8,388,811	(3,023,208)	0	5,365,603	0.39	7.50	0.03	8.10	0.03	8.46	0.03	0.03
<b>TOTAL</b>	<b>2,419,434,071</b>	<b>2,158,584,405</b>	<b>(777,923,104)</b>	<b>0</b>	<b>1,380,661,301</b>	<b>100.00 %</b>		<b>6.58 %</b>		<b>7.09 %</b>		<b>7.40 %</b>	

YEAR-END	ADJUSTMENTS				LOW POINT			MIDPOINT			HIGH POINT		
	SYSTEM PER BOOKS	RETAIL PER BOOKS	PRO RATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATEWEIGHTED COST (%)	RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)
LONG TERM DEBT	1,090,602,797	975,707,048	(378,905,870)	0	596,801,178	42.41	3.91	1.66	3.91	1.66	3.91	1.66	1.66
SHORT TERM DEBT	90,330,771	38,319,318	(14,880,916)	0	23,438,402	1.67	0.26	0.00	0.26	0.00	0.26	0.00	0.00
PREFERRED STOCK	92,386,731	75,616,663	(29,364,959)	0	46,251,704	3.29	7.39	0.24	7.39	0.24	7.39	0.24	0.24
CUSTOMER DEPOSITS	32,360,644	32,234,162	(12,517,808)	0	19,716,354	1.40	6.00	0.08	6.00	0.08	6.00	0.08	0.08
COMMON EQUITY	1,010,676,668	921,132,853	(357,712,539)	0	563,420,314	40.03	10.75	4.30	12.00	4.80	12.75	6.00	0.08
DEFERRED INCOME TAXES	297,157,152	275,760,105	(107,088,621)	0	168,671,484	11.97							5.10
FASB 109 DEFERRED TAXES	(27,606,834)	(25,618,982)	9,948,870	0	(15,670,112)	(1.11)							
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00							
TAX CREDITS - WEIGHTED COST	9,652,416	7,760,266	(3,013,620)	0	4,746,646	0.34	7.24	0.02	7.82	0.03	8.17	0.03	0.03
<b>TOTAL</b>	<b>2,595,570,345</b>	<b>2,300,911,433</b>	<b>(893,535,463)</b>	<b>0</b>	<b>1,407,375,970</b>	<b>100.00 %</b>		<b>6.32 %</b>		<b>6.82 %</b>		<b>7.12 %</b>	

GULF POWER COMPANY  
Financial Integrity Indicators  
December, 2009

Schedule 5

A. Times Interest Earned with AFUDC

Earnings Before Interest	155,794,025
AFUDC - Debt	9,488,832
Income Taxes	53,025,003
	<u>                    </u>
Total	218,307,860
Interest Charges (Before Deducting AFUDC - Debt) T.I.E. With AFUDC	<u>47,847,250</u>
	4.56 x

B. Times Interest Earned without AFUDC

Earnings Before Interest	155,794,025
AFUDC - Other	(23,808,786)
Income Taxes	53,025,003
	<u>                    </u>
Total	185,010,242
Interest Charges (Before Deducting AFUDC - Debt) T.I.E. Without AFUDC	<u>47,847,250</u>
	3.87 x

C. Percent AFUDC To Net Income Available  
for Common Stockholders

AFUDC - Debt	9,488,832
X (1 - Income Tax Rate)	0.6143
	<u>                    </u>
Subtotal	5,828,515
AFUDC - Other	23,808,786
	<u>                    </u>
Total	29,637,301
	<u>                    </u>
Net Income Available for Common Stockholders	111,233,107
Percent AFUDC to Available Net Income	<u>26.64%</u>

D. Percent Internally Generated Funds

Net Income	117,435,607
Preferred Dividends	(6,202,500)
Common Dividends	(89,300,000)
AFUDC (Debt & Other)	(33,297,618)
Depreciation & Amortization	102,415,171
Deferred Income Taxes	(16,544,553)
Investment Tax Credits	0
Other	(24,018,847)
	<u>                    </u>
Total	50,487,259
	<u>                    </u>
Construction Expenditures (Excluding AFUDC Other & Debt)	413,449,567
	<u>                    </u>
Percent Internally Generated Funds	<u>12.21%</u>

E. Long Term Debt as Percent of Total  
Investor Capital  
(See calculation in item F. below)

F. Short Term Debt as Percent of Total Investor Capital  
Reconciled Average Retail Amounts

Long Term Debt	570,515,026
Short Term Debt	716,615
Preferred Stock	49,387,856
Common Equity	<u>568,997,315</u>
	<u>                    </u>
Total	1,189,616,812
	<u>                    </u>
% Long Term Debt To Total	47.96%
	<u>                    </u>
% Short Term Debt To Total	0.06%
	<u>                    </u>

G. FPSC Adjusted Average Jurisdictional Return  
On Common Equity

	G. FPSC ADJ.	H. PROFORMA
FPSC Adjusted Average Earned Rate of Return	6.68%	6.68%
Less: Reconciled Average Retail Weighted Cost Rates For:		
Long Term Debt	(1.77)	(1.77)
Short Term Debt	(0.00)	(0.00)
Preferred Stock	(0.26)	(0.26)
Customer Deposits	(0.09)	(0.09)
Tax Credits - Weighted Cost (Common Equity at Midpoint)	<u>(0.03)</u>	<u>(0.03)</u>
Subtotal	<u>(2.15)</u>	<u>(2.15)</u>
Total	4.54	4.54
Divided by Common Equity Ratio	<u>41.21</u>	<u>41.21</u>
Jurisdictional Return on Common Equity	<u>11.01%</u>	<u>11.01%</u>

GULF POWER COMPANY  
Storm Accrual - Twelve Month to Date  
December, 2009

Supplemental 1

<u>Month</u>	<u>Year</u>	<u>\$</u>
January	09	291,667
February	09	291,667
March	09	291,667
April	09	291,667
May	09	291,667
June	09	291,667
July	09	291,667
August	09	291,667
September	09	291,667
October	09	291,667
November	09	291,667
December	09	291,663
<b>12 - M-T-D</b>		<b><u>3,500,000</u></b>

**December 2009**

Earnings Surveillance  
Report  
(Rate of Return)



**GULF POWER COMPANY**  
**Earnings Surveillance Report Summary**  
**December, 2009**

Schedule 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
<b>I. Average Rate of Return (Jurisdictional)</b>					
Net Operating Income	(a) 149,089,483	(b) (56,805,967)	92,283,516	0	92,283,516
Average Rate Base	2,158,584,405	(777,923,104)	1,380,661,301	0	1,380,661,301
Average Rate of Return	6.91%		6.68%		6.68%
<b>II. Year End Rate of Return (Jurisdictional)</b>					
Net Operating Income	(a) 149,071,640	(b) (57,175,452)	91,896,188	0	91,896,188
Year End Rate Base	2,300,911,433	(893,535,463)	1,407,375,970	0	1,407,375,970
Year End Rate of Return	6.48%		6.53%		6.53%

(a) Includes AFUDC Earnings  
(b) Includes Reversal of AFUDC Earnings

**III. Required Rates of Return  
Average Capital Structure  
(FPSC Adjusted Basis)**

Low	6.58%
Midpoint	7.09%
High	7.40%

**IV. Financial Integrity Indicators**

A. Tie With AFUDC	4.56 x (System per Books Basis)
B. Tie Without AFUDC	3.87 x (System per Books Basis)
C. AFUDC To Net Income	26.64% (System per Books Basis)
D. Internally Generated Funds	12.21% (System per Books Basis)
E. LTD To Total Investor Funds	47.96% (FPSC Adjusted Basis)
F. STD To Total Investor Funds	0.06% (FPSC Adjusted Basis)
G. Return on Common Equity	11.01% (FPSC Adjusted Basis)
H. Return on Common Equity	11.01% (Proforma Basis)

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Name and Title	Signature	Date
Richard J. McMillan Corporate Planning Manager	_____	_____

GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
RATE BASE  
December, 2009

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
<b>SYSTEM PER BOOKS</b>	2,898,770,039	1,179,718,579	1,719,051,460	2,747,893	495,120,437	0	2,216,919,790	202,744,371	2,419,664,161
<b>JURISDICTIONAL PER BOOKS</b>	2,597,789,830	1,053,735,136	1,544,054,694	2,661,913	426,177,890	0	1,972,894,497	185,689,808	2,158,584,405
<b>FPSC ADJUSTMENTS:</b>									
ENVIRONMENTAL RECOVERY CLAUSE INT BEARING CWIP	(322,150,644)	(25,264,840)	(296,885,804)		(4,207,543)		(301,093,347)	(18,448,362)	(319,541,709)
ENERGY CONSERVATION CLAUSE					(387,687,935)		(387,687,935)	0	(387,687,935)
LOANS TO EMPLOYEES / RETIREES	(10,195,701)	244,828	(10,440,529)		(0)		(10,440,529)	(50,541)	(12,500,037)
INTEREST AND DIVIDENDS RECEIVABLE								(291,676)	(291,676)
FUNDED PROP RES & OTHER INVESTMENTS								(6,304,715)	(6,304,715)
IVAN STORM RECOVERY								0	0
FUEL RELATED DEFERRED DEBITS								(51,861,094)	(51,861,094)
FLAME RESISTANT CLOTHING								(2,478)	(2,478)
ACCRUED PROVISION FOR REFUND								200,175	200,175
SALE OF RAILCARS								116,906	116,906
<b>TOTAL FPSC ADJUSTMENTS</b>	(932,346,345)	(25,020,012)	(307,326,333)	0	(391,895,478)	0	(699,221,811)	(78,701,293)	(777,923,104)
<b>FPSC ADJUSTED</b>	2,265,443,485	1,028,715,124	1,236,728,361	2,661,913	34,282,412	0	1,273,672,686	106,988,615	1,380,661,301
<b>PRO FORMA REVENUE AND ANNUALIZATION ADJUSTMENTS</b>	0	0	0	0	0	0	0	0	0
<b>TOTAL PRO FORMA ADJUST</b>	0	0	0	0	0	0	0	0	0
<b>PRO FORMA ADJUSTED</b>	2,265,443,485	1,028,715,124	1,236,728,361	2,661,913	34,282,412	0	1,273,672,686	106,988,615	1,380,661,301

GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
INCOME STATEMENT  
December, 2009

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	1,302,433,325	640,982,878	284,885,464	95,000,854	94,505,664	71,983,071	(16,541,199)	(1,602,984)	0	1,169,213,548	133,219,777
JURISDICTIONAL PER BOOKS	1,176,688,240	557,672,549	273,087,291	88,057,246	92,920,405	63,878,036	(14,528,532)	(1,239,598)	0	1,059,856,398	118,831,843
LESS FPSC ADJUSTMENTS:											
ENVIRONMENTAL RECOVERY CLAUSE	(88,788,878)		(25,540,228)	(9,363,116)	(496,390)	(13,265,535)				(48,665,269)	(21,123,409)
GROSS RECEIPTS TAX REVENUE	(30,064,930)		(63,376)			(11,597,547)				(11,597,547)	(18,467,388)
MARKETING SUPPORT ACTIVITIES						24,447				(38,928)	38,928
GAIN/LOSS ON DISPOSITION										0	0
IVAN STORM RECOVERY	(10,754,021)		(10,746,278)			(2,987)				(10,749,265)	(4,766)
FRANCHISE FEE REVENUES	(37,325,936)					(14,398,481)				(14,398,481)	(22,927,457)
RETAIL FUEL REVENUES	(528,895,438)					(203,944,265)				(203,944,265)	(324,751,173)
ECCR and PPCC REVENUES	(41,800,999)					(16,124,735)				(16,124,735)	(25,676,264)
INT ON TAX ASSESSMENT										0	0
ECON DEV EXPENSE TOTAL			(814,381)			314,147				(500,234)	500,234
ECON DEV EXPENSE ALLOWED			773,862			(298,440)				475,222	(475,222)
LAISON EXPENSES			(213,889)		(11,196)	88,749				(136,136)	136,136
CORPORATE ADVERTISING			(66,287)			25,562				(40,705)	40,705
INDUSTRY ASSOCIATION DUES			(478)			184				(282)	282
RETAIL FUEL EXPENSES	(528,246,977)		(9,304,006)	(281,976)		203,771,272				(324,475,705)	324,475,705
ECCR AND PPCC EXPENSES	(29,425,572)					15,165,130				475,222	(475,222)
FRANCHISE FEE						14,024,024				(24,148,234)	24,148,234
GRT, FPSC FEES ON CLAUSES & FEES						(36,355,214)				(22,331,190)	22,331,190
GROSS RECEIPTS TAX ADJUST						555,039				(883,817)	883,817
INTEREST SYNCHRONIZATION						(29,925,135)				(18,381,514)	18,381,514
TOTAL FPSC ADJUSTMENTS	(718,430,004)	(557,672,549)	(45,975,037)	(9,645,084)	(68,528,601)	(12,060,398)	0	0	0	(693,881,678)	(24,548,327)
FPSC ADJUSTED	458,258,236	0	227,122,254	78,412,152	24,391,804	51,817,640	(14,528,532)	(1,239,598)	0	365,974,720	92,283,516
PRO FORMA REVENUE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	458,258,236	0	227,122,254	78,412,152	24,391,804	51,817,640	(14,528,532)	(1,239,598)	0	365,974,720	92,283,516
(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY											
CURRENT MO. SYSTEM PER BOOKS	110,345,306	55,410,866	26,186,166	8,019,086	6,750,327	18,577,635	(14,766,246)	(133,582)	0	100,054,052	10,291,264
CURRENT MO. JURIS PER BOOKS	97,808,906	45,479,674	25,117,204	7,422,910	6,815,508	14,693,732	(11,379,732)	(103,320)	0	89,045,978	8,762,928



GULF POWER COMPANY  
AVERAGE RATE OF RETURN  
SYSTEM ADJUSTMENTS  
December, 2009

SCHEDULE 2  
PAGE 3 OF 3

<u>RATE BASE ADJUSTMENTS</u>		<u>AMOUNT</u>	<u>INCOME STATEMENT ADJUSTMENTS</u>		<u>AMOUNT</u>	<u>TAX EFFECT</u>
PLANT SCHERER			FRANCHISE FEE REVENUES	(37,325,938)	(14,398,481)	
INVESTMENT	(233,819,020)		IIC FUEL REVENUES	(29,458,186)	(11,363,495)	
ACCUMULATED DEPRECIATION	98,439,007		FUEL REVENUES	(581,145,810)	(224,176,998)	
ENERGY CONSERVATION COST RECOVERY			ECONOMY PROFITS	(982,078)	(378,836)	
INVESTMENT	(10,195,701)		ECCR, PPCC, AND ECRG REVENUES	(111,118,955)	(42,864,137)	
ACCUMULATED DEPRECIATION	(244,828)		GROSS RECEIPTS TAX REVENUES/STORM RECOVERY REV	(40,818,951)	(15,745,910)	
ENVIRONMENTAL RECOVERY CLAUSE			COMPETITIVE SALES REV/TRANS REV/IGL ON SALE OF GAS	56,859	21,933	
INVESTMENT	(333,455,438)		CORPORATE ADVERTISING	(67,896)	28,114	
ACCUMULATED DEPRECIATION	26,162,193		INDUSTRY ASSOCIATION DUES	(487)	188	
PROPERTY HELD FOR FUTURE USE	0		FUEL EXPENSES	(640,922,420)	247,235,824	
INTEREST BEARING CWIP	(400,188,896)		GAIN/LOSS ON DISPOSITION OF PROPERTY	0	0	
SCHERER CWIP	(55,188,912)		ECON DEVELOP EXPENSE - TOTAL	(814,381)	314,147	
ECRC CWIP	(4,356,961)		ECON DEV EXPENSE - ALLOWED	773,662	(298,440)	
ECCR CWIP	(0)		INTEREST ON TAX ADJUSTMENT	0	0	
TALLAHASSEE OFFICE INVESTMENT	(357)		CONSERVATION EXPENSES - O & M	(9,304,006)	3,589,020	
ACCUM. DEPRECIATION	357		CONSERVATION EXPENSES - OTHER TAXES	(178,331)	68,791	
WORKING CAPITAL:			TALLAHASSEE OFFICE DEPRECIATION	0	0	
ECRC WORKING CAPITAL	(19,092,621)		IVAN STORM RECOVERY EXPENSE	(10,746,278)	4,145,377	
LOANS TO EMPLOYEES AND RETIREES	(52,644)		MARKETING SUPPORT ACTIVITIES	(63,376)	24,447	
FAS 133 ASSOCIATED AMOUNTS (NET)	(3,863)		FRANCHISE FEE	(36,355,214)	14,024,024	
CONSERVATION/AEM INVENTORY	(2,059,508)		GROSS RECEIPTS TAX EXPENSE	(29,925,135)	11,543,621	
INTEREST & DIVIDENDS RECEIVABLE	(303,815)		LIAISON EXPENSE	(229,812)	88,650	
PLANT SCHERER	(8,820,108)		ECRC/ECCR EXPENSES	(37,000,897)	14,273,096	
TEMPORARY CASH INVESTMENTS	(1,158,388)		COMPETITIVE SALES EXPENSES	0	0	
FUNDED PROP RES & OTHER INVESTMENTS	(5,192,609)		GRT/FPSC FEES ON CLAUSE REV ADJ & FRAN FEES	(1,438,856)	555,039	
FUEL RELATED DEFERRED DEBITS	(51,861,094)		INTEREST SYNCHRONIZATION	2,546,966	2,546,966	
FLAME RESISTANT CLOTHING	(3,056)					
SALE OF RAIL CARS	144,176					
IVAN STORM RECOVERY	0					
ACCUM. PROV. FOR RATE REFUNDS	246,870					

GULF POWER COMPANY  
YEAR END RATE OF RETURN  
RATE BASE  
December, 2009

	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NUCLEAR FUEL (NET)	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
SYSTEM PER BOOKS	3,419,375,848	1,201,055,042	2,218,320,806	2,747,893	167,982,275	0	2,389,050,974	202,744,371	2,591,795,345
JURISDICTIONAL PER BOOKS	3,089,765,137	1,072,701,839	2,017,063,298	2,661,913	94,273,215	0	2,113,988,426	186,913,007	2,300,911,433
<u>FPSC ADJUSTMENTS:</u>									
ENVIRONMENTAL RECOVERY CLAUSE	(783,502,641)	(28,766,188)	(754,736,453)		(2,608,265)		(757,344,718)	(18,448,362)	(775,793,080)
INT BEARING CWIP					(46,583,059)		(46,583,059)	0	(46,583,059)
ENERGY CONSERVATION CLAUSE	(10,525,928)	380,465	(10,906,393)		(10,906,393)		(10,906,393)	(2,059,508)	(12,965,901)
LOANS TO EMPLOYEES AND RETIREES							(50,541)	(50,541)	(50,541)
INTEREST AND DIVIDENDS RECEIVABLE							(291,676)	(291,676)	(291,676)
NOTES RECEIVABLE							0	0	0
FUNDED PROP RES & OTHER INVESTMENTS								(6,304,715)	(6,304,715)
IVAN STORM RECOVERY								0	0
FUEL RELATED DEFERRED DEBITS								(51,861,094)	(51,861,094)
FLAME RESISTANT CLOTHING								(2,478)	(2,478)
ACCRUED PROVISION FOR REFUND								200,175	200,175
SALE OF RAILCARS								116,906	116,906
<u>TOTAL FPSC ADJUSTMENTS</u>	<u>(794,028,569)</u>	<u>(28,385,723)</u>	<u>(765,642,846)</u>	<u>0</u>	<u>(49,191,324)</u>	<u>0</u>	<u>(814,834,170)</u>	<u>(78,701,293)</u>	<u>(893,535,463)</u>
FPSC ADJUSTED	2,295,736,568	1,044,316,116	1,251,420,452	2,661,913	45,081,891	0	1,299,164,256	109,211,714	1,407,375,970
PRO FORMA REVENUE AND ANNUALIZATION ADJUSTMENTS	0	0	0	0	0	0	0	0	0
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	2,295,736,568	1,044,316,116	1,251,420,452	2,661,913	45,081,891	0	1,299,164,256	108,211,714	1,407,375,970

