ALABAMA POWER CO
Form 10-K
February 28, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-3526	The Southern Company (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-0690070
1-3164	Alabama Power Company (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	Georgia Power Company (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
001-31737	Gulf Power Company (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
001-11229	Mississippi Power Company (A Mississippi Corporation) 2992 West Beach Boulevard Gulfport, Mississippi 39501 (228) 864-1211	64-0205820

333-98553	Southern Power Company (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-2598670

Securities registered pursuant to Section 12(b) of the Act:[1]
Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is listed on the New York Stock Exchange.

Title of each class		Registrant
Common Stock, $5 par value		The Southern Company
Class A preferred, cumulative, $25 stated capital		Alabama Power Company
5.20% Series	5.83% Series	
5.30% Series		
Class A Preferred Stock, non-cumulative, Par value $25 per share 6 1/8% Series		Georgia Power Company
Senior Notes 8.20% Series 2008C		
Senior Notes 5.25% Series H 5.75% Series 2011A		Gulf Power Company
Depositary preferred shares, each representing one-fourth of a share of preferred stock, cumulative, $100 par value 5.25% Series		Mississippi Power Company

Securities registered pursuant to Section 12(g) of the Act:[1]

Title of each class			Registrant
Preferred stock, cumulative, $100 par value			Alabama Power Company
4.20% Series	4.60% Series	4.72% Series	
4.52% Series	4.64% Series	4.92% Series	

Preferred stock, cumulative, $100 par value		Mississippi Power Company
4.40% Series	4.60% Series	
4.72% Series		

1 As of December 31, 2012.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Registrant	Yes	No
The Southern Company	X	
Alabama Power Company	X	
Georgia Power Company	X	
Gulf Power Company		X
Mississippi Power Company		X
Southern Power Company		X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x (Response applicable to all registrants.)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Registrant	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company
The Southern Company	X			
Alabama Power Company			X	
Georgia Power Company			X	
Gulf Power Company			X	
Mississippi Power Company			X	
Southern Power Company			X	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x (Response applicable to all registrants.)

Aggregate market value of The Southern Company's common stock held by non-affiliates of The Southern Company at June 30, 2012: $40.5 billion. All of the common stock of the other registrants is held by The Southern Company. A description of each registrant's common stock follows:

Registrant	Description of Common Stock	Shares Outstanding at January 31, 2013
The Southern Company	Par Value $5 Per Share	868,969,827
Alabama Power Company	Par Value $40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	4,542,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value $0.01 Per Share	1,000

Documents incorporated by reference: specified portions of The Southern Company's Definitive Proxy Statement on Schedule 14A relating to the 2013 Annual Meeting of Stockholders are incorporated by reference into PART III. In addition, specified portions of the Definitive Information Statements on Schedule 14C of Alabama Power Company, Georgia Power Company, and Mississippi Power Company relating to each of their respective 2013 Annual Meetings of Shareholders are incorporated by reference into PART III.

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

This combined Form 10-K is separately filed by The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

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DEFINITIONS

When used in Items 1 through 5 and Items 9A through 15, the following terms will have the meanings indicated.

Term	Meaning
2010 ARP	Alternative Rate Plan approved by the Georgia PSC for Georgia Power for the years 2011 through 2013
Alabama Power	Alabama Power Company
Clean Air Act	Clean Air Act Amendments of 1990
Code	Internal Revenue Code of 1986, as amended
CPCN	Certificate of Public Convenience and Necessity
CWIP	Construction Work in Progress
Dalton	Dalton Utilities
DOE	United States Department of Energy
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FMPA	Florida Municipal Power Agency
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IBEW	International Brotherhood of Electrical Workers
IGCC	Integrated Coal Gasification Combined Cycle
IIC	Intercompany Interchange Contract
IPP	Independent Power Producer
IRP	Integrated Resource Plan
Kemper IGCC	IGCC facility under construction in Kemper County, Mississippi
KUA	Kissimmee Utility Authority
KW	Kilowatt
KWH	Kilowatt-hour
MATS rule	Mercury and Air Toxics Standards rule
MEAG Power	Municipal Electric Authority of Georgia
Mississippi Power	Mississippi Power Company
MW	Megawatt
NRC	Nuclear Regulatory Commission
OPC	Oglethorpe Power Corporation
OUC	Orlando Utilities Commission
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Plant Vogtle
power pool	The operating arrangement whereby the integrated generating resources of the traditional operating companies and Southern Power are subject to joint commitment and dispatch in order to serve their combined load obligations
PowerSouth	PowerSouth Energy Cooperative
PPA	Power Purchase Agreement

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DEFINITIONS
(continued)

Term	Meaning
Progress Energy Florida	Florida Power Corporation, d/b/a Progress Energy Florida, Inc.
PSC	Public Service Commission
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power
RUS	Rural Utilities Service (formerly Rural Electrification Administration)
SCS	Southern Company Services, Inc. (the system service company)
SEC	Securities and Exchange Commission
SEGCO	Southern Electric Generating Company
SEPA	Southeastern Power Administration
SERC	Southeastern Electric Reliability Council
SMEPA	South Mississippi Electric Power Association
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, SEGCO, Southern Nuclear, SCS, SouthernLINC Wireless, and other subsidiaries
Southern Holdings	Southern Company Holdings, Inc.
SouthernLINC Wireless	Southern Communications Services, Inc.
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company
traditional operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power

CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales, retail rates, the strategic goals for the wholesale business, customer growth, economic recovery, fuel and environmental cost recovery and other rate actions, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, dividend payout ratios, projections for the qualified pension plan, postretirement benefit plan, and nuclear decommissioning trust fund contributions, financing activities, start and completion dates of construction projects, plans and estimated costs for new generation resources, filings with state and federal regulatory authorities, impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, impact of the American Taxpayer Relief Act of 2012, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, environmental laws including regulation of water, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, financial reform legislation, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, and Internal Revenue Service and state tax audits;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), the effects of energy conservation measures, and any potential economic impacts resulting from federal fiscal decisions;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities, including the development and construction of facilities with designs that have not been finalized or previously constructed, to construct facilities in accordance with the requirements of permits and licenses, and to satisfy any operational and environmental performance standards, including the requirements of tax credits and other incentives;
- investment performance of Southern Company's employee benefit plans and nuclear decommissioning trust funds;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals, NRC actions, and potential DOE loan guarantees;
- regulatory approvals and legislative actions related to the Kemper IGCC, including Mississippi PSC approvals and legislation relating to cost recovery for the Kemper IGCC, the SMEPA purchase decision, satisfaction of requirements to utilize investment tax credits and grants, and the outcome of any proceedings regarding the Mississippi PSC's issuance of the CPCN for the Kemper IGCC;
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the inherent risks involved in operating and constructing nuclear generating facilities, including environmental, health, regulatory, natural disaster, terrorism, and financial risks;

- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;

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- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on the Southern Company system's business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the availability or benefits of proposed DOE loan guarantees;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports filed by the registrants from time to time with the SEC.

The registrants expressly disclaim any obligation to update any forward-looking statements.

PART I

Item 1. BUSINESS

Southern Company was incorporated under the laws of Delaware on November 9, 1945. Southern Company is registered and qualified to do business under the laws of Georgia and is qualified to do business as a foreign corporation under the laws of Alabama. Southern Company owns all of the outstanding common stock of Alabama Power, Georgia Power, Gulf Power, and Mississippi Power, each of which is an operating public utility company. The traditional operating companies supply electric service in the states of Alabama, Georgia, Florida, and Mississippi. More particular information relating to each of the traditional operating companies is as follows:

Alabama Power is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company, and Houston Power Company. The predecessor Alabama Power Company had been in continuous existence since its incorporation in 1906.

Georgia Power was incorporated under the laws of the State of Georgia on June 26, 1930 and was admitted to do business in Alabama on September 15, 1948 and in Florida on October 13, 1997.

Gulf Power is a Florida corporation that has had a continuous existence since it was originally organized under the laws of the State of Maine on November 2, 1925. Gulf Power was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976, and in Georgia on November 20, 1984. Gulf Power became a Florida corporation after being domesticated under the laws of the State of Florida on November 2, 2005.

Mississippi Power was incorporated under the laws of the State of Mississippi on July 12, 1972, was admitted to do business in Alabama on November 28, 1972, and effective December 21, 1972, by the merger into it of the predecessor Mississippi Power Company, succeeded to the business and properties of the latter company. The predecessor Mississippi Power Company was incorporated under the laws of the State of Maine on November 24, 1924 and was admitted to do business in Mississippi on December 23, 1924 and in Alabama on December 7, 1962.

In addition, Southern Company owns all of the common stock of Southern Power, which is also an operating public utility company. Southern Power and it subsidiaries construct, acquire, own, and manage generation assets, including renewable energy projects, and sell electricity at market-based rates in the wholesale market. Southern Power is a corporation organized under the laws of Delaware on January 8, 2001 and was admitted to do business in the States of Alabama, Florida, and Georgia on January 10, 2001, in the State of Mississippi on January 30, 2001, in the State of North Carolina on February 19, 2007, and in the State of South Carolina on March 31, 2009. Certain of Southern Power's subsidiaries are also admitted to do business in the States of Nevada, New Mexico, and Texas.

Southern Company also owns all of the outstanding common stock or membership interests of SouthernLINC Wireless, Southern Nuclear, SCS, Southern Holdings, and other direct and indirect subsidiaries. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and markets these services to the public and also provides wholesale fiber optic solutions to telecommunication providers in the Southeast. Southern Nuclear operates and provides services to Alabama Power's and Georgia Power's nuclear plants and is currently developing Plant Vogtle Units 3 and 4, which are co-owned by Georgia Power. SCS is the system service company providing, at cost, specialized services to Southern Company and its subsidiary companies. Southern Holdings is an intermediate holding subsidiary, primarily for Southern Company's investments in leveraged leases.

Alabama Power and Georgia Power each own 50% of the outstanding common stock of SEGCO. SEGCO is an operating public utility company that owns electric generating units with an aggregate capacity of 1,019,680 KWs at Plant Gaston on the Coosa River near Wilsonville, Alabama. Alabama Power and Georgia Power are each entitled to one-half of SEGCO's capacity and energy. Alabama Power acts as SEGCO's agent in the operation of SEGCO's units and furnishes fuel to SEGCO for its units.

SEGCO also owns one 230,000 volt transmission line extending from Plant Gaston to the Georgia state line at which point connection is made with the Georgia Power transmission line system.

Southern Company's segment information is included in Note 12 to the financial statements of Southern Company in Item 8 herein.

The registrants' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available on Southern Company's website, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Southern Company's internet address is www.southerncompany.com.

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The Southern Company System
Traditional Operating Companies
The traditional operating companies own generation, transmission, and distribution facilities. See PROPERTIES in Item 2 herein for additional information on the traditional operating companies' generating facilities. Each company's transmission facilities are connected to the respective company's own generating plants and other sources of power (including certain generating plants owned by Southern Power) and are interconnected with the transmission facilities of the other traditional operating companies and SEGCO. For information on the State of Georgia's integrated transmission system, see "Territory Served by the Traditional Operating Companies and Southern Power" herein.
Agreements in effect with principal neighboring utility systems provide for capacity and energy transactions that may be entered into from time to time for reasons related to reliability or economics. Additionally, the traditional operating companies have entered into voluntary reliability agreements with the subsidiaries of Entergy Corporation, Florida Electric Power Coordinating Group, and Tennessee Valley Authority and with Carolina Power & Light Company (d/b/a Progress Energy Carolinas, Inc.), Duke Energy Corporation, South Carolina Electric & Gas Company, and Virginia Electric and Power Company, each of which provides for the establishment and periodic review of principles and procedures for planning and operation of generation and transmission facilities, maintenance schedules, load retention programs, emergency operations, and other matters affecting the reliability of bulk power supply. The traditional operating companies have joined with other utilities in the Southeast (including some of those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the traditional operating companies are represented on the National Electric Reliability Council.
The utility assets of the traditional operating companies and certain utility assets of Southern Power are operated as a single integrated electric system, or power pool, pursuant to the IIC. Activities under the IIC are administered by SCS, which acts as agent for the traditional operating companies and Southern Power. The fundamental purpose of the power pool is to provide for the coordinated operation of the electric facilities in an effort to achieve the maximum possible economies consistent with the highest practicable reliability of service. Subject to service requirements and other operating limitations, system resources are committed and controlled through the application of centralized economic dispatch. Under the IIC, each traditional operating company and Southern Power retains its lowest cost energy resources for the benefit of its own customers and delivers any excess energy to the power pool for use in serving customers of other traditional operating companies or Southern Power or for sale by the power pool to third parties. The IIC provides for the recovery of specified costs associated with the affiliated operations thereunder, as well as the proportionate sharing of costs and revenues resulting from power pool transactions with third parties.
Southern Company, each traditional operating company, Southern Power, Southern Nuclear, SEGCO, and other subsidiaries have contracted with SCS to furnish, at direct or allocated cost and upon request, the following services: general and design engineering, operations, purchasing, accounting, finance and treasury, tax, information technology, marketing, auditing, insurance and pension administration, human resources, systems and procedures, digital wireless communications, and other services with respect to business and operations and power pool transactions. Southern Power and SouthernLINC Wireless have also secured from the traditional operating companies certain services which are furnished at cost and, in the case of Southern Power, which are subject to FERC regulations.
Alabama Power and Georgia Power each have a contract with Southern Nuclear to operate the Southern Company system's existing nuclear plants, Plants Farley, Hatch, and Vogtle. In addition, Georgia Power has a contract with Southern Nuclear to develop, license, construct, and operate Plant Vogtle Units 3 and 4. See "Regulation – Nuclear Regulation" herein for additional information.
Southern Power

Southern Power is an electric wholesale generation subsidiary with market-based rate authority from the FERC. Southern Power and its subsidiaries construct, acquire, own, and manage generation assets, including renewable energy projects, and sell electricity at market-based rates in the wholesale market. Southern Power's business activities are not subject to traditional state regulation like the traditional operating companies but are subject to regulation by the FERC. Southern Power has attempted to insulate itself from significant fuel supply, fuel transportation, and electric transmission risks by generally making such risks the responsibility of the counterparties to its PPAs. However, Southern Power's future earnings will depend on the parameters of the wholesale market and the efficient operation of its wholesale generating assets. For additional information on Southern Power's business activities, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Business Activities" of Southern Power in Item 7 herein.

In June 2012, Southern Power completed construction of Plant Nacogdoches, a biomass generating plant near Sacul, Texas with a nameplate capacity of approximately 116 MWs. Nacogdoches Power, LLC, a wholly-owned subsidiary of Southern Power, has a PPA covering the entire output of the plant from 2012 through 2032.

In December 2012, Southern Power completed construction of Plant Cleveland Units 1 through 4, a combustion turbine natural gas generating plant, in Cleveland County, North Carolina. The plant has a nameplate capacity of 720 MWs. Southern Power has long-term PPAs for 540 MWs of the generating capacity of the plant (180 MWs through 2031 and 360 MWs through 2036).

In 2012, Southern Power and Turner Renewable Energy, Inc. (TRE), through Southern Turner Renewable Energy LLC (STR), a jointly-owned subsidiary owned 90% by Southern Power, acquired all of the outstanding membership interests of Apex Nevada Solar, LLC (Apex), Spectrum Nevada Solar, LLC (Spectrum), and Granville Solar, LLC (Granville). Apex owns a 20-MW solar photovoltaic facility in North Las Vegas, Nevada. The solar facility began commercial operation on July 21, 2012. Apex has a PPA covering the entire output of the plant from 2012 through 2037. Granville owns a 2.5-MW solar photovoltaic facility in Oxford, North Carolina. The solar facility began commercial operation on October 28, 2012. Granville has a PPA covering the entire output of the plant from 2012 through 2032. Spectrum is constructing a 30-MW solar photovoltaic facility in North Las Vegas, Nevada. The solar facility is expected to begin commercial operation in mid-2013. Spectrum has a PPA covering the entire output of the plant from 2013 through 2038. These acquisitions added a total of 47 MWs of solar capacity to Southern Power's generation portfolio and are in accordance with Southern Power's overall growth strategy.

As of December 31, 2012, Southern Power had 8,764 MWs of nameplate capacity in commercial operation.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" and "Acquisitions" of Southern Power in Item 7 herein and Note 2 to the financial statements of Southern Power in Item 8 herein for additional information.

Other Businesses

Southern Holdings is an intermediate holding subsidiary, primarily for Southern Company's investments in leveraged leases.

SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and markets its services to non-affiliates within the Southeast. SouthernLINC Wireless delivers multiple wireless communication options including push to talk, cellular service, text messaging, wireless internet access, and wireless data. Its system covers approximately 127,000 square miles in the Southeast. SouthernLINC Wireless also provides wholesale fiber optic solutions to telecommunication providers in the Southeast under the name Southern Telecom.

These efforts to invest in and develop new business opportunities offer potential returns exceeding those of rate-regulated operations. However, these activities also involve a higher degree of risk.

Construction Programs

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. For estimated construction and environmental expenditures for the periods 2013 through 2015, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company, each traditional operating company, and Southern Power in Item 7 herein. The Southern Company system's construction program consists of capital investment and capital expenditures to comply with existing environmental statutes and regulations. In 2013, the construction program is expected to be apportioned approximately as follows:

	Southern Company system * (in millions)	Alabama Power	Georgia Power	Gulf Power	Mississippi Power
New Generation	$1,052	$—	$555	$—	$497
Environmental **	957	195	476	158	129
Transmission & Distribution Growth	655	176	284	16	30
Maintenance (Generation, Transmission, and Distribution)	1,339	597	611	145	135
Nuclear Fuel	269	97	172	—	—
General Plant	190	84	84	16	5
	4,462	1,149	2,182	335	796
Southern Power	910	—	—	—	—
Other subsidiaries	108	—	—	—	—
Total	$5,480	$1,149	$2,182	$335	$796

* These amounts include the amounts for the traditional operating companies and Southern Power (as detailed in the table above) as well as the amounts for the other subsidiaries. See "Other Businesses" herein for additional information.

** Reflects cost estimates for existing environmental regulations, including the MATS rule. The Southern Company system continues to monitor the development of the EPA's proposed water and coal combustion byproducts rules and to evaluate compliance options. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" and FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company and each traditional operating company in Item 7 herein for additional information. See also MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" of Southern Power in Item 7 herein for additional information.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in the expected environmental compliance program; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing units, to meet regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

See "Regulation – Environmental Statutes and Regulations" herein for additional information with respect to certain existing and proposed environmental requirements and PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information concerning Alabama Power's, Georgia Power's, and Southern Power's joint ownership of certain generating units and related facilities with certain non-affiliated utilities. See Note 3 to the financial statements of Southern Company and Georgia Power under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Retail Regulatory Matters – Nuclear Construction," respectively. Also see Note 3 to the financial statements of each of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" for additional information.

Financing Programs

See each of the registrant's MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY in Item 7 herein and Note 6 to the financial statements of each registrant in Item 8 herein for information concerning financing programs.

Fuel Supply

The traditional operating companies' and SEGCO's supply of electricity is primarily fueled by natural gas and coal. Southern Power's supply of electricity is primarily fueled by natural gas. See MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATION – "Electricity Business – Fuel and Purchased Power Expenses" of Southern Company and MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATION – "Fuel and Purchased Power Expenses" of each traditional operating company in Item 7 herein for information regarding the electricity generated and the average cost of fuel in cents per net KWH generated for the years 2010 through 2012.

The traditional operating companies have agreements in place from which they expect to receive substantially all of their coal burn requirements in 2013. These agreements have terms ranging between one and eight years. In 2012, the weighted average sulfur content of all coal burned by the traditional operating companies was 0.76 % sulfur. This sulfur level, along with banked and purchased sulfur dioxide allowances, allowed the traditional operating companies to remain within limits set by Phase I of the Clean Air Interstate Rule (CAIR) under the Clean Air Act. In 2012, the Southern Company system did not purchase any sulfur dioxide allowances, annual nitrogen oxide emission allowances, or seasonal nitrogen oxide emission allowances from the market. As any additional environmental regulations are proposed that impact the utilization of coal, the traditional operating companies' fuel mix will be monitored to ensure that the traditional operating companies remain in compliance with applicable laws and regulations. Additionally, Southern Company and the traditional operating companies will continue to evaluate the need to purchase additional emissions allowances, the timing of capital expenditures for emissions control equipment, and potential unit retirements and replacements. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company, each traditional operating company, and Southern Power in Item 7 herein for additional information on environmental matters.

SCS, acting on behalf of the traditional operating companies and Southern Power, has agreements in place for the natural gas burn requirements of the Southern Company system. For 2013, SCS has contracted for 439 billion cubic feet of natural gas supply under agreements with remaining terms up to eight years. In addition to natural gas supply, SCS has contracts in place for both firm natural gas transportation and storage. Management believes these contracts provide sufficient natural gas supplies, transportation, and storage to ensure normal operations of the Southern Company system's natural gas generating units.

Alabama Power and Georgia Power have numerous contracts covering a portion of their nuclear fuel needs for uranium, conversion services, enrichment services, and fuel fabrication. These contracts have varying expiration dates and most of them are for less than 10 years. Management believes sufficient capacity for nuclear fuel supplies and processing exists to preclude the impairment of normal operations of the Southern Company system's nuclear generating units.

Changes in fuel prices to the traditional operating companies are generally reflected in fuel adjustment clauses contained in rate schedules. See "Rate Matters – Rate Structure and Cost Recovery Plans" herein for additional information. Southern Power's PPAs generally provide that the counterparty is responsible for substantially all of the cost of fuel.

Alabama Power and Georgia Power have contracts with the United States, acting through the DOE, that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in 1998, as required by the contracts, and Alabama Power and Georgia Power have pursued and are pursuing legal remedies against the government for breach of contract. See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under "Nuclear Fuel Disposal Costs" in Item 8 herein for additional information.

Territory Served by the Traditional Operating Companies and Southern Power

The territory in which the traditional operating companies provide electric service comprises most of the states of Alabama and Georgia together with the northwestern portion of Florida and southeastern Mississippi. In this territory there are non-affiliated electric distribution systems that obtain some or all of their power requirements either directly or indirectly from the traditional operating companies. The territory has an area of approximately 120,000 square miles and an estimated population of approximately 16 million. Southern Power sells electricity at market-based rates in the wholesale market primarily to investor-owned utilities, IPPs, municipalities, and electric cooperatives.
Alabama Power is engaged, within the State of Alabama, in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity, at retail in approximately 400 cities and towns (including Anniston, Birmingham,

Gadsden, Mobile, Montgomery, and Tuscaloosa), as well as in rural areas, and at wholesale to 15 municipally-owned electric distribution systems, 11 of which are served indirectly through sales to Alabama Municipal Electric Authority, and two rural distributing cooperative associations. Alabama Power owns coal reserves near its Plant Gorgas and uses the output of coal from the reserves in its generating plants. Alabama Power also sells, and cooperates with dealers in promoting the sale of, electric appliances.

Georgia Power is engaged in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity within the State of Georgia, at retail in over 600 communities (including Athens, Atlanta, Augusta, Columbus, Macon, Rome, and Savannah), as well as in rural areas, and at wholesale currently to OPC, MEAG Power, Dalton, various electric membership corporations, and non-affiliated utilities.

Gulf Power is engaged, within the northwestern portion of Florida, in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity, at retail in 71 communities (including Pensacola, Panama City, and Fort Walton Beach), as well as in rural areas, and at wholesale to a non-affiliated utility.

Mississippi Power is engaged in the generation and purchase of electricity and the transmission, distribution, and sale of such electricity within 23 counties in southeastern Mississippi, at retail in 123 communities (including Biloxi, Gulfport, Hattiesburg, Laurel, Meridian, and Pascagoula), as well as in rural areas, and at wholesale to one municipality, six rural electric distribution cooperative associations, and one generating and transmitting cooperative.

For information relating to KWH sales by customer classification for the traditional operating companies, see MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATIONS of each traditional operating company in Item 7 herein. Also, for information relating to the sources of revenues for Southern Company, each traditional operating company, and Southern Power, reference is made to Item 7 herein.

The RUS has authority to make loans to cooperative associations or corporations to enable them to provide electric service to customers in rural sections of the country. There are 71 electric cooperative organizations operating in the territory in which the traditional operating companies provide electric service at retail or wholesale.

One of these organizations, PowerSouth, is a generating and transmitting cooperative selling power to several distributing cooperatives, municipal systems, and other customers in south Alabama and northwest Florida. PowerSouth owns generating units with approximately 2,027 MWs of nameplate capacity, including an undivided 8.16% ownership interest in Alabama Power's Plant Miller Units 1 and 2. PowerSouth's facilities were financed with RUS loans secured by long-term contracts requiring distributing cooperatives to take their requirements from PowerSouth to the extent such energy is available.

Alabama Power and Gulf Power have entered into separate agreements with PowerSouth involving interconnection between their respective systems. The delivery of capacity and energy from PowerSouth to certain distributing cooperatives in the service territories of Alabama Power and Gulf Power is governed by the Southern Company/PowerSouth Network Transmission Service Agreement. The rates for this service to PowerSouth are on file with the FERC. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for details of Alabama Power's joint-ownership with PowerSouth of a portion of Plant Miller.

Four electric cooperative associations, financed by the RUS, operate within Gulf Power's service territory. These cooperatives purchase their full requirements from PowerSouth and SEPA (a federal power marketing agency). A non-affiliated utility also operates within Gulf Power's service territory and purchases its full requirements from Gulf Power.

Mississippi Power has an interchange agreement with SMEPA, a generating and transmitting cooperative, pursuant to which various services are provided, including the furnishing of protective capacity by Mississippi Power to SMEPA. In 2010, Mississippi Power and SMEPA entered into an asset purchase agreement whereby SMEPA agreed to purchase a 17.5% undivided interest in the Kemper IGCC. On February 28, 2012, the Mississippi PSC approved the sale and transfer of 17.5% of the Kemper IGCC to SMEPA. On June 29, 2012, Mississippi Power and SMEPA signed an amendment to the asset purchase agreement whereby SMEPA extended its option to purchase until December 31, 2012 and reduced its purchase commitment percentage from a 17.5% to a 15% undivided interest in the Kemper IGCC, subject to approval by the Mississippi PSC. On September 27, 2012, SMEPA received a conditional loan commitment from the RUS to provide funding for SMEPA's purchase of an undivided interest in the Kemper IGCC. On December 31, 2012, Mississippi Power and SMEPA agreed to extend SMEPA's option to purchase through December 31, 2013. The closing of this transaction is conditioned upon execution of a joint ownership and operating agreement, receipt of all construction permits, appropriate regulatory approvals, financing, and other conditions.

There are also 65 municipally-owned electric distribution systems operating in the territory in which the traditional operating companies provide electric service at retail or wholesale.

Forty-eight municipally-owned electric distribution systems and one county-owned system receive their requirements through MEAG Power, which was established by a Georgia state statute in 1975. MEAG Power serves these requirements from self-owned generation facilities, some of which are jointly-owned with Georgia Power, and purchases from other resources. MEAG Power also has a pseudo scheduling and services agreement with Georgia Power. Dalton serves its requirements from self-owned generation facilities, some of which are jointly-owned with Georgia Power, and through purchases from Georgia Power and Southern Power through a service agreement. In addition, Georgia Power previously served the full requirements of the City of Hampton's electric distribution system under a market-based contract that terminated on December 31, 2012. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information.

Georgia Power has entered into substantially similar agreements with Georgia Transmission Corporation, MEAG Power, and Dalton providing for the establishment of an integrated transmission system to carry the power and energy of all parties. The agreements require an investment by each party in the integrated transmission system in proportion to its respective share of the aggregate system load. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information.

Southern Power has PPAs with some of the traditional operating companies and with other investor-owned utilities, IPPs, municipalities, electric cooperatives, and an energy marketing firm. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" of Southern Power in Item 7 herein for additional information concerning Southern Power's PPAs.

SCS, acting on behalf of the traditional operating companies, also has a contract with SEPA providing for the use of the traditional operating companies' facilities at government expense to deliver to certain cooperatives and municipalities, entitled by federal statute to preference in the purchase of power from SEPA, quantities of power equivalent to the amounts of power allocated to them by SEPA from certain United States government hydroelectric projects.

Pursuant to the 1956 Utility Act, the Mississippi PSC issued "Grandfather Certificates" of public convenience and necessity to Mississippi Power and to six distribution rural cooperatives operating in southeastern Mississippi, then served in whole or in part by Mississippi Power, authorizing them to distribute electricity in certain specified geographically described areas of the state. The six cooperatives serve approximately 325,000 retail customers in a certificated area of approximately 10,300 square miles. In areas included in a "Grandfather Certificate," the utility holding such certificate may, without further certification, extend its lines up to five miles; other extensions within that area by such utility, or by other utilities, may not be made except upon a showing of, and a grant of a certificate of, public convenience and necessity. Areas included in such a certificate which are subsequently annexed to municipalities may continue to be served by the holder of the certificate, irrespective of whether it has a franchise in the annexing municipality. On the other hand, the holder of the municipal franchise may not extend service into such newly annexed area without authorization by the Mississippi PSC.

Competition

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992 which allowed IPPs to access a utility's transmission network in order to sell electricity to other utilities.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements, service, and reliability. These factors are, in turn, affected by, among other influences, regulatory, political, and environmental considerations, taxation, and supply.

The retail service rights of all electric suppliers in the State of Georgia are regulated by the Territorial Electric Service Act of 1973. Pursuant to the provisions of this Act, all areas within existing municipal limits were assigned to the primary electric supplier therein. Areas outside of such municipal limits were either to be assigned or to be declared open for customer choice of supplier by action of the Georgia PSC pursuant to standards set forth in this Act. Consistent with such standards, the Georgia PSC has assigned substantially all of the land area in the state to a supplier. Notwithstanding such assignments, this Act provides that any new customer locating outside of 1973 municipal limits and having a connected load of at least 900 KWs may exercise a one-time choice for the life of the premises to receive electric service from the supplier of its choice.

Generally, the traditional operating companies have experienced, and expect to continue to experience, competition in their respective retail service territories in varying degrees as the result of self-generation (as described below) by customers and other factors.