GULF POWER COMPANY  
YEAR END RATE OF RETURN  
INCOME STATEMENT  
December, 2008

	OPERATING REVENUES	O & M FUEL & NET INTERCHANGE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
SYSTEM PER BOOKS	1,302,433,325	640,982,678	284,885,484	95,000,854	94,506,664	71,993,071	(16,541,189)	(1,602,984)	0	1,189,213,548	133,219,777 (a)
JURISDICTIONAL PER BOOKS	1,176,688,240	557,672,549	273,087,291	89,057,248	92,920,405	63,903,238	(14,536,891)	(1,239,598)	0	1,059,874,241	116,814,000 (b)
LESS FPSC ADJUSTMENTS:											
ENVIRONMENTAL RECOVERY CLAUSE	(69,788,678)			(9,363,118)	(496,390)	(13,265,535)				(48,665,269)	(21,123,409)
GROSS RECEIPTS TAX REVENUE	(30,064,930)		(25,540,226)			(11,597,547)				(11,597,547)	(18,467,383)
MARKETING SUPPORT ACTIVITIES			(63,376)			24,447				(38,929)	38,929
GAIN/LOSS ON DISPOSITION			(10,746,278)			(2,987)				(10,749,265)	(4,756)
IVAN STORM RECOVERY	(10,754,021)					(14,398,481)				(14,398,481)	(22,927,457)
FRANCHISE FEE REVENUES	(37,325,938)					(203,944,265)				(203,944,265)	(324,751,173)
RETAIL FUEL REVENUES	(528,685,438)					(16,124,735)				(16,124,735)	(25,676,264)
ECCR & PPCC REVENUES	(41,800,989)										0
INT ON TAX ASSESSMENT											0
ECON DEV EXPENSE TOTAL			(814,381)			314,147				(500,234)	500,234
ECON DEV EXPENSE ALLOWED			773,662			(286,440)				475,222	(475,222)
LIAISON EXPENSES			(213,689)		(11,196)	88,749				(138,136)	138,136
CORPORATE ADVERTISING			(66,267)			25,562				(40,705)	40,705
INDUSTRY ASSOCIATION DUES			(476)			184				(282)	282
RETAIL FUEL EXPENSES			(9,304,006)	(281,976)		203,771,272				(324,475,705)	324,475,705
ECCR AND PPCC EXPENSES	(528,246,977)				(301,810)	15,165,130				(24,148,234)	24,148,234
FRANCHISE FEE	(28,425,572)				(36,355,214)	14,024,024				(22,331,190)	22,331,190
GRT, FPSC FEES ON CLAUSES & FFEES					(1,438,856)	555,039				(883,817)	883,817
GROSS RECEIPTS TAX ADJUST					(29,925,135)	11,543,621				(18,381,514)	18,381,514
INTEREST SYNCHRONIZATION						2,430,904				2,430,904	(2,430,904)
TOTAL FPSC ADJUSTMENTS	(718,430,004)	(557,672,549)	(45,975,037)	(9,645,094)	(68,528,801)	(11,680,911)	0	0	0	(893,512,193)	(24,917,612)
FPSC ADJUSTED	458,258,236	0	227,122,254	78,412,152	24,391,804	52,212,327	(14,536,891)	(1,239,598)	0	365,362,048	91,896,188
PRO FORMA REVENUE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	458,258,236	0	227,122,254	78,412,152	24,391,804	52,212,327	(14,536,891)	(1,239,598)	0	366,362,048	91,896,188
(a) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY				33,287,618							
AND THE JURISDICTIONAL NOI BY							32,257,640				

GULF POWER COMPANY  
YEAR END RATE OF RETURN  
SYSTEM ADJUSTMENTS  
December, 2009

SCHEDULE 3  
PAGE 3 OF 3

<u>RATE BASE ADJUSTMENTS</u>	<u>AMOUNT</u>	<u>INCOME STATEMENT ADJUSTMENTS</u>	<u>AMOUNT</u>	<u>TAX EFFECT</u>
PLANT SCHERER		FRANCHISE FEE REVENUES	(37,325,938)	(14,398,481)
INVESTMENT	(244,072,982)	IIC FUEL REVENUES	(29,458,186)	(11,363,495)
ACCUMULATED DEPRECIATION	100,238,594	FUEL REVENUES	(581,145,810)	(224,176,996)
ENERGY CONSERVATION COST RECOVERY		ECONOMY PROFITS	(982,078)	(378,836)
INVESTMENT	(10,525,928)	ECCR, PPCC, AND ECRC REVENUES	(111,118,955)	(42,864,137)
ACCUMULATED DEPRECIATION	(380,465)	GROSS RECEIPTS TAX REVENUES/STORM RECOVERY REV	(40,818,951)	(15,745,910)
ENVIRONMENTAL RECOVERY CLAUSE		COMPETITIVE SALES REV/TRANS REV/GL ON SALE OF GAS	56,859	21,933
INVESTMENT	(812,437,079)	CORPORATE ADVERTISING	(67,696)	26,114
ACCUMULATED DEPRECIATION	29,829,602	INDUSTRY ASSOCIATION DUES	(487)	188
PROPERTY HELD FOR FUTURE USE	0	FUEL EXPENSES	(640,922,420)	247,235,824
INTEREST BEARING CWIP	(48,084,885)	GAIN/LOSS ON DISPOSITION OF PROPERTY	0	0
SCHERER CWIP	(70,657,497)	ECON DEVELOP EXPENSE- TOTAL	(814,381)	314,147
ECRC CWIP	(2,704,572)	ECON DEV EXPENSE - ALLOWED	773,662	(298,440)
ECCR CWIP	(0)	INTEREST ON TAX ADJUSTMENT	0	0
TALLAHASSEE OFFICE INVESTMENT	(357)	CONSERVATION EXPENSES - O & M	(9,304,006)	3,589,020
ACCUM. DEPRECIATION	357	CONSERVATION EXPENSES - OTHER TAXES	(178,331)	68,791
WORKING CAPITAL:		TALLAHASSEE OFFICE DEPRECIATION	0	0
ECRC WORKING CAPITAL	(19,092,621)	IVAN STORM RECOVERY EXPENSE	(10,746,278)	4,145,377
LOANS TO EMPLOYEES AND RETIREES	(52,644)	MARKETING SUPPORT ACTIVITIES	(63,376)	24,447
FAS 133 ASSOCIATED AMOUNTS (NET)	(3,863)	FRANCHISE FEE	(36,355,214)	14,024,024
CONSERVATION/AEM INVENTORY	(2,059,508)	GROSS RECEIPTS TAX EXPENSE	(29,925,135)	11,543,621
INTEREST & DIVIDENDS RECEIVABLE	(303,815)	LIAISON EXPENSE	(229,812)	88,650
PLANT SCHERER	(5,801,848)	ECCR/ECRC EXPENSES	(37,000,897)	14,273,096
TEMPORARY CASH INVESTMENTS	(1,158,388)	COMPETITIVE SALES EXPENSES	0	0
FUNDED PROP RES & OTHER INVESTMENTS	(5,192,609)	GRT/FPSC FEES ON CLAUSE REV ADJ & FRAN FEES	(1,438,856)	555,039
FUEL RELATED DEFERRED DEBITS	(51,861,094)	INTEREST SYNCHRONIZATION	3,089,168	3,089,168
FLAME RESISTANT CLOTHING	(3,056)			
SALE OF RAIL CARS	144,176			
IVAN STORM RECOVERY	0			
ACCUM. PROV. FOR RATE REFUNDS	246,870			

GULF POWER COMPANY  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
December, 2009

SCHEDULE 4

AVERAGE	ADJUSTMENTS			LOW POINT			MIDPOINT			HIGH POINT		
	SYSTEM PER BOOKS	RETAIL PER BOOKS	PRO RATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)
LONG TERM DEBT	995,251,090	891,967,376	(321,452,350)	0	570,515,026	41.32	4.27	1.77	4.27	1.77	4.27	1.77
SHORT TERM DEBT	52,886,590	1,120,386	(403,771)	0	716,615	0.05	1.97	0.00	1.97	0.00	1.97	0.00
PREFERRED STOCK	92,291,706	77,215,068	(27,827,212)	0	49,387,856	3.58	7.37	0.26	7.37	0.26	7.37	0.26
CUSTOMER DEPOSITS	30,483,960	30,355,513	(10,939,695)	0	19,415,818	1.41	6.09	0.09	6.09	0.09	6.09	0.09
COMMON EQUITY	958,128,865	889,594,522	(320,587,207)	0	568,997,315	41.21	10.75	4.43	12.00	4.95	12.75	5.25
DEFERRED INCOME TAXES	298,198,257	277,936,534	(100,164,372)	0	177,772,162	12.88						
FASB 109 DEFERRED TAXES	(19,370,305)	(17,993,805)	6,484,711	0	(11,509,094)	(0.83)						
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00						
TAX CREDITS - WEIGHTED COST	10,453,908	8,388,811	(3,023,208)	0	5,365,603	0.39	7.50	0.03	8.10	0.03	8.46	0.03
TOTAL	2,419,434,071	2,158,584,405	(777,923,104)	0	1,380,661,301	100.00		6.58		7.09		7.40