Southern Power competes with investor owned utilities, IPPs, and others for wholesale energy sales primarily in the Southeastern U.S. wholesale market. The needs of this market are driven by the demands of end users in the Southeast and the generation available. Southern Power's success in wholesale energy sales is influenced by various factors including reliability and availability of Southern Power's plants, availability of transmission to serve the demand, price, and Southern Power's ability to contain costs.

Alabama Power currently has cogeneration contracts in effect with nine industrial customers. Under the terms of these contracts, Alabama Power purchases excess energy generated by such companies. During 2012, Alabama Power purchased approximately 222 million KWHs from such companies at a cost of $8.6 million.

Georgia Power currently has contracts in effect with 10 small power producers whereby Georgia Power purchases their excess generation. During 2012, Georgia Power purchased 18 million KWHs from such companies at a cost of $0.6 million. Georgia Power also has a PPA for electricity with one cogeneration facility. Payments are subject to reductions for failure to meet minimum capacity output. During 2012, Georgia Power purchased 380 million KWHs at a cost of $27 million from this facility.

Also during 2012, Georgia Power purchased energy from seven customer-owned generating facilities. Six of the seven customers provide only energy to Georgia Power. These six customers make no capacity commitment and are not dispatched by Georgia Power. Georgia Power has a contract with the remaining customer for eight MWs of dispatchable capacity and energy. During 2012, Georgia Power purchased a total of 37 million KWHs from the seven customers at a cost of approximately $1 million.

Gulf Power currently has agreements in effect with various industrial, commercial, and qualifying facilities pursuant to which Gulf Power purchases "as available" energy from customer-owned generation. During 2012, Gulf Power purchased 219 million KWHs from such companies for approximately $6.3 million.

Mississippi Power currently has a cogeneration agreement in effect with one of its industrial customers. Under the terms of this contract, Mississippi Power purchases any excess generation. During 2012, Mississippi Power did not purchase any excess generation from this customer.

Seasonality

The demand for electric power generation is affected by seasonal differences in the weather. At the traditional operating companies and Southern Power, the demand for power peaks during the summer months, with market prices reflecting the demand of power and available generating resources at that time. Power demand peaks can also be recorded during the winter. As a result, the overall operating results of Southern Company, the traditional operating companies, and Southern Power in the future may fluctuate substantially on a seasonal basis. In addition, Southern Company, the traditional operating companies, and Southern Power have historically sold less power when weather conditions are milder.

Regulation

State Commissions

The traditional operating companies are subject to the jurisdiction of their respective state PSCs. The PSCs have broad powers of supervision and regulation over public utilities operating in the respective states, including their rates, service regulations, sales of securities (except for the Mississippi PSC), and, in the cases of the Georgia PSC and the Mississippi PSC, in part, retail service territories. See "Territory Served by the Traditional Operating Companies and Southern Power" and "Rate Matters" herein for additional information.

Federal Power Act

The traditional operating companies, Southern Power and its generation subsidiaries, and SEGCO are all public utilities engaged in wholesale sales of energy in interstate commerce and therefore are subject to the rate, financial, and accounting jurisdiction of the FERC under the Federal Power Act. The FERC must approve certain financings and allows an "at cost standard" for services rendered by system service companies such as SCS and Southern Nuclear. The FERC is also authorized to establish regional reliability organizations which enforce reliability standards, address impediments to the construction of transmission, and prohibit manipulative energy trading practices.

Alabama Power and Georgia Power are also subject to the provisions of the Federal Power Act or the earlier Federal Water Power Act applicable to licensees with respect to their hydroelectric developments. Among the hydroelectric projects subject to licensing by the FERC are 14 existing Alabama Power generating stations having an aggregate installed capacity of 1,662,400 KWs and 18 existing Georgia Power generating stations having an aggregate installed capacity of 1,087,296 KWs.

In 2005, Alabama Power filed two applications with the FERC for new 50-year licenses for its seven hydroelectric developments on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan, and Bouldin) and for the Lewis Smith and Bankhead developments on the Warrior River. The FERC licenses for all of these nine projects expired in 2007. Since the FERC did not act on Alabama Power's new license applications prior to the expiration of the existing licenses, the FERC is required by law to issue annual licenses to Alabama Power, under the terms and conditions of the existing licenses, until action is taken on the new license applications.

The FERC issued annual licenses for the Coosa developments and the Warrior River developments in 2007. These annual licenses are automatically renewed each year without further action by the FERC to allow Alabama Power to continue operation of the projects under the terms of the previous license while the FERC completes review of the applications for new licenses. Though the Coosa application remains pending before the FERC, in 2010, the FERC issued a new 30 year license to Alabama Power for the Warrior River developments. In 2010, the Smith Lake Improvement and Stakeholders' Association filed a request for rehearing of the FERC order granting the new Warrior license. On November 15, 2012 , the FERC denied the Smith Lake Improvement and Stakeholders' Association's request for rehearing. On December 17, 2012, the Smith Lake Improvement and Stakeholders' Association filed for rehearing of the November 15, 2012 order and, on January 16, 2013, the FERC denied the request.

In 2006, Alabama Power initiated the process of developing an application to relicense the Martin Dam Project located on the Tallapoosa River. In June 2011, Alabama Power filed an application with the FERC to relicense the Martin Dam Project. The current Martin license will expire on June 8, 2013.

In 2010, Alabama Power initiated the process of developing an application to relicense the Holt hydroelectric project located on the Warrior River. The current Holt license will expire on August 31, 2015, and the application for a new license is expected to be filed with the FERC no later than August 31, 2013.

In 2007, Georgia Power began the relicensing process for Bartlett's Ferry which is located on the Chattahoochee River near Columbus, Georgia. On December 14, 2012, Georgia Power filed an application with the FERC to relicense the Bartlett's Ferry project. The current Bartlett's Ferry license will expire on December 14, 2014.

The ultimate outcome of these matters cannot be determined at this time. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Alabama Power in Item 7 herein for additional information.

Georgia Power and OPC also have a license, expiring in 2027, for the Rocky Mountain Plant, a pure pumped storage facility of 847,800 KW capacity. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information.

Licenses for all projects, excluding those discussed above, expire in the period 2023-2034 in the case of Alabama Power's projects and in the period 2020-2039 in the case of Georgia Power's projects.

Upon or after the expiration of each license, the U.S. Government, by act of Congress, may take over the project or the FERC may relicense the project either to the original licensee or to a new licensee. In the event of takeover or relicensing to another, the original licensee is to be compensated in accordance with the provisions of the Federal Power Act, such compensation to reflect the net investment of the licensee in the project, not in excess of the fair value of the property, plus reasonable damages to other property of the licensee resulting from the severance therefrom of the property.

Nuclear Regulation

Alabama Power, Georgia Power, and Southern Nuclear are subject to regulation by the NRC. The NRC is responsible for licensing and regulating nuclear facilities and materials and for conducting research in support of the licensing and regulatory process, as mandated by the Atomic Energy Act of 1954, as amended; the Energy Reorganization Act of 1974, as amended; and the Nuclear Nonproliferation Act of 1978; and in accordance with the National Environmental Policy Act of 1969, as amended, and other applicable statutes. These responsibilities also include protecting public health and safety, protecting the environment, protecting and safeguarding nuclear materials and nuclear power plants in the interest of national security, and assuring conformity with antitrust laws.

In 2002, the NRC extended the licenses of Georgia Power's Plant Hatch Units 1 and 2 until 2034 and 2038, respectively. In 2005, the NRC extended the licenses of Alabama Power's Plant Farley Units 1 and 2 until 2037 and 2041, respectively. In 2009, the NRC extended the licenses of Plant Vogtle Units 1 and 2 to 2047 and 2049, respectively.

On February 10, 2012, the NRC issued combined construction and operating licenses (COLs) for Plant Vogtle Units 3 and 4. Receipt of the COLs allowed full construction to begin. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Nuclear Construction" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 herein

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

Environmental Statutes and Regulations

The Southern Company system's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Compliance with these existing environmental requirements involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions for the traditional operating companies or market-based rates for Southern Power. There is no assurance, however, that all such costs will be recovered.

Compliance with the federal Clean Air Act and resulting regulations has been, and will continue to be, a significant focus for Southern Company, each traditional operating company, Southern Power, and SEGCO. In addition, existing environmental laws and regulations may be changed or new laws and regulations may be adopted or otherwise become applicable to the Southern Company system, including laws and regulations designed to address air quality, water, management of waste materials and coal combustion byproducts, global climate change, or other environmental and health concerns. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company and each of the traditional operating companies in Item 7 herein for additional information about the Clean Air Act and other environmental issues, including, but not limited to, the litigation brought by the EPA under the New Source Review provisions of the Clean Air Act, proposed and final regulations related to air quality, water, greenhouse gases, and coal combustion byproducts. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Power in Item 7 herein for additional information about environmental issues and climate change regulation.

The Southern Company system's ultimate environmental compliance strategy, including potential unit retirement and replacement decisions, and future environmental capital expenditures will be affected by the final requirements of new or revised environmental regulations and regulations relating to global climate change that are promulgated, including the proposed environmental regulations; the outcome of any legal challenges to the environmental rules; the cost, availability, and existing inventory of emissions allowances; and the fuel mix of the electric utilities. Compliance costs may arise from existing unit retirements, installation of additional environmental controls, upgrades to the transmission system, and adding or changing fuel sources for certain existing units. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company and each of the traditional operating companies in Item 7 herein for additional information. The ultimate outcome of these matters cannot be determined at this time.

SEGCO is jointly owned by Alabama Power and Georgia Power. As part of its environmental compliance strategy, SEGCO plans to add natural gas as the primary fuel source for its generating units in 2015. The capacity of SEGCO's units is sold equally to Alabama Power and Georgia Power through a PPA. The impact of SEGCO's ultimate compliance strategy on such PPA costs cannot be determined at this time; however, if such costs cannot continue to be recovered by Alabama Power or Georgia Power through retail rates, they could have a material financial impact on the financial statements of Southern Company and the applicable traditional operating company. See Note 4 to the financial statements of Alabama Power and Georgia Power for additional information.

Compliance with any new federal or state legislation or regulations relating to air quality, water, coal combustion byproducts, global climate change, or other environmental and health concerns could significantly affect the Southern Company system. Although new or revised environmental legislation or regulations could affect many areas of the electric utilities' operations, the full impact of any such changes cannot be determined at this time. Additionally, many of the electric utilities' commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity. See "Construction Program" herein for additional information.

Rate Matters

Rate Structure and Cost Recovery Plans

The rates and service regulations of the traditional operating companies are uniform for each class of service throughout their respective service territories. Rates for residential electric service are generally of the block type based upon KWHs used and include minimum charges. Residential and other rates contain separate customer charges. Rates for commercial service are presently of the block type and, for large customers, the billing demand is generally used to determine capacity and minimum bill charges. These large customers' rates are generally based upon usage by the customer and include rates with special features to encourage off-peak usage. Additionally, Alabama Power, Gulf Power, and Mississippi Power are generally allowed by their respective state PSCs to negotiate the terms and cost of service to large customers. Such terms and cost of service, however, are subject to final state PSC approval.

The traditional operating companies recover their respective costs through a variety of forward-looking, cost-based rate mechanisms. Fuel and net purchased energy costs are recovered through specific fuel cost recovery provisions. These fuel cost recovery provisions are adjusted to reflect increases or decreases in such costs as needed or on schedules as required by the respective PSCs. Approved environmental compliance, storm damage, and certain other costs are recovered at Alabama Power, Gulf Power, and Mississippi Power through specific cost recovery mechanisms approved by their respective PSCs. Certain similar costs at Georgia Power are recovered through various base rate tariffs as approved by the Georgia PSC. Costs not recovered through specific cost recovery mechanisms are recovered at Alabama Power and Mississippi Power through annual, formulaic cost recovery proceedings and at Georgia Power and Gulf Power through base rate proceedings.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters" of Southern Company and each of the traditional operating companies in Item 7 herein and Note 3 to the financial statements of Southern Company and each of the traditional operating companies under "Retail Regulatory Matters" in Item 8 herein for a discussion of rate matters. Also, see Note 1 to the financial statements of Southern Company and each of the traditional operating companies in Item 8 herein for a discussion of recovery of fuel costs, storm damage costs, and environmental compliance costs through rate mechanisms.

See "Integrated Resource Planning" herein for a discussion of Georgia PSC certification of new demand-side or supply-side resources and decertification of existing demand-side resources for Georgia Power. In addition, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Nuclear Construction" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 herein for a discussion of the Georgia Nuclear Energy Financing Act and the Georgia PSC certification of Plant Vogtle Units 3 and 4, which have allowed Georgia Power to recover financing costs for construction of the new nuclear units during the construction period beginning in 2011.

See Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 herein and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" of Mississippi Power in Item 7 herein for information on cost recovery plans and a settlement agreement between Mississippi Power and the Mississippi PSC.

The traditional operating companies and Southern Power and its generation subsidiaries are authorized by the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate.

Mississippi Power serves long-term contracts with rural electric cooperative associations and municipalities located in southeastern Mississippi under cost-based electric tariffs which are subject to regulation by the FERC. The contracts with these wholesale customers represented 22% of Mississippi Power's operating revenues in 2012 and are largely subject to rolling 10-year cancellation notices.

Integrated Resource Planning

Each of the traditional operating companies continually evaluates its electric generating resources in order to ensure that it maintains a cost-effective and reliable mix of resources to meet the existing and future demand requirements of its customers. See "Environmental Statutes and Regulations" above for a discussion of existing and potential environmental regulations that may impact the future generating resource needs of the traditional operating companies.

Certain of the traditional operating companies periodically file IRPs with their respective state PSC as discussed below.

Georgia Power

Triennially, Georgia Power must file an IRP with the Georgia PSC that specifies how it intends to meet the future electrical needs of its customers through a combination of demand-side and supply-side resources. The Georgia PSC, under state law, must certify any new demand-side or supply-side resources for Georgia Power to get cost recovery. Once certified, the lesser of actual or certified construction costs and purchased power costs is recoverable through rates. Certified costs may be excluded from recovery only on the basis of fraud, concealment, failure to disclose a material fact, imprudence, or criminal misconduct.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Georgia Power – Rate Plans" of Southern Company and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Integrated Resource Plans" of Georgia Power in Item 7 herein for additional information.

Gulf Power

Annually by April 1, Gulf Power must file a 10-year site plan with the Florida PSC containing Gulf Power's estimate of its power-generating needs in the period and the general location of its proposed power plant sites. The 10-year site plans submitted by the state's electric utilities are reviewed by the Florida PSC and subsequently classified as either "suitable" or "unsuitable." The Florida PSC then reports its findings along with any suggested revisions to the Florida Department of

Environmental Protection for its consideration at any subsequent electrical power plant site certification proceedings. Under Florida law, any 10-year site plans submitted by an electric utility are considered tentative information for planning purposes only and may be amended at any time at the discretion of the utility with written notification to the Florida PSC. At least every five years, the Florida PSC must conduct proceedings to establish numerical goals for all investor-owned electric utilities and certain municipal or cooperative electric utilities in the state to reduce the growth rates of weather-sensitive peak demand, to reduce and control the growth rates of electric consumption, and to increase the conservation of expensive resources, such as petroleum fuels. Overall residential KWs and KWH goals and overall commercial/industrial KWs and KWH goals for each utility are set by the Florida PSC for each year over a 10-year period. The goals are to be based on an estimate of the total cost effective KWs and KWH savings reasonably achievable through demand-side management in each utility's service territory over a 10-year period. Once goals have been set, each affected utility must develop and submit plans and programs to meet the overall goals within its service territory to the Florida PSC for review and approval. Once approved, the utilities are required to submit periodic reports which the Florida PSC then uses to prepare its annual report to the Florida Governor and legislature of the goals that have been established and the progress towards meeting those goals.

Gulf Power's most recent 10-year site plan was classified by the Florida PSC as "suitable" on November 28, 2012. Gulf Power's most recent 10-year site plan and environmental compliance plan identify environmental regulations and potential legislation or regulation that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts," and "Environmental Matters – Global Climate Issues" of Gulf Power in Item 7 herein. Gulf Power continues to consider and evaluate various potential planning scenarios for units at each of Gulf Power's coal-fired generating plants. This work indicates that, depending on the final requirements in these anticipated EPA regulations and any legislation or regulations relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Gulf Power may conclude that it is more economical to retire certain of its coal-fired generating units prior to 2021 and to replace such units with new or purchased capacity.

In 2009, the Florida PSC adopted new numerical conservation goals for Gulf Power along with other electric utilities in the state. The Florida PSC adopted more aggressive goals due in part to the consideration of possible greenhouse gas emissions costs incurred in connection with possible climate change legislation and a change in the manner in which the Florida PSC considers the effect of so-called "free-riders" on the level of conservation reasonably achievable through utility programs. Gulf Power's plans and programs to meet the new goals were submitted to the Florida PSC for review in 2010 and were approved in January 2011. The costs of implementing Gulf Power's conservation plans and programs are recovered through specific conservation recovery rates set annually by the Florida PSC.

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

Mississippi Power

Mississippi Power's 2010 IRP indicated that Mississippi Power plans to construct the Kemper IGCC to meet its identified needs, to add environmental controls at Plant Daniel Units 1 and 2, to defer environmental controls at Plant Watson Units 4 and 5, and to continue operation of the combined cycle Plant Daniel Units 3 and 4. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" and "Environmental Matters – Global Climate Issues" of Mississippi Power in Item 7 herein. Depending on the final requirements in the anticipated EPA regulations and any legislation or regulation relating to greenhouse gas emissions, as well as estimates of long-term fuel prices, Mississippi Power may conclude that it is more economical to discontinue burning coal at certain coal-fired generating units than to install the required controls. The ultimate outcome of these matters cannot be determined at this time.

Mississippi Baseload Act

In the 2008 regular session of the Mississippi legislature, a bill was passed and signed by the Governor to enhance the Mississippi PSC's authority to facilitate development and construction of base load generation in the State of Mississippi (Baseload Act). The Baseload Act authorizes, but does not require, the Mississippi PSC to adopt a cost recovery mechanism that includes in retail base rates, prior to and during construction, all or a portion of the prudently incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. Prior to the passage of the Baseload Act, such costs would traditionally be recovered only after the plant was placed in service. The Baseload Act also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the Baseload Act authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant. There are legal challenges to the constitutionality of the Baseload Act currently pending before the Mississippi Supreme Court. The ultimate impact of this legislation on Southern Company and Mississippi Power will depend on the outcome of any legal

challenges and cannot be determined at this time.
For information regarding Mississippi Power's construction of the Kemper IGCC, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" of Mississippi Power in Item 7 herein and Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 herein.
For information regarding certain legal challenges to the Baseload Act, see Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle – Baseload Act" in Item 8 herein.
The ultimate outcome of these matters cannot be determined at this time.
Employee Relations
The Southern Company system had a total of 26,439 employees on its payroll at December 31, 2012.

	Employees at December 31, 2012
Alabama Power	6,778
Georgia Power	8,094
Gulf Power	1,416
Mississippi Power	1,281
SCS	4,516
Southern Nuclear	4,077
Southern Power*	0
Other	277
Total	26,439

* Southern Power has no employees. Southern Power has agreements with SCS and the traditional operating companies whereby employee services are rendered at amounts in compliance with FERC regulations.
The traditional operating companies have separate agreements with local unions of the IBEW generally covering wages, working conditions, and procedures for handling grievances and arbitration. These agreements apply with certain exceptions to operating, maintenance, and construction employees.
Alabama Power has an agreement with the IBEW covering wages and working conditions, which is in effect through August 15, 2014.
Georgia Power has an agreement with the IBEW covering wages and working conditions, which is in effect through June 30, 2016.
Gulf Power has an agreement with the IBEW covering wages and working conditions, which is in effect through September 14, 2014.
Mississippi Power has an agreement with the IBEW covering wages and working conditions, which is in effect through August 15, 2014. On February 11, 2013, Mississippi Power signed an agreement with the IBEW related to the Kemper IGCC, which is in effect through March 15, 2016.
Southern Nuclear has an agreement with the IBEW covering certain employees at Plants Hatch and Vogtle which is in effect through June 30, 2016. A five-year agreement between Southern Nuclear and the IBEW representing certain employees at Plant Farley is in effect through August 15, 2014.
The agreements also make the terms of the pension plans for the companies discussed above subject to collective bargaining with the unions at either a five-year or a 10-year cycle, depending upon union and company actions.

Item 1A. RISK FACTORS

In addition to the other information in this Form 10-K, including MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL in Item 7 of each registrant, and other documents filed by Southern Company and/or its subsidiaries with the SEC from time to time, the following factors should be carefully considered in evaluating Southern Company and its subsidiaries. Such factors could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Southern Company and/or its subsidiaries.

UTILITY REGULATORY, LEGISLATIVE, AND LITIGATION RISKS

Southern Company and its subsidiaries are subject to substantial governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits, and certificates may result in substantial costs to Southern Company and its subsidiaries.

Southern Company and its subsidiaries, including the traditional operating companies and Southern Power, are subject to substantial regulation from federal, state, and local regulatory agencies. Southern Company and its subsidiaries are required to comply with numerous laws and regulations and to obtain numerous permits, approvals, and certificates from the governmental agencies that regulate various aspects of their businesses, including rates and charges, service regulations, retail service territories, sales of securities, asset acquisitions and sales, accounting policies and practices, and the operation of fossil-fuel, nuclear, hydroelectric, solar, and biomass generating facilities, as well as transmission and distribution facilities. For example, the rates charged to wholesale customers by the traditional operating companies and by Southern Power must be approved by the FERC. These wholesale rates could be affected absent the ability to conduct business pursuant to FERC market-based rate authority. Additionally, the respective state PSCs must approve the traditional operating companies' requested rates for retail customers. While the retail rates of the traditional operating companies are designed to provide for the full recovery of costs (including a reasonable return on invested capital), there can be no assurance that a state PSC, in a future rate proceeding, will not attempt to alter the timing or amount of certain costs for which recovery is sought or to modify the current authorized rate of return.

Southern Company and its subsidiaries believe the necessary permits, approvals, and certificates have been obtained for their respective existing operations and that their respective businesses are conducted in accordance with applicable laws; however, the impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to Southern Company or any of its subsidiaries cannot now be predicted. Changes in regulation or the imposition of additional regulations could influence the operating environment of Southern Company and its subsidiaries and may result in substantial costs.

The Southern Company system's costs of compliance with environmental laws are significant. The costs of compliance with current and future environmental laws, including laws and regulations designed to address air quality, water, coal combustion byproducts, global climate change, renewable energy standards, and other matters and the incurrence of environmental liabilities could negatively impact the net income, cash flows, and financial condition of Southern Company, the traditional operating companies, and/or Southern Power.

The Southern Company system is subject to extensive federal, state, and local environmental requirements which, among other things, regulate air emissions, water usage and discharges, and the management of hazardous and solid waste in order to adequately protect the environment. Compliance with these environmental requirements requires the traditional operating companies and Southern Power to commit significant expenditures for installation of pollution control equipment, environmental monitoring, emissions fees, and permits at substantially all of their respective facilities. These expenditures are significant and Southern Company, the traditional operating companies, and Southern Power expect that they will increase in the future. Through 2012, the traditional operating companies had invested approximately $8.7 billion in environmental capital retrofit projects to comply with these requirements. The EPA has adopted and is in the process of implementing regulations governing the emission of nitrogen oxide, sulfur dioxide, fine particulate matter, mercury, and other air pollutants under the Clean Air Act through the national ambient air quality standards, CAIR, the MATS rule, and other air quality regulations and is in the process of considering additional revisions. In addition, the EPA has proposed additional regulations governing cooling water intake structures and is expected to propose revisions to the effluent guidelines for steam electric generating plants under the Clean Water Act. The EPA is also evaluating whether additional regulation of coal combustion byproducts (including coal ash and gypsum) is merited under federal solid and hazardous waste laws.

Existing environmental laws and regulations may be revised or new laws and regulations related to air quality, water, coal combustion byproducts, global climate change, or other environmental and health concerns may be adopted or become applicable to the traditional operating companies and/or Southern Power.

In addition, the EPA has determined that emissions of carbon dioxide and other greenhouse gases are regulated pollutants under the Prevention of Significant Deterioration preconstruction permit program and the Title V operating permit program, which both apply to power plants and other commercial and industrial facilities. On April 13, 2012, the EPA published proposed regulations to establish standards of performance for greenhouse gas emissions from new fossil fuel steam electric generating units and has indicated that it will propose standards of performance for existing units in the future.

The Southern Company system's ultimate environmental compliance strategy, including potential unit retirement and replacement decisions, and future environmental capital expenditures will be affected by the final requirements of new or revised environmental regulations and regulations relating to global climate change that are promulgated; the outcome of any legal challenges to the environmental rules; the cost, availability, and existing inventory of emissions allowances; and the fuel mix of the electric utilities. Compliance costs may arise from existing unit retirements, installation of additional environmental controls, upgrades to the transmission system, and adding or changing fuel sources for certain existing units. Additionally, if Southern Company, any traditional operating company, or Southern Power fails to comply with environmental laws and regulations, even if caused by factors beyond its control, that failure may result in the assessment of civil or criminal penalties and fines. The EPA has filed civil actions against Alabama Power and Georgia Power and issued notices of violation to Gulf Power and Mississippi Power alleging violations of the new source review provisions of the Clean Air Act. Southern Company, the traditional operating companies, and Southern Power are also parties to suits alleging that emissions of carbon dioxide, a greenhouse gas, contribute to global climate change. An adverse outcome in any of these matters could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties.

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified. Such expenditures could affect unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates for the traditional operating companies or market-based rates for Southern Power. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and financial condition.

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury, property damage, and other claims for damages alleged to have been caused by CO_2 and other emissions, coal combustion byproducts, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters, have become more frequent.

The ultimate cost impact of proposed and final legislation and regulations and litigation are likely to result in significant and additional costs and could result in additional operating restrictions.

The net income of Southern Company, the traditional operating companies, and Southern Power could be negatively impacted by changes in regulations related to transmission planning processes and competition in the wholesale electric markets.

The traditional operating companies currently own and operate transmission facilities as part of a vertically integrated utility. A small percentage of transmission revenues are collected through the wholesale electric tariff but the majority of transmission revenues are collected through retail rates. Proposed or potential changes in federal law, regulatory uncertainty, and industry restructuring are expected to continue to present challenges to the regulatory and/or operational structure of transmission and competition on the wholesale level. Any changes could have an adverse impact on the ownership of transmission assets and/or future revenues. As an example, pending FERC regulation pertaining to cost allocation for regional transmission projects could require Southern Company and its utility subsidiaries to subsidize costs outside of the Southern Company system's retail service territory.

The FERC rules related to transmission are intended to spur the development of new transmission infrastructure to promote and encourage the integration of renewable sources of supply as well as facilitate competition in the wholesale market by providing more choices to wholesale power customers. In addition to the impacts on transactions contemplating physical delivery of energy, financial laws and regulations also impact power hedging and trading based on futures contracts and derivatives that are traded on various commodities exchanges as well as over-the-counter. Finally, technology changes in the power and fuel industries continue to create significant impacts to wholesale transaction cost structures. Southern Company, the traditional operating companies, and Southern Power cannot predict the impact of these and other such developments, nor can they predict the effect of changes in levels of wholesale supply and demand, which are typically driven by factors beyond their control. The financial condition, net income, and cash flows of Southern Company, the traditional operating companies, and Southern Power could be adversely affected by these and other changes.

The traditional operating companies and Southern Power could be subject to higher costs and penalties as a result of mandatory reliability standards.

Owners and operators of bulk power systems, including the traditional operating companies, are subject to mandatory reliability standards enacted by the North American Reliability Corporation and enforced by the FERC. Compliance with the mandatory reliability standards may subject the traditional operating companies, Southern Power, and Southern Company to higher operating costs and may result in increased capital expenditures. If any traditional operating company or Southern Power is found to be in noncompliance with the mandatory reliability standards, such traditional operating company or Southern Power could be subject to sanctions, including substantial monetary penalties.

OPERATIONAL RISKS

The financial performance of Southern Company and its subsidiaries may be adversely affected if the subsidiaries are unable to successfully operate their facilities or perform certain corporate functions.

The financial performance of Southern Company and its subsidiaries depends on the successful operation of its subsidiaries' electric generating, transmission, and distribution facilities. Operating these facilities involves many risks, including:

- operator error or failure of equipment or processes, particularly with older generating facilities;
- operating limitations that may be imposed by environmental or other regulatory requirements;
- labor disputes;
- terrorist attacks;
- fuel or material supply interruptions;
- compliance with mandatory reliability standards, including mandatory cyber security standards;
- implementation of technologies with which the Southern Company system is developing experience;

- information technology system failure;
- cyber intrusion; and
- catastrophic events such as fires, earthquakes, explosions, floods, droughts, hurricanes, pandemic health events such as influenzas, or other similar occurrences.

A decrease or elimination of revenues from the electric generation, transmission, or distribution facilities or an increase in the cost of operating the facilities would reduce the net income and cash flows and could adversely impact the financial condition of the affected traditional operating company or Southern Power and of Southern Company. In addition, an investment in a subsidiary with such generation, transmission, or distribution facilities could be adversely impacted.

Operation of nuclear facilities involves inherent risks, including environmental, health, regulatory, natural disasters, terrorism, and financial risks, that could result in fines or the closure of the nuclear units owned by Alabama Power or Georgia Power and which may present potential exposures in excess of insurance coverage.

Alabama Power owns, and contracts for the operation of, two nuclear units and Georgia Power holds undivided interests in, and contracts for the operation of, four existing nuclear units. The six existing units are operated by Southern Nuclear and represent approximately 3,680 MWs, or 8.0%, of Southern Company's generation capacity as of December 31, 2012. In addition, Southern Nuclear, on behalf of Georgia Power and the other co-owners, is overseeing the construction of Plant Vogtle Units 3 and 4. Due solely to the increase in nuclear generating capacity, the below risks are expected to increase once Plant Vogtle Units 3 and 4 are operational. Nuclear facilities are subject to environmental, health, and financial risks such as:

- the potential harmful effects on the environment and human health resulting from a release of radioactive materials in connection with the operation of nuclear facilities and the storage, handling, and disposal of spent nuclear fuel;
- uncertainties with respect to the on-site storage of and the ability to dispose of spent nuclear fuel;
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of licensed lives and the ability to maintain adequate reserves for decommissioning;
- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with the nuclear operations of Alabama Power and Georgia Power or those of others in the United States;
- potential liabilities arising out of the operation of these facilities;
- significant capital expenditures relating to maintenance, operation, security, and repair of these facilities, including repairs and upgrades required by the NRC;
- the threat of a possible terrorist attack; and
- the impact of a natural disaster.