YEAR-END	ADJUSTMENTS			LOW POINT			MIDPOINT			HIGH POINT		
	SYSTEM PER BOOKS	RETAIL PER BOOKS	PRO RATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)	COST RATEWEIGHTED COST (%)
LONG TERM DEBT	1,090,602,797	975,707,048	(378,905,870)	0	596,801,178	42.41	3.91	1.66	3.91	1.66	3.91	1.66
SHORT TERM DEBT	90,330,771	38,319,318	(14,880,916)	0	23,438,402	1.67	0.26	0.00	0.26	0.00	0.26	0.00
PREFERRED STOCK	92,386,731	75,616,663	(29,364,959)	0	46,251,704	3.29	7.39	0.24	7.39	0.24	7.39	0.24
CUSTOMER DEPOSITS	32,360,644	32,234,162	(12,517,808)	0	19,716,354	1.40	6.00	0.08	6.00	0.08	6.00	0.08
COMMON EQUITY	1,010,676,668	921,132,853	(357,712,539)	0	563,420,314	40.03	10.75	4.30	12.00	4.80	12.75	5.10
DEFERRED INCOME TAXES	297,157,152	275,760,105	(107,088,621)	0	168,671,484	11.97						
FASB 109 DEFERRED TAXES	(27,606,834)	(25,618,982)	9,948,870	0	(15,670,112)	(1.11)						
TAX CREDITS - ZERO COST	0	0	0	0	0	0.00						
TAX CREDITS - WEIGHTED COST	9,652,416	7,760,266	(3,013,620)	0	4,746,646	0.34	7.24	0.02	7.82	0.03	8.17	0.03
TOTAL	2,595,570,345	2,300,911,433	(893,535,463)	0	1,407,375,970	100.00		6.32		6.82		7.12

**GULF POWER COMPANY**  
**Financial Integrity Indicators**  
**December, 2009**

**A. Times Interest Earned with AFUDC**

Earnings Before Interest	155,794,025
AFUDC - Debt	9,488,832
Income Taxes	53,025,003
	<hr/>
Total	218,307,860
Interest Charges (Before Deducting AFUDC - Debt)	47,847,250
T.I.E. With AFUDC	<hr/> 4.56 x

**B. Times Interest Earned without AFUDC**

Earnings Before Interest	155,794,025
AFUDC - Other	(23,808,786)
Income Taxes	53,025,003
	<hr/>
Total	185,010,242
Interest Charges (Before Deducting AFUDC - Debt)	47,847,250
T.I.E. Without AFUDC	<hr/> 3.87 x

**C. Percent AFUDC To Net Income Available for Common Stockholders**

AFUDC - Debt	9,488,832
X (1 - Income Tax Rate)	0.6143
	<hr/>
Subtotal	5,828,515
AFUDC - Other	23,808,786
	<hr/>
Total	29,637,301
	<hr/>
Net Income Available for Common Stockholders	111,233,107
Percent AFUDC to Available Net Income	<hr/> 26.64%

**D. Percent Internally Generated Funds**

Net Income	117,435,607
Preferred Dividends	(6,202,500)
Common Dividends	(89,300,000)
AFUDC (Debt & Other)	(33,297,618)
Depreciation & Amortization	102,415,171
Deferred Income Taxes	(16,544,553)
Investment Tax Credits	0
Other	(24,018,847)
	<hr/>
Total	50,487,259
	<hr/>
Construction Expenditures (Excluding AFUDC Other & Debt)	413,449,567
	<hr/>
Percent Internally Generated Funds	<hr/> 12.21%

**E. Long Term Debt as Percent of Total Investor Capital**  
(See calculation in item F. below)**F. Short Term Debt as Percent of Total Investor Capital Reconciled Average Retail Amounts**

Long Term Debt	570,515,026
Short Term Debt	716,615
Preferred Stock	49,387,856
Common Equity	568,997,315
	<hr/>
Total	1,189,616,812
	<hr/>
% Long Term Debt To Total	47.96%
	<hr/>
% Short Term Debt To Total	0.06%

**G. FPSC Adjusted Average Jurisdictional Return On Common Equity**

	G. FPSC ADJ.	H. PROFORMA
FPSC Adjusted Average Earned Rate of Return	6.68%	6.68%
Less: Reconciled Average Retail Weighted Cost Rates For:		
Long Term Debt	(1.77)	(1.77)
Short Term Debt	(0.00)	(0.00)
Preferred Stock	(0.26)	(0.26)
Customer Deposits	(0.09)	(0.09)
Tax Credits - Weighted Cost (Common Equity at Midpoint)	(0.03)	(0.03)
	<hr/>	<hr/>
Subtotal	(2.15)	(2.15)
	<hr/>	<hr/>
Total	4.54	4.54
Divided by Common Equity Ratio	41.21	41.21
	<hr/>	<hr/>
Jurisdictional Return on Common Equity	11.01%	11.01%

GULF POWER COMPANY  
Storm Accrual - Twelve Month to Date  
December, 2009

Supplemental 1

<u>Month</u>	<u>Year</u>	<u>\$</u>
January	09	291,667
February	09	291,667
March	09	291,667
April	09	291,667
May	09	291,667
June	09	291,667
July	09	291,667
August	09	291,667
September	09	291,667
October	09	291,667
November	09	291,667
<b>December</b>	<b>09</b>	<b>291,663</b>
<b>12 - M-T-D</b>		<b><u><u>3,500,000</u></u></b>





**GULF POWER COMPANY**  
**CALCULATION OF AFUDC RATE**  
 December, 2009

SCHEDULE A

CLASS OF CAPITAL	JURISDICTIONAL CAPITAL STRUCTURE	RATIO	COST RATE	WEIGHTED COST RATE
LONG TERM DEBT	570,515,026	41.32%	3.91	1.62
SHORT-TERM DEBT	716,615	0.05%	1.97	0.00
PREFERRED STOCK	49,387,856	3.58%	7.39	0.26
CUSTOMER DEPOSITS	19,415,818	1.41%	6.09	0.09
COMMON EQUITY	568,997,315	41.21%	12.00	4.95
ITC	5,365,603	0.39%		
FASB 109 DIT	(11,509,094)	-0.83%		
DEFERRED TAXES	177,772,162	12.87%		
<b>TOTAL</b>	<b>1,380,661,301</b>	<b>100.00%</b>		<b>6.92 %</b>

AFUDC Rate Currently Authorized per order: PSC-08-0263-PAA-EI

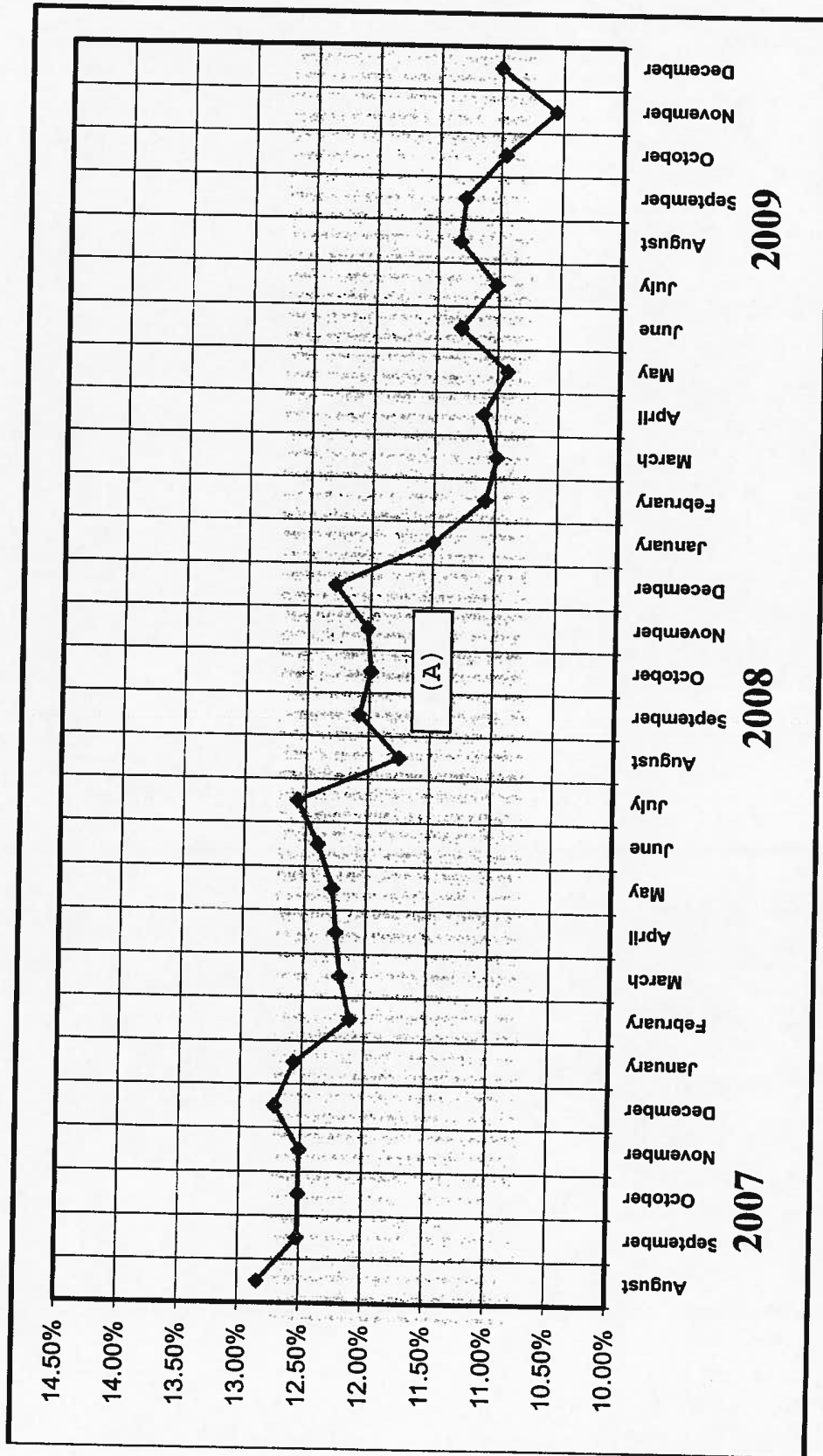
7.65 %

**GULF POWER COMPANY**  
**13 MONTH AVERAGE CAPITAL STRUCTURE**  
 December, 2009

SCHEDULE B

CLASS OF CAPITAL	PER BOOK BALANCES	NON UTILITY ADJUSTMENT	SCHERER ADJUSTMENT	DIVIDENDS DECLARED	RATE BASE ADJUSTMENTS	ADJUSTED CAPITAL STRUCTURE	JURISDICTIONAL FACTOR	JURISDICTIONAL CAPITAL STRUCTURE
LONG TERM DEBT	995,251,090	-	(99,215,592)	-	(309,811,748)	586,223,750	0.9732035	570,515,026
SHORT-TERM DEBT	52,986,590	-	-	-	(52,250,244)	736,346	0.9732035	716,615
PREFERRED STOCK	92,291,706	-	(14,724,473)	-	(26,819,518)	50,747,715	0.9732035	49,387,856
CUSTOMER DEPOSITS	30,493,960	-	-	-	(10,543,541)	19,950,419	0.9732035	19,415,818
COMMON EQUITY	958,128,865	(13,493,035)	(64,722,467)	13,738,462	(308,987,574)	584,664,251	0.9732035	568,997,315
ITC - ZERO COST	-	-	-	-	-	-	0.9732035	-
ITC - WEIGHTED COST	10,453,908	-	(2,026,837)	-	(2,913,730)	5,513,341	0.9732035	5,365,603
FASB 109 DIT	(19,370,305)	-	1,294,432	-	6,249,884	(11,825,989)	0.9732035	(11,509,094)
DEFERRED TAXES	299,198,257	-	(19,994,097)	-	(96,537,168)	182,666,992	0.9732035	177,772,162
<b>TOTAL</b>	<b>2,419,434,071</b>	<b>(13,493,035)</b>	<b>(199,389,033)</b>	<b>13,738,462</b>	<b>(801,613,639)</b>	<b>1,418,676,825</b>		<b>1,380,661,301</b>

**GULF POWER COMPANY**  
**CONFIDENTIAL REPORT - JURISDICTIONAL RETURN ON AVERAGE COMMON EQUITY**



(A) Effective June 7, 2002 per FPSC Order No. PSC-02-0787-FOF-EI, ROE Range set at 10.75 to 12.75

**Southern Company**  
**Estimated Incremental Cash Impact of Bonus Depreciation**  
In Millions of \$

	<u>2011</u>	<u>2012</u>
Gulf Power Company	60	90

**In general, this incremental cash flow has reduced our projected debt and equity needs**

**Actuals could vary from the forecast due to:**

- 1 - budgeted versus actual expenditures
- 2 - change in placed in service dates
- 3 - projects in budget, yet not completed or delayed

In addition, the bonus depreciation impacts above were determined using a "bifurcated" approach to costs. For projects that started prior to 9/8/10 and after 12/31/07 the expenditures were split between 50% and 100% by pre 9/10 and post 9/10. The current IRS guidance does not appear to allow this approach. However, there have been some verbal comments from Treasury that indicate the IRS may clarify that the bifurcated approach is acceptable.

*Provided via email*

**Gulf Power Committed Credit 3/31/2011**

(dollars in millions)

	<u>Gulf</u>
Cash and Equivalents	\$ 20
Unused Credit Lines	240
Total	<u>260</u>
Less: Outstanding CP	83
Less: Putable PCBs	69
Net Liquidity	<u><u>108</u></u>

*Provided via email*

**Davis, Terry A.**

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**From:** Ihrig, Chad  
**Sent:** Friday, May 06, 2011 8:22 AM  
**To:** Blake, Chris; Boone, Allison A.; George, Brian; Ferino, Chuck; Thom, Christine M.; Cook, Tyler M.; Ritenour, Susan D.; Davis, Terry A.; McMillan, Richard J.; Buck, William G., III; Pierce, Vicki L.; O'Neal, Dan L.; Grice, Matthew P.  
**Cc:** Beattie, Arthur P.; Raymond, Phil C.; Labrato, Ronnie R.; Teel, Scott; Feagin, Moses H.; Lantrip, Mark S.; Liu, Xia; Long, Earl C.; Sitton, Larry E.; Pfister, William (Bill) C., Jr.; Gammill, Scott A.; Smith, Narin; Tucker, Daniel S.  
**Subject:** Questions from S&P for May 16/17 meetings  
**Attachments:** Southern\_ACOR\_2011May16 Management Meeting Agenda.doc

All,

Attached are questions from S&P in advance of the Rating Agency meetings May 16-17

Dan sent the Fitch questions to you on Monday, and I expect to have questions from Moody's sometime today, so I will send when available.

Please let me know if you have any questions or concerns.

Regards,

Chad Ihrig  
SCS Financial Planning  
404.506.0668

## **Discussion topics for Southern Company Management Meeting on May 16/17, 2011**

- Regulatory update for each entity
- Operating update for each entity
- Economic update for each service territory
- New Nuclear Construction – Update on: COL schedule and where the NRC approval process stands; construction schedule and any changes; construction budget and any changes pending (i.e. additional costs moving to fixed category) also revised breakdown of fixed, indexed and market costs; impact of CWIP collection to total cash flow for 2011-2013; supply chain update; update on NRC short-term review.
- Kemper IGCC – Update on budget and schedule in addition to status of costs that have are known/fixed; impact of CWIP collection in each year.
- Update on environmental compliance and related costs for 2011-2013; Update and impact of planned coal plant retirements
- Update on renewable efforts and progress of first solar installation

**From:** Ihrig, Chad

**Sent:** Friday, May 06, 2011 5:53 PM

**To:** Blake, Chris; Boone, Allison A.; George, Brian; Ferino, Chuck; Thom, Christine M.; Cook, Tyler M.; Ritenour, Susan D.; Davis, Terry A.; McMillan, Richard J.; Buck, William G., III; Pierce, Vicki L.; O'Neal, Dan L.; Grice, Matthew P.

**Cc:** Beattie, Arthur P.; Raymond, Phil C.; Labrato, Ronnie R.; Teel, Scott; Feagin, Moses H.; Lantrip, Mark S.; Liu, Xia; Long, Earl C.; Sitton, Larry E.; Pfister, William (Bill) C., Jr.; Gammill, Scott A.; Smith, Narin; Tucker, Daniel S.

**Subject:** Questions from Moody's for May 16/17 meetings

All,

Below are questions from Moody's in advance of the Rating Agency meetings May 16-17

**Moody's Discussion Topics for Southern Company Meetings – May 2011**

**Southern Company (and utilities as applicable)**

Financial projections, coverage metrics, and earned ROE's for utilities

Planned equity issuances/continuous equity offering for 2011 and going forward

Economic conditions in service territory/projections for industrial load

Views on EPA proposals and possible extension of HAP MACT compliance timeline

Costs and financing plans for compliance with new EPA rules

Most likely plants to be shut down and amount of MW

Asset acquisition strategy/M&A thoughts

Prevalence of fuel switching - coal vs. natural gas and any impact on utilities or SPC



Renewable energy plans in service territory: current plans, types of renewable, potential capacity; etc.

Review of pension contributions/funding needs at each of the utilities

Impact of bonus depreciation

Capital expenditure plans, how much capital expenditures can be deferred depending upon customer growth

Environmental capital expenditures in particular - how uncertainty over regulations is incorporated into forecasts

Changes in revolving credit sizing or availability anticipated

Impact of severe weather in South on utilities/financing plans

#### Alabama Power Company

RSE or fuel filing plans, environmental recoveries

Update on hydro conditions: 2011 YTD and outlook, alternative fuel costs, long-term outlook and resource plan

Impact of severe weather in Alabama; natural disaster reserve; any plans for financing

Potential costs and changes to existing nuclear plants following Fukushima

Lawsuit with Chevron over North River mine

#### Georgia Power Company

Status of risk-sharing discussions or incentive regulation mechanism for Vogtle

Views of GPSC staff proposal and alternatives that have been proposed

Timing of COL for Vogtle in light of Japanese developments

Other potential costs and changes to existing nuclearplants following Fukushima

Status of Vogtle construction schedule and costs, any delays in component delivery

Financing plan and upcoming debt issuances

Progress on Chinese AP 1000 construction

Update on DOE loan guarantee

Plant Mitchell; impact of EPA ruling; construction schedule and spending

Regulated ROE's for 2011-2013, initial result of rate case

Unrecovered fuel balance – current and projected

Impact of severe weather on utility

Evaluation of additional capacity needs

Decision to retrofit versus retire plants

#### Gulf Power Company

Growth and economic outlook for the Gulf coast region

Experience with new Florida commissioners/

Strategy for meeting Florida renewable portfolio standards

Plans for rate case, if any, and overall rate strategy going forward

Additional renewable energy legislation

Mississippi Power Company

Progress on Kemper County IGCC Plant

Cost recovery on project

Status of Sierra Club suit

Status of DOE loan guarantees, other financial incentives for the project

Expected changes to PEP

Please let me know if you have questions or concerns.

Regards,

Chad Ihrig  
Southern Company  
Financial Planning and Analysis  
404.506.0668

## **Davis, Terry A.**

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**From:** Davis, Terry A.  
**Sent:** Monday, May 02, 2011 10:19 PM  
**To:** Teel, Scott  
**Subject:** FW: Questions from Fitch for May 16th/17th meetings  
**Attachments:** Fitch questions for Southern Meetings May 2011.doc

FYI: I will make assignments for the questions tomorrow and get answers back by Friday.

### ***Terry A. Davis***

**Assistant Secretary and Assistant Treasurer**

**Gulf Power Company**

**850-444-6664 or 8-420-6664 phone**

**850-444-6026 or 8-420-6026 fax**

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**From:** Tucker, Daniel S.

**Sent:** Monday, May 02, 2011 4:06 PM

**To:** Blake, Chris; Boone, Allison A.; George, Brian; Ferino, Chuck; Thom, Christine M.; Cook, Tyler M.; Ritenour, Susan D.; Davis, Terry A.; McMillan, Richard J.; Buck, William G., III; Pierce, Vicki L.; O'Neal, Dan L.; Grice, Matthew P.

**Cc:** Beattie, Arthur P.; Raymond, Phil C.; Labrato, Ronnie R.; Teel, Scott; Feagin, Moses H.; Lantrip, Mark S.; Liu, Xia; Long, Earl C.; Sitton, Larry E.; Ihrig, Chad; Pfister, William (Bill) C., Jr.; Gammill, Scott A.; Smith, Narin

**Subject:** Questions from Fitch for May 16th/17th meetings

All,

Attached are the questions from Fitch that we received today. To the extent not already covered in your prepared remarks, these will likely be the source for most of the Q&A during your meeting with Fitch. We will forward the questions/topics we receive from S&P and Moody's as soon as they become available.