Alabama Power and Georgia Power maintain decommissioning trusts and external insurance coverage to minimize the financial exposure to these risks; however, it is possible that damages could exceed the amount of insurance coverage.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. As a result of the major earthquake and tsunami that struck Japan in March 2011 and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant, the NRC is performing additional operational and safety reviews of nuclear facilities in the U.S., which could potentially impact future operations and capital requirements. The NRC also issued three orders and the NRC staff issued guidance on acceptable approaches for compliance with these orders before the December 31, 2016 deadline, that included, among other items, additional mitigation strategies for beyond-design-basis events, enhanced spent fuel pool instrumentation capabilities, hardened vents for certain classes of containment structures, including the one in use at Plant Hatch, site specific evaluations for seismic and flooding hazards, and various plant evaluations to ensure adequate coping capabilities during station blackout and other conditions. The final form and the resulting impact of any changes to safety requirements for nuclear reactors will be dependent on further review and action by the NRC and cannot be determined at this time.

In the event of non-compliance with NRC licensing and safety-related requirements, the NRC has the authority to impose fines and/or shut down any unit, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or regulations related to increased security measures and any future safety requirements promulgated by the NRC could require Alabama Power and Georgia Power to make substantial operating and capital expenditures at their nuclear plants. In addition, although Alabama Power, Georgia Power, and Southern Company have no reason to anticipate a serious nuclear incident at the Southern Company system nuclear plants, if an incident did occur, it could result in substantial costs to Alabama Power or Georgia Power and Southern Company. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit. Moreover, a major incident at any nuclear facility in the United States could require Alabama Power and Georgia Power to make material contributory payments.

In addition, potential terrorist threats and increased public scrutiny of utilities could result in increased nuclear licensing or compliance costs that are difficult to predict.

Physical or cyber attacks, both threatened and actual, could impact the ability of the traditional operating companies and Southern Power to operate and could adversely affect financial results and liquidity.

The traditional operating companies and Southern Power face the risk of physical and cyber attacks, both threatened and actual, against their respective generation facilities, the transmission and distribution infrastructure used to transport power, and their information technology systems and network infrastructure, which could negatively impact the ability of the traditional operating companies or Southern Power to generate, transport, and deliver power, or otherwise operate their respective facilities in the most efficient manner or at all.

The traditional operating companies and Southern Power operate in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure, which are part of an interconnected regional grid. In addition, in the ordinary course of business, the traditional operating companies and Southern Power collect and retain sensitive information including personal identification information about customers and employees and other confidential information. The traditional operating companies and Southern Power face on-going threats to their business networks. Despite the implementation of robust security measures, all technology systems are potentially vulnerable to disability, failures, or unauthorized access due to human error or physical or cyber attacks. If the traditional operating companies' or Southern Power's technology systems were to fail or be breached and were not recovered in a timely way, the traditional operating companies or Southern Power may be unable to fulfill critical business functions, and sensitive and other data could be compromised. The theft, damage, or improper disclosure of sensitive electronic data may also subject the applicable traditional operating company or Southern Power to penalties and claims from third parties.

These events could negatively affect the financial results of Southern Company, the traditional operating companies, or Southern Power through lost revenues, costs to recover and repair damage, and costs associated with governmental actions in response to such attacks.

The traditional operating companies and Southern Power may not be able to obtain adequate fuel supplies, which could limit their ability to operate their facilities.

The traditional operating companies and Southern Power purchase fuel, including coal, natural gas, uranium, fuel oil, and biomass, from a number of suppliers. Disruption in the delivery of fuel, including disruptions as a result of, among other things, transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting any of these fuel suppliers, could limit the ability of the traditional operating companies and Southern Power to operate their respective facilities, and thus reduce the net income of the affected traditional operating company or Southern Power and Southern Company.

The traditional operating companies are dependent on coal for a portion of their electric generating capacity. Each traditional operating company has coal supply contracts in place; however, there can be no assurance that the counterparties to these agreements will fulfill their obligations to supply coal to the traditional operating companies. The suppliers under these agreements may experience financial or technical problems which inhibit their ability to fulfill their obligations to the traditional operating companies. In addition, the suppliers under these agreements may not be required to supply coal to the traditional operating companies under certain circumstances, such as in the event of a natural disaster. If the traditional operating companies are unable to obtain their coal requirements under these contracts, the traditional operating companies may be required to purchase their coal requirements at higher prices, which may not be fully recoverable through rates.

In addition, the traditional operating companies and Southern Power to a greater extent are dependent on natural gas for a portion of their electric generating capacity. In many instances, the cost of purchased power for the traditional operating companies and Southern Power is influenced by natural gas prices. Historically, natural gas prices have been more volatile than prices of other fuels. In recent years, domestic natural gas prices have been depressed by robust supplies, including production from shale gas, as well as lower demand. These market conditions, together with additional regulation of coal-fired generating units, have increased the traditional operating companies' reliance on natural gas-fired generating units.

Natural gas supplies can be subject to disruption in the event production or distribution is curtailed, such as in the event of a hurricane. The availability of shale gas and potential regulations affecting its accessibility may have a material impact on the supply and cost of natural gas.

In addition, world market conditions for fuels can impact the cost and availability of natural gas, coal, and uranium.

The revenues of Southern Company, the traditional operating companies, and Southern Power depend in part on sales under PPAs. The failure of a counterparty to one of these PPAs to perform its obligations, or the failure to renew the PPAs, could have a negative impact on the net income and cash flows of the affected traditional operating company or Southern Power and of Southern Company.

Most of Southern Power's generating capacity has been sold to purchasers under PPAs. In addition, the traditional operating companies enter into PPAs with non-affiliated parties. Revenues are dependent on the continued performance by the purchasers of their obligations under these PPAs. Even though Southern Power and the traditional operating companies have a rigorous credit evaluation process and contractual protections, the failure of one of the purchasers to perform its obligations could have a negative impact on the net income and cash flows of the affected traditional operating company or Southern Power and of Southern Company. Although these credit evaluations and contractual protections take into account the possibility of default by a purchaser, actual exposure to a default by a purchaser may be greater than predicted. Additionally, neither Southern Power nor any traditional operating company can predict whether the PPAs will be renewed at the end of their respective terms or on what terms any renewals may be made. If a PPA is not renewed, a replacement PPA cannot be assured.

Changes in technology may make Southern Company's electric generating facilities owned by the traditional operating companies and Southern Power less competitive.

A key element of the business models of Southern Company, the traditional operating companies, and Southern Power is that generating power at central station power plants achieves economies of scale and produces power at a competitive cost. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines, and solar cells. It is possible that advances in technology will reduce the cost of alternative methods of producing power to a level that is competitive with that of most central station power electric production. If these technologies became cost competitive and achieved economies of scale, the market share of the traditional operating companies and Southern Power could be eroded, and the value of their respective electric generating facilities could be reduced. It is also possible that rapid advances in central station power generation technology could reduce the value of the current electric generating facilities owned by the traditional operating companies and Southern Power. Changes in technology could also alter the channels through which electric customers buy or utilize power, which could reduce the revenues or increase the expenses of Southern Company, the traditional operating companies, or Southern Power.

Failure to attract and retain an appropriately qualified workforce could negatively impact Southern Company's and its subsidiaries' results of operations.

Events such as an aging workforce without appropriate replacements, mismatch of skill sets to future needs, or unavailability of contract resources may lead to operating challenges or increased costs. Such operating challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development, especially with the workforce needs associated with new nuclear and IGCC construction. Failure to hire and adequately obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect Southern Company and its subsidiaries' ability to manage and operate their businesses. If Southern Company and its subsidiaries, including the traditional operating companies, are unable to successfully attract and retain an appropriately qualified workforce, results of operations could be negatively impacted.

CONSTRUCTION RISKS

Southern Company, the traditional operating companies, and/or Southern Power may incur additional costs or delays in the construction of new plants or other facilities and may not be able to recover their investments. Also, existing facilities of the traditional operating companies and Southern Power require ongoing capital expenditures, including those to meet environmental standards.

The businesses of the registrants require substantial capital expenditures for investments in new facilities and capital improvements to transmission, distribution, and generation facilities, including those to meet environmental standards. Certain of the traditional operating companies and Southern Power are in the process of constructing new generating facilities and adding environmental controls equipment at existing generating facilities. The Southern Company system intends to continue its strategy of developing and constructing other new facilities, expanding existing facilities, and adding environmental control equipment. These types of projects are long-term in nature and in some cases involve facility designs that have not been finalized or previously constructed. The completion of these types of projects without delays or significant cost overruns is subject to substantial risks, including:

- shortages and inconsistent quality of equipment, materials, and labor;
- work stoppages;
- contractor or supplier delay or non-performance under construction or other agreements or non-performance by other major participants in construction projects;
- delays in or failure to receive necessary permits, approvals, and other regulatory authorizations;
- impacts of new and existing laws and regulations, including environmental laws and regulations;
- the outcome of legal challenges to regulatory approvals;
- failure to construct in accordance with licensing requirements;
- continued public and policymaker support for such projects;
- adverse weather conditions;
- unforeseen engineering problems;
- changes in project design or scope;
- environmental and geological conditions;
- delays or increased costs to interconnect facilities to transmission grids; and
- unanticipated cost increases, including materials and labor, and increased financing costs as a result of changes in market interest rates or as a result of construction schedule delays.

In addition, with respect to the construction of new nuclear units and the operation of existing nuclear units, a major incident at a nuclear facility anywhere in the world could cause the NRC to delay or prohibit construction of new nuclear units or require additional safety measures at new and existing units. As a result of the major earthquake and tsunami that struck Japan in March 2011 and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant, the NRC is performing additional operational and safety reviews of nuclear facilities in the U.S., which could potentially impact future operations and capital requirements.

If a traditional operating company or Southern Power is unable to complete the development or construction of a facility or decides to delay or cancel construction of a facility, it may not be able to recover its investment in that facility and may incur substantial cancellation payments under equipment purchase orders or construction contracts. Even if a construction project is completed, the total costs may be higher than estimated and there is no assurance that the traditional operating company will be able to recover such expenditures through regulated rates. In addition, construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect the net income and financial position of a traditional operating company or Southern Power and of Southern

Company.

Construction delays also may result in the loss of otherwise available investment tax credits, production tax credits, and other tax incentives. Furthermore, if construction projects are not completed according to specification, a traditional operating company or Southern Power and Southern Company may incur liabilities and suffer reduced plant efficiency, higher operating costs, and reduced net income.

Once facilities come into commercial operation, ongoing capital expenditures are required to maintain reliable levels of operation. Significant portions of the traditional operating companies' existing facilities were constructed many years ago. Older generation equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to maintain efficiency, to comply with changing environmental requirements, or to provide reliable operations.

The two largest construction projects currently underway in the Southern Company system are the construction of Plant Vogtle Units 3 and 4 and the construction of the Kemper IGCC. Southern Nuclear, on behalf of Georgia Power and the other co-owners, is overseeing the construction of and will operate Plant Vogtle Units 3 and 4 (each, an approximately 1,100 MW AP1000 nuclear generating unit). Georgia Power owns 45.7% of the new units. The NRC certified the Westinghouse Electric Company LLC's Design Certification Document, as amended (DCD), for the AP1000 reactor design, effective December 30, 2011, and issued combined COLs on February 10, 2012. Receipt of the COLs allowed full construction to begin. Separate groups of petitioners have filed petitions in the U.S. Court of Appeals for the District of Columbia Circuit seeking judicial review of the NRC's issuance of the COLs and certification of the DCD. Additional technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4, at the federal and state level, are expected as construction proceeds.

Georgia Power is required to file semi-annual Vogtle Construction Monitoring (VCM) reports with the Georgia PSC by February 28 and August 31 of each year. Georgia Power's eighth VCM report requests approval for an additional $0.2 billion of construction capital costs incurred through December 31, 2012. If the projected certified construction capital costs to be borne by Georgia Power increase by 5% or the projected in-service dates are significantly extended, Georgia Power is required to seek an amendment to the Plant Vogtle Units 3 and 4 certificate from the Georgia PSC. Accordingly, the eighth VCM also requests an amendment to the certificate to increase the estimated in-service capital cost of Plant Vogtle Units 3 and 4 to $4.8 billion and to extend the estimated in-service dates to fourth quarter 2017 and fourth quarter 2018 for Plant Vogtle Units 3 and 4, respectively. Associated financing costs during the construction period are estimated to total approximately $2.0 billion.

Georgia Power, OPC, MEAG Power, and the City of Dalton (collectively, the Owners) and Westinghouse Electric Company LLC (Westinghouse) and Stone & Webster, Inc. (Stone & Webster) (collectively, the Contractor) are involved in litigation regarding the costs associated with design changes to the DCD and delays in the timing of approval of the DCD and issuance of the COLs, including the assertion by the Contractor that the Owners are responsible for these costs and that the Contractor is entitled to further schedule extensions. Georgia Power has not agreed with either the proposed cost or schedule adjustments or that the Owners have any responsibility for costs related to these issues. While litigation has commenced and Georgia Power intends to vigorously defend its positions, Georgia Power expects negotiations with the Contractor to continue with respect to costs and schedule during which negotiations the parties may reach a mutually acceptable compromise of their positions.

In addition, there are processes in place that are designed to assure compliance with the requirements specified in the DCD and COLs, including rigorous inspections by Southern Nuclear and the NRC that occur throughout construction. License amendment requests are pending with the NRC to address a few non-safety significant deviations that were identified in the fourth quarter of 2012 with respect to the rebar design for the Plant Vogtle Unit 3 nuclear island. Various design and other issues are expected to arise as construction proceeds, which may result in additional license amendments or require other resolution. If any license amendment requests are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs either to the Owners, the Contractor, or both.

As construction continues, additional delays in the fabrication and assembly of structural modules or the failure of such modules to meet applicable standards, or other issues may further impact project schedule and costs. Additional claims by the Contractor or Georgia Power (on behalf of the Owners) are also likely to arise throughout construction. These claims may be resolved through formal and informal dispute resolution procedures under the Vogtle 3 and 4 Agreement, but also may be resolved through litigation.

In addition, Mississippi Power is constructing the Kemper IGCC. Mississippi Power and SMEPA are parties to an amended Asset Purchase Agreement whereby SMEPA agreed to purchase a 15% undivided interest in the Kemper

IGCC. The closing of this transaction is conditioned upon execution of a joint ownership and operating agreement, receipt of all construction permits, appropriate regulatory approvals, financing, and other conditions.

The Mississippi PSC originally approved Mississippi Power's request for a CPCN for the construction of the Kemper IGCC in 2010. Following judicial proceedings relating to its original order, the Mississippi PSC issued a detailed order (2012 MPSC Order) confirming the CPCN for the Kemper IGCC. On April 26, 2012, the Sierra Club appealed the 2012 MPSC Order to the Chancery Court of Harrison County, Mississippi (Chancery Court). On December 17, 2012, the Chancery Court affirmed the 2012 MPSC Order which confirmed the issuance of the CPCN for the Kemper IGCC. On January 8, 2013, the Sierra Club filed an appeal of the Chancery Court's ruling with the Mississippi Supreme Court. Additional judicial challenges that may impact the Kemper IGCC are pending, including a challenge of the constitutionality of the Baseload Act that is pending before the Mississippi Supreme Court.
The certificated cost estimate of the Kemper IGCC included in the 2012 MPSC Order was $2.4 billion, net of $245.3 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (CCPI2) and excluding the cost of the

lignite mine and equipment, the cost of the CO_2 pipeline facilities, and financing costs related to the Kemper IGCC. The 2012 MPSC Order approved a construction cost cap of up to $2.88 billion, with recovery of prudently-incurred costs subject to approval by the Mississippi PSC. Exemptions from the cost cap included in the 2012 Mississippi PSC Order included the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, financing costs, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on the ratepayers, relative to the original proposal for the CPCN).
Mississippi Power's current cost estimate for the Kemper IGCC (net of the $245.3 million CCPI2 grant, and excluding the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, financing costs, and certain general exceptions as contemplated in the 2012 Mississippi PSC Order and the settlement agreement between Mississippi Power and the Mississippi PSC entered into on January 24, 2013 (Settlement Agreement) that must be specifically approved by the Mississippi PSC) is approximately $2.88 billion. While Mississippi Power continues to believe its cost estimate and schedule projection remain appropriate based on the current status of the project, it is possible that Mississippi Power could experience further cost increases and/or schedule delays with respect to the Kemper IGCC. Certain factors have caused and may continue to cause the costs for the Kemper IGCC to increase and/or schedule delays to occur including, but not limited to, costs and productivity of labor, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, contractor or supplier delay or non-performance under construction or other agreements, and unforeseen engineering problems. To the extent it becomes probable that costs beyond any permitted exceptions to the cost cap will exceed $2.88 billion or it becomes probable that the Mississippi PSC will disallow a portion of the costs relating to the Kemper IGCC, including certain general exceptions as contemplated in the 2012 Mississippi PSC order and the Settlement Agreement, charges to expense may occur and these charges could be material.
The 2012 MPSC Order included provisions relating to both Mississippi Power's recovery of financing costs during the course of construction of the Kemper IGCC and Mississippi Power's recovery of costs following the in-service date of the Kemper IGCC. On June 22, 2012, the Mississippi PSC denied Mississippi Power's proposed Certificated New Plant-A (CNP-A) rate schedule and the 2012 rate recovery filings submitted by Mississippi Power which provided for recovery of financing costs during 2012, pending a final ruling from the Mississippi Supreme Court regarding the Sierra Club's appeal of the Mississippi PSC's issuance of the CPCN for the Kemper IGCC. On July 9, 2012, Mississippi Power appealed the Mississippi PSC's June 22, 2012 decision to the Mississippi Supreme Court and requested interim rates under bond of $55.3 million.
On January 24, 2013, Mississippi Power and the Mississippi PSC entered into a Settlement Agreement that (1) establishes the process for resolving matters regarding cost recovery related to the Kemper IGCC for the purpose of mitigating risks to Mississippi Power and its customers and expediting the regulatory process associated with future rate filings required under the Settlement Agreement and (2) resolves Mississippi Power's CNP-A rate appeal before the Mississippi Supreme Court.
On February 12, 2013, the Mississippi Supreme Court granted Mississippi Power and the Mississippi PSC's joint filing for dismissal of Mississippi Power's appeal of the Mississippi PSC's June 22, 2012 decision.
Under the terms of the Settlement Agreement, Mississippi Power and the Mississippi PSC will follow certain agreed-upon regulatory procedures and schedules for resolving the cost recovery matters related to the Kemper IGCC. These procedures and schedules include the following: (1) Mississippi Power's filing within 30 days of the Settlement Agreement of a new request to increase rates in 2013 in an amount not to exceed a $172 million annual revenue requirement, based upon projected investment as of December 31, 2013, to be recorded to a regulatory liability to be used to mitigate rate impacts when the Kemper IGCC is placed in service (which filing for $172 million was made on January 25, 2013); (2) the Mississippi PSC's decision on that matter within 50 days of Mississippi Power's request; (3) Mississippi Power's collaboration with the Mississippi Public Utilities Staff to file with the Mississippi PSC within three months of the Settlement Agreement a rate recovery plan for the Kemper IGCC for the first seven years of its operation, along with a proposed revenue requirement under such plan for 2014 through 2020 (which filing was made

on February 26, 2013 as described below); (4) the Mississippi PSC's decision on the rate recovery plan within four months of the filing; (5) Mississippi Power's agreement to limit the portion of prudently-incurred Kemper IGCC costs to be included in rate base to the $2.4 billion certificated cost estimate, plus costs related to the lignite mine and CO_2 pipeline as well as any other costs permitted or determined to be excluded from the cost cap, provided that this limitation will not prevent Mississippi Power from securing alternate financing to recover any prudently-incurred Kemper IGCC costs, including financing costs and plant costs above the $2.4 billion certificated cost estimate, not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement; and (6) the Mississippi PSC's completion of its prudence review of the Kemper IGCC costs incurred through 2012 within six months of the Settlement Agreement, an additional prudence review upon considering the seven-year rate plan for costs incurred through the most recent reporting period, and a final prudence review of the remaining project costs within six months of the Kemper IGCC's in-service date.

Legislation to authorize a multi-year rate plan and legislation to provide for alternate financing through securitization was passed in the Mississippi legislature and was signed by the Governor on February 26, 2013. Mississippi Power contemplates using securitization as provided in the legislation as its form of alternate financing for prudently-incurred Kemper IGCC costs, including financing costs and plant costs above the $2.4 billion certificated cost estimate, not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement.

On February 26, 2013, Mississippi Power in compliance with the Settlement Agreement, filed with the Mississippi PSC a rate recovery plan for the Kemper IGCC for 2014 through 2020, the first seven years of operation of the Kemper IGCC. The rate recovery plan proposes recovery of an annual revenue requirement of approximately $150 million of Kemper IGCC-related operational costs and rate base amounts, including plant costs equal to the $2.4 billion certificated cost estimate. Approval of Mississippi Power's request to increase rates in 2013 to mitigate the rate impacts of the Kemper IGCC filed on January 25, 2013 is integral to the rate recovery plan as the proposed filing contemplates amortization of the regulatory liability to be used to mitigate rate impacts from 2014 through 2020, based on a fixed amortization schedule that requires approval by the Mississippi PSC. Under the rate recovery plan filing, Mississippi Power proposes annual recovery to remain the same from 2014 through 2020 and, while it is the intent of Mississippi Power for the actual revenue requirement to equal the proposed revenue requirement for certain items, Mississippi Power proposes that the annual differences for those items through 2020 will be deferred, subject to accrual of carrying costs, and the cumulative balance will be reviewed at the end of the term of the Settlement Agreement by the Mississippi PSC for determination of the manner of the recovery. Mississippi Power proposes to secure recovery of prudently-incurred Kemper IGCC costs, including financing costs and plant costs above the $2.4 billion certificated cost estimate, not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement to be provided for with alternate financing through securitization. The rate recovery necessary to recover the annual costs of securitization is proposed to be filed and begin after the Kemper IGCC is placed in service.

Under the terms of the Settlement Agreement, Mississippi Power has the right to terminate the Settlement Agreement if certain conditions, including the passage of multi-year rate plan legislation that is contemplated under the Settlement Agreement, are not met, if Mississippi Power is unable to secure alternate financing for any prudently-incurred Kemper IGCC costs not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement, or if the Mississippi PSC fails to comply with the requirements of the Settlement Agreement.

The ultimate outcome of these matters, including the determinations of prudency and the specific manner of recovery of prudently-incurred costs, is subject to further legislative and regulatory actions and cannot be determined at this time.

FINANCIAL, ECONOMIC, AND MARKET RISKS

The generation operations and energy marketing operations of Southern Company, the traditional operating companies, and Southern Power are subject to risks, many of which are beyond their control, including changes in power prices and fuel costs, that may reduce Southern Company's, the traditional operating companies', and/or Southern Power's revenues and increase costs.

The generation operations and energy marketing operations of the Southern Company system are subject to changes in power prices or fuel costs, which could increase the cost of producing power or decrease the amount received from the sale of power. The market prices for these commodities may fluctuate significantly over relatively short periods of time. In addition, the proportion of natural gas generation to the total fuel mix is likely to increase in the future. The Southern Company system attempts to mitigate risks associated with fluctuating fuel costs by passing these costs on to customers through the traditional operating companies' fuel cost recovery clauses or through PPAs. Among the factors that could influence power prices and fuel costs are:

- prevailing market prices for coal, natural gas, uranium, fuel oil, biomass, and other fuels used in the generation facilities of the traditional operating companies and Southern Power, including associated transportation costs, and supplies of such commodities;
- demand for energy and the extent of additional supplies of energy available from current or new competitors;
- liquidity in the general wholesale electricity market;
- weather conditions impacting demand for electricity;
- seasonality;

- transmission or transportation constraints or inefficiencies;
- availability of competitively priced alternative energy sources;
- forced or unscheduled plant outages for the Southern Company system, its competitors, or third party providers;
- the financial condition of market participants;
- the economy in the service territory, the nation, and worldwide, including the impact of economic conditions on demand for electricity and the demand for fuels;
- natural disasters, wars, embargos, acts of terrorism, and other catastrophic events; and
- federal, state, and foreign energy and environmental regulation and legislation.

Certain of these factors could increase the expenses of the traditional operating companies or Southern Power and Southern Company. For the traditional operating companies, such increases may not be fully recoverable through rates. Other of these factors could reduce the revenues of the traditional operating companies or Southern Power and Southern Company.

Historically, the traditional operating companies from time to time have experienced underrecovered fuel cost balances and deficits in their storm cost recovery reserve balances and may experience such balances and deficits in the future. While the traditional operating companies are generally authorized to recover underrecovered fuel costs through fuel cost recovery clauses and storm recovery costs through special rate provisions administered by the respective PSCs, recovery may be denied if costs are deemed to be imprudently incurred, and delays in the authorization of such recovery could negatively impact the cash flows of the affected traditional operating company and Southern Company.

Southern Company, the traditional operating companies, and Southern Power are subject to risks associated with a changing economic environment as well as the financial stability of the customers of the traditional operating companies and Southern Power.

Southern Company, the traditional operating companies, and Southern Power are exposed to risks related to general economic conditions in their applicable service territory and are thus impacted by the economic cycles of the customers each serves. Any economic downturn or disruption of financial markets, both nationally and internationally, could negatively affect the financial stability of the customers and counterparties of the traditional operating companies and Southern Power. As territories served by the traditional operating companies and Southern Power experience economic downturns, energy consumption patterns may change and revenues may be negatively impacted. Customer growth and customer usage can be affected by economic factors in the service territory of the traditional operating companies and Southern Power and elsewhere, including, for example, job and income growth, housing starts, new home prices, and the economic impact on customers of federal fiscal decisions. Adverse economic conditions, a population decline, and/or business closings in the territory served by the traditional operating companies or Southern Power or slower than anticipated customer growth as a result of a recessionary economy or otherwise could also have a negative impact on revenues and could result in greater expense for uncollectible customer balances. As with other parts of the country, the territories served by the traditional operating companies and Southern Power have been impacted by the recent economic recession. The traditional operating companies have experienced residential and commercial sales that continue to be below historical trends due to the recent economic recession. Southern Power is expected to continue to experience reduced future revenues for its requirements customers due to the recent economic recession. The timing and extent of the recovery cannot be predicted.

Stronger or more rapid than expected economic growth, coupled with the effects of current and future environmental regulations applicable to the traditional operating companies or Southern Power, could impact the ability of the traditional operating companies and/or Southern Power to meet the energy demands of their customers. Weaker or slower than expected economic growth could have a negative impact on revenues, could result in greater expense for uncollected customer balances, and could adversely impact the value of generation assets of the traditional operating companies and/or Southern Power.

All of the factors discussed above could adversely affect Southern Company's, the traditional operating companies', and/or Southern Power's level of future net income.

The operating results of Southern Company, the traditional operating companies, and Southern Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis. In addition, significant weather events, such as hurricanes, tornadoes, floods, and droughts could result in substantial damage to or limit the operation of the properties of the traditional operating companies and/or Southern Power and could negatively impact results of operation, financial condition, and liquidity.

Electric power supply is generally a seasonal business. In many parts of the country, demand for power peaks during the summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, the overall operating results of Southern Company, the traditional operating companies, and Southern Power may fluctuate substantially on a seasonal basis. In addition, the traditional operating companies and Southern Power have historically sold less power when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net income, available cash, and borrowing ability of Southern Company, the traditional operating companies, and/or Southern Power.

In addition, volatile or significant weather events could result in substantial damage to the transmission and distribution lines of the traditional operating companies and the generating facilities of the traditional operating companies and Southern Power. The traditional operating companies and Southern Power have significant investments in the Atlantic and Gulf Coast regions which could be subject to major storm activity. Further, severe drought conditions can reduce the availability of water and restrict or prevent the operation of certain generating facilities.

Each traditional operating company maintains a reserve for property damage to cover the cost of damages from weather events to its transmission and distribution lines and the cost of uninsured damages to its generating facilities and other property. In the event a traditional operating company experiences any of these weather events or any natural disaster or other catastrophic event, recovery of costs in excess of reserves and insurance coverage is subject to the approval of its state PSC. While the traditional operating companies generally are entitled to recover prudently-incurred costs incurred in connection with such an event, any denial by the applicable state PSC or delay in recovery of any portion of such costs could have a material negative impact on a traditional operating company's and Southern Company's results of operations, financial condition, and liquidity.

In addition, damages resulting from significant weather events within the service territory of any traditional operating company or affecting Southern Power's customers may result in the loss of customers and reduced demand for electricity for extended periods. Any significant loss of customers or reduction in demand for electricity could have a material negative impact on a traditional operating company's or Southern Power's and Southern Company's results of operations, financial condition, and liquidity.

Southern Company may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay upstream dividends or repay funds to Southern Company.

Southern Company is a holding company and, as such, Southern Company has no operations of its own. Substantially all of Southern Company's consolidated assets are held by subsidiaries. Southern Company's ability to meet its financial obligations and to pay dividends on its common stock is primarily dependent on the net income and cash flows of its subsidiaries and their ability to pay upstream dividends or to repay funds to Southern Company. Prior to funding Southern Company, Southern Company's subsidiaries have regulatory restrictions and financial obligations that must be satisfied, including among others, debt service and preferred and preference stock dividends. Southern Company's subsidiaries are separate legal entities and have no obligation to provide Southern Company with funds.

A downgrade in the credit ratings of Southern Company, the traditional operating companies, or Southern Power could negatively affect their ability to access capital at reasonable costs and/or could require Southern Company, the traditional operating companies, or Southern Power to post collateral or replace certain indebtedness.

There are a number of factors that rating agencies evaluate to arrive at credit ratings for Southern Company, the traditional operating companies, and Southern Power, including capital structure, regulatory environment, the ability to cover liquidity requirements, and other commitments for capital. Southern Company, the traditional operating companies, and Southern Power could experience a downgrade in their ratings if any rating agency concludes that the level of business or financial risk of the industry or Southern Company, the traditional operating companies, or Southern Power has deteriorated. Changes in ratings methodologies by the agencies could also have a negative impact on credit ratings. If one or more rating agencies downgrade Southern Company, the traditional operating companies, or Southern Power, borrowing costs would increase, the pool of investors and funding sources would likely decrease, and, particularly for any downgrade to below investment grade, significant collateral requirements may be triggered in a number of contracts.

The use of derivative contracts by Southern Company and its subsidiaries in the normal course of business could result in financial losses that negatively impact the net income of Southern Company and its subsidiaries.

Southern Company and its subsidiaries, including the traditional operating companies and Southern Power, use derivative instruments, such as swaps, options, futures, and forwards, to manage their commodity and interest rate exposures and, to a lesser extent, engage in limited trading activities. Southern Company and its subsidiaries could recognize financial losses as a result of volatility in the market values of these contracts or if a counterparty fails to perform. These risks are managed through risk management policies, limits, and procedures. These risk management policies, limits, and procedures might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, derivative contracts entered for hedging purposes might not off-set the underlying exposure being hedged as expected, resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. The factors used in the valuation of these instruments become more difficult to predict and the calculations become less reliable the further into the future these estimates are made. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the value of the reported fair value of these contracts.

Demand for power could decrease or fail to grow at expected rates, resulting in stagnant or reduced revenues, limited growth opportunities, and potentially stranded generation assets.

Southern Company, the traditional operating companies, and Southern Power each engage in a long-term planning process to determine the optimal mix and timing of new generation assets required to serve future load obligations. This planning process must look many years into the future in order to accommodate the long lead times associated with the permitting and construction of new generation facilities. Inherent risk exists in predicting demand this far into the future as these future loads are dependent on many uncertain factors, including regional economic conditions, customer usage patterns, efficiency programs, and customer technology adoption. Because regulators may not permit the traditional operating companies to adjust rates to recover the costs of new generation assets while such assets are being constructed, the traditional operating companies may not be able to fully recover these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of additional capacity and the traditional operating companies' recovery in customers' rates. Under Southern Power's model of selling capacity and energy at negotiated market-based rates under long-term PPAs, Southern Power might not be able to fully execute its business plan if market prices drop below original forecasts. Southern Power may not be able to extend its existing PPAs or to find new buyers for existing generation assets as existing PPAs expire, or it may be forced to market these assets at prices lower than originally intended. These situations could have negative impacts on net income and cash flows for the affected traditional operating company or Southern Power and for Southern Company.

Demand for power could exceed supply capacity, resulting in increased costs for purchasing capacity in the open market or building additional generation facilities.

The traditional operating companies and Southern Power are currently obligated to supply power to retail customers and wholesale customers under long-term PPAs. At peak times, the demand for power required to meet this obligation could exceed the Southern Company system's available generation capacity. Market or competitive forces may require that the traditional operating companies or Southern Power purchase capacity on the open market or build additional generation facilities. Because regulators may not permit the traditional operating companies to pass all of these purchase or construction costs on to their customers, the traditional operating companies may not be able to recover any of these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of purchased or constructed capacity and the traditional operating companies' recovery in customers' rates. Under

Southern Power's long-term fixed price PPAs, Southern Power would not have the ability to recover any of these costs. These situations could have negative impacts on net income and cash flows for the affected traditional operating company or Southern Power and for Southern Company.

Energy conservation and energy price increases could negatively impact financial results.

Customers could voluntarily reduce their consumption of electricity in response to decreases in their disposable income, increases in energy price, or individual conservation efforts. In addition, a number of regulatory and legislative bodies have proposed or introduced requirements and/or incentives to reduce energy consumption by certain dates. Conservation programs could impact the financial results of Southern Company, the traditional operating companies, and Southern Power in different ways. For example, if any traditional operating company is required to invest in conservation measures that result in reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact on such traditional operating company and Southern Company.

Certain of the traditional operating companies actively promote energy conservation programs, which have been approved by their respective state PSCs. Regulatory mechanisms have been established that provide for the recovery of costs related to such programs and lost revenues as a result of such programs. However, to the extent conservation results in reduced energy demand or significantly slows the growth in demand beyond what is anticipated, the value of generation assets of the traditional operating companies and/or Southern Power and other unregulated business activities could be adversely impacted and the traditional operating companies could be negatively impacted depending on the regulatory treatment of the associated impacts. In addition, the failure of those traditional operating companies who actively promote energy conservation programs to achieve the energy conservation targets established by their respective state PSCs could negatively impact such traditional operating company's ability to recover costs and receive certain benefits related to such programs.

Additionally, Southern Company, the traditional operating companies, and Southern Power could also be negatively impacted if any future energy price increases result in a decrease in customer usage.

Southern Company, the traditional operating companies, and Southern Power are unable to determine what impact, if any, conservation and increases in energy prices will have on their respective financial condition or results of operations.

The businesses of Southern Company, the traditional operating companies, and Southern Power are dependent on their ability to successfully access funds through capital markets and financial institutions. The inability of Southern Company, any traditional operating company, or Southern Power to access funds may limit its ability to execute its business plan by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional operating companies, or Southern Power may otherwise rely on to achieve future earnings and cash flows.

Southern Company, the traditional operating companies, and Southern Power rely on access to both short-term money markets and longer-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from their respective operations. If Southern Company, any traditional operating company, or Southern Power is not able to access capital at competitive rates, its ability to implement its business plan will be limited by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional operating companies, or Southern Power may otherwise rely on to achieve future earnings and cash flows. In addition, Southern Company, the traditional operating companies, and Southern Power rely on committed bank lending agreements as back-up liquidity which allows them to access low cost money markets. Each of Southern Company, the traditional operating companies, and Southern Power believes that it will maintain sufficient access to these financial markets based upon current credit ratings. However, certain events or market disruptions may increase the cost of borrowing or adversely affect the ability to raise capital through the issuance of securities or other borrowing arrangements or the ability to secure committed bank lending agreements used as back-up sources of capital. Such disruptions could include:

- an economic downturn or uncertainty;
- bankruptcy or financial distress at an unrelated energy company, financial institution, or sovereign entity;
- capital markets volatility and disruption, either nationally or internationally;
- changes in tax policy such as dividend tax rates;

- market prices for electricity and gas;
- terrorist attacks or threatened attacks on Southern Company's facilities or unrelated energy companies' facilities;
- war or threat of war; or
- the overall health of the utility and financial institution industries.

Market performance and other changes may decrease the value of benefit plans and nuclear decommissioning trust assets or may increase plan costs, which then could require significant additional funding.

The performance of the capital markets affects the values of the assets held in trust under Southern Company's pension and postretirement benefit plans and the assets held in trust to satisfy obligations to decommission Alabama Power's and Georgia

Power's nuclear plants. The Southern Company system has significant obligations related to pension and postretirement benefit plans. Alabama Power and Georgia Power each hold significant assets in the nuclear decommissioning trusts. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below projected return rates. A decline in the market value of these assets, as has been experienced in prior periods, may increase the funding requirements relating to benefit plan liabilities of the Southern Company system and Alabama Power's and Georgia Power's nuclear decommissioning obligations. Additionally, changes in interest rates affect the liabilities under pension and postretirement benefit plans of the Southern Company system; as interest rates decrease, the liabilities increase, potentially requiring additional funding. Further, changes in demographics, including an increased number of retirements or changes in life expectancy assumptions, may also increase the funding requirements of the obligations related to the pension benefit plans. Southern Company and its subsidiaries are also facing rising medical benefit costs, including the current costs for active and retired employees. It is possible that these costs may increase at a rate that is significantly higher than anticipated. If the Southern Company system is unable to successfully manage benefit plan assets and medical benefit costs and Alabama Power and Georgia Power are unable to successfully manage the nuclear decommissioning trust funds, results of operations and financial position could be negatively affected.

Southern Company may be unable to recover its investment in its leveraged leases if a lessee fails to profitably operate the leased assets.

Southern Company has several leveraged lease agreements, with terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Southern Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. With respect to Southern Company's investments in leveraged leases, the recovery of its investment is dependent on the profitable operation of the leased assets by the respective lessees. A significant deterioration in the performance of the leased asset could result in the impairment of the related lease receivable.

Southern Company, the traditional operating companies, and Southern Power are subject to risks associated with their ability to obtain adequate insurance.

The financial condition of some insurance companies, the threat of terrorism, and natural disasters, among other things, could have disruptive effects on insurance markets. The availability of insurance covering risks that Southern Company, the traditional operating companies, Southern Power, and their respective competitors typically insure against may decrease, and the insurance that Southern Company, the traditional operating companies, and Southern Power are able to obtain may have higher deductibles, higher premiums, and more restrictive policy terms. Further, while Southern Company, the traditional operating companies, and Southern Power maintain an amount of insurance protection that they consider adequate, there is no guarantee that the insurance policies selected by them will cover all of the potential exposures or the actual amount of loss incurred.

Any losses not covered by insurance could adversely affect the results of operations, cash flows, or financial condition of Southern Company, the traditional operating companies, or Southern Power.

Item 1B. UNRESOLVED STAFF COMMENTS.
None.

Item 2. PROPERTIES

Electric Properties

The traditional operating companies, Southern Power, and SEGCO, at December 31, 2012, owned and/or operated 33 hydroelectric generating stations, 32 fossil fuel generating stations, three nuclear generating stations, and 13 combined cycle/cogeneration stations, four solar facilities, one landfill gas facility, and one biomass facility. The amounts of capacity for each company are shown in the table below.

Generating Station	Location	Nameplate Capacity (1) (KWs)	
FOSSIL STEAM			
Gadsden	Gadsden, AL	120,000	
Gorgas	Jasper, AL	1,221,250	
Barry	Mobile, AL	1,525,000	
Greene County	Demopolis, AL	300,000	(2)
Gaston Unit 5	Wilsonville, AL	880,000	
Miller	Birmingham, AL	2,532,288	(3)
Alabama Power Total		6,578,538	
Bowen	Cartersville, GA	3,160,000	
Branch	Milledgeville, GA	1,539,700	(4)
Hammond	Rome, GA	800,000	
Kraft	Port Wentworth, GA	281,136	(4)
McIntosh	Effingham County, GA	163,117	
McManus	Brunswick, GA	115,000	(4)
Mitchell	Albany, GA	125,000	
Scherer	Macon, GA	750,924	(5)
Wansley	Carrollton, GA	925,550	(6)
Yates	Newnan, GA	1,250,000	(4)
Georgia Power Total		9,110,427	
Crist	Pensacola, FL	970,000	
Daniel	Pascagoula, MS	500,000	(7)
Lansing Smith	Panama City, FL	305,000	
Scholz	Chattahoochee, FL	80,000	
Scherer Unit 3	Macon, GA	204,500	(5)
Gulf Power Total		2,059,500	
Daniel	Pascagoula, MS	500,000	(7)
Greene County	Demopolis, AL	200,000	(2)
Sweatt	Meridian, MS	80,000	
Watson	Gulfport, MS	1,012,000	
Mississippi Power Total		1,792,000	(8)
Gaston Units 1-4	Wilsonville, AL		
SEGCO Total		1,000,000	(9)
Total Fossil Steam		20,540,465	

Generating Station	Location	Nameplate Capacity (1)	
NUCLEAR STEAM			
Farley	Dothan, AL		
Alabama Power Total		1,720,000	
Hatch	Baxley, GA	899,612	(10)
Vogtle	Augusta, GA	1,060,240	(11)
Georgia Power Total		1,959,852	
Total Nuclear Steam		3,679,852	
COMBUSTION TURBINES			
Greene County	Demopolis, AL		
Alabama Power Total		720,000	
Boulevard	Savannah, GA	59,100	(4)
Bowen	Cartersville, GA	39,400	(4)
Intercession City	Intercession City, FL	47,667	(12)
Kraft	Port Wentworth, GA	22,000	
McDonough Unit 3	Atlanta, GA	78,800	
McIntosh Units 1 through 8	Effingham County, GA	640,000	
McManus	Brunswick, GA	481,700	
Mitchell	Albany, GA	78,800	(13)
Robins	Warner Robins, GA	158,400	
Wansley	Carrollton, GA	26,322	(6)
Wilson	Augusta, GA	354,100	
Georgia Power Total		1,986,289	
Lansing Smith Unit A	Panama City, FL	39,400	
Pea Ridge Units 1 through 3	Pea Ridge, FL	15,000	
Gulf Power Total		54,400	
Chevron Cogenerating Station	Pascagoula, MS	147,292	(14)
Sweatt	Meridian, MS	39,400	
Watson	Gulfport, MS	39,360	
Mississippi Power Total		226,052	
Cleveland County	Cleveland County, NC	720,000	
Dahlberg	Jackson County, GA	756,000	
Oleander	Cocoa, FL	791,301	
Rowan	Salisbury, NC	455,250	
West Georgia	Thomaston, GA	668,800	
Southern Power Total		3,391,351	
Gaston (SEGCO)	Wilsonville, AL	19,680	(9)
Total Combustion Turbines		6,397,772	
COGENERATION			
Washington County	Washington County, AL	123,428	
GE Plastics Project	Burkeville, AL	104,800	
Theodore	Theodore, AL	236,418	
Total Cogeneration		464,646	

Generating Station	Location	Nameplate Capacity (1)	
COMBINED CYCLE			
Barry	Mobile, AL		
Alabama Power Total		1,070,424	
McIntosh Units 10&11	Effingham County, GA	1,318,920	
McDonough-Atkinson Units 4 through 6	Atlanta, GA	2,520,000	(15)
Georgia Power Total		3,838,920	
Smith	Lynn Haven, FL		
Gulf Power Total		545,500	
Daniel	Pascagoula, MS		
Mississippi Power Total		1,070,424	
Franklin	Smiths, AL	1,857,820	
Harris	Autaugaville, AL	1,318,920	
Rowan	Salisbury, NC	530,550	
Stanton Unit A	Orlando, FL	428,649	(16)
Wansley	Carrollton, GA	1,073,000	
Southern Power Total		5,208,939	
Total Combined Cycle		11,734,207	
HYDROELECTRIC FACILITIES			
Bankhead	Holt, AL	53,985	
Bouldin	Wetumpka, AL	225,000	
Harris	Wedowee, AL	132,000	
Henry	Ohatchee, AL	72,900	
Holt	Holt, AL	46,944	
Jordan	Wetumpka, AL	100,000	
Lay	Clanton, AL	177,000	
Lewis Smith	Jasper, AL	157,500	
Logan Martin	Vincent, AL	135,000	
Martin	Dadeville, AL	182,000	
Mitchell	Verbena, AL	170,000	
Thurlow	Tallassee, AL	81,000	
Weiss	Leesburg, AL	87,750	
Yates	Tallassee, AL	47,000	
Alabama Power Total		1,668,079	
Bartletts Ferry	Columbus, GA	173,000	
Goat Rock	Columbus, GA	38,600	
Lloyd Shoals	Jackson, GA	14,400	
Morgan Falls	Atlanta, GA	16,800	
North Highlands	Columbus, GA	29,600	
Oliver Dam	Columbus, GA	60,000	
Rocky Mountain	Rome, GA	215,256	(17)
Sinclair Dam	Milledgeville, GA	45,000	
Tallulah Falls	Clayton, GA	72,000	
Terrora	Clayton, GA	16,000	
Tugalo	Clayton, GA	45,000	

Generating Station	Location	Nameplate Capacity (1)	
Wallace Dam	Eatonton, GA	321,300	
Yonah	Toccoa, GA	22,500	
6 Other Plants	Various Georgia Cities	18,080	
Georgia Power Total		1,087,536	
Total Hydroelectric Facilities		2,755,615	
RENEWABLE SOURCES:			
SOLAR FACILITIES			
Dalton	Dalton, GA		
Georgia Power Total		705	
Apex	North Las Vegas, NV	18,000	
Cimarron	Springer, NM	27,576	
Granville	Oxford, NC	2,250	
Southern Power Total		47,826	(18)
Total Solar		48,531	
LANDFILL GAS FACILITY			
Perdido	Escambia County, FL		
Gulf Power Total		3,200	
BIOMASS FACILITY			
Nacogdoches	Sacul, Texas		
Southern Power Total		115,500	
Total Generating Capacity		45,739,788	

Notes:

(1) See "Jointly-Owned Facilities" herein for additional information.
(2) Owned by Alabama Power and Mississippi Power as tenants in common in the proportions of 60% and 40%, respectively.
(3) Capacity shown is Alabama Power's portion (91.84%) of total plant capacity.
(4) Plant Branch Units 1 and 2 are scheduled to be retired on December 31, 2013 and October 1, 2013, respectively. Georgia Power's 2013 IRP filing included Georgia Power's request to decertify 16 coal- and oil-fired units totaling 2,093 MWs. Georgia Power requested the decertification of Plant Boulevard Units 2 and 3 (28 MWs) upon approval of the 2013 IRP and the decertification of Plant Bowen Unit 6 (32 MWs) by April 16, 2013. Plant Branch Units 3 and 4 (1,016 MWs), Plant Yates Units 1 through 5 (579 MWs), and Plant McManus Units 1 and 2 (122 MWs) will be retired by April 16, 2015, the compliance date for the MATS rule. Georgia Power has also requested a revision to the decertification date of Plant Branch Unit 1 from December 31, 2013 to April 16, 2015. To allow for necessary transmission and reliability improvements, Georgia Power expects to seek a one-year extension of the MATS rule compliance date for Plant Kraft Units 1 through 4 (316 MWs) and to retire these units by April 16, 2016.
(5) Capacity shown for Georgia Power is 8.4% of Units 1 and 2 and 75% of Unit 3. Capacity shown for Gulf Power is 25% of Unit 3.
(6) Capacity shown is Georgia Power's portion (53.5%) of total plant capacity.
(7) Represents 50% of the plant which is owned as tenants in common by Gulf Power and Mississippi Power.
(8) Does not include nameplate capacity at Plant Eaton (67,500 KWs), which was retired on December 31, 2012.
(9) SEGCO is jointly-owned by Alabama Power and Georgia Power. See BUSINESS in Item 1 herein for additional information.
(10) Capacity shown is Georgia Power's portion (50.1%) of total plant capacity.
(11) Capacity shown is Georgia Power's portion (45.7%) of total plant capacity.
(12) Capacity shown represents 33 1/3% of total plant capacity. Georgia Power owns a 1/3 interest in the unit with 100% use of the unit from June through September. Progress Energy Florida operates the unit.
(13) Mitchell Unit 4C (39,400 KWs) was retired on March 26, 2012.
(14) Generation is dedicated to a single industrial customer.
(15) McDonough Unit 1 (245,000 KWs) was retired on February 29, 2012. McDonough-Atkinson Units 5 and 6 (1,680,000 KWs) were placed into service on April 26, 2012 and October 28, 2012, respectively.
(16) Capacity shown is Southern Power's portion (65%) of total plant capacity.
(17) Capacity shown is Georgia Power's portion (25.4%) of total plant capacity. OPC operates the plant.
(18) Capacity shown is Southern Power's portion (90%) of the total plant capacity.

Except as discussed below under "Titles to Property," the principal plants and other important units of the traditional operating companies, Southern Power, and SEGCO are owned in fee by the respective companies. It is the opinion of management of each such company that its operating properties are adequately maintained and are substantially in good operating condition.

Mississippi Power owns a 79-mile length of 500-kilovolt transmission line which is leased to Entergy Gulf States Louisiana, LLC. The line, completed in 1984, extends from Plant Daniel to the Louisiana state line. Entergy Gulf States Louisiana, LLC is paying a use fee over a 40-year period covering all expenses and the amortization of the original $57 million cost of the line. At December 31, 2012, the unamortized portion of this cost was approximately $16.8 million.

In conjunction with the Kemper IGCC, Mississippi Power will own a lignite mine and equipment and has acquired and will continue to acquire mineral reserves located around the Kemper IGCC site in Kemper County. The mine is scheduled to be placed in service in June 2013. The estimated capital cost of the mine is approximately $245 million, of which $163.3 million has been incurred through December 31, 2012. See MANAGEMENT'S DISCUSSION AND

ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Lignite Mine and CO_2 Pipeline Facilities" of Mississippi Power in Item 7 herein and Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle – Lignite Mine and CO_2 Pipeline Facilities" in Item 8 herein for additional information on the lignite mine.

In 2012, the maximum demand on the traditional operating companies, Southern Power, and SEGCO was 35,479,000 KWs and occurred on June 29, 2012. The all-time maximum demand of 38,777,000 KWs on the traditional operating companies, Southern Power, and SEGCO occurred on August 22, 2007. These amounts exclude demand served by capacity retained by MEAG Power, OPC, and SEPA. The reserve margin for the traditional operating companies, Southern Power, and SEGCO in

2012 was 20.8%. See SELECTED FINANCIAL DATA in Item 6 herein for additional information on peak demands for each registrant.

Jointly-Owned Facilities

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

		Percentage Ownership										
	Total Capacity (MWs)	Alabama Power	Power South	Georgia Power	OPC	MEAG Power	Dalton	Progress Energy Florida	Southern Power	OUC	FMPA	KUA
Plant Miller Units 1 and 2	1,320	91.8 %	8.2 %	— %	— %	— %	— %	— %	— %	— %	— %	— %
Plant Hatch	1,796	—	—	50.1	30.0	17.7	2.2	—	—	—	—	—
Plant Vogtle Units 1 and 2	2,320	—	—	45.7	30.0	22.7	1.6	—	—	—	—	—
Plant Scherer Units 1 and 2	1,636	—	—	8.4	60.0	30.2	1.4	—	—	—	—	—
Plant Wansley	1,779	—	—	53.5	30.0	15.1	1.4	—	—	—	—	—
Rocky Mountain	848	—	—	25.4	74.6	—	—	—	—	—	—	—
Intercession City, FL	143	—	—	33.3	—	—	—	66.7	—	—	—	—
Plant Stanton A	660	—	—	—	—	—	—	—	65 %	28 %	3.5 %	3.5 %

Alabama Power and Georgia Power have contracted to operate and maintain the respective units in which each has an interest (other than Rocky Mountain and Intercession City) as agent for the joint owners. SCS provides operation and maintenance services for Plant Stanton A.

In addition, Georgia Power has commitments regarding a portion of a 5% interest in Plant Vogtle Units 1 and 2 owned by MEAG Power that are in effect until the later of retirement of the plant or the latest stated maturity date of MEAG Power's bonds issued to finance such ownership interest. The payments for capacity are required whether any capacity is available. The energy cost is a function of each unit's variable operating costs. Except for the portion of the capacity payments related to the Georgia PSC's disallowances of Plant Vogtle Units 1 and 2 costs, the cost of such capacity and energy is included in purchased power from non-affiliates in Georgia Power's statements of income in Item 8 herein. Also see Note 7 to the financial statements of Georgia Power under "Commitments — Purchased Power Commitments" in Item 8 herein for additional information.

Titles to Property

The traditional operating companies', Southern Power's, and SEGCO's interests in the principal plants (other than certain pollution control facilities and the land on which five combustion turbine generators of Mississippi Power are located, which is held by easement) and other important units of the respective companies are owned in fee by such companies, subject only to the liens pursuant to pollution control revenue bonds of Alabama Power and Gulf Power on specific pollution control facilities and liens pursuant to the assumption of debt obligations by Mississippi Power in connection with the acquisition of Plant Daniel Units 3 and 4. See Note 6 to the financial statements of Southern Company, Alabama Power, Gulf Power, and Mississippi Power under "Assets Subject to Lien" in Item 8 herein for additional information. The traditional operating companies own the fee interests in certain of their principal plants as tenants in common. See "Jointly-Owned Facilities" herein for additional information. Properties such as electric transmission and distribution lines and steam heating mains are constructed principally on rights-of-way which are maintained under franchise or are held by easement only. A substantial portion of lands submerged by reservoirs is held under flood right easements.

Item 3. LEGAL PROCEEDINGS

(1) United States of America v. Alabama Power (United States District Court for the Northern District of Alabama)
United States of America v. Georgia Power (United States District Court for the Northern District of Georgia)
See Note 3 to the financial statements of Southern Company and each traditional operating company under "Environmental Matters – New Source Review Actions" in Item 8 herein for information.

(2) Native Village of Kivalina and the City of Kivalina v. Exxon Mobile et al. (United States District Court for the Northern District of California)
See Note 3 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power under "Climate Change Litigation – Kivalina Case" in Item 8 herein for information.

(3) Comer et al. v. Murphy Oil USA, Inc. (United States District Court for the Southern District of Mississippi)
See Note 3 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, and Southern Power under "Climate Change Litigation – Hurricane Katrina Case" in Item 8 herein for information.

(4) Georgia Power et al. v. Westinghouse and Stone & Webster (United States District Court for the Southern District of Georgia Augusta Division)

Stone & Webster and Westinghouse v. Georgia Power et al. (United States District Court for the District of Columbia)
See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 herein for information.

(5) Environmental Remediation
See Note 3 to the financial statements of Southern Company, Georgia Power, Gulf Power, and Mississippi Power under "Environmental Matters – Environmental Remediation" in Item 8 herein for information related to environmental remediation.

See Note 3 to the financial statements of each registrant in Item 8 herein for descriptions of additional legal and administrative proceedings discussed therein.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF SOUTHERN COMPANY

(Identification of executive officers of Southern Company is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2012.

Thomas A. Fanning
Chairman, President, Chief Executive Officer, and Director
Age 55
Elected in 2003. Chairman and Chief Executive Officer since December 2010 and President since August 2010. Previously served as Executive Vice President and Chief Operating Officer from February 2008 through July 2010. He also served as Executive Vice President and Chief Financial Officer from May 2007 through January 2008.

Art P. Beattie
Executive Vice President and Chief Financial Officer
Age 58
Elected in 2010. Executive Vice President and Chief Financial Officer since August 2010. Previously served as Executive Vice President, Chief Financial Officer, and Treasurer of Alabama Power from February 2005 through August 2010.

W. Paul Bowers
Executive Vice President
Age 56
Elected in 2001. Executive Vice President since February 2008 and Chief Executive Officer, President, and Director of Georgia Power since January 2011 and Chief Operating Officer of Georgia Power from August 2010 to December 2010. He previously served as Executive Vice President and Chief Financial Officer of Southern Company from February 2008 to August 2010.

S. W. Connally, Jr.
President and Chief Executive Officer of Gulf Power
Age 43
Elected in 2012. President, Chief Executive Officer, and Director of Gulf Power since July 1, 2012. Previously served as Senior Vice President and Chief Production Officer of Georgia Power from August 2010 through June 2012 and Manager of Alabama Power's Plant Barry from August 2007 through July 2010.

Mark A. Crosswhite
Executive Vice President and Chief Operating Officer
Age 50
Elected in 2010. Executive Vice President and Chief Operating Officer since July 1, 2012. Previously served as President, Chief Executive Officer, and Director of Gulf Power from January 2011 through June 2012, Executive Vice President of External Affairs at Alabama Power from February 2008 through December 2010, and Senior Vice President and Counsel of Alabama Power from July 2006 through January 2008.

Edward Day, VI
President and Chief Executive Officer of Mississippi Power
Age 52
Elected in 2010. President, Chief Executive Officer, and Director of Mississippi Power since August 2010. Previously served as Executive Vice President for Engineering and Construction Services at Southern Company Generation, a business unit of Southern Company, from May 2003 to August 2010.

G. Edison Holland, Jr.
Executive Vice President, General Counsel, and Corporate Secretary
Age 60
Elected in 2001. Corporate Secretary since April 2005 and Executive Vice President and General Counsel since April 2001.

Stephen E. Kuczynski

President and Chief Executive Officer of Southern Nuclear
Age 50
Elected in 2011. President and Chief Executive Officer of Southern Nuclear since July 2011. Before joining Southern Company, Mr. Kuczynski served at Exelon Corporation as the Senior Vice President of Engineering and Technical Services for Exelon Nuclear from February 2006 to June 2011.

Charles D. McCrary
Executive Vice President
Age 61
Elected in 1998. Executive Vice President since February 2002 and President, Chief Executive Officer, and Director of Alabama Power since October 2001.
Susan N. Story
Executive Vice President (to retire effective April 1, 2013)
Age 52
Elected in 2003. President and Chief Executive Officer of SCS since January 2011. Previously served as President, Chief Executive Officer, and Director of Gulf Power from April 2003 through December 2010.
Christopher C. Womack
Executive Vice President
Age 54
Elected in 2008. Executive Vice President and President of External Affairs since January 2009. Previously served as Executive Vice President of External Affairs of Georgia Power from March 2006 through December 2008.
The officers of Southern Company were elected for a term running from the first meeting of the directors following the last annual meeting (May 23, 2012) for one year or until their successors are elected and have qualified, except for Mr. Crosswhite whose election was effective July 1, 2012.

EXECUTIVE OFFICERS OF ALABAMA POWER

(Identification of executive officers of Alabama Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2012.

Charles D. McCrary
President, Chief Executive Officer, and Director
Age 61
Elected in 2001. President, Chief Executive Officer, and Director since October 2001. Since February 2002, he has also served as Executive Vice President of Southern Company.

Philip C. Raymond
Executive Vice President, Chief Financial Officer, and Treasurer
Age 53
Elected in 2010. Executive Vice President, Chief Financial Officer, and Treasurer since August 2010. Previously served as Vice President and Chief Financial Officer of Gulf Power from May 2008 to August 2010 and as Vice President and Comptroller of Alabama Power from January 2005 to April 2008.

Zeke W. Smith
Executive Vice President
Age 53
Elected in 2010. Executive Vice President of External Affairs since November 2010. Previously served as Vice President of Regulatory Services and Financial Planning from February 2005 to November 2010.

Steven R. Spencer
Executive Vice President
Age 57
Elected in 2001. Executive Vice President of the Customer Service Organization since February 2008. Previously served as Executive Vice President of External Affairs from 2001 through January 2008.

Theodore J. McCullough
Senior Vice President and Senior Production Officer
Age 49
Elected in 2010. Senior Vice President and Senior Production Officer since June 2010. Previously served as Vice President and Senior Production Officer of Gulf Power from September 2007 until June 2010.

The officers of Alabama Power were elected for a term running from the meeting of the directors held on April 27, 2012 for one year or until their successors are elected and have qualified.