As you'll see, there are 2 common questions throughout: 1) What is the cash impact of bonus depreciation in 2011 and 2012?; and 2) What are your compliance plans around the EPA Utility MACT?

On the bonus depreciation, I will work with SCS Tax to get a comprehensive and consistent response and provide that back to you prior to the meetings. I will also provide you with any updates on the impact of the IRS revenue procedure which caused us to lower the estimates we included in the 1<sup>st</sup> quarter 2011 10Q relative to what was disclosed in the 2010 10K.

On the EPA Utility MACT, I suspect most of the conversation at the subsidiary level will focus on potential retirements, regulatory recovery, and the timing & nature of incremental investments. To the extent the conversation focuses on the financial projections, these are the main points for which we should all be consistent (for MACT, CCRs, and 316(b)):

- Chris Hobson will be in the Southern Company meetings to address the proposed rules and our beliefs around what is required for compliance
- The EPA utility MACT as proposed would not materially impact our projections in the current forecast period (2011-2013). In the case of Georgia Power, it is possible that dollars currently assumed for environmental controls on marginal units could be diverted to new gas generation and/or bag houses on our flagship units
- We will be positioned to provide an update to our projections *after* the rules and compliance timeframes are certain

If you have any questions or need additional information from us, please do not hesitate to call.

Regards,  
Dan

## Fitch Ratings Discussion Topics for Southern Company 2011 Rating Agency Meeting

### Alabama Power Company (also see So Nuclear section):

- How much is the expected deferral that will result from delaying the Rate Certificated New Plant environmental (CNP C) submission until 2012 (keeping CNP C 2010 rates in effect through 2011)? How much is the related 2012 rate increase assumption in the forecast?
- What are your views on the two new members of the APSC?
- Cost of repairs and restoration for recent tornados?
- What sectors are driving the company forecast of 5.3% Industrial kwh sales growth from 2011-2013?
- What are key environmental requirements and the compliance strategy of APC based on recent EPA rules?
- How much did the fall 2010 turbine replacement and the refueling in Farley nuclear units' influence the nuclear capacity factor decrease to 88.3% in 2010 from 93.3% in 2009? Would you please go over the NRC inspection slide (27)?
- Has APC applied to the APSC for borrowing authority beyond the Dec. 31, 2011 expiration? What is the process for renewing this authority and how long is the new period expected to be?
- How much will bonus depreciation change APC cash flow in 2011 and 2012?

### Georgia Power Company (also see So Nuclear section):

- Outcome of May 9-10<sup>th</sup> hearings on fuel filings? Was the interim fuel rider extended to permit interim adjustments of up to 10% if costs are more than \$75mm outside the approved fuel factor?
- Update on coal retirement expectations beyond the Branch 1&2 units? What is current environmental compliance strategy of GPC based on the recent EPA rules? Does the capex budget on p.46 include compliance costs with these rules?
- How much of a deferral is expected to result from the planned request to de-certify Branch 1&2?
- What are the current expectations of construction costs of McDonough 4, 5 and 6 relative to original budget?
- When will hearings be on incentive/penalty cost sharing mechanism for Vogtle 3 and 4 budget changes?
- How is DOE final term sheet negotiation proceeding? If the loan guarantee is not in hand by the COL date, what is the alternative interim financing plan?
- Expectations for wholesale power contracts that are rolling off in next few years, particularly the Georgia EMCs in 2014 (750MW)
- Will Plant Mitchell biomass conversion be able to move forward economically under the new EPA rules?
- What is GPC's impression of the new Commissioner, Tim Echols?
- Has GPSC given GPC long term borrowing authority beyond 12/31/11?
- How much is bonus depreciation going to change GPC cash flow in 2011 and 2012?

**Gulf Power Company:**

- What are your views on the chances of renewables legislation in FL?
- Has tourism recovered to pre-oil spill levels?
- What is driving the increase in energy intensity - 3.4% growth of residential kwh from 2011 – 2013 vs. 1.4 CAGR in number of residential customers? Has there been such an increase in usage per residential customer in the past several years?
- What are Gulf's views on new FPSC Commissioners?
- How much is bonus depreciation going to change Gulf cash flow in 2011 and 2012?
- What is the current environmental compliance strategy of Gulf based on the recent EPA rules?

**Mississippi Power Company:**

- Kemper update on construction and results of first MPSC independent monitor report (due 5/1)
- Kemper update on Sierra Club appeal to State Supreme Ct. on plant certification
- Kemper update of state of negotiations with DOE for loan guarantee
- Outlook for the casino gaming industry in MPC territory
- Any thoughts on upcoming state elections in which all three MPSC commissioners will be challenged for their seats? Views on other candidates?
- Any decision from the MPSC on MPC's request for a certificate of need for installation of a scrubber at Plant Daniel?
- Explanation of SMEPA renewal – has the new full requirements contract already been signed?
- What is the current thinking on plant Daniel lease expiration (10/11): Last year the plan was to finance with on-balance sheet debt, this year a lease renewal option and a plant sale option are also mentioned.
- Will Entergy's plan to join SPP have any impact MPC's wholesale sale opportunities/strategies?
- How much is bonus depreciation going to change MPC cash flow in 2011 and 2012?
- What is the current environmental compliance strategy of MPC based on the recent EPA rules?

**Southern Power Company:**

- How is Cimmaron solar unit performing relative to expectation in its initial days of operation?
- Acquisition strategy – What are criteria for solar acquisitions in SW and gas/biomass acquisitions in Southeast beyond long term contracts on acquired units?
- Any updates on expected PPA renewals or terminations?
- What is the expected timing of credit facility renewal (expires 7/12)? Keep it at \$400mm?
- How much debt and interest relates to plants under construction? How much would the inclusion of this debt and interest change the forecasts?

- How much are the Nagodoches ITCs?
- How much is bonus depreciation going to change SPC cash flow in 2011 and 2012?
- Any changes since March 31 on-time, on budget status of the Cleveland County CT and Nagodoches biomass construction projects?

#### Southern Company

- M&A philosophy and plans
- Discussion of key federal and state legislative efforts for environmental controls
- How did Southern estimate 70 GW of U.S. coal retirements mentioned on Q1 call? How much of the 70 GW is in the Southern footprint and how will this impact capacity reserve margins?
- How much excess pipeline capacity is there in Georgia to accommodate the major shift away from coal and towards gas fired generation?
- Any recent developments in FERC transmission operational or regulatory structures?
- In what circumstance would SO do a public equity issue (beyond employee plans) in 2011-13 period?
- Status update for material litigation
- Overall, what percentage of total SO cash flow will be sourced from tax credits and bonus depreciation in the next few years? What would FFO/Debt and FFO coverage approximately be without these benefits?

#### Southern Nuclear

- How has nuclear risk management changed at SO since the events at Fukushima?
- How does SO expect NRC and industry policies to change as a result of the Japanese nuclear event?
- What is causing the slight delay in SO's COL estimate (now be late 2011/early 2012 rather than end of 2011)?
- How is DOE final term sheet negotiation proceeding?
- Opportunities for uprates beyond small 23MW uprate at Farley planned for 2011 or have the units reached the maximum?
- Discussion of white finding for Plant Farley

Gulf	Base Control Capital Expenditures (\$ in Millions)		Potential Control Capital Expenditures (\$ in Millions)			High Scenario (\$ in Millions)			
	2011	2012	2013	2011	2012	2013	2011	2012	2013
	176	228	214	0-17	0-56	0-107	193	284	321

*Provided via email*

Southern Company

Quarterly Under/(over) recovered fuel balances (\$ in thousands)

	2008		2009		2009		2009		2010		2010		2011	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Gulf Power	96,732	76,941	52,656	26,041	2,384	9,339	13,753	16,623	17,437	19,802	(4,414)	(2,870)	(814)	(2,365)
Under/(over) recovered fuel balance		19,791	24,284	26,615	23,657	(6,955)	(4,414)	(2,870)						
Cash Flow included in "Change in Current Assets and Liabilities"				26,615	23,657	(6,955)	(4,414)	(2,870)						

*Provided via email*



**Davis, Terry A.**

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**From:** Ihrig, Chad  
**Sent:** Tuesday, August 09, 2011 9:21 PM  
**To:** Davis, Terry A.  
**Cc:** Ritenour, Susan D.; Buck, William G., III  
**Subject:** Fwd: Moody's Credit Opinion Drafts  
**Attachments:** co-draft-Gulf-0811.pdf; ATT00001.htm

Terry,

Please refer to the attached draft of the Moody's Credit Opinion for Gulf Power.

Please review for factual errors and confidential information only. Dan, Earl and I will scrutinize the metrics and review the liquidity sections, so you don't need to spend time with them.

Please provide any comments by early afternoon Wednesday ( 2 pm EST at the latest ) so that we have time to consolidate comments by the end of the day.

Thanks for your time on these. We apologize for the need to have such quick turnaround, especially in light of your rate case.

Please let me know if you have any questions.

Chad Ihrig  
Southern Company  
Financial Planning and Analysis

Begin forwarded message:

**From:** "Tucker, Daniel S." <[DSTUCKER@southernco.com](mailto:DSTUCKER@southernco.com)>  
**To:** "Ihrig, Chad" <[CIHRIG@southernco.com](mailto:CIHRIG@southernco.com)>  
**Cc:** "Haygood, Jon" <[JHAYGOOD@southernco.com](mailto:JHAYGOOD@southernco.com)>  
**Subject:** Fw: Moody's Credit Opinion Drafts

I'll provide specific instructions later...for now, just look for anything incorrect or confidential.