EXECUTIVE OFFICERS OF GEORGIA POWER
(Identification of executive officers of Georgia Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2012.
W. Paul Bowers
President, Chief Executive Officer, and Director
Age 56
Elected in 2010. Chief Executive Officer, President, and Director since December 2010 and Chief Operating Officer of Georgia Power from August 2010 to December 2010. He previously served as Executive Vice President and Chief Financial Officer of Southern Company from February 2008 to August 2010. He also served as Executive Vice President of Southern Company from May 2007 to February 2008 and as President of Southern Company Generation, a business unit of Southern Company, and Executive Vice President of SCS from May 2001 through January 2008.
W. Craig Barrs
Executive Vice President
Age 55
Elected in 2008. Executive Vice President of External Affairs since January 2010. Previously served as Senior Vice President of External Affairs from January 2009 to January 2010, Vice President of Governmental and Regulatory Affairs from April 2008 to December 2008, and Vice President of the Coastal Region from August 2006 to March 2008.
Ronnie R. Labrato
Executive Vice President, Chief Financial Officer, and Treasurer (to retire effective March 31, 2013)
Age 59
Elected in 2009. Executive Vice President, Chief Financial Officer, and Treasurer since April 2009. Previously served as Vice President of Internal Auditing at SCS from April 2008 to March 2009 and Vice President and Chief Financial Officer of Gulf Power from July 2001 to March 2008.
Joseph A. Miller
Executive Vice President
Age 51
Elected in 2009. Executive Vice President of Nuclear Development since May 2009. He also has served as Executive Vice President of Nuclear Development at Southern Nuclear since February 2006.
Anthony L. Wilson
Executive Vice President
Age 48
Elected in 2011. Executive Vice President of Customer Service and Operations since January 1, 2012. Previously served as Vice President of Transmission from November 2009 to December 2011 and Vice President of Distribution from February 2007 to November 2009.
Thomas P. Bishop
Senior Vice President, Chief Compliance Officer, General Counsel, and Corporate Secretary
Age 52
Elected in 2008. Corporate Secretary since April 2011 and Senior Vice President, Chief Compliance Officer, and General Counsel since September 2008. Previously served as Vice President and Associate General Counsel for SCS from July 2004 to September 2008.
John L. Pemberton
Senior Vice President and Senior Production Officer
Age 42
Elected in 2012. Senior Vice President and Senior Production Officer since July 1, 2012. Previously served as Senior Vice President and General Counsel for SCS and Southern Nuclear from June 2010 to July 2012 and Vice President of Governmental Affairs for SCS from August 2006 to June 2010.

The officers of Georgia Power were elected for a term running from the meeting of the directors held on May 16, 2012 for one year or until their successors are elected and have qualified, except for Mr. Pemberton, whose election was effective July 1, 2012.

EXECUTIVE OFFICERS OF MISSISSIPPI POWER

(Identification of executive officers of Mississippi Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2012.

Edward Day, VI
President, Chief Executive Officer, and Director
Age 52
Elected in 2010. President, Chief Executive Officer, and Director since August 2010. Previously served as Executive Vice President for Engineering and Construction Services at Southern Company Generation, a business unit of Southern Company, from May 2003 to August 2010.

Thomas O. Anderson, IV
Vice President
Age 53
Elected in 2009. Vice President of Generation Development since July 2009. Previously served as Project Director, Mississippi Power Generation Development from March 2008 to July 2009; Project Manager, Southern Power Generation from June 2007 to March 2008; and Generation Development Manager, SCS Generation Development from September 1998 to June 2007.

John W. Atherton
Vice President
Age 52
Elected in 2004. Vice President of Corporate Services and Community Relations since October 2012. Previously served as Vice President of External Affairs from January 2005 until October 2012.

Moses H. Feagin
Vice President, Treasurer, and Chief Financial Officer
Age 48
Elected in 2010. Vice President, Treasurer, and Chief Financial Officer since August 2010. Previously served as Vice President and Comptroller of Alabama Power from May 2008 to August 2010, and Comptroller of Mississippi Power from March 2005 to May 2008.

Jeff G. Franklin
Vice President
Age 45
Elected in 2011. Vice President of Customer Services Organization since August 2011. Previously served as Georgia Power's Vice President of Governmental and Legislative Affairs from January 2011 to July 2011, Vice President of Governmental and Regulatory Affairs from March 2009 to January 2011, Vice President of Sales from July 2008 to April 2009, and Vice President of the Northwest region from February 2005 to June 2008.

R. Allen Reaves
Vice President
Age 53
Elected in 2010. Vice President and Senior Production Officer since August 2010. Previously served as Manager of Mississippi Power's Plant Daniel from September 2007 through July 2010 and Site Manager for Southern Power's Plant Franklin from March 2006 to September 2007.

Billy F. Thornton
Vice President
Age 52
Elected in 2012. Vice President of Legislative and Regulatory Affairs since October 22, 2012. Previously served as Director of External Affairs from October 2011 until October 2012, Director of Marketing from March 2011 through October 2011, and Major Account Sales Manager from June 2006 to March 2011.

The officers of Mississippi Power were elected for a term running from the meeting of the directors held on April 24, 2012 for one year or until their successors are elected and have qualified, except for Mr. Thornton, whose election was effective October 22, 2012.

PART II

Item 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a)(1) The common stock of Southern Company is listed and traded on the New York Stock Exchange. The common stock is also traded on regional exchanges across the United States. The high and low stock prices as reported on the New York Stock Exchange for each quarter of the past two years were as follows:

	High	Low
2012		
First Quarter	$46.06	$43.71
Second Quarter	48.45	44.22
Third Quarter	48.59	44.64
Fourth Quarter	47.09	41.75
2011		
First Quarter	$38.79	$36.51
Second Quarter	40.87	37.43
Third Quarter	43.09	35.73
Fourth Quarter	46.69	41.00

There is no market for the other registrants' common stock, all of which is owned by Southern Company.
(a)(2) Number of Southern Company's common stockholders of record at January 31, 2013: 149,136
Each of the other registrants have one common stockholder, Southern Company.
(a)(3) Dividends on each registrant's common stock are payable at the discretion of their respective board of directors. The dividends on common stock declared by Southern Company and the traditional operating companies to their stockholder(s) for the past two years were as follows:

Registrant	Quarter	2012	2011
		(in thousands)	
Southern Company	First	$410,040	$385,010
	Second	426,891	402,165
	Third	429,711	405,879
	Fourth	426,450	408,294
Alabama Power	First	134,763	138,275
	Second	134,762	138,275
	Third	134,763	138,275
	Fourth	279,762	359,275
Georgia Power	First	227,075	224,025
	Second	227,075	224,025
	Third	227,075	224,025
	Fourth	302,075	424,025
Gulf Power	First	28,950	27,500
	Second	28,950	27,500
	Third	28,950	27,500
	Fourth	28,950	27,500
Mississippi Power	First	26,700	18,875
	Second	26,700	18,875

Third	26,700	18,875
Fourth	26,700	18,875

In 2012 and 2011, Southern Power paid dividends to Southern Company as follows:

Registrant	Quarter	2012	2011
		(in thousands)	
Southern Power	First	$31,750	$22,800
	Second	31,750	22,800
	Third	31,750	22,800
	Fourth	31,750	22,800

The dividend paid per share of Southern Company's common stock was 47.25¢ for the first quarter 2012 and 49¢ each for the second, third, and fourth quarters of 2012. In 2011, Southern Company paid a dividend per share of 45.50¢ for the first quarter and 47.25¢ each for the second, third, and fourth quarters.

The traditional operating companies and Southern Power can only pay dividends to Southern Company out of retained earnings or paid-in-capital.

Southern Power's senior note indenture contains potential limitations on the payment of common stock dividends. At December 31, 2012, Southern Power was in compliance with the conditions of this senior note indenture and thus had no restrictions on its ability to pay common stock dividends. See Note 8 to the financial statements of Southern Company under "Common Stock Dividend Restrictions" and Note 6 to the financial statements of Southern Power under "Dividend Restrictions" in Item 8 herein for additional information regarding these restrictions.

(a)(4) Securities authorized for issuance under equity compensation plans.

See Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters under the heading "Equity Compensation Plan Information" herein.

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

2012	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
October 1 - October 30	4,575,956	$46.13	4,575,956	N/A
November 1 - November 30	2,296,351	44.52	2,296,351	N/A
December 1 - December 30	—	N/A	N/A	N/A
Total	6,872,307	$45.59	6,872,307	N/A

(a) In July 2012, Southern Company announced that it planned to use the proceeds received from stock options exercises during 2012 (including $317 million received through June 30, 2012) to repurchase shares to partially offset the incremental shares issued under its employee and director stock plans. In September 2012, Southern Company engaged an agent to repurchase shares of Southern Company common stock on an ongoing basis to partially offset the incremental shares issued under its employee and director stock plans. As of December 31, 2012, Southern Company had repurchased a total of 9,439,561 shares under this program. In January 2013, Southern Company announced that it plans to continue this program through 2015. Pursuant to approval by the Board of Directors, Southern Company may repurchase shares through open market purchases or privately negotiated transactions, in accordance with applicable securities laws.

Item 6. SELECTED FINANCIAL DATA

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of each of the registrants in Item 7 herein and Note 1 of each of the registrant's financial statements under "Financial Instruments" in Item 8 herein. See also Note 10 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 9 to the financial statements of Gulf Power and Mississippi Power, and Note 8 to the financial statements of Southern Power in Item 8 herein.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO 2012 FINANCIAL STATEMENTS

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls And Procedures.

As of the end of the period covered by this annual report, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power conducted separate evaluations under the supervision and with the participation of each company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon these evaluations, the Chief Executive Officer and the Chief Financial Officer, in each case, concluded that the disclosure controls and procedures are effective.

Internal Control Over Financial Reporting.

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

Southern Company's Management's Report on Internal Control Over Financial Reporting is included on page II-9 of this Form 10-K.

Alabama Power's Management's Report on Internal Control Over Financial Reporting is included on page II-119 of this
Form 10-K.

Georgia Power's Management's Report on Internal Control Over Financial Reporting is included on page II-201 of this Form 10-K.

Gulf Power's Management's Report on Internal Control Over Financial Reporting is included on page II-285 of this Form 10-K.

Mississippi Power's Management's Report on Internal Control Over Financial Reporting is included on page II-356 of this Form 10-K.

Southern Power's Management's Report on Internal Control Over Financial Reporting is included on page II-444 of this
Form 10-K.

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

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

Not applicable to Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power because these companies are not accelerated filers or large accelerated filers.

(c) Changes in internal controls.

There have been no changes in Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fourth quarter 2012 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, or Southern Power's internal control over financial reporting.

Item 9B. OTHER INFORMATION

On February 25, 2013, Gulf Power issued to Southern Company, in a private placement, 400,000 shares of Gulf Power's common stock, no par value, for an aggregate purchase price of $40,000,000. There were no underwriting discounts or commissions. The issuance to Southern Company was exempt from registration under the Securities Act of 1933, as amended (Act), pursuant to Section 4(2) of the Act because it was a transaction by an issuer that did not involve a public offering.

THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES
FINANCIAL SECTION

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Southern Company and Subsidiary Companies 2012 Annual Report

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

Under management's supervision, an evaluation of the design and effectiveness of Southern Company's internal control over financial reporting was conducted based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Southern Company's internal control over financial reporting was effective as of December 31, 2012.

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of Southern Company's financial statements, has issued an attestation report on the effectiveness of Southern Company's internal control over financial reporting as of December 31, 2012. Deloitte & Touche LLP's report on Southern Company's internal control over financial reporting is included herein.

/s/ Thomas A. Fanning
Thomas A. Fanning
Chairman, President, and Chief Executive Officer
/s/ Art P. Beattie
Art P. Beattie
Executive Vice President and Chief Financial Officer
February 27, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
The Southern Company

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of The Southern Company and Subsidiary Companies (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (page II-9). Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements (pages II-47 to II-114) referred to above present fairly, in all material respects, the financial position of Southern Company and Subsidiary Companies as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
Atlanta, Georgia
February 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Southern Company and Subsidiary Companies 2012 Annual Report

OVERVIEW

Business Activities

The Southern Company (Southern Company or the Company) is a holding company that owns all of the common stock of the traditional operating companies – Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power) – and Southern Power Company (Southern Power), and other direct and indirect subsidiaries (together, the Southern Company system). The primary business of the Southern Company system is electricity sales by the traditional operating companies and Southern Power. The four traditional operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market.

Many factors affect the opportunities, challenges, and risks of the Southern Company system's electricity business. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment, to maintain and grow energy sales given economic conditions, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, increasingly stringent environmental standards, fuel, capital expenditures, including new plants, and restoration following major storms. Each of the traditional operating companies has various regulatory mechanisms that operate to address cost recovery. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge the Southern Company system for the foreseeable future.

Another major factor is the profitability of the competitive market-based wholesale generating business. Southern Power continues to execute its strategy through a combination of acquiring and constructing new power plants, including renewable energy projects, and by entering into power purchase agreements (PPAs) primarily with investor-owned utilities, independent power producers, municipalities, and electric cooperatives.

Southern Company's other business activities include investments in leveraged lease projects and telecommunications. Management continues to evaluate the contribution of each of these activities to total shareholder return and may pursue acquisitions and dispositions accordingly.

Key Performance Indicators

In striving to achieve superior risk-adjusted returns while providing cost-effective energy to more than four million customers, the Southern Company system continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and earnings per share (EPS). Southern Company's financial success is directly tied to customer satisfaction. Key elements of ensuring customer satisfaction include outstanding service, high reliability, and competitive prices. Management uses customer satisfaction surveys and reliability indicators to evaluate the results of the Southern Company system.

Peak season equivalent forced outage rate (Peak Season EFOR) is an indicator of fossil/hydro plant availability and efficient generation fleet operations during the months when generation needs are greatest. The rate is calculated by dividing the number of hours of forced outages by total generation hours. The fossil/hydro 2012 Peak Season EFOR was better than the target, excluding the impact of Hurricane Isaac in August 2012. Transmission and distribution system reliability performance is measured by the frequency and duration of outages. Performance targets for reliability are set internally based on historical performance. The performance for 2012 was better than the target for these reliability measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Southern Company and Subsidiary Companies 2012 Annual Report

Southern Company's 2012 results compared with its targets for some of these key indicators are reflected in the following chart:

Key Performance Indicator	2012 Target Performance	2012 Actual Performance
System Customer Satisfaction	Top quartile in customer surveys	Top quartile
Peak Season System EFOR — fossil/hydro*	4.99% or less	2.81%
Basic EPS	$2.58 — $2.70	$2.70
EPS, excluding the MC Asset Recovery insurance settlement**		$2.68

*Excluding impact of Hurricane Isaac
**Southern Company filed an insurance claim in 2009 to recover a portion of the MC Asset Recovery settlement and received a nontaxable $25 million payment from its insurance provider on June 14, 2012. Additionally, legal fees related to this insurance settlement totaled approximately $6 million. As a result, the net reduction to expense for this insurance settlement was approximately $19 million. Southern Company management uses the non-generally accepted accounting principles (GAAP) measure of EPS, excluding the MC Asset Recovery insurance settlement, to evaluate the performance of Southern Company's ongoing business activities. Southern Company believes the presentation of this non-GAAP measure of earnings and EPS excluding the MC Asset Recovery insurance settlement is useful for investors because it provides earnings information that is consistent with the historical and ongoing business activities of the Company. The presentation of this information is not meant to be considered a substitute for financial measures prepared in accordance with GAAP. See Note 3 to the financial statements under "Insurance Recovery" for additional information.

See RESULTS OF OPERATIONS herein for additional information on the Company's financial performance. The performance achieved in 2012 reflects the continued emphasis that management places on these indicators as well as the commitment shown by employees in achieving or exceeding management's expectations.

Earnings

Southern Company's net income after dividends on preferred and preference stock of subsidiaries was $2.35 billion in 2012, an increase of $147 million, or 6.7%, from the prior year. The increase was primarily the result of lower operations and maintenance expenses resulting from cost containment efforts in 2012, increases in revenues associated with the elimination of a tax-related adjustment under Alabama Power's rate structure, an increase related to retail revenue rate effects at Georgia Power, and an increase in revenues due to increases in retail base rates at Gulf Power. Also contributing to the increase were higher capacity revenues and an increase in retail sales growth. The increases were partially offset by milder weather and an increase in depreciation on additional plant in service related to new generation, transmission, distribution, and environmental projects.

Southern Company's net income after dividends on preferred and preference stock of subsidiaries was $2.20 billion in 2011, an increase of $228 million, or 11.5%, from the prior year. The increase was primarily the result of increases in Georgia Power's retail base revenues as authorized under the 2010 Alternative Rate Plan for the years 2011 through 2013 (2010 ARP) and the recovery of financing costs through the Nuclear Construction Cost Recovery (NCCR) tariff. Also contributing to the increase were increases in energy and capacity revenues at Southern Power and a reduction in operations and maintenance expenses primarily at Alabama Power. The 2011 increase was partially offset by decreases in weather-related revenues due to closer to normal weather in 2011 compared to 2010, a decrease in the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power, a decrease in wholesale revenues primarily at Alabama Power, and a reduction in allowance for funds used during construction (AFUDC) equity. Net income after dividends on preferred and preference stock of subsidiaries was $1.98 billion in

2010.

Basic EPS was $2.70 in 2012, $2.57 in 2011, and $2.37 in 2010. Diluted EPS, which factors in additional shares related to stock-based compensation, was $2.67 in 2012, $2.55 in 2011, and $2.36 in 2010. EPS for 2012 was negatively impacted by $0.05 per share as a result of an increase in the average shares outstanding.

Dividends

Southern Company has paid dividends on its common stock since 1948. Dividends paid per share of common stock were $1.9425 in 2012, $1.8725 in 2011, and $1.8025 in 2010. In January 2013, Southern Company declared a quarterly dividend of 49.00 cents per share. This is the 261st consecutive quarter that Southern Company has paid a dividend equal to or higher than the previous quarter. The Company targets a dividend payout ratio of approximately 70% to 75% of net income. For 2012, the actual payout ratio was 71.9%, while the payout ratio of net income excluding the MC Asset Recovery insurance settlement was 72.5%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Southern Company and Subsidiary Companies 2012 Annual Report

RESULTS OF OPERATIONS

Discussion of the results of operations is divided into two parts – the Southern Company system's primary business of electricity sales and its other business activities.

	Amount 2012 (in millions)	2011	2010
Electricity business	$2,321	$2,214	$1,991
Other business activities	29	(11)	(16)
Net income	$2,350	$2,203	$1,975

Electricity Business

Southern Company's electric utilities generate and sell electricity to retail and wholesale customers in the Southeast. A condensed statement of income for the electricity business follows:

	Amount	Increase (Decrease) from Prior Year	
	2012 (in millions)	2012	2011
Electric operating revenues	$16,478	$(1,109)	$213
Fuel	5,057	(1,205)	(437)
Purchased power	544	(64)	45
Other operations and maintenance	3,695	(147)	(63)
Depreciation and amortization	1,772	72	205
Taxes other than income taxes	912	13	32
Total electric operating expenses	11,980	(1,331)	(218)
Operating income	4,498	222	431
Allowance for equity funds used during construction	143	(10)	(41)
Interest income	22	3	(3)
Interest expense, net of amounts capitalized	820	17	(30)
Other income (expense), net	(57)	16	(15)
Income taxes	1,400	107	179
Net income	2,386	107	223
Dividends on preferred and preference stock of subsidiaries	65	—	—
Net income after dividends on preferred and preference stock of subsidiaries	$2,321	$107	$223

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Southern Company and Subsidiary Companies 2012 Annual Report

Electric Operating Revenues
Details of electric operating revenues were as follows:

	Amount	
	2012	2011
	(in millions)	
Retail — prior year	$15,071	$14,791
Estimated change in —		
Rates and pricing	296	793
Sales growth (decline)	39	38
Weather	(282)	(279)
Fuel and other cost recovery	(937)	(272)
Retail — current year	14,187	15,071
Wholesale revenues	1,675	1,905
Other electric operating revenues	616	611
Electric operating revenues	$16,478	$17,587
Percent change	(6.3)%	1.2%

Retail revenues decreased $884 million, or 5.9%, in 2012 as compared to the prior year. The significant factors driving this change are shown in the preceding table. The increase in rates and pricing in 2012 was primarily due to increases in retail revenues at Georgia Power due to base tariff increases effective April 1, 2012 related to placing Plant McDonough-Atkinson Units 4 and 5 in service, as well as the collection of financing costs associated with the construction of two new nuclear generating units at Plant Vogtle (Plant Vogtle Units 3 and 4) through the NCCR tariff and demand-side management programs effective January 1, 2012, as approved by the Georgia Public Service Commission (PSC), and the rate pricing effect of decreased customer usage. Also contributing to the increase were the elimination of a tax-related adjustment under Alabama Power's rate structure that was effective with October 2011 billings and higher revenues due to increases in retail base rates at Gulf Power. These increases were partially offset by lower contributions from market-driven rates from commercial and industrial customers at Georgia Power and decreased revenues under rate certificated new plant environmental (Rate CNP Environmental) at Alabama Power.
Retail revenues increased $280 million, or 1.9%, in 2011 as compared to the prior year. The significant factors driving this change are shown in the preceding table. The increase in rates and pricing in 2011 was primarily due to increases in Georgia Power's retail base revenues as authorized under the 2010 ARP, which became effective January 1, 2011. The increase in base revenues at Georgia Power also included the collection of financing costs associated with the construction of Plant Vogtle Units 3 and 4 through the NCCR tariff effective January 1, 2011. See "Allowance for Equity Funds Used During Construction" and "Interest Expense, Net of Amounts Capitalized" herein for additional information. Also contributing to the increase in rates and pricing in 2011 were revenues associated with Alabama Power's Rate CNP Environmental due to the completion of construction projects related to environmental mandates and the elimination of a tax-related adjustment under Alabama Power's rate structure.
See FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Retail Rate Adjustments" and "PSC Matters – Georgia Power – Rate Plans" herein for additional information. Also see "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes related to sales growth (decline) and weather.
Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the energy component of purchased power costs, and do not affect net income. The traditional operating companies may also have one or more regulatory mechanisms to recover other costs such as environmental, storm damage, new plants, and PPAs.

Wholesale revenues consist of PPAs with investor-owned utilities and electric cooperatives, unit power sales contracts, and short-term opportunity sales. Wholesale revenues from PPAs and unit power sales contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment. Energy revenues will vary depending on fuel prices, the market prices of wholesale energy compared to the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Southern Company system's variable cost to produce the energy.

In 2012, wholesale revenues decreased $230 million, or 12.1%, as compared to the prior year due to a $292 million decrease in energy sales primarily due to a reduction in the average price of energy and lower customer demand, partially offset by a $62 million increase in capacity revenues.

In 2011, wholesale revenues decreased $89 million, or 4.5%, as compared to the prior year due to decreased energy revenues. This decrease was primarily due to a decrease in wholesale revenues at Alabama Power due to the expiration of long-term unit power sales contracts in May 2010 and the capacity subject to those contracts being made available for retail service starting in June 2010, as well as lower energy and capacity revenues associated with the expiration of PPAs at Southern Power. The decrease was partially offset by higher energy and capacity revenues under new PPAs at Southern Power.

Revenues associated with PPAs and opportunity sales were as follows:

	2012	2011	2010
	(in millions)		
Other power sales —			
Capacity and other	$827	$767	$684
Energy	776	1,035	1,034
Total	$1,603	$1,802	$1,718

Kilowatt-hour (KWH) sales under unit power sales contracts decreased 65.2% and 69.6% in 2012 and 2011, respectively, as compared to the prior years. In addition, fluctuations in natural gas prices, which is the primary fuel source for unit power sales contracts, influence changes in energy sales. However, because the energy is generally sold at variable cost, fluctuations in energy sales have a minimal effect on earnings. The capacity and energy components of the unit power sales contracts were as follows:

	2012	2011	2010
	(in millions)		
Unit power sales —			
Capacity	$55	$53	$136
Energy	17	50	140
Total	$72	$103	$276

Other Electric Revenues

Other electric revenues increased $5 million, or 0.8%, and $22 million, or 3.7%, in 2012 and 2011, respectively, as compared to the prior years. Other electric revenues increased in 2012 primarily due to an increase in rents from electric property. The 2011 increase in other electric revenues was primarily a result of an increase in transmission revenues at Georgia Power.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
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Energy Sales
Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2012 and the percent change by year were as follows:

	Total KWHs	Total KWH Percent Change		Weather-Adjusted Percent Change	
	2012	2012	2011	2012	2011
	(in billions)				
Residential	50.4	(5.4)%	(7.7)%	1.1%	—%
Commercial	53.0	(1.6)	(2.9)	(0.2)	(0.3)
Industrial	51.7	0.2	3.2	0.2	3.3
Other	0.9	(1.8)	(0.8)	(1.4)	(0.7)
Total retail	156.0	(2.3)	(2.7)	0.4%	1.0%
Wholesale	27.6	(9.2)	(6.8)		
Total energy sales	183.6	(3.4)%	(3.4)%		

Changes in retail energy sales are comprised of changes in electricity usage by customers, changes in weather, and changes in the number of customers. Retail energy sales decreased 3.6 billion KWHs in 2012 as compared to the prior year. This decrease was primarily the result of milder weather in 2012, partially offset by customer growth and an increase in customer demand primarily in the residential class. Retail energy sales decreased 4.5 billion KWHs in 2011 as compared to the prior year. This decrease was primarily the result of closer to normal weather in 2011 compared to 2010, partially offset by an increase in industrial KWH sales. Increased demand in the primary metals and fabricated metals sectors was the main contributor to the increase in industrial KWH sales. The number of customers in 2011 was flat when compared to 2010.

Wholesale energy sales decreased 2.8 billion KWHs in 2012 and 2.2 billion KWHs in 2011 as compared to the prior years. The decrease in wholesale energy sales in 2012 was primarily related to lower customer demand resulting from milder weather in 2012. The decrease in wholesale energy sales in 2011 was primarily related to the expiration of long-term unit power sales contracts in May 2010 at Alabama Power and the capacity subject to those contracts being made available for retail service starting in June 2010. This decrease was partially offset by increased energy sales under new PPAs at Southern Power.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
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Fuel and Purchased Power Expenses
Fuel costs constitute the single largest expense for the electric utilities. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units. Additionally, the electric utilities purchase a portion of their electricity needs from the wholesale market.
Details of generation and purchased power by the electric utilities were as follows:

	2012	2011	2010
Total generation (billions of KWHs)	175	186	196
Total purchased power (billions of KWHs)	16	12	10
Sources of generation (percent) —			
Coal	38	52	58
Nuclear	18	16	15
Gas	42	30	25
Hydro	2	2	2
Cost of fuel, generated (cents per net KWH) —			
Coal	3.96	4.02	3.93
Nuclear	0.83	0.72	0.63
Gas	2.86	3.89	4.27
Average cost of fuel, generated (cents per net KWH)	2.93	3.43	3.50
Average cost of purchased power (cents per net KWH) *	4.45	6.32	6.98

* Average cost of purchased power includes fuel purchased by the electric utilities for tolling agreements where power is generated by the provider.

In 2012, total fuel and purchased power expenses were $5.6 billion, a decrease of $1.3 billion, or 18.5%, as compared to the prior year. This decrease was primarily the result of a $1.0 billion decrease in the average cost of fuel and purchased power and a $519 million decrease in the volume of KWHs generated as a result of milder weather in 2012, partially offset by a $270 million increase in the volume of KWHs purchased.
In 2011, total fuel and purchased power expenses were $6.9 billion, a decrease of $392 million, or 5.4%, as compared to the prior year. This decrease was primarily the result of a $349 million decrease in the volume of KWHs generated and a $206 million decrease in the average cost of fuel and purchased power, partially offset by a $163 million increase in the volume of KWHs purchased.
From an overall global market perspective, coal prices decreased from levels experienced in 2011 due to lower demand. In the U.S., this decrease was due primarily to relatively lower domestic natural gas prices that contributed to displacement of coal generation by natural gas-fueled generating units. Lower domestic natural gas prices in 2012 were driven by continued robust supplies, including production from shale gas, and only modest increases in overall U.S. consumption.
Uranium prices began to decrease during the second half of 2012 as extended reactor shutdowns in Europe and Asia caused global demand for uranium to drop below the level of previous years, while production increased. Changes in the cost of fuel for nuclear generation tend to lag behind changes in uranium market prices. Even though uranium prices decreased slightly during 2012, the cost of fuel for nuclear generation increased in 2012, reflecting the higher uranium prices from previous years when the uranium was purchased.
Fuel and purchased power energy transactions at the traditional operating companies are generally offset by fuel revenues and do not have a significant impact on net income. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information. Fuel expenses incurred under Southern Power's PPAs are generally the responsibility of the counterparties and do not significantly impact net income.

MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)
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Fuel

In 2012, fuel expense was $5.1 billion, a decrease of $1.2 billion, or 19.2%, as compared to the prior year. The decrease was primarily due to a 26.5% decrease in the average cost of natural gas per KWH generated, a higher percentage of generation from lower-cost natural gas-fired resources, and lower customer demand mainly due to milder weather in 2012.

In 2011, fuel expense was $6.3 billion, a decrease of $437 million, or 6.5%, as compared to the prior year. The decrease was primarily due to an 8.9% decrease in the average cost of natural gas per KWH generated and lower demand primarily due to closer to normal weather in 2011 compared to 2010.

Purchased Power

In 2012, purchased power expense was $544 million, a decrease of $64 million, or 10.5%, as compared to the prior year. The decrease was due to a 29.6% decrease in the average cost per KWH purchased, partially offset by a 35.1% increase in the volume of KWHs purchased as the market cost of available energy was lower than the marginal cost of generation available.

In 2011, purchased power expense was $608 million, an increase of $45 million, or 8.0%, as compared to the prior year. The increase was due to a 23.9% increase in the volume of KWHs purchased as the market cost of available energy was lower than the marginal cost of generation available, partially offset by a 9.5% decrease in the average cost per KWH purchased.

Energy purchases will vary depending on demand for energy within the Southern Company system's service territory, the market prices of wholesale energy as compared to the cost of the Southern Company system's generation, and the availability of the Southern Company system's generation.

Other Operations and Maintenance Expenses

Other operations and maintenance expenses were $3.7 billion and $3.8 billion, decreasing $147 million, or 3.8%, and $63 million, or 1.6%, in 2012 and 2011, respectively, as compared to the prior years. Discussion of significant variances for components of other operations and maintenance expenses follows.

Other production expenses at fossil, hydro, and nuclear plants decreased $110 million in 2012 and increased $2 million in 2011 as compared to the prior years. Production expenses fluctuate from year to year due to variations in outage schedules and changes in the cost of labor and materials. Other production expenses decreased in 2012 primarily due to a decrease in scheduled outage and maintenance costs and commodity and labor costs, which was primarily the result of cost containment efforts to offset the effect of milder weather in 2012. Also contributing to the decrease was a $35 million decrease at Mississippi Power related to the expiration of the operating lease for Plant Daniel Units 3 and 4, which was offset by a $35 million increase at Alabama Power primarily related to a change in the nuclear maintenance outage accounting process associated with routine refueling activities, as approved by the Alabama PSC in 2010. See FINANCIAL CONDITION AND LIQUIDITY – "Purchase of the Plant Daniel Combined Cycle Generating Units" herein for additional information. Other production expenses increased in 2011 mainly due to a $29 million increase in commodity and labor costs and a $26 million increase in outage and maintenance costs. These increases were largely offset by a decrease in nuclear outage expense at Alabama Power, primarily related to the change in the nuclear maintenance outage accounting process. As a result, Alabama Power did not recognize any nuclear maintenance outage expenses in 2011, reducing nuclear production expense by approximately $50 million as compared to 2010. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Nuclear Outage Accounting Order" herein for additional information.

Transmission and distribution expenses decreased $75 million and $80 million in 2012 and 2011, respectively, as compared to the prior years. Transmission and distribution expenses fluctuate from year to year due to variations in maintenance schedules and normal changes in the cost of labor and materials. Transmission and distribution expenses decreased in 2012 primarily due to cost containment efforts to offset the effects of the milder weather in 2012 and a reduction in accruals at Alabama Power to the natural disaster reserve (NDR). Transmission and distribution expenses decreased in 2011 primarily due to reductions in spending related to vegetation management and a reduction in accruals to the NDR at Alabama Power. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Natural Disaster Reserve" herein for additional information.

Customer accounts, sales, and service expenses decreased $20 million in 2012 and increased $33 million in 2011 as compared to the prior years. Customer accounts, sales, and service expenses decreased in 2012 primarily due to a decrease in uncollectible account expense at Georgia Power. Customer accounts, sales, and service expenses increased in 2011 primarily due to a $24 million increase in customer service expense primarily related to new demand side management programs at Georgia Power and a $9 million increase in records and collection expense.

Administrative and general expenses increased $58 million in 2012 and decreased $18 million in 2011 as compared to the prior years. Administrative and general expenses increased in 2012 primarily as a result of an increase in pension costs. Administrative and general expenses decreased in 2011 primarily as a result of a $10 million decrease in property insurance cost and a $7 million decrease in injuries and damages reserve costs.

Depreciation and Amortization

Depreciation and amortization increased $72 million, or 4.2%, in 2012 as compared to the prior year primarily as a result of additional plant in service related to new generation at Georgia Power's Plant McDonough-Atkinson Units 4 and 5, additional plant in service at Southern Power, as well as transmission, distribution, and environmental projects, partially offset by amortization of the regulatory liability for state income tax credits at Georgia Power as authorized by the Georgia PSC. See Note 1 to the financial statements under "Regulatory Assets and Liabilities" for additional information.

Depreciation and amortization increased $205 million, or 13.7%, in 2011 as compared to the prior year primarily as a result of a $142 million decrease in the amortization of the regulatory liability related to other cost of removal obligations at Georgia Power as authorized by the Georgia PSC and additional depreciation on plant in service related to environmental, transmission, and distribution projects. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Rate Plans" for additional information regarding Georgia Power's cost of removal amortization.

See Note 1 to the financial statements under "Depreciation and Amortization" for additional information.

Taxes Other Than Income Taxes

Taxes other than income taxes increased $13 million, or 1.4%, in 2012 as compared to the prior year primarily due to increases in property taxes, partially offset by a decrease in municipal franchise fees. Taxes other than income taxes increased $32 million, or 3.7%, in 2011 compared to the prior year primarily due to increases in property taxes and municipal franchise fees at Georgia Power and increases in state and municipal public utility license tax bases at Alabama Power. Increases in franchise fees are associated with increases in revenues from energy sales.

Allowance for Equity Funds Used During Construction

AFUDC equity decreased $10 million, or 6.5%, in 2012 as compared to the prior year primarily due to the completion of Georgia Power's Plant McDonough-Atkinson Units 4, 5, and 6 in December 2011, April 2012, and October 2012, respectively, partially offset by increases in construction work in progress (CWIP) related to Mississippi Power's integrated coal gasification combined cycle facility under construction in Kemper County, Mississippi (Kemper IGCC), which began construction in 2010.

AFUDC equity decreased $41 million, or 21.1%, in 2011 as compared to the prior year primarily due to the inclusion of Georgia Power's construction costs for Plant Vogtle Units 3 and 4 in rate base effective January 1, 2011 in accordance with the Georgia Nuclear Energy Financing Act and a Georgia PSC order. This action reduced the amount of AFUDC capitalized, with an offsetting increase in operating revenues through the NCCR tariff. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" for additional information. Also contributing to the decrease was the completion of construction projects related to environmental mandates at Alabama Power. The 2011 decrease was partially offset by CWIP related to Mississippi Power's Kemper IGCC.

Interest Expense, Net of Amounts Capitalized

Total interest charges and other financing costs increased $17 million, or 2.1%, in 2012 as compared to the prior year primarily due to a $23 million reduction in interest expense in 2011 at Georgia Power resulting from the settlement of litigation with the Georgia Department of Revenue (DOR), a decrease in AFUDC debt at Georgia Power due to the completion of Plant McDonough-Atkinson Units 4 and 5, and a net increase in interest expense related to senior notes and other long-term debt. The increases were partially offset by a decrease in interest expense on existing variable rate pollution control revenue bonds, an increase in capitalized interest primarily resulting from AFUDC debt associated with the Kemper IGCC at Mississippi Power, and a decrease related to the conclusion of certain state and federal income tax audits.

Total interest charges and other financing costs decreased $30 million, or 3.6%, in 2011 as compared to the prior year primarily due to a reduction of $23 million in interest expense at Georgia Power related to the settlement of litigation with the Georgia DOR and lower interest expense on existing variable rate pollution control revenue bonds at Georgia Power. The decrease was partially offset by a reduction in AFUDC debt at Georgia Power due to the inclusion of construction costs for Plant Vogtle Units 3 and 4 in rate base.

Other Income (Expense), Net

Other income (expense), net increased $16 million, or 21.9%, in 2012 and decreased $15 million, or 25.9%, in 2011 as compared to the prior years primarily due to a make-whole premium payment in connection with the early redemption of senior notes at Southern Power in 2011.

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Income Taxes

Income taxes increased $107 million, or 8.3%, in 2012 as compared to the prior year primarily due to higher pre-tax earnings, an increase in non-deductible book depreciation, and a decrease in non-taxable AFUDC equity, partially offset by state income tax credits.

Income taxes increased $179 million, or 16.1%, in 2011 as compared to the prior year primarily due to higher pre-tax earnings, a decrease in 2010 in uncertain tax positions at Georgia Power related to state income tax credits, and a reduction in AFUDC equity, which is non-taxable.

Other Business Activities

Southern Company's other business activities include the parent company (which does not allocate operating expenses to business units), investments in leveraged lease projects, and telecommunications. These businesses are classified in general categories and may comprise one or both of the following subsidiaries: Southern Company Holdings, Inc. invests in various projects, including leveraged lease projects, and Southern Communications Services, Inc. (SouthernLINC Wireless) provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast.

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

	Amount	Increase (Decrease) from Prior Year	
	2012	2012	2011
	(in millions)		
Operating revenues	$59	$(11)	$(12)
Other operations and maintenance	96	—	(9)
MC Asset Recovery litigation settlement	(19)	(19)	—
Depreciation and amortization	15	(2)	(1)
Taxes other than income taxes	2	—	—
Total operating expenses	94	(21)	(10)
Operating income (loss)	(35)	10	(2)
Interest income	18	16	—
Equity in income (losses) of unconsolidated subsidiaries	(2)	—	—
Leveraged lease income (losses)	21	(4)	7
Other income (expense), net	—	11	6
Interest expense	39	(15)	(8)
Income taxes	(66)	8	14
Net income (loss)	$29	$40	$5

Operating Revenues

Southern Company's non-electric operating revenues from these other business activities decreased $11 million, or 15.7%, and $12 million, or 14.6%, in 2012 and 2011, respectively, as compared to the prior years. The decreases were primarily the result of decreases in revenues at SouthernLINC Wireless related to lower average per subscriber revenue and fewer subscribers due to continued competition in the industry.

Other Operations and Maintenance Expenses

In 2012, the change in other operations and maintenance expenses for these other businesses was not material. Other operations and maintenance expenses for these other businesses decreased $9 million, or 8.6%, in 2011 as compared to the prior year. The decrease in 2011 was primarily the result of lower administrative and general expenses.

MC Asset Recovery Insurance Settlement

On June 14, 2012, Southern Company received an insurance recovery related to the litigation settlement with MC Asset Recovery, LLC, which resulted in income of $19 million. See Note 3 to the financial statements under "Insurance Recovery" for additional information.

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Interest Income
Interest income for these other businesses increased $16 million in 2012 as compared to the prior year primarily due to the conclusion of certain federal income tax audits. In 2011, the change in interest income for these other businesses was not material.
Leveraged Lease Income (Losses)
Southern Company has several leveraged lease agreements which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. The change in leveraged lease income (losses) in 2012 compared to 2011 was not material. Leveraged lease income (losses) increased $7 million, or 38.9%, in 2011 as compared to the prior year primarily as a result of changes in the average leveraged lease investment balance. See FUTURE EARNINGS POTENTIAL – "Investments in Leveraged Leases" herein for additional information.
Other Income (Expense), Net
Other income (expense), net for these other businesses increased $11 million in 2012 and $6 million in 2011 as compared to the prior years primarily as a result of decreases in the amount of charitable contributions made by the parent company.
Interest Expense
Total interest charges and other financing costs for these other businesses decreased $15 million, or 27.8%, in 2012 and $8 million, or 12.9%, in 2011 as compared to the prior years primarily due to lower interest rates on existing debt.
Income Taxes
Income taxes for these other businesses increased $8 million, or 10.8%, in 2012 as compared to the prior year primarily as a result of lower pre-tax losses. Income taxes for these other business increased $14 million, or 15.9%, in 2011 as compared to the prior year primarily as a result of lower pre-tax losses and a prior year state tax adjustment related to leveraged leases.
Effects of Inflation
The traditional operating companies are subject to rate regulation that is generally based on the recovery of historical and projected costs. The effects of inflation can create an economic loss since the recovery of costs could be in dollars that have less purchasing power. Southern Power is party to long-term contracts reflecting market-based rates, including inflation expectations. Any adverse effect of inflation on Southern Company's results of operations has not been substantial in recent years.
FUTURE EARNINGS POTENTIAL
General
The four traditional operating companies operate as vertically integrated utilities providing electricity to customers within their service areas in the Southeast. Prices for electricity provided to retail customers are set by state PSCs under cost-based regulatory principles. Prices for wholesale electricity sales, interconnecting transmission lines, and the exchange of electric power are regulated by the Federal Energy Regulatory Commission (FERC). Retail rates and earnings are reviewed and may be adjusted periodically within certain limitations. Southern Power continues to focus on long-term capacity contracts, optimized by limited energy trading activities. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates – Electric Utility Regulation" herein and Note 3 to the financial statements for additional information about regulatory matters.
The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of the Southern Company system's primary business of selling electricity. These factors include the traditional operating companies' ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and the successful completion of ongoing

construction projects, including construction of generating facilities. Another major factor is the profitability of the competitive wholesale supply business. Future earnings for the electricity business in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities and other wholesale customers, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in the service territory. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of customers, total generating capacity available and related costs, future acquisitions and construction of generating facilities, and the successful remarketing of capacity as current contracts expire. Changes in economic conditions impact sales for the traditional operating companies and Southern Power, and the pace of the economic recovery remains uncertain. The timing and extent of the economic recovery will impact growth and may impact future earnings.

In 2012, the Southern Company system generating capacity increased 2,184 megawatts (MWs), net of retirements of 352 MWs, due to the completion of Plant McDonough-Atkinson Units 5 and 6, the completion of a biomass generating plant, the completion of Plant Cleveland County Units 1 through 4, and the acquisition of three solar photovoltaic facilities. In general, the Southern Company system has constructed or acquired new generating capacity only after entering into long-term capacity contracts for the new facilities or to meet requirements of the Southern Company system's regulated retail markets, both of which are optimized by limited energy trading activities. See "Construction Program" herein for additional information.

As part of its ongoing effort to adapt to changing market conditions, Southern Company continues to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, partnerships, acquisitions involving other utility or non-utility businesses or properties, disposition of certain assets, internal restructuring, or some combination thereof. Furthermore, Southern Company may engage in new business ventures that arise from competitive and regulatory changes in the utility industry. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations, risks, and financial condition of Southern Company.

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and financial condition. See Note 3 to the financial statements under "Environmental Matters" for additional information.

New Source Review Actions

In 1999, the Environmental Protection Agency (EPA) brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. The EPA alleged NSR violations at five coal-fired generating facilities operated by Alabama Power, including a unit co-owned by Mississippi Power, and three coal-fired generating facilities operated by Georgia Power, including a unit co-owned by Gulf Power. The civil action sought penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The case against Georgia Power (including claims related to the unit co-owned by Gulf Power) was administratively closed in 2001 and has not been reopened. After Alabama Power was dismissed from the original action, the EPA filed a separate action in 2001 against Alabama Power (including claims related to the unit co-owned by Mississippi Power) in the U.S. District Court for the Northern District of Alabama.

In 2006, the U.S. District Court for the Northern District of Alabama entered a consent decree, resolving claims relating to the alleged NSR violations at Plant Miller. In 2010, the EPA dismissed five of its eight remaining claims against Alabama Power, leaving only three claims, including one relating to the unit co-owned by Mississippi Power. In March 2011, the U.S. District Court for the Northern District of Alabama granted Alabama Power summary judgment on all remaining claims and dismissed the case with prejudice. That judgment is on appeal to the U.S. Court of Appeals for the Eleventh Circuit. On February 23, 2012, the EPA filed a motion in the U.S. District Court for the Northern District of Alabama seeking vacatur of the judgment and recusal of the judge in the case involving Alabama Power.

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

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Climate Change Litigation

Kivalina Case

In 2008, the Native Village of Kivalina and the City of Kivalina filed a lawsuit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs allege that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants (including Southern Company) acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. In 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case. On September 21, 2012, the U.S. Court of Appeals for the Ninth Circuit upheld the U.S. District Court for the Northern District of California's dismissal of the case. On November 27, 2012, the U.S. Court of Appeals for the Ninth Circuit denied the plaintiffs' request for review of the decision. On February 25, 2013, the plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court. Southern Company believes that these claims are without merit. The ultimate outcome of this matter cannot be determined at this time.

Hurricane Katrina Case

In 2005, immediately following Hurricane Katrina, a lawsuit was filed in the U.S. District Court for the Southern District of Mississippi by Ned Comer on behalf of Mississippi residents seeking recovery for property damage and personal injuries caused by Hurricane Katrina. In 2006, the plaintiffs amended the complaint to include Southern Company and many other electric utilities, oil companies, chemical companies, and coal producers. The plaintiffs allege that the defendants contributed to climate change, which contributed to the intensity of Hurricane Katrina. In 2007, the U.S. District Court for the Southern District of Mississippi dismissed the case. On appeal to the U.S. Court of Appeals for the Fifth Circuit, a three-judge panel reversed the U.S. District Court for the Southern District of Mississippi, holding that the case could proceed, but, on rehearing, the full U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal, resulting in reinstatement of the decision of the U.S. District Court for the Southern District of Mississippi in favor of the defendants. In May 2011, the plaintiffs filed an amended version of their class action complaint, arguing that the earlier dismissal was on procedural grounds and under Mississippi law the plaintiffs have a right to re-file. The amended complaint was also filed against numerous chemical, coal, oil, and utility companies, including Alabama Power, Georgia Power, Gulf Power, and Southern Power. On March 20, 2012, the U.S. District Court for the Southern District of Mississippi dismissed the plaintiffs' amended complaint. On April 16, 2012, the plaintiffs appealed the case to the U.S. Court of Appeals for the Fifth Circuit. Southern Company believes that these claims are without merit. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

The electric utilities' operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Applicable statutes include the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; the Emergency Planning & Community Right-to-Know Act; the Endangered Species Act; and related federal and state regulations. Compliance with these environmental requirements involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions. Through 2012, the traditional operating companies had invested approximately $8.7 billion in environmental capital retrofit projects to comply with these requirements, with annual totals of approximately $340 million, $300 million, and $500 million for 2012, 2011, and 2010, respectively. The Southern Company system expects that capital expenditures to comply with existing statutes and regulations, including capital expenditures and compliance costs associated with the EPA's final

Mercury and Air Toxics Standards (MATS) rule, will be a total of approximately $3.6 billion from 2013 through 2015, with annual totals of approximately $1.0 billion, $1.5 billion, and $1.1 billion for 2013, 2014, and 2015, respectively.

The Southern Company system continues to monitor the development of the EPA's proposed water and coal combustion byproducts rules and to evaluate compliance options. Based on its preliminary analysis and an assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule, the Southern Company system does not anticipate that material compliance costs with respect to these proposed rules will be required during the period of 2013 through 2015. The ultimate capital expenditures and compliance costs with respect to these proposed rules, including additional expenditures required after 2015, will be dependent on the requirements of the final rules and regulations adopted by the EPA and the outcome of any legal challenges to these rules. See "Water Quality" and "Coal Combustion Byproducts" herein for additional information.

The Southern Company system's ultimate environmental compliance strategy, including potential unit retirement and replacement decisions, and future environmental capital expenditures will be affected by the final requirements of new or revised environmental regulations and regulations relating to global climate change that are promulgated, including the proposed environmental regulations described below; the outcome of any legal challenges to the environmental rules; the cost, availability, and existing inventory of emissions allowances; and the fuel mix of the electric utilities. Compliance costs may arise from existing unit retirements, installation of additional environmental controls, upgrades to the transmission system, and adding or changing fuel sources for certain existing units. The ultimate outcome of these matters cannot be determined at this time. See "PSC Matters – Georgia Power – Integrated Resource Plans" herein for additional information on planned unit retirements and fuel conversions at Georgia Power.

Southern Electric Generating Company (SEGCO) is jointly owned by Alabama Power and Georgia Power. As part of its environmental compliance strategy, SEGCO plans to add natural gas as the primary fuel source for its generating units in 2015. The capacity of SEGCO's units is sold equally to Alabama Power and Georgia Power through a PPA. The impact of SEGCO's ultimate compliance strategy on such PPA costs cannot be determined at this time; however, if such costs cannot continue to be recovered through retail rates, they could have a material financial impact on Southern Company's financial statements. See Note 4 to the financial statements herein for additional information.

Compliance with any new federal or state legislation or regulations relating to air quality, water, coal combustion byproducts, global climate change, or other environmental and health concerns could significantly affect the Company. Although new or revised environmental legislation or regulations could affect many areas of the electric utilities' operations, the full impact of any such changes cannot be determined at this time. Additionally, many of the electric utilities' commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity.

Air Quality

Compliance with the Clean Air Act and resulting regulations has been and will continue to be a significant focus for the Southern Company system. Since 1990, the electric utilities have spent approximately $7.6 billion in reducing and monitoring emissions pursuant to the Clean Air Act. Additional controls are currently planned or under consideration to further reduce air emissions, maintain compliance with existing regulations, and meet new requirements.

The EPA regulates ground level ozone concentrations through implementation of an eight-hour ozone air quality standard. In 2008, the EPA adopted a more stringent eight-hour ozone National Ambient Air Quality Standard, which it began to implement in September 2011. On May 21, 2012, the EPA published its final determination of nonattainment areas based on the 2008 eight-hour ozone air quality standards. The only area within the traditional operating companies' service territory designated as a nonattainment area is a 15-county area within metropolitan Atlanta.

The EPA regulates fine particulate matter concentrations on an annual and 24-hour average basis. All areas within the traditional operating companies' service territory have achieved attainment with the 1997 and 2006 particulate matter National Ambient Air Quality Standards and, in January 2013, the EPA officially redesignated the Birmingham area as attainment under both the annual and 24-hour standards. Redesignation requests for nonattainment areas in Georgia are still pending with the EPA. On January 15, 2013, the EPA published a final rule that increases the stringency of the annual fine particulate matter standard. The new standard could result in the designation of new nonattainment areas within the traditional operating companies' service territories.

Final revisions to the National Ambient Air Quality Standard for sulfur dioxide (SO_2), including the establishment of a new one-hour standard, became effective in 2010 (SO_2 Rule). The EPA plans to issue area designations under this new standard in June 2013, and areas within the Southern Company system's service territory could ultimately be designated as nonattainment. Implementation of the revised SO_2 standard could require additional reductions in SO_2 emissions and increased compliance and operational costs.

Revisions to the National Ambient Air Quality Standard for nitrogen dioxide (NO_2), which established a new one-hour standard, became effective in 2010. On February 29, 2012, the new NO_2 standard became effective. The EPA designated the entire country as "unclassifiable/attainment" under the new standard, with no nonattainment areas designated. However, the new NO_2 standard could result in significant additional compliance and operational costs for units that require new source permitting.

In 2008, the EPA approved a revision to Alabama's State Implementation Plan (SIP) requirements related to opacity, which granted some flexibility to affected sources while requiring compliance with Alabama's stringent opacity limits through use of continuous opacity monitoring system data. In April 2011, the EPA attempted to rescind its previous approval of the Alabama SIP revision. This decision impacts facilities operated by Alabama Power, including units co-owned by Mississippi Power. Alabama Power filed an appeal of that decision with the U.S. Court of Appeals for the Eleventh Circuit. The EPA's rescission has affected unit availability and increased maintenance and compliance costs. Unless the court resolves Alabama Power's appeal in its favor, the EPA's rescission will continue to affect Alabama Power's operations.

Each of the states in which the Southern Company system has fossil generation is subject to the requirements of the Clean Air Interstate Rule (CAIR), which calls for phased reductions in SO_2 and nitrogen oxide (NO_x) emissions from power plants in 28 eastern states. In 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued decisions invalidating CAIR, but left CAIR compliance requirements in place while the EPA developed a new rule. In August 2011, the EPA adopted the Cross State Air Pollution Rule (CSAPR) to replace CAIR effective January 1, 2012. However, in December 2011, the U. S. Court of Appeals for the District of Columbia Circuit stayed the rule and, on August 21, 2012, vacated CSAPR in its entirety and directed the EPA to continue to administer CAIR pending the EPA's development of a valid replacement. On January 24, 2013, the U.S. Court of Appeals for the District of Columbia Circuit denied requests by the EPA and other parties for rehearing.

The EPA finalized the Clean Air Visibility Rule (CAVR) in 2005, with a goal of restoring natural visibility conditions in certain areas (primarily national parks and wilderness areas) by 2064. The rule involves the application of best available retrofit technology (BART) to certain sources built between 1962 and 1977 and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural visibility conditions goal by 2018 and for each 10-year period thereafter. In 2005, the EPA determined that compliance with CAIR satisfies BART obligations under CAVR, but, on June 7, 2012, the EPA issued a final rule replacing CAIR with CSAPR as an alternative means of satisfying BART obligations. The vacatur of CSAPR creates additional uncertainty with respect to whether additional controls may be required for CAVR and BART compliance.

On February 16, 2012, the EPA published the final MATS rule, which imposes stringent emissions limits for acid gases, mercury, and particulate matter on coal- and oil-fired electric utility steam generating units. Compliance for existing sources is required by April 16, 2015, unless a one-year compliance extension is granted by the state or local air permitting agency.

Numerous petitions for administrative reconsideration of the MATS rule, including a petition by Southern Company and its subsidiaries, have been filed with the EPA. On November 30, 2012, the EPA proposed a reconsideration of certain new source and startup/shutdown issues. The EPA plans to complete its reconsideration rulemaking by March 2013. Challenges to the final rule have also been filed in the U.S. District Court for the District of Columbia by numerous states, environmental organizations, industry groups, and others.

On August 29, 2012, the EPA published proposed revisions to the New Source Performance Standard (NSPS) for Stationary Combustion Turbines (CTs). If finalized as proposed, the revisions would apply the NSPS to all new, reconstructed, and modified CTs (including CTs at combined cycle units), during all periods of operation, including startup and shutdown, and alter the criteria for determining when an existing CT has been reconstructed.

On January 31, 2013, the EPA published the final Industrial Boiler Maximum Achievable Control Technology (IB MACT) rule establishing emissions limits and/or work practice standards for various hazardous air pollutants emitted from industrial boilers, including biomass boilers and start-up boilers. Compliance for existing sources will be required by early 2016. Compliance for new sources will begin upon startup. Georgia Power is evaluating the impact of this final rule and other environmental regulations on the possible conversion of Plant Mitchell Unit 3 from coal to biomass.

On February 12, 2013, the EPA proposed a rule that would require certain states to revise the provisions of their SIPs relating to the regulation of excess emissions at industrial facilities, including fossil fuel-fired generating facilities, during periods of startup, shut-down, or malfunction (SSM). The EPA proposes a determination that the SSM provisions in the SIPs for 36 states (including Alabama, Florida, Georgia, Mississippi, and North Carolina) do not meet the requirements of the Clean Air Act and must be revised within 18 months of the date on which the EPA publishes the final rule. If finalized as proposed, this new requirement could result in significant additional compliance and operational costs.

The Southern Company system has developed and continually updates a comprehensive environmental compliance strategy to assess compliance obligations associated with the existing and new environmental requirements discussed above. The impacts of the eight-hour ozone, fine particulate matter, SO_2 and NO_2 standards, CAIR and any future replacement rule, CAVR, the MATS rule, the NSPS for CTs, the IB MACT rule, and the SSM rule on the Southern Company system cannot be determined at this time and will depend on the specific provisions of recently finalized and future rules, the resolution of pending and future legal challenges, and the development and implementation of rules at the state level. These regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates. Further, higher costs that are recovered

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through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

In addition to the federal air quality laws described above, Georgia Power is also subject to the requirements of the 2007 State of Georgia Multi-Pollutant Rule. The Multi-Pollutant Rule is designed to reduce emissions of mercury, SO_2, and NO_x state-wide by requiring the installation of specified control technologies at certain coal-fired generating units by specific dates between December 31, 2008 and December 31, 2015. The State of Georgia also adopted a companion rule that requires a 95% reduction in SO_2 emissions from the controlled units on the same or similar timetable. Through December 31, 2012, Georgia Power had installed the required controls on 11 of its largest coal-fired generating units and is in the process of installing the required controls on two additional units. On February 21, 2013, the State of Georgia released proposed revisions for both the Multi-Pollutant Rule and the SO_2 Rule revising the compliance dates for those units yet to be controlled to make them consistent with the April 2015 compliance date for the MATS rule. According to the State of Georgia, the proposed revisions would also allow the units at Plant Yates to use natural gas as the primary fuel as an alternative to installing controls under the Multi-Pollutant Rule. The revisions to the Multi-Pollutant Rule and the SO_2 Rule are expected to be finalized in April 2013. The ultimate outcome of these matters cannot be determined at this time.

Water Quality

In April 2011, the EPA published a proposed rule that establishes standards for reducing effects on fish and other aquatic life caused by cooling water intake structures at existing power plants and manufacturing facilities. The rule also addresses cooling water intake structures for new units at existing facilities. Compliance with the proposed rule could require changes to existing cooling water intake structures at certain of the traditional operating companies' and Southern Power's generating facilities, and new generating units constructed at existing plants would be required to install closed cycle cooling towers. The EPA has entered into an amended settlement agreement to extend the deadline for issuing a final rule until June 27, 2013. If finalized as proposed, some of the facilities of Southern Company's subsidiaries may be subject to significant additional capital expenditures and compliance costs that could affect future unit retirement and replacement decisions. Also, results of operations, cash flows, and financial condition could be significantly impacted if such costs are not recovered through regulated rates or through PPAs. The ultimate outcome of this rulemaking will depend on the final rule and the outcome of any legal challenges and cannot be determined at this time.

The EPA has announced its determination that revision of the current effluent guidelines for steam electric power plants is warranted and has stated that it intends to propose such revisions by April 2013 and finalize the revisions by May 2014. New advanced wastewater treatment requirements are expected and may result in the installation of additional controls on certain of the facilities of Southern Company's subsidiaries, which could result in significant additional capital expenditures and compliance costs that could affect future unit retirement and replacement decisions. The impact of the revised guidelines will depend on the specific technology requirements of the final rule and, therefore, cannot be determined at this time.

Coal Combustion Byproducts

The traditional operating companies currently operate 22 electric generating plants with on-site coal combustion byproducts storage facilities. In addition to on-site storage, the traditional operating companies also sell a portion of their coal combustion byproducts to third parties for beneficial reuse. Historically, individual states have regulated coal combustion byproducts and the states in the Southern Company system's service territory each have their own regulatory parameters. Each traditional operating company has a routine and robust inspection program in place to ensure the integrity of its coal ash surface impoundments and compliance with applicable regulations.

The EPA continues to evaluate the regulatory program for coal combustion byproducts, including coal ash and gypsum, under federal solid and hazardous waste laws. In 2010, the EPA published a proposed rule that requested comments on two potential regulatory options for the management and disposal of coal combustion byproducts:

regulation as a solid waste or regulation as if the materials technically constituted a hazardous waste. Adoption of either option could require closure of, or significant change to, existing storage facilities and construction of lined landfills, as well as additional waste management and groundwater monitoring requirements. Under both options, the EPA proposes to exempt the beneficial reuse of coal combustion byproducts from regulation; however, a hazardous or other designation indicative of heightened risk could limit or eliminate beneficial reuse options. Environmental groups and other parties have filed lawsuits in the U.S. District Court for the District of Columbia seeking to require the EPA to complete its rulemaking process and issue final regulations pertaining to the regulation of coal combustion byproducts.