Dan

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**From:** Haggarty, Michael <[Michael.Haggarty@moodys.com](mailto:Michael.Haggarty@moodys.com)>  
**To:** Long, Earl C.; Tucker, Daniel S.  
**Sent:** Tue Aug 09 17:51:17 2011  
**Subject:** Moody's Credit Opinion Drafts

Earl and Dan, please review the attached credit opinion drafts for factual accuracy or nonpublic

information. You will notice a change in the methodology grid at the bottom, we are now including a forward looking grid with expected ratio ranges for the next 12 to 18 months. Attached are Georgia, Gulf and Mississippi drafts, I should have Southern Company for you tomorrow. Alabama and Southern Power will be later in the month. I am tied up much of tomorrow, but if you can get back to me Thursday, I would appreciate it. They will be published Friday. Thanks. Mike

<<co-draft-Georgia-0811.pdf>> <<co-draft-Gulf-0811.pdf>> <<co-draft-MPC-0811.pdf>>

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The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

# Moody's

## INVESTORS SERVICE

Credit Opinion: Gulf Power Company - DRAFT - In Progress or Approved Version

### Global Credit Research

Florida, United States

### Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
Senior Unsecured	A3
Subordinate Shelf	(P)Baa1
Pref. Stock	Baa2
<b>Parent: Southern Company (The)</b>	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

### Contacts

Analyst	Phone
Michael G. Haggarty/New York	212.553.7172
William L. Hess/New York	212.553.3837

### Key Indicators

#### [1]Gulf Power Company

	LTM 6/30/2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	6.2x	6.3x	6.2x	4.8x
(CFO Pre-W/C) / Debt	24%	23%	21%	18%
(CFO Pre-W/C - Dividends) / Debt	16%	16%	14%	10%
Debt / Book Capitalization	48%	49%	49%	48%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

### Opinion

#### Rating Drivers

- Stabilized Florida political and regulatory environment
- Regulatory risk with first base rate case filed since 2001
- Substantially higher capital expenditures for environmental compliance
- Cash flow coverage metrics have been weak for its A3 credit rating

#### Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves 428,000 customers in a 7,400 square mile region. It owns 2,663 megawatts of nameplate capacity, 78% of which are coal-fired baseload units, and operates within the Southern Company power

pool.

## SUMMARY RATING RATIONALE

Gulf Power's A3 senior unsecured debt rating reflects the stabilized political and regulatory environment in Florida, regulatory risk with its first base rate case filing since 2001, higher capital expenditures for environmental compliance and transmission and distribution system investment, and cash flow coverage metrics that are weak for its rating but are expected to improve. The rating also considers Gulf Power's position as part of the Southern Company corporate family, the utility's relatively small size and concentrated service territory exposed to storm related event risk, and its exposure to more stringent environmental regulations.

## DETAILED RATING CONSIDERATIONS

- Stabilization of the utility's political and regulatory environment with four new Florida commissioners in place

The political and regulatory environment for investor-owned utilities in Florida has largely stabilized since base rate proceedings for two other utilities in the state became highly politicized in late 2009 and early 2010. Since these rate proceedings, there has been an almost complete change in the composition of the Florida Public Service Commission, with the turnover of four of the five commissioner seats. There was also a new governor elected in the state. Although Gulf Power was not directly affected by these developments (as it had no base rate proceedings pending at the time), we revised our opinion of the regulatory framework for all investor owned electric utilities in Florida, viewing the state as substantially less supportive of credit quality than it had been previously. As a result, Moody's lowered Gulf Power's score on Factor 1 in our rating methodology grid, Regulatory Framework, to the "Baa" or average category from the "A" or above average category. For more details on this and other factors in our methodology, see Moody's Rating Methodology for Regulated Electric and Gas Utilities, published in August 2009.

Despite these adverse developments, Moody's notes that Gulf Power currently operates under base rates that were established in 2002 and are based on a 12% return on equity (although a new base rate case has recently been filed, as discussed below). The utility also benefits from a FPSC approved fuel cost recovery mechanism that includes a true-up of actual costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over- or under-recovery balance exceeds 10% of the projected annual fuel revenues for that period. Because of these strong and timely cost recovery provisions in place in Florida, Moody's continues to view the company's ability to recover its costs and earn returns (Factor 2 in our Rating Methodology) as above average, i.e. "A" category.

With utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting the credit quality of the company during storm affected years. In the event the company incurs significant storm costs, it may file a streamlined approval for an interim surcharge of up to 80% of the cost of the storm-recovery when recovery costs exceed \$10 million. Gulf Power would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

- Regulatory risk with \$93.5 million base rate increase pending, the first major Florida electric utility base rate case since four new Florida commissioners were put in place

On July 8, 2011, Gulf Power filed for a \$93.5 million base rate increase based on an 11.7% return on equity, with a decision expected from the FPSC in approximately eight months. In addition, the company filed for interim rate relief of \$38.5 million, requesting that the FPSC act on this request within 60 days. This base rate increase request is the first for the company in nearly 10 years and results from several factors including the addition of new power lines, infrastructure upgrades and hardening, the impact of several major hurricanes over the last few years, and higher material costs. In a letter to the new FPSC chairman, the company indicated that base rate revenues have not kept pace with increases in investment and operating and maintenance expenses. Gulf Power's base rate case will also be the first one to be addressed by a newly constituted FPSC and may give an indication of the future direction of utility regulation in Florida.

- Substantial capital expenditures for environmental compliance, transmission and distribution

Gulf Power generates approximately 80% of its power from coal, making it particularly vulnerable to potential additional costs from EPA mandated environmental compliance regulations. The company is expected to spend approximately \$1.2 billion from 2011 - 2013 on capital expenditures, including approximately \$600 million for environmental compliance. It estimates that potential new environmental regulations could incrementally add approximately \$180 million to these figures. Most of the other capital spending is for transmission and distribution, since the company has no need for new generation over the near term. The FPSC has approved recovery of prudently incurred environmental compliance costs through an environmental cost recovery clause that is adjusted annually subject to certain limits. The company expects to finance these capital expenditures from a combination of operating cash flow, long and short-term debt issuances, and equity contributions from the parent company.

- Cash flow coverage metrics that have been weak for its A3 rating but are expected to improve

Gulf Power's cash flow coverage metrics have been weak for an A rating in recent years, using parameters outlined in Moody's Regulated Electric and Gas Utilities Ratings Methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt of 17.9% in 2008, 21% in 2009, and 23.2% in 2010, on a Moody's adjusted basis, compared to a minimum guideline of 22% for an A rating under the rating methodology. The company has experienced higher operating costs and incurred additional debt to finance rising capital expenditure requirements. The improvement in

coverage in 2010 was partly due to the impact of bonus depreciation, a temporary acceleration of future cash flows that will likely help improve coverage ratios in 2011 and 2012 as well. Any permanent, sustained improvement in cash flow coverage metrics will be largely dependent on the outcome of its pending rate case.

#### Liquidity

Gulf Power maintains \$250 million of unused bank credit facilities supporting a \$150 million commercial paper program (Issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of June 30, 2011, the company had \$91 million of commercial paper outstanding and \$69 million of variable rate pollution control bonds backed by the facilities, leaving the company with \$90 million of available credit facility capacity. As of June 30, 2011, of the \$250 million of credit facilities, \$90 million expire in 2011 and \$55 million in 2012. There is no material adverse change clause in any of Gulf Power's credit agreements and some of the facilities include a 65% debt to capital covenant. As of June 30, 2011, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of a downgrade to Baa3, Gulf Power has potential collateral requirements of \$125 million as of June 30, 2011. If Gulf Power's credit rating is downgraded to below investment grade, the utility's potential collateral requirement rises to \$546 million. On June 30, 2011, Gulf Power had \$17.3 million of cash on hand, up from \$16.4 million at December 31, 2010. The company has no long-term debt due over the next 12 months.

#### Rating Outlook

The stable rating outlook reflects Moody's view that the Florida regulatory environment for investor owned utilities has stabilized and could improve as the newly constituted FPSC establishes a track record, Gulf Power's cash flow coverage metrics will strengthen following its current rate case outcome, and that economic conditions in the Florida panhandle will gradually improve.

#### What Could Change the Rating - Up

An upgrade could be considered if there is a demonstrated improvement in the Florida political and regulatory environment for utilities, a credit supportive rate case outcome, if capital expenditures moderate from currently high levels, or if cash flow coverage metrics show sustained improvement, including CFO pre-W/C interest coverage of at least 5.0x and CFO pre-W/C to debt of at least 25%.

#### What Could Change the Rating - Down

Ratings could be downgraded if there is additional deterioration in the political and regulatory environment in Florida, including an unsupportive rate case outcome, if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage, or if cash flow coverage metrics decline such that CFO pre-working capital interest coverage falls below 4.5x or CFO pre-working capital debt falls below 22% for a sustained period.

#### Rating Factors

##### Gulf Power Company

Regulated Electric and Gas Utilities Industry [1][2]	Current 12/31/2010		Moody's 12-18 month Forward View* As of August 2011	
	Measure	Score	Measure	Score
<b>Factor 1: Regulatory Framework (25%)</b>				Baa
a) Regulatory Framework				
<b>Factor 2: Ability To Recover Costs And Earn Returns (25%)</b>				A
a) Ability To Recover Costs And Earn Returns				
<b>Factor 3: Diversification (10%)</b>				Ba
a) Market Position (5%)				
b) Generation and Fuel Diversity (5%)				B
<b>Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)</b>				
a) Liquidity (10%)				Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	5.8x		6.0 - 6.5x	Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21.0%		25 - 30%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	13.3%		15 - 20%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	48.3%		43 - 47%	Baa
<b>Rating:</b>				
a) Indicated Rating from Grid				Baa1
b) Actual Rating Assigned				A3

\* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010(L); Source: Moody's Financial Metrics

**MOODY'S**  
INVESTORS SERVICE

**Davis, Terry A.**

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**From:** Davis, Terry A.  
**Sent:** Thursday, August 11, 2011 10:44 AM  
**To:** Ritenour, Susan D.; Buck, William G., III; Carnley, Holly; Symons, David  
**Subject:** FW: Credit Opinion Draft for Gulf Power  
**Attachments:** Revised Gulf Credit Opinion Draft to Moody's 08\_11\_11.pdf

Thank you for your input.