While the ultimate outcome of this matter cannot be determined at this time and will depend on the final form of any rules adopted and the outcome of any legal challenges, additional regulation of coal combustion byproducts could have a material impact on the generation, management, beneficial use, and disposal of such byproducts. Any material changes are likely to result in substantial additional compliance, operational, and capital costs that could affect future unit retirement and replacement decisions. Moreover, the traditional operating companies could incur additional material asset retirement obligations with respect to closing existing storage facilities. Southern Company's results of operations, cash flows, and financial condition could be significantly impacted if such costs are not recovered through regulated rates. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

Environmental Remediation

The Southern Company system must comply with other environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Southern Company system could incur substantial costs to clean up properties. The traditional operating companies conduct studies to determine the extent of any required cleanup and have recognized in their respective financial statements the costs to clean up known impacted sites. Amounts for cleanup and ongoing monitoring costs were not material for any year presented. The traditional operating companies have each received authority from their respective state PSCs to recover approved environmental compliance costs through regulatory mechanisms. These rates are adjusted annually or as necessary within limits approved by the state PSCs. The traditional operating companies may be liable for some or all required cleanup costs for additional sites that may require environmental remediation. See Note 3 to the financial statements under "Environmental Matters – Environmental Remediation" for additional information.

Global Climate Issues

The EPA currently regulates greenhouse gases under the Prevention of Significant Deterioration and Title V operating permit programs of the Clean Air Act. In addition, over the past several years, the U.S. Congress has considered many proposals to reduce greenhouse gas emissions, mandate renewable or clean energy, and impose energy efficiency standards. Such proposals are expected to continue to be considered by the U.S. Congress. International climate change negotiations under the United Nations Framework Convention on Climate Change are also continuing.

On April 13, 2012, the EPA published proposed regulations to establish standards of performance for greenhouse gas emissions from new fossil fuel steam electric generating units. The EPA has also announced plans to develop federal guidelines for states to establish greenhouse gas emissions performance standards for existing sources. The impact of this rulemaking will depend on the scope and specific requirements of the final rule and the outcome of any legal challenges and, therefore, cannot be determined at this time.

Although the outcome of federal, state, and international initiatives cannot be determined at this time, additional restrictions on the Southern Company system's greenhouse gas emissions or requirements relating to renewable energy or energy efficiency at the federal or state level could result in significant additional compliance costs, including capital expenditures. These costs could affect future unit retirement and replacement decisions and could result in the retirement of a significant number of coal-fired generating units. Also, additional compliance costs and costs related to unit retirements could affect results of operations, cash flows, and financial condition if such costs are not recovered through regulated rates or through PPAs. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively impact results of operations, cash flows, and financial condition.

The EPA's greenhouse gas reporting rule requires annual reporting of carbon dioxide equivalent emissions in metric tons for a company's operational control of facilities. Based on ownership or financial control of facilities, the Southern Company system's 2011 greenhouse gas emissions were approximately 125 million metric tons of carbon dioxide equivalent. The preliminary estimate of the Southern Company system's 2012 greenhouse gas emissions on the same basis is approximately 98 million metric tons of carbon dioxide equivalent. The level of greenhouse gas emissions from year to year will depend on the level of generation and mix of fuel sources, which is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units.

PSC Matters

Alabama Power

Retail Rate Adjustments

In July 2011, the Alabama PSC issued an order to eliminate a tax-related adjustment under Alabama Power's rate structure effective with October 2011 billings. The elimination of this adjustment resulted in additional revenues of approximately $31 million for 2011. In accordance with the order, Alabama Power made additional accruals to the NDR in the fourth quarter 2011 of an amount equal to such additional 2011 revenues. The NDR was impacted as a result of operations and maintenance expenses incurred in connection with the April 2011 storms in Alabama. See "Natural Disaster Reserve" below for additional information. The elimination of this adjustment resulted in additional revenues of approximately $106 million for 2012.

Rate RSE

Alabama Power operates under a rate stabilization and equalization plan (Rate RSE) approved by the Alabama PSC. Alabama Power's Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4.0% and any annual adjustment is limited to 5.0%. Retail rates remain unchanged when the retail return on common equity (ROE) is projected to be between 13.0% and 14.5%. If Alabama Power's actual retail ROE is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail ROE fall below the allowed equity return range.

In 2011 and 2012, retail rates under Rate RSE remained unchanged from 2010. On November 30, 2012, Alabama Power made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2013; projected earnings were within the specified return range, and, therefore, retail rates under Rate RSE remained unchanged for 2013. Under the terms of Rate RSE, the maximum possible increase for 2014 is 5.00%. However, Alabama Power is working with the Alabama PSC to develop a plan that will potentially preclude the need for a Rate RSE increase in 2014. The ultimate outcome of this matter cannot be determined at this time.

Rate CNP

Alabama Power's retail rates, approved by the Alabama PSC, provide for adjustments to recognize the placing of new generating facilities into retail service under rate certificated new plant (Rate CNP). Alabama Power may also recover retail costs associated with certificated PPAs under rate certificated new plant (Rate CNP PPA). Effective April 2011, Rate CNP PPA was reduced by approximately $5 million annually. On March 6, 2012, the Alabama PSC issued a consent order that Alabama Power leave in effect the current Rate CNP PPA factor for billings for the period April 1, 2012 through March 31, 2013. It is anticipated that no adjustment will be made to Rate CNP PPA in 2013. As of December 31, 2012, Alabama Power had an under recovered certificated PPA balance of $9 million, $7 million of which is included in deferred under recovered regulatory clause revenues and $2 million of which is included in under recovered regulatory clause revenues in the balance sheet.

On September 17, 2012, the Alabama PSC approved and certificated a PPA for the purchase of approximately 200 MWs of the approximately 400 MWs of energy from wind-powered generating facilities and all associated environmental attributes, including renewable energy credits. The terms of this PPA and a previously approved and certificated PPA permit Alabama Power to use the energy and retire the associated environmental attributes in service of its customers or to sell environmental attributes, separately or bundled with energy, to third parties. Approximately 200 MWs of energy from wind-powered generating facilities was operational in December 2012.

Rate CNP Environmental also allows for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates. Rate CNP Environmental is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses, depreciation, and a return on certain invested capital. There was no adjustment to Rate CNP Environmental to recover environmental costs in 2011 or 2012. On November 26, 2012, Alabama Power submitted calculations associated with its cost of complying with environmental mandates, as provided under Rate CNP Environmental. The filing reflected a projected unrecovered retail revenue requirement for environmental compliance of less than $1 million, which is to be recovered in the billing months of January 2013 through December 2013. On December 4, 2012, the Alabama PSC issued a consent order that Alabama Power leave in effect for 2013 the factors associated with Alabama Power's environmental compliance costs for the year 2012. Any unrecovered amounts associated with 2013 will be reflected in the 2014 filing. As of December 31, 2012, Alabama

Power had an under recovered environmental clause balance of $21 million which is included in under recovered regulatory clause revenues in the balance sheet.

Environmental Accounting Order

Proposed and final environmental regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions. In September 2011, the Alabama PSC approved an order allowing for the establishment of a regulatory asset to record the unrecovered investment costs associated with any such decisions, including the unrecovered plant asset balance and the unrecovered costs associated with site removal and closure. These costs would be amortized over the affected unit's remaining useful life, as established prior to the decision regarding early retirement. See "Environmental Matters – Environmental Statutes and Regulations" herein for additional information regarding environmental regulations.

Compliance and Pension Cost Accounting Order

On November 6, 2012, the Alabama PSC approved an accounting order for certain compliance-related operation and maintenance expenditures for the years 2013 through 2017, as well as the incremental increase in operation expense related to pension cost for 2013. Under the accounting order, expenses from January 2013 through December 2017 related to compliance with standards addressing Critical Infrastructure Protection issued by the North American Electric Reliability Corporation and cyber security requirements issued by the Nuclear Regulatory Commission (NRC) will be deferred to a regulatory asset account and amortized over a three-year period beginning in January 2015. Expenses from January 2013 through December 2017 related to compliance with NRC guidance addressing the readiness at nuclear facilities within the U.S., as prompted by the earthquake and tsunami that struck Japan in March 2011, also will be deferred as a regulatory asset and recovered over the same amortization period. The compliance-related expenses to be afforded regulatory asset treatment over the five-year period are currently estimated to be approximately $43 million. See "Other Matters" herein for information regarding the NRC's guidance issued as a result of the earthquake and tsunami that struck Japan in 2011. In addition, the accounting order authorizes Alabama Power to defer an incremental increase in its pension cost for 2013. That increased pension cost is estimated to be approximately $17 million. During 2013, the actual incremental increase will be deferred to a regulatory asset account and will be amortized over a three-year period beginning in January 2015. Pursuant to the accounting order, Alabama Power has the ability to accelerate the amortization of the regulatory assets.

Natural Disaster Reserve

Based on an order from the Alabama PSC, Alabama Power maintains a reserve for operations and maintenance expenses to cover the cost of damages from major storms to its transmission and distribution facilities. The order approves a separate monthly Rate Natural Disaster Reserve (Rate NDR) charge to customers consisting of two components. The first component is intended to establish and maintain a reserve balance for future storms and is an on-going part of customer billing. The second component of the Rate NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives Alabama Power authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Alabama Power has the authority, based on an order from the Alabama PSC, to accrue certain additional amounts as circumstances warrant. The order allows for reliability-related expenditures to be charged against the additional accruals when the NDR balance exceeds $75 million. Alabama Power may designate a portion of the NDR to reliability-related expenditures as a part of an annual budget process for the following year or during the current year for identified unbudgeted reliability-related expenditures that are incurred. Accruals that have not been designated can be used to offset storm charges. Additional accruals to the NDR will enhance Alabama Power's ability to deal with the financial effects of future natural disasters, promote system reliability, and offset costs retail customers would otherwise bear.

As revenue from the Rate NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, the Rate NDR charge will not have an effect on net income but will impact operating cash flows.

During the first half of 2011, multiple storms caused varying degrees of damage to Alabama Power's transmission and distribution facilities. The most significant storms occurred in April 2011, causing over 400,000 of Alabama Power's 1.4 million customers to be without electrical service. The cost of repairing the damage to facilities and restoring electrical service to customers as a result of these storms was $42 million for operations and maintenance expenses and $161 million for capital-related expenditures.

In accordance with the order that was issued by the Alabama PSC in July 2011 to eliminate a tax-related adjustment under Alabama Power's rate structure that resulted in additional revenues, Alabama Power made additional accruals to the NDR in the fourth quarter 2011 of an amount equal to the additional 2011 revenues, which were approximately $31 million.

The accumulated balances in the NDR for the years ended December 31, 2012 and December 31, 2011 were approximately $103 million and $110 million, respectively. Any accruals to the NDR are included in the balance sheets under other regulatory liabilities, deferred and are reflected as other operations and maintenance expenses in the statements of income.

Nuclear Outage Accounting Order

In 2010, the Alabama PSC approved a change to the nuclear maintenance outage accounting process associated with routine refueling activities. Previously, Alabama Power accrued nuclear outage operations and maintenance expenses for the two units at Plant Farley during the 18-month cycle for the outages. In accordance with the 2010 order, nuclear outage expenses are deferred when the charges actually occur and then amortized over the subsequent 18-month period.

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The initial result of implementation of the accounting order was that no nuclear maintenance outage expenses were recognized from January 2011 through December 2011, which decreased nuclear outage operations and maintenance expenses in 2011 from 2010 by approximately $50 million. During the fall of 2011, approximately $38 million of actual nuclear outage expenses associated with one unit at Plant Farley was deferred to a regulatory asset account; beginning in January 2012, these deferred costs are being amortized to nuclear operations and maintenance expenses over an 18-month period. During the spring of 2012, approximately $31 million of actual nuclear outage expenses associated with the second unit at Plant Farley was deferred to a regulatory asset account; beginning in July 2012, these deferred costs are being amortized to nuclear operations and maintenance expenses over an 18-month period. Alabama Power will continue the pattern of deferral of nuclear outage expenses as incurred and the recognition of expenses over a subsequent 18-month period pursuant to the existing order.

Georgia Power

Rate Plans

The economic recession significantly reduced Georgia Power's revenues upon which retail rates were set by the Georgia PSC for 2008 through 2010 (2007 Retail Rate Plan). In 2009, despite stringent efforts to reduce expenses, Georgia Power's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of a full base rate case to increase customer rates as allowed under the 2007 Retail Rate Plan, in 2009, the Georgia PSC approved Georgia Power's request for an accounting order. Under the terms of the accounting order, Georgia Power could amortize up to $108 million of the regulatory liability related to other cost of removal obligations in 2009 and up to $216 million in 2010, limited to the amount needed to earn no more than a 9.75% and 10.15% retail ROE in 2009 and 2010, respectively. For the years ended December 31, 2009 and 2010, Georgia Power amortized $41 million and $174 million, respectively, of the regulatory liability related to other cost of removal obligations.

In 2010, the Georgia PSC approved the 2010 ARP, which became effective January 1, 2011. The terms of the 2010 ARP reflect a settlement agreement among Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and eight other intervenors. Under the terms of the 2010 ARP, Georgia Power is amortizing approximately $92 million of its remaining regulatory liability related to other cost of removal obligations over the three years ending December 31, 2013.

Also under the terms of the 2010 ARP, effective January 1, 2011, Georgia Power increased its (1) traditional base tariff rates by approximately $347 million; (2) Demand-Side Management (DSM) tariff rates by approximately $31 million; (3) environmental compliance cost recovery tariff rate by approximately $168 million; and (4) Municipal Franchise Fee (MFF) tariff rate by approximately $16 million, for a total increase in base revenues of approximately $562 million.

Under the 2010 ARP, the following additional base rate adjustments have been made to Georgia Power's tariffs in 2012 and 2013:

- Effective January 1, 2012 and 2013, the DSM tariffs increased by $17 million and $14 million, respectively;
- Effective April 1, 2012 and January 1, 2013, the traditional base tariffs increased by an estimated $122 million and $58 million, respectively, to recover the revenue requirements for Plant McDonough-Atkinson Units 4, 5, and 6 for the period through December 31, 2013; and
- The MFF tariff increased consistently with the adjustments above, as well as those related to the interim fuel rider and NCCR tariff adjustments described in Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" and "Retail Regulatory Matters – Georgia Power – Nuclear Construction."

Under the 2010 ARP, Georgia Power's allowed retail ROE is set at 11.15%, and earnings will be evaluated against a retail ROE range of 10.25% to 12.25%. Two-thirds of any earnings above 12.25% will be directly refunded to customers, with the remaining one-third retained by Georgia Power. There were no refunds related to earnings for 2011 or 2012. Georgia Power is required to file a general base rate case by July 1, 2013, in response to which the Georgia PSC would be expected to determine whether the 2010 ARP should be continued, modified, or discontinued.

Integrated Resource Plans

See "Environmental Matters – Environmental Statutes and Regulations – Air Quality," "– Water Quality," and "– Coal Combustion Byproducts" and "Rate Plans" herein for additional information regarding proposed and final EPA rules and regulations, including the MATS rule for coal- and oil-fired electric utility steam generating units, revisions to effluent guidelines for steam electric power plants, and additional regulation of coal combustion byproducts; the State of Georgia's Multi-Pollutant Rule; Georgia Power's analysis of the potential costs and benefits of installing the required controls on its fossil generating units in light of these regulations; and the 2010 ARP.

On March 20, 2012, the Georgia PSC approved Georgia Power's request to decertify and retire Plant Branch Units 1 and 2 as of December 31, 2013 and October 31, 2013, the compliance dates for the respective units under the Georgia Multi-Pollutant Rule, and an oil-fired unit at Plant Mitchell as of March 26, 2012, as requested in the 2011 Integrated Resource Plan (IRP). The Georgia PSC also approved three PPAs totaling 998 MWs with Southern Power for capacity and energy that will commence in 2015 and end in 2030. On November 21, 2012, the FERC accepted the PPAs.

Separately, on March 20, 2012, the Georgia PSC certified 495 MWs of wholesale capacity to be returned to retail service in 2015 and 2016 under a 2010 agreement, subject to the decertification of any related generating units including 243 MWs of the 16 units described below.

On January 31, 2013, Georgia Power filed its triennial IRP (2013 IRP). The filing included Georgia Power's request to decertify 16 coal- and oil-fired units totaling 2,093 MWs. Several factors, including the cost to comply with existing and future environmental regulations, recent and forecasted economic conditions, and lower natural gas prices, contributed to the decision to close these units.

Georgia Power requested the decertification of Plant Boulevard Units 2 and 3 (28 MWs) upon approval of the 2013 IRP and the decertification of Plant Bowen Unit 6 (32 MWs) by April 16, 2013. Plant Branch Units 3 and 4 (1,016 MWs), Plant Yates Units 1 through 5 (579 MWs), and Plant McManus Units 1 and 2 (122 MWs) will be retired by April 16, 2015, the compliance date of the MATS rule. Georgia Power has also requested a revision to the decertification date of Plant Branch Unit 1 from December 31, 2013 to April 16, 2015. To allow for necessary transmission reliability improvements, Georgia Power expects to seek a one-year extension of the MATS rule compliance date for Plant Kraft Units 1 through 4 (316 MWs) and to retire these units by April 16, 2016.

The filing also included Georgia Power's request to switch the primary fuel source for Plant Yates Units 6 and 7 from coal to natural gas. Additionally, Georgia Power plans to switch the primary fuel source for Plant McIntosh Unit 1 from Central Appalachian coal to Powder River Basin (PRB) coal following further evaluation, including a successful test burn of the PRB fuel.

Under the terms of the 2010 ARP, any costs associated with changes to Georgia Power's approved environmental operating or capital budgets resulting from new or revised environmental regulations through 2013 that are approved by the Georgia PSC in connection with an updated IRP will be deferred as a regulatory asset to be recovered over a time period deemed appropriate by the Georgia PSC. In connection with the retirement decisions, Georgia Power reclassified the retail portion of the net carrying value of Plant Branch Units 1 through 4 from plant in service, net of depreciation, to other utility plant, net. Georgia Power is continuing to depreciate these units using the current composite straight-line rates previously approved by the Georgia PSC. Upon actual retirement, the Georgia PSC approved the continued deferral and amortization of the remaining net carrying values for Plant Branch Units 1 and 2 in its order for the 2011 IRP and Georgia Power has requested similar treatment for Plant Branch Units 3 and 4 in the 2013 IRP. Georgia Power also reclassified the CWIP balances totaling $65 million related to environmental controls for Plant Branch Units 1 through 4 and Plant Yates Units 6 and 7 that will not be completed as a result of the retirement decisions to regulatory assets and ceased accruing AFUDC. The Georgia PSC approved a three-year amortization period beginning January 2014 for the $13 million balance relating to Plant Branch Units 1 and 2 in its order for the 2011 IRP and Georgia Power has requested similar treatment for the balances related to Plant Branch Units 3 and 4 and Plant Yates Units 6 and 7 in the 2013 IRP. Georgia Power has also requested that the Georgia PSC approve the deferral of the costs associated with material and supplies remaining at the unit retirement dates to a regulatory asset, to be amortized over a time period deemed appropriate by the Georgia PSC. As a result of this regulatory treatment, the decertification of these units is not expected to have a material impact on Southern Company's financial statements. The Georgia PSC is scheduled to vote on the 2013 IRP by July 2013.

Storm Damage Recovery

Georgia Power defers and recovers certain costs related to damages from major storms as mandated by the Georgia PSC. As of December 31, 2012, the balance in the regulatory asset related to storm damage was $38 million. As a result of this regulatory treatment, the costs related to storms are generally not expected to have a material impact on Southern Company's financial statements.

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Fuel Cost Recovery

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. The traditional operating companies have experienced lower pricing for natural gas resulting in an increase in natural gas generation and a decrease in coal generation, which is currently more costly. The lower cost of natural gas has resulted in total over recovered fuel costs in the balance sheets of Georgia Power, Gulf Power, and Mississippi Power of approximately $303 million at December 31, 2012. Total under recovered fuel costs were approximately $4 million in the balance sheet of Alabama Power at December 31, 2012. At December 31, 2011, total under recovered fuel costs in the balance sheets of Alabama Power and Georgia Power were approximately $169 million, and total over recovered fuel costs in the balance sheets of Gulf Power and Mississippi Power were approximately $52 million. Fuel cost recovery revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will not have a significant effect on Southern Company's revenues or net income, but will affect annual cash flow. The traditional operating companies continuously monitor the under or over recovered fuel cost balances.

See Note 1 to the financial statements under "Revenues" and Note 3 to the financial statements under "Retail Regulatory Matters – Alabama Power – Energy Cost Recovery" and "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" for additional information.

Income Tax Matters

Bonus Depreciation

In 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) was signed into law. Major tax incentives in the Tax Relief Act include 100% bonus depreciation for property placed in service after September 8, 2010 and through 2011 (and for certain long-term production-period projects placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term production-period projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Southern Company through 2013.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (ATRA) was signed into law. The ATRA retroactively extended several tax credits through 2013 and extended 50% bonus depreciation for property to be placed in service in 2013 (and for certain long-term production-period projects to be placed in service in 2014). The extension of 50% bonus depreciation will have a positive impact on the future cash flows of Southern Company through 2014.

Due to the significant amount of estimated bonus depreciation for 2013, a portion of Southern Company's tax credit utilization will be deferred. Consequently, Southern Company's positive cash flow benefit is estimated to be between $275 million and $310 million in 2013.

Construction Program

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. The Southern Company system intends to continue its strategy of developing and constructing new generating facilities, including the ongoing construction of solar units at Southern Power, Plant Vogtle Units 3 and 4 at Georgia Power, and the Kemper IGCC at Mississippi Power, as well as adding or changing fuel sources for certain existing units, adding environmental control equipment, and expanding the transmission and distribution systems. For the traditional operating companies, major generation construction projects are subject to state PSC approvals in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. The construction programs of the traditional operating companies and Southern Power are currently estimated to include an investment of approximately $5.5 billion, $5.8 billion, and $5.2 billion for 2013, 2014, and 2015, respectively.

The two largest construction projects currently underway in the Southern Company system are Plant Vogtle Units 3 and 4 (45.7% ownership interest in two units, each with approximately 1,100 MWs) and the construction of the Kemper IGCC (for a total of 582 MWs). See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" for additional information. See RISK FACTORS of Southern Company in Item 1A of the Form 10-K for a discussion of certain risks associated with the construction program in general and certain risks associated with the licensing, construction, and operation of nuclear generating units in particular, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world. The ultimate outcome of these events cannot be determined at this time.

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Investments in Leveraged Leases
Southern Company has several leveraged lease agreements, with original terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. Southern Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. These assumptions include the effective tax rate, the residual value, the credit quality of the lessees, and the timing of expected tax cash flows. See Note 1 to the financial statements under "Leveraged Leases" for additional information.
The recent financial and operational performance of one of Southern Company's lessees and the associated generation assets has raised potential concerns on the part of Southern Company as to the credit quality of the lessee and the residual value of the assets. Due to the poor performance of the generation assets and the uncertainties surrounding the receipt of future rent payments and its ability to successfully restructure the project, Southern Company placed the lease on nonaccrual status whereby, effective July 2012, income associated with this investment is not recognized in the financial statements. The lessee was unable to pay its December 2012 semiannual rent payment in full. To avoid a default on the lease and the project's nonrecourse debt, the due date for the December 2012 rent payment and the associated debt payment was extended to March 6, 2013 while restructuring negotiations continued between the parties to the transaction. The aim of the negotiations is to restructure the debt payments and the related rental payments to allow additional capital investment in the project to be made by Southern Company to improve the operation of the generation assets. Such operational improvements are projected to provide sufficient cash flows for Southern Company to realize the full amount of its investment in the lease receivable. The parties to the lease have reached general agreement as to the restructuring and Southern Company believes that it is likely that it will be able to complete the restructuring prior to the end of the first quarter 2013. If the restructuring is successfully completed, Southern Company will be required to record a reduction in leveraged lease income of up to approximately $17 million at that time. However, if the restructuring is unsuccessful and the project is ultimately abandoned, the potential impairment loss that would be incurred is approximately $90 million on an after-tax basis. The ultimate outcome of this matter cannot be determined at this time.
Other Matters
Southern Company and its subsidiaries are involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury, property damage, and other claims for damages alleged to have been caused by carbon dioxide and other emissions, coal combustion byproducts, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters, have become more frequent.
The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Company's financial statements. See Note 3 to the financial statements for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.
In March 2011, a major earthquake and tsunami struck Japan and caused substantial damage to the nuclear generating units at the Fukushima Daiichi generating plant. The events in Japan have created uncertainties that may affect future

costs for operating nuclear plants. Specifically, the NRC is performing additional operational and safety reviews of nuclear facilities in the U.S., which could potentially impact future operations and capital requirements. On March 12, 2012, the NRC issued three orders and a request for information based on the July 2011 NRC task force report recommendations that included, among other items, additional mitigation strategies for beyond-design-basis events, enhanced spent fuel pool instrumentation capabilities, hardened vents for certain classes of containment structures, including the one in use at Plant Hatch, site specific evaluations for seismic and flooding hazards, and various plant evaluations to ensure adequate coping capabilities during station blackout and other conditions. On August 29, 2012, the NRC staff issued the final interim staff guidance document, which offers acceptable approaches to meeting the requirements of the NRC's orders before the December 31, 2016 compliance deadline. The interim staff guidance is not mandatory, but licensees would be required to obtain NRC approval for taking an approach other than as outlined in the interim staff guidance. The final form and the resulting impact of any changes to safety requirements for nuclear reactors will be dependent on further review and action by the NRC and cannot be determined at this time; however, management does not currently anticipate that the associated compliance costs would have a material impact on Southern Company's financial statements.

See RISK FACTORS of Southern Company in Item 1A of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world. The ultimate outcome of these events cannot be determined at this time.

See "PSC Matters – Alabama Power – Compliance and Pension Cost Accounting Order" herein for additional information on Alabama Power's PSC approved accounting order, which allows the deferral of certain compliance-related operations and maintenance expenditures related to compliance with the NRC guidance.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Southern Company prepares its consolidated financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on Southern Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed the following critical accounting policies and estimates with the Audit Committee of Southern Company's Board of Directors.

Electric Utility Regulation

Southern Company's traditional operating companies, which comprised approximately 95% of Southern Company's total operating revenues for 2012, are subject to retail regulation by their respective state PSCs and wholesale regulation by the FERC. These regulatory agencies set the rates the traditional operating companies are permitted to charge customers based on allowable costs. As a result, the traditional operating companies apply accounting standards which require the financial statements to reflect the effects of rate regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of the accounting standards has a further effect on the Company's financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the traditional operating companies; therefore, the accounting estimates inherent in specific costs such as depreciation, nuclear decommissioning, and pension and postretirement benefits have less of a direct impact on the Company's results of operations and financial condition than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and any requirement to refund these regulatory liabilities based on applicable regulatory guidelines and GAAP. However, adverse legislative, judicial, or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company's financial statements.

Contingent Obligations

Southern Company and its subsidiaries are subject to a number of federal and state laws and regulations, as well as other factors and conditions that subject them to environmental, litigation, income tax, and other risks. See FUTURE EARNINGS POTENTIAL herein and Note 3 to the financial statements for more information regarding certain of these contingencies. Southern Company periodically evaluates its exposure to such risks and, in accordance with GAAP, records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect Southern Company's financial statements.

Pension and Other Postretirement Benefits

Southern Company's calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, healthcare cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets, and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized

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over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining Southern Company's pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on Southern Company's investment strategy, historical experience, and expectations for long-term rates of return that consider external actuarial advice. Southern Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to Southern Company's target asset allocation. Southern Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

The following table illustrates the sensitivity to changes in Southern Company's long-term assumptions with respect to the assumed discount rate, the assumed salaries, and the assumed long-term rate of return on plan assets:

Change in Assumption	Increase/(Decrease) in Total Benefit Expense for 2013	Increase/(Decrease) in Projected Obligation for Pension Plan at December 31, 2012	Increase/(Decrease) in Projected Obligation for Other Postretirement Benefit Plans at December 31, 2012
		(in millions)	
25 basis point change in discount rate	$32/$(30)	$346/$(327)	$72/$(68)
25 basis point change in salaries	$17/$(16)	$93/$(89)	$-/$-
25 basis point change in long-term return on plan assets	$21/$(21)	N/A	N/A

N/A – Not applicable

FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Company's financial condition remained stable at December 31, 2012. Southern Company's cash requirements primarily consist of funding ongoing operations, common stock dividends, capital expenditures, and debt maturities. Capital expenditures and other investing activities include investments to meet projected long-term demand requirements, to comply with environmental regulations, and for restoration following major storms. Operating cash flows provide a substantial portion of the Southern Company system's cash needs. For the three-year period from 2013 through 2015, Southern Company's projected common stock dividends, capital expenditures, and debt maturities are expected to exceed operating cash flows. Projected capital expenditures in that period include investments to build new generation facilities, to add environmental equipment for existing generating units, and to expand and improve transmission and distribution facilities. Southern Company plans to finance future cash needs in excess of its operating cash flows primarily through debt and equity issuances. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See "Sources of Capital," "Financing Activities," and "Capital Requirements and Contractual Obligations" herein for additional information.

Southern Company's investments in the qualified pension plan and the nuclear decommissioning trust funds increased in value as of December 31, 2012 as compared to December 31, 2011. In December 2012, certain of the traditional operating companies and other subsidiaries contributed $445 million to the qualified pension plan.

Net cash provided from operating activities in 2012 totaled $4.9 billion, a decrease of $1.0 billion from the corresponding period in 2011. Significant changes in operating cash flow for 2012 as compared to the corresponding period in 2011 include an increase in fossil fuel stock and contributions to the qualified pension plan. Net cash provided from operating activities in 2011 totaled $5.9 billion, an increase of $1.9 billion from the corresponding period in 2010. Significant changes in operating cash flow for 2011 as compared to the corresponding period in 2010 include an increase in net income, a contribution to the qualified pension plan in 2010, and a decrease in taxes paid due to bonus depreciation.