***Terry A. Davis***  
**Assistant Secretary and Assistant Treasurer**  
**Gulf Power Company**  
**850-444-6664 or 8-420-6664 phone**  
**850-444-6026 or 8-420-6026 fax**

---

**From:** Ihrig, Chad  
**Sent:** Thursday, August 11, 2011 10:42 AM  
**To:** 'Haggarty, Michael'  
**Cc:** Long, Earl C.; Tucker, Daniel S.  
**Subject:** Credit Opinion Draft for Gulf Power

Mike –

Attached is the credit opinion draft for Gulf Power with our suggested revisions.

I am still waiting to finalize Southern Company and will have to you when available.

Please let me know if you have any questions or need to discuss the comments.

Regards,

Chad Ihrig  
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INVESTORS SERVICE

Credit Opinion: Gulf Power Company - DRAFT - In Progress or Approved Version

Global Credit Research

Florida, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
Senior Unsecured	A3
Subordinate Shelf	(P)Baa1
Pref. Stock	Baa2
Parent: Southern Company (The)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Contacts

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Key Indicators

[1] Gulf Power Company

	LTM 6/30/2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	6.2x	6.3x	6.2x	4.8x
(CFO Pre-W/C) / Debt	24%	23%	21%	18%
(CFO Pre-W/C - Dividends) / Debt	16%	16%	14%	10%
Debt / Book Capitalization	48%	49%	49%	48%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Stabilized Florida political and regulatory environment
- Regulatory risk with first base rate case filed since 2001
- Substantially higher capital expenditures for environmental compliance
- Cash flow coverage metrics have been weak for its A3 credit rating

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves ~~420,000~~ <sup>430,000</sup> customers in a ~~7,400~~ <sup>7,500</sup> square mile region. It owns 2,663 megawatts of nameplate capacity, 78% of which are coal-fired baseload units, and operates within the Southern Company power

*Suggested edit: "It owns 2,663 megawatts of nameplate capacity and operates within the Southern Company power pool. Coal-fired generation, including purchased power, represented approximately 65% of its power supply in 2010." (2010 10-K, page 11-329 for reference)*



pool.

#### SUMMARY RATING RATIONALE

Gulf Power's A3 senior unsecured debt rating reflects the stabilized political and regulatory environment in Florida, regulatory risk with its first base rate case filing since 2001, higher capital expenditures for environmental compliance and transmission and distribution system investment, and cash flow coverage metrics that are weak for its rating but are expected to improve. The rating also considers Gulf Power's position as part of the Southern Company corporate family, the utility's relatively small size and concentrated service territory exposed to storm related event risk, and its exposure to more stringent environmental regulations.

#### DETAILED RATING CONSIDERATIONS

- Stabilization of the utility's political and regulatory environment with four new Florida commissioners in place

The political and regulatory environment for investor-owned utilities in Florida has largely stabilized since base rate proceedings for two other utilities in the state became highly politicized in late 2009 and early 2010. Since these rate proceedings, there has been an almost complete change in the composition of the Florida Public Service Commission, with the turnover of four of the five commissioner seats. There was also a new governor elected in the state. Although Gulf Power was not directly affected by these developments (as it had no base rate proceedings pending at the time), we revised our opinion of the regulatory framework for all investor owned electric utilities in Florida, viewing the state as substantially less supportive of credit quality than it had been previously. As a result, Moody's lowered Gulf Power's score on Factor 1 in our rating methodology grid, Regulatory Framework, to the "Baa" or average category from the "A" or above average category. For more details on this and other factors in our methodology, see Moody's Rating Methodology for Regulated Electric and Gas Utilities, published in August 2009.

Despite these adverse developments, Moody's notes that Gulf Power currently operates under base rates that were established in 2002 and are based on a 12% return on equity (although a new base rate case has recently been filed, as discussed below). The utility also benefits from a FPSC approved fuel cost recovery mechanism that includes a true-up of actual costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over- or under-recovery balance exceeds 10% of the projected annual fuel revenues for that period. Because of these strong and timely cost recovery provisions in place in Florida, Moody's continues to view the company's ability to recover its costs and earn returns (Factor 2 in our Rating Methodology) as above average, i.e. "A" category.

With utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting the credit quality of the company during storm affected years. In the event the company incurs significant storm costs, it may file a streamlined approval for an interim surcharge of up to 80% of the cost of the storm-recovery when recovery costs exceed \$10 million. Gulf Power would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

- Regulatory risk with \$93.5 million base rate increase pending, the first major Florida electric utility base rate case since four new Florida commissioners were put in place

On July 8, 2011, Gulf Power filed for a \$93.5 million base rate increase based on an 11.7% return on equity, with a decision expected from the FPSC in approximately eight months. In addition, the company filed for interim rate relief of \$38.5 million, requesting that the FPSC act on this request within 80 days. This base rate increase request is the first for the company in nearly 10 years and results from several factors including the addition of new power lines, infrastructure upgrades and hardening, the impact of several major hurricanes over the last few years, and higher material costs. In a letter to the new FPSC chairman, the company indicated that base rate revenues have not kept pace with increases in investment and operating and maintenance expenses. Gulf Power's base rate case will also be the first one to be addressed by a newly constituted FPSC and may give an indication of the future direction of utility regulation in Florida.

- Substantial capital expenditures for environmental compliance, transmission and distribution

Gulf Power generates approximately 80% of its power from coal, making it particularly vulnerable to potential additional costs from EPA mandated environmental compliance regulations. The company is expected to spend approximately \$1.2 billion from 2011 - 2013 on capital expenditures, including approximately \$600 million for environmental compliance. It estimates that potential new environmental regulations could incrementally add approximately \$180 million to these figures. Most of the other capital spending is for transmission and distribution, since the company has no need for new generation over the near term. The FPSC has approved recovery of prudently incurred environmental compliance costs through an environmental cost recovery clause that is adjusted annually subject to certain limits. The company expects to finance these capital expenditures from a combination of operating cash flow, long and short-term debt issuances, and equity contributions from the parent company.

- Cash flow coverage metrics that have been weak for its A3 rating but are expected to improve

Gulf Power's cash flow coverage metrics have been weak for an A rating in recent years, using parameters outlined in Moody's Regulated Electric and Gas Utilities Ratings Methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt of 17.9% in 2008, 21% in 2009, and 23.2% in 2010, on a Moody's adjusted basis, compared to a minimum guideline of 22% for an A rating under the rating methodology. The company has experienced higher operating costs and incurred additional debt to finance rising capital expenditure requirements. The improvement in

New environmental figures from 2nd Quarter '10-Q: "Although its analysis is preliminary, Gulf Power estimates the aggregate capital costs for compliance with these rules to be \$1.9 billion through 2020 if adopted as

proposed. Included in this amount is \$373 million of estimated expenditures included in Gulf Power's 2011-2013 base level capital budget described herein in anticipation of these rules."

coverage in 2010 was partly due to the impact of bonus depreciation, a temporary acceleration of future cash flows that will likely help improve coverage ratios in 2011 and 2012 as well. Any permanent, sustained improvement in cash flow coverage metrics will be largely dependent on the outcome of its pending rate case.

**Liquidity**

Gulf Power maintains \$250 million of unused bank credit facilities supporting a \$150 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of June 30, 2011, the company had \$94 million of commercial paper outstanding and \$69 million of variable rate pollution control bonds backed by the facilities, leaving the company with \$90 million of available credit facility capacity. As of June 30, 2011, of the \$250 million of credit facilities, \$90 million expire in 2011, and \$55 million in 2012. There is no material adverse change clause in any of Gulf Power's credit agreements and some of the facilities include a 65% debt to capital covenant. As of June 30, 2011, the company was in compliance with this covenant.

\$61

\$120

(subsequent to June 30, \$60 million of this \$90 million was renewed to a 2014 expiration date)

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of a downgrade to Baa3, Gulf Power has potential collateral requirements of \$125 million as of June 30, 2011. If Gulf Power's credit rating is downgraded to below investment grade, the utility's potential collateral requirement rises to \$546 million. On June 30, 2011, Gulf Power had \$17.3 million of cash on hand, up from \$18.4 million at December 31, 2010. The company has no long-term debt due over the next 12 months.

**Rating Outlook**

The stable rating outlook reflects Moody's view that the Florida regulatory environment for investor owned utilities has stabilized and could improve as the newly constituted FPSC establishes a track record, Gulf Power's cash flow coverage metrics will strengthen following its current rate case outcome, and that economic conditions in the Florida panhandle will gradually improve.

**What Could Change the Rating - Up**

An upgrade could be considered if there is a demonstrated improvement in the Florida political and regulatory environment for utilities, a credit supportive rate case outcome, if capital expenditures moderate from currently high levels, or if cash flow coverage metrics show sustained improvement, including CFO pre-W/C interest coverage of at least 5.0x and CFO pre-W/C to debt of at least 25%.

**What Could Change the Rating - Down**

Ratings could be downgraded if there is additional deterioration in the political and regulatory environment in Florida, including an unsupportive rate case outcome, if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage, or if cash flow coverage metrics decline such that CFO pre-working capital interest coverage falls below 4.5x or CFO pre-working capital debt falls below 22% for a sustained period.

**Rating Factors**

**Gulf Power Company**

Regulated Electric and Gas Utilities Industry [1][2]	Current 12/31/2010		Moody's 12-18 month Forward View* As of August 2011	
	Measure	Score	Measure	Score
<b>Factor 1: Regulatory Framework (25%)</b>		Baa		Baa
a) Regulatory Framework				
<b>Factor 2: Ability To Recover Costs And Earn Returns (25%)</b>		A		A
a) Ability To Recover Costs And Earn Returns				
<b>Factor 3: Diversification (10%)</b>				
a) Market Position (5%)		Ba		Ba
b) Generation and Fuel Diversity (5%)		B		B
<b>Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)</b>				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest / Interest (3 Year Avg) (7.5%)	5.8x	A	6.0 - 6.5x	Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21.0%	Baa	25 - 30%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	13.3%	Baa	15 - 20%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	48.3%	Baa	43 - 47%	Baa
<b>Rating:</b>				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

\* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010(L); Source: Moody's Financial Metrics

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