Net cash used for investing activities in 2012, 2011, and 2010 totaled $5.2 billion, $4.2 billion, and $4.3 billion, respectively. The cash used for investing activities for each of these years was primarily for property additions to utility plant.

Net cash used for financing activities totaled $417 million in 2012 due to redemptions of long-term debt, the repurchase of common stock, and payments of common stock dividends, partially offset by issuances of long-term debt. Net cash used for financing activities totaled $852 million in 2011 due to a reduction of short-term debt outstanding and redemptions of long-term debt. Net cash provided from financing activities totaled $22 million in 2010 primarily due to long-term debt issuances offset mostly by long-term debt redemptions. Fluctuations in cash flow from financing activities vary from year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes in 2012 include an increase of $3.4 billion in total property, plant, and equipment for the installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Other significant changes include a decrease in cash of $687 million primarily due to a decrease in temporary cash investments, an increase in deferred income taxes of $1.1 billion due to bonus depreciation, and $719 million of additional equity.

At the end of 2012, the closing price of Southern Company's common stock was $42.81 per share, compared with a book value of $21.09 per share. The market-to-book value ratio was 203% at the end of 2012, compared with 228% at year-end 2011.

Sources of Capital

Southern Company intends to meet its future capital needs through internal cash flow and external security issuances. Equity capital can be provided from any combination of the Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised in 2013, as well as in subsequent years, will be contingent on Southern Company's investment opportunities.

Except as described herein, the traditional operating companies and Southern Power plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, security issuances, term loans, short-term borrowings, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors.

In 2010, Georgia Power reached an agreement with the U.S. Department of Energy (DOE) to accept terms for a conditional commitment for federal loan guarantees that would apply to future Georgia Power borrowings related to the construction of Plant Vogtle Units 3 and 4. Any borrowings guaranteed by the DOE would be full recourse to Georgia Power and secured by a first priority lien on Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4. Total guaranteed borrowings would not exceed the lesser of 70% of eligible project costs, or approximately $3.46 billion, and are expected to be funded by the Federal Financing Bank. Final approval and issuance of loan guarantees by the DOE are subject to negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. In the event that the DOE does not issue a loan guarantee or Georgia Power determines that the final terms and conditions of the loan guarantee by the DOE are not in the best interest of its customers, Georgia Power expects to finance the construction of Plant Vogtle Units 3 and 4 through traditional capital markets financings. There can be no assurance that the DOE will issue loan guarantees for Georgia Power. The conditional commitment will expire on June 30, 2013, unless further extended by the DOE. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" for more information on Plant Vogtle Units 3 and 4.

In addition, Mississippi Power received DOE Clean Coal Power Initiative Round 2 (CCPI2) grant funds of $245 million that were used for the construction of the Kemper IGCC. An additional $25 million in CCPI2 grant funds is expected to be received for the initial operation of the Kemper IGCC. On January 29, 2013, Mississippi Power withdrew its application for federal loan guarantees related to the Kemper IGCC. See Note 3 to the financial statements under "Integrated Coal Gasification Combined Cycle" for information regarding legislation related to the securitization of certain costs of the Kemper IGCC.

The issuance of securities by the traditional operating companies is generally subject to the approval of the applicable state PSC. The issuance of all securities by Mississippi Power and Southern Power and short-term securities by Georgia Power is generally subject to regulatory approval by the FERC. Additionally, with respect to the public offering of securities, Southern Company and certain of its subsidiaries file registration statements with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the appropriate regulatory authorities, as well as the securities registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

Southern Company, each traditional operating company, and Southern Power obtain financing separately without credit support from any affiliate. See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of each company are not commingled with funds of any other company in the Southern Company system.

MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)
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Southern Company's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business of the Southern Company system. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs which are backed by bank credit facilities.

At December 31, 2012, Southern Company and its subsidiaries had approximately $628 million of cash and cash equivalents. Committed credit arrangements with banks at December 31, 2012 were as follows:

	Expires[(a)]					Executable Term Loans		Due Within One Year	
Company	2013	2014	2016	Total	Unused	One Year	Two Years	Term Out	No Term Out
	(in millions)			(in millions)		(in millions)		(in millions)	
Southern Company	$—	$—	$1,000	$1,000	$1,000	$—	$—	$—	$—
Alabama Power	158	350	800	1,308	1,308	56	—	56	102
Georgia Power	—	250	1,500	1,750	1,740	—	—	—	—
Gulf Power	80	195	—	275	275	45	—	45	35
Mississippi Power	135	165	—	300	300	25	40	65	70
Southern Power	—	—	500	500	500	—	—	—	—
Other	50	—	—	50	50	25	—	25	25
Total	$423	$960	$3,800	$5,183	$5,173	$151	$40	$191	$232

(a) No credit arrangements expire in 2015.

See Note 6 to the financial statements under "Bank Credit Arrangements" for additional information.

Most of these arrangements contain covenants that limit debt levels and contain cross default provisions that are restricted only to the indebtedness of the individual company. Southern Company and its subsidiaries are currently in compliance with all such covenants.

A portion of the unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of December 31, 2012 was approximately $1.8 billion.

The traditional operating companies may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of each of the traditional operating companies.

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Details of short-term borrowings were as follows:

	Short-term Debt at the End of the Period[a]		Short-term Debt During the Period [b]		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
December 31, 2012:					
Commercial paper	$820	0.3 %	$550	0.3 %	$938
Short-term bank debt	—	— %	116	1.2 %	300
Total	$820	0.3 %	$666	0.5 %	
December 31, 2011:					
Commercial paper	$654	0.3 %	$697	0.3 %	$1,586
Short-term bank debt	200	1.2 %	14	1.2 %	200
Total	$854	0.5 %	$711	0.3 %	
December 31, 2010:					
Commercial paper	$1,295	0.3 %	$690	0.3 %	$1,305

(a) Excludes notes payable related to other energy service contracts of $5 million, $6 million, and $2 million at December 31, 2012, 2011, and 2010, respectively.

(b) Average and maximum amounts are based upon daily balances during the twelve-month periods ended December 31, 2012, 2011, and 2010.

Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

Financing Activities

During 2012, Southern Company issued 12.1 million shares of common stock for approximately $397 million through the employee and director stock plans. Since mid-2011, Southern Company has issued additional equity only through its employee and director stock plans. In July 2012, Southern Company announced a program to repurchase shares to partially offset the incremental shares issued under its employee and director stock plans. Under this program, approximately 9 million shares have been repurchased through December 31, 2012 at a total cost of $430 million. Pursuant to Board approval, Southern Company may repurchase shares through open market purchases or privately negotiated transactions, in accordance with applicable securities laws.

In addition, Southern Company is not currently issuing shares of common stock through the Southern Investment Plan or its employee savings plan. All sales under the Southern Investment Plan and the employee savings plan are currently being funded with shares acquired on the open market by the independent plan administrators.

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The following table outlines the long-term debt financing activities for Southern Company, the traditional operating companies, and Southern Power for the year ended December 31, 2012:

Company	Senior Note Issuances	Senior Note Redemptions and Maturities	Revenue Bond Issuances	Revenue Bond Redemptions and Maturities	Other Long-Term Debt Issuances	Other Long-Term Debt Redemptions and Maturities
			(in millions)			
Southern Company	$—	$500	$—	$—	$—	$—
Alabama Power	1,000	950	—	1	—	—
Georgia Power	2,300	850	284	284	—	250
Gulf Power	100	91	13	13	—	—
Mississippi Power	600	90	—	—	101	115
Southern Power	—	—	—	—	6	2
Total	$4,000	$2,481	$297	$298	$107	$367

Southern Company's subsidiaries used the proceeds of the debt issuances shown in the table above for the redemptions and maturities shown in the table above, to repay short-term indebtedness, and for general corporate purposes, including their respective continuous construction programs.

In January 2012, Southern Company's $500 million aggregate principal amount of Series 2007A 5.30% Senior Notes matured.

The table above does not reflect Mississippi Power's receipt on March 6, 2012 of a $150 million interest-bearing refundable deposit from South Mississippi Electric Power Association (SMEPA) to be applied to the sale price for the pending sale of an undivided interest in the Kemper IGCC. Until the acquisition is closed, the deposit bears interest at Mississippi Power's AFUDC rate adjusted for income taxes, which was 9.967% per annum at December 31, 2012, and is refundable to SMEPA upon termination of the asset purchase agreement related to such purchase, within 60 days of a request by SMEPA for a full or partial refund, or within 15 days at SMEPA's discretion in the event that Mississippi Power is assigned a senior unsecured credit rating of BBB+ or lower by Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (S&P) or Baa1 or lower by Moody's Investors Service, Inc. (Moody's) or ceases to be rated by either of these rating agencies.

Mississippi Power's "Other Long-Term Debt Issuances" reflected in the table above include $51 million related to an agreement entered into by the Mississippi Business Finance Corporation in August 2012 for the issuance of up to $85 million of taxable revenue bonds for the benefit of Mississippi Power. During 2012, the Mississippi Business Finance Corporation issued $51 million of taxable revenue bonds under the agreement, the proceeds of which were used by Mississippi Power for the cost of the acquisition, construction, equipping, installation, and improvement of certain equipment and facilities for the lignite mining facility relating to the Kemper IGCC. Any future issuances of up to $34 million under the agreement will be used for the same purposes.

In addition, Mississippi Power's "Other Long-Term Debt Issuances" reflected in the table above includes a term loan borrowing of $50 million. In November 2012, Mississippi Power entered into a one-year $100 million aggregate principal amount floating rate term loan agreement that bears interest based on one-month London Interbank Offered Rate. The first advance in the amount of $50 million was made in November 2012. Subsequent to December 31, 2012, the second advance in the amount of $50 million was made. The proceeds of this loan were used solely for working capital and other general corporate purposes, including Mississippi Power's continuous construction program.

In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Southern Company and its subsidiaries plan to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

Purchase of the Plant Daniel Combined Cycle Generating Units

In 2001, Mississippi Power began the initial 10-year term of an operating lease agreement for Plant Daniel Units 3 and 4.

In October 2011, Mississippi Power purchased Plant Daniel Units 3 and 4 for approximately $85 million in cash and the assumption of $270 million face value of debt obligations of the lessor related to Plant Daniel Units 3 and 4, which mature in 2021 and bear interest at a fixed stated interest rate of 7.13% per annum. These obligations are secured by Plant Daniel Units 3 and 4 and certain personal property. Accounting rules require that Plant Daniel Units 3 and 4 be reflected on Southern Company's financial statements at the time of the purchase at the fair value of the consideration rendered. Based on interest rates as of October 20, 2011, the fair value of the debt assumed was approximately $346 million. Accordingly, Plant Daniel Units 3 and 4 were reflected in Southern Company's financial statements at approximately $431 million.

In connection with the purchase of Plant Daniel Units 3 and 4, Mississippi Power filed a request in July 2011 for an accounting order from the Mississippi PSC. This order, as approved on January 11, 2012, authorized Mississippi Power to defer as a regulatory asset, for the 10-year period ending October 2021, the difference between the revenue requirement under the purchase option for Plant Daniel Units 3 and 4 (assuming a remaining 30-year life) and the revenue requirement assuming the continuation of the operating lease regulatory treatment with the accumulated deferred balance at the end of the deferral being amortized into rates over the remaining life of Plant Daniel Units 3 and 4. In November 2011, Mississippi Power filed a request with the FERC seeking the same accounting and regulatory treatment for its wholesale cost-based jurisdiction. The ultimate outcome of this matter cannot be determined at this time.

Credit Rating Risk

Southern Company and its subsidiaries do not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation.

The maximum potential collateral requirements under these contracts at December 31, 2012 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements (in millions)
At BBB and Baa2	$9
At BBB- and/or Baa3	645
Below BBB- and/or Baa3	2,574

On March 6, 2012, Mississippi Power received a $150 million interest-bearing refundable deposit from SMEPA to be applied to the sale price for the pending sale of an undivided interest in the Kemper IGCC. Until the acquisition is closed, the deposit bears interest at Mississippi Power's AFUDC rate adjusted for income taxes, which was 9.967% per annum at December 31, 2012, and is refundable to SMEPA upon termination of the asset purchase agreement related to such purchase, within 60 days of a request by SMEPA for a full or partial refund, or within 15 days at SMEPA's discretion in the event that Mississippi Power is assigned a senior unsecured credit rating of BBB+ or lower by S&P or Baa1 or lower by Moody's or ceases to be rated by either of these rating agencies.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the ability of Southern Company and its subsidiaries to access capital markets, particularly the short-term debt market and the variable rate pollution control revenue bond market.

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Market Price Risk

The Southern Company system is exposed to market risks, primarily commodity price risk and interest rate risk. The Southern Company system may also occasionally have limited exposure to foreign currency exchange rates. To manage the volatility attributable to these exposures, the applicable company nets the exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the applicable company's policies in areas such as counterparty exposure and risk management practices. The Southern Company system's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

To mitigate future exposure to a change in interest rates, Southern Company and certain of its subsidiaries enter into derivatives that have been designated as hedges. Derivatives outstanding at December 31, 2012 have a notional amount of $350 million and are related to fixed and floating rate obligations over the next several years. The weighted average interest rate on $3.2 billion of long-term and short-term variable interest rate exposure that has not been hedged at January 1, 2013 was 0.73%. If Southern Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt and short-term bank loans, the change would affect annualized interest expense by approximately $32 million at January 1, 2013. See Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements for additional information.

Due to cost-based rate regulation and other various cost recovery mechanisms, the traditional operating companies continue to have limited exposure to market volatility in interest rates, foreign currency, commodity fuel prices, and prices of electricity. In addition, Southern Power's exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. However, Southern Power has been and may continue to be exposed to market volatility in energy-related commodity prices as a result of sales of uncontracted generating capacity. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, financial hedge contracts for natural gas purchases. The traditional operating companies continue to manage fuel hedging programs implemented per the guidelines of their respective state PSCs. Southern Company had no material change in market risk exposure for the year ended December 31, 2012 when compared to the December 31, 2011 reporting period.

The changes in fair value of energy-related derivative contracts, the majority of which are composed of regulatory hedges, for the years ended December 31 were as follows:

	2012 Changes	2011 Changes
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(231)	$(196)
Contracts realized or settled	206	179
Current period changes[(a)]	(60)	(214)
Contracts outstanding at the end of the period, assets (liabilities), net	$(85)	$(231)

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

The changes in the fair value positions of the energy-related derivative contracts, which are substantially all attributable to both the volume and the price of natural gas, for the years ended December 31 were as follows:

	2012	2011

	Changes Fair Value	Changes
	(in millions)	
Natural gas swaps	$128	$(20)
Natural gas options	19	(15)
Other energy-related derivatives	(1)	—
Total changes	$146	$(35)

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The net hedge volumes of energy-related derivative contracts for the years ended December 31 were as follows:

	2012	2011
	mmBtu* Volume (in millions)	
Commodity – Natural gas swaps	171	123
Commodity – Natural gas options	105	66
Total hedge volume	276	189

*million British thermal units (mmBtu)

The weighted average swap contract cost above market prices was approximately $0.39 per mmBtu as of December 31, 2012 and $1.51 per mmBtu as of December 31, 2011. The change in option fair value is primarily attributable to the volatility of the market and the underlying change in the natural gas price. The majority of the natural gas hedge gains and losses are recovered through the traditional operating companies' fuel cost recovery clauses.
At December 31, the net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

Asset (Liability) Derivatives	2012	2011
	(in millions)	
Regulatory hedges	$(86)	$(221)
Cash flow hedges	—	(1)
Not designated	1	(9)
Total fair value	$(85)	$(231)

Energy-related derivative contracts which are designated as regulatory hedges relate to the traditional operating companies' fuel hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery clauses. Gains and losses on energy-related derivatives that are designated as cash flow hedges are mainly used by Southern Power to hedge anticipated purchases and sales and are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred. Total net unrealized pre-tax gains (losses) recognized in the statements of income for the years ended December 31, 2012, 2011, and 2010 for energy-related derivative contracts that are not hedges were $9 million, $(6) million, and $(2) million, respectively.
Southern Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2. See Note 10 to the financial statements for further discussion of fair value measurements. The maturities of the energy-related derivative contracts, which are all Level 2 of the fair value hierarchy, at December 31, 2012 were as follows:

	Fair Value Measurements December 31, 2012			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$—	$—	$—	$—
Level 2	(85)	(64)	(23)	2
Level 3	—	—	—	—

Fair value of contracts outstanding at end of period	$(85)	$(64)	$(23)	$2

Southern Company is exposed to market price risk in the event of nonperformance by counterparties to energy-related and interest rate derivative contracts. Southern Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's and S&P, or with counterparties who have posted collateral to cover potential credit exposure. Therefore, Southern Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Note 1 to the financial statements under "Financial Instruments" and Note 11 to the financial statements.

Southern Company performs periodic reviews of its leveraged lease transactions, both domestic and international, and the creditworthiness of the lessees, including a review of the value of the underlying leased assets and the credit ratings of the lessees. Southern Company's domestic lease transactions generally do not have any credit enhancement mechanisms; however, the lessees in its international lease transactions have pledged various deposits as additional security to secure the obligations. The lessees in the Company's international lease transactions are also required to provide additional collateral in the event of a credit downgrade below a certain level. See FUTURE EARNINGS POTENTIAL – "Investments in Leveraged Leases" herein for additional information.

Capital Requirements and Contractual Obligations

The Southern Company system's construction program is currently estimated to be $5.5 billion for 2013, $5.8 billion for 2014, and $5.2 billion for 2015. Included in this amount are expenditures related to the construction of the Kemper IGCC of $513 million and $218 million in 2013 and 2014, respectively, which are net of SMEPA's 15% proposed ownership share of the Kemper IGCC of approximately $492 million and $28 million in 2013 and 2014, respectively. The estimated share for SMEPA in 2013 reflects estimated construction costs relating to SMEPA's proposed ownership interest to be incurred through December 31, 2013 (including construction costs for all prior years relating to its proposed ownership interest). Capital expenditures to comply with existing environmental statutes and regulations included in these estimated amounts are $1.0 billion, $1.5 billion, and $1.1 billion for 2013, 2014, and 2015, respectively. These amounts include capital expenditures related to contractual purchase commitments for nuclear fuel and capital expenditures covered under long-term service agreements, as well as capital expenditures and compliance costs associated with the MATS rule.

See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" herein for additional information.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in the expected environmental compliance program; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing units, to meet regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" for additional information.

As a result of NRC requirements, Alabama Power and Georgia Power have external trust funds for nuclear decommissioning costs; however, Alabama Power currently has no additional funding requirements. For additional information, see Note 1 to the financial statements under "Nuclear Decommissioning."

In addition, as discussed in Note 2 to the financial statements, Southern Company provides postretirement benefits to substantially all employees and funds trusts to the extent required by the traditional operating companies' respective regulatory commissions.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, and other purchase commitments are detailed in the contractual obligations table that follows. See Notes 1, 2, 5, 6, 7, and 11 to the financial statements for additional information.

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Contractual Obligations

	2013	2014-2015	2016-2017 (in millions)	After 2017	Uncertain Timing[d]	Total
Long-term debt[a] —						
Principal	$2,312	$2,866	$2,495	$13,804	$—	$21,477
Interest	821	1,491	1,318	10,214	—	13,844
Preferred and preference stock dividends[b]	65	130	130	—	—	325
Financial derivative obligations[c]	75	35	1	—	—	111
Operating leases	113	148	77	84	—	422
Capital leases	23	21	15	21	—	80
Unrecognized tax benefits[d]	5	—	—	—	65	70
Purchase commitments —						
Capital[e]	4,987	10,013	—	—	—	15,000
Fuel[f]	4,518	6,070	2,638	3,280	—	16,506
Purchased power[g]	246	617	650	2,903	—	4,416
Other[h]	184	516	271	1,034	—	2,005
Trusts —						
Nuclear decommissioning[i]	2	4	4	31	—	41
Pension and other postretirement benefit plans[j]	102	201	—	—	—	303
Total	$13,453	$22,112	$7,599	$31,371	$65	$74,600

(a) All amounts are reflected based on final maturity dates. Southern Company and its subsidiaries plan to continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2013, as reflected in the statements of capitalization. Fixed rates include, where applicable, the effects of interest rate derivatives employed to manage interest rate risk. Long-term debt excludes capital lease amounts (shown separately).

(b) Represents preferred and preference stock of subsidiaries. Preferred and preference stock do not mature; therefore, amounts are provided for the next five years only.

(c) For additional information, see Notes 1 and 11 to the financial statements.

(d) The timing related to the realization of $65 million in unrecognized tax benefits in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Note 5 to the financial statements under "Unrecognized Tax Benefits" for additional information.

(e) The Southern Company system provides estimated capital expenditures for a three-year period, including capital expenditures and compliance costs associated with existing environmental regulations, including the MATS rule. These amounts exclude contractual purchase commitments for nuclear fuel and capital expenditures covered under long-term service agreements which are reflected separately. At December 31, 2012, significant purchase commitments were outstanding in connection with the construction program. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" herein for additional information.

(f) Primarily includes commitments to purchase coal, nuclear fuel, and natural gas, as well as the related transportation and storage. In most cases, these contracts contain provisions for price escalation, minimum purchase levels, and other financial commitments. Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected for natural gas purchase commitments have been estimated based on the New York

Mercantile Exchange future prices at December 31, 2012.

(g) Estimated minimum long-term obligations for various long-term commitments for the purchase of capacity and energy. Amounts include PPAs which include MWs purchased from gas-fired and wind-powered facilities.

(h) Includes long-term service agreements and contracts for the procurement of limestone. Long-term service agreements include price escalation based on inflation indices.

(i) Projections of nuclear decommissioning trust fund contributions are based on the 2010 ARP for Georgia Power.

(j) The Southern Company system forecasts contributions to the pension and other postretirement benefit plans over a three-year period. Southern Company anticipates no mandatory contributions to the qualified pension plan during the next three years. Amounts presented represent estimated benefit payments for the nonqualified pension plans, estimated non-trust benefit payments for the other postretirement benefit plans, and estimated contributions to the other postretirement benefit plan trusts, all of which will be made from corporate assets of Southern Company's subsidiaries. See Note 2 to the financial statements for additional information related to the pension and other postretirement benefit plans, including estimated benefit payments. Certain benefit payments will be made through the related benefit plans. Other benefit payments will be made from corporate assets of Southern Company's subsidiaries.

Cautionary Statement Regarding Forward-Looking Statements

Southern Company's 2012 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales, retail rates, the strategic goals for the wholesale business, customer growth, economic recovery, fuel and environmental cost recovery and other rate actions, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, dividend payout ratios, projections for the qualified pension plan, postretirement benefit plan, and nuclear decommissioning trust fund contributions, financing activities, start and completion dates of construction projects, plans and estimated costs for new generation resources, filings with state and federal regulatory authorities, impact of the Tax Relief Act, impact of the ATRA, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, environmental laws including regulation of water, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, financial reform legislation, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, and Internal Revenue Service and state tax audits;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), the effects of energy conservation measures, and any potential economic impacts resulting from federal fiscal decisions;
- available sources and costs of fuels;
- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities, including the development and construction of facilities with designs that have not been finalized or previously constructed, to construct facilities in accordance with the requirements of permits and licenses, and to satisfy any operational and environmental performance standards, including the requirements of tax credits and other incentives;
- investment performance of Southern Company's employee benefit plans and nuclear decommissioning trust funds;
- advances in technology;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;
- regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals, NRC actions, and potential DOE loan guarantees;
- regulatory approvals and legislative actions related to the Kemper IGCC, including Mississippi PSC approvals and legislation relating to cost recovery for the Kemper IGCC, the SMEPA purchase decision, satisfaction of requirements to utilize investment tax credits and grants, and the outcome of any proceedings regarding the Mississippi PSC's issuance of the certificate of public convenience and necessity for the Kemper IGCC;

- the inherent risks involved in operating and constructing nuclear generating facilities, including environmental, health, regulatory, natural disaster, terrorism, or financial risks;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on the Southern Company system's business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion;

- interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company's and its subsidiaries' credit ratings;
- the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the availability or benefits of proposed DOE loan guarantees;
- the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by Southern Company from time to time with the SEC.

Southern Company expressly disclaims any obligation to update any forward-looking statements.

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2012, 2011, and 2010
Southern Company and Subsidiary Companies 2012 Annual Report

	2012	2011	2010
		(in millions)	
Operating Revenues:			
Retail revenues	$14,187	$15,071	$14,791
Wholesale revenues	1,675	1,905	1,994
Other electric revenues	616	611	589
Other revenues	59	70	82
Total operating revenues	16,537	17,657	17,456
Operating Expenses:			
Fuel	5,057	6,262	6,699
Purchased power	544	608	563
Other operations and maintenance	3,791	3,938	4,010
MC Asset Recovery insurance settlement	(19)	—	—
Depreciation and amortization	1,787	1,717	1,513
Taxes other than income taxes	914	901	869
Total operating expenses	12,074	13,426	13,654
Operating Income	4,463	4,231	3,802
Other Income and (Expense):			
Allowance for equity funds used during construction	143	153	194
Interest income	40	21	24
Interest expense, net of amounts capitalized	(859)	(857)	(895)
Other income (expense), net	(38)	(61)	(59)
Total other income and (expense)	(714)	(744)	(736)
Earnings Before Income Taxes	3,749	3,487	3,066
Income taxes	1,334	1,219	1,026
Consolidated Net Income	2,415	2,268	2,040
Dividends on Preferred and Preference Stock of Subsidiaries	65	65	65
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	$2,350	$2,203	$1,975
Common Stock Data:			
Earnings per share (EPS)—			
Basic EPS	$2.70	$2.57	$2.37
Diluted EPS	2.67	2.55	2.36
Average number of shares of common stock outstanding — (in millions)			
Basic	871	857	832
Diluted	879	864	837
Cash dividends paid per share of common stock	$1.9425	$1.8725	$1.8025

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2012, 2011, and 2010
Southern Company and Subsidiary Companies 2012 Annual Report

	2012	2011	2010
		(in millions)	
Consolidated Net Income	$2,415	$2,268	$2,040
Other comprehensive income:			
Qualifying hedges:			
Changes in fair value, net of tax of $(7), $(10), and $-, respectively	(12)	(18)	(1)
Reclassification adjustment for amounts included in net income, net of tax of $7, $6, and $9, respectively	11	9	15
Marketable securities:			
Change in fair value, net of tax of $-, $(2), and $(2), respectively	—	(4)	(3)
Pension and other postretirement benefit plans:			
Benefit plan net gain (loss), net of tax of $(2), $(1), and $1, respectively	(3)	(2)	6
Reclassification adjustment for amounts included in net income, net of tax of $(4), $(14), and $1, respectively	(8)	(26)	1
Total other comprehensive income (loss)	(12)	(41)	18
Dividends on preferred and preference stock of subsidiaries	(65)	(65)	(65)
Consolidated Comprehensive Income	$2,338	$2,162	$1,993

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011, and 2010
Southern Company and Subsidiary Companies 2012 Annual Report

	2012	2011	2010
		(in millions)	
Operating Activities:			
Consolidated net income	$2,415	$2,268	$2,040
Adjustments to reconcile consolidated net income to net cash provided from operating activities —			
Depreciation and amortization, total	2,145	2,048	1,831
Deferred income taxes	1,096	1,155	1,038
Allowance for equity funds used during construction	(143)	(153)	(194)
Pension, postretirement, and other employee benefits	(398)	(45)	(614)
Stock based compensation expense	55	42	33
Generation construction screening costs	—	—	(51)
Retail fuel cost-recovery - long-term	123	—	—
Other, net	56	15	(33)
Changes in certain current assets and liabilities —			
-Receivables	234	362	80
-Fossil fuel stock	(452)	(62)	135
-Materials and supplies	(97)	(60)	(30)
-Other current assets	(37)	(17)	(17)
-Accounts payable	(89)	(5)	4
-Accrued taxes	(71)	330	(308)
-Accrued compensation	(28)	10	180
-Retail fuel cost over recovery - short-term	129	(3)	(178)
-Other current liabilities	(40)	18	75
Net cash provided from operating activities	4,898	5,903	3,991
Investing Activities:			
Property additions	(4,809)	(4,525)	(4,086)
Investment in restricted cash	(280)	1	(50)
Distribution of restricted cash	284	63	25
Nuclear decommissioning trust fund purchases	(1,046)	(2,195)	(2,009)
Nuclear decommissioning trust fund sales	1,043	2,190	2,004
Cost of removal, net of salvage	(149)	(93)	(125)
Change in construction payables, net	(84)	198	29
Other investing activities	(127)	178	(44)
Net cash used for investing activities	(5,168)	(4,183)	(4,256)
Financing Activities:			
Increase (decrease) in notes payable, net	(30)	(438)	659
Proceeds —			
Long-term debt issuances	4,404	3,719	3,151
Interest-bearing refundable deposit related to asset sale	150	—	—
Common stock issuances	397	723	772
Redemptions and repurchases —			
Long-term debt	(3,169)	(3,170)	(2,966)
Common stock repurchased	(430)	—	—

Payment of common stock dividends	(1,693)	(1,601)	(1,496)
Payment of dividends on preferred and preference stock of subsidiaries	(65)	(65)	(65)
Other financing activities	19	(20)	(33)
Net cash provided from (used for) financing activities	(417)	(852)	22
Net Change in Cash and Cash Equivalents	(687)	868	(243)
Cash and Cash Equivalents at Beginning of Year	1,315	447	690
Cash and Cash Equivalents at End of Year	$628	$1,315	$447

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED BALANCE SHEETS
At December 31, 2012 and 2011
Southern Company and Subsidiary Companies 2012 Annual Report

Assets	2012	2011
		(in millions)
Current Assets:		
Cash and cash equivalents	$628	$1,315
Restricted cash and cash equivalents	7	8
Receivables —		
Customer accounts receivable	961	1,074
Unbilled revenues	441	376
Under recovered regulatory clause revenues	29	143
Other accounts and notes receivable	235	282
Accumulated provision for uncollectible accounts	(17)	(26)
Fossil fuel stock, at average cost	1,819	1,367
Materials and supplies, at average cost	1,000	903
Vacation pay	165	160
Prepaid expenses	657	385
Other regulatory assets, current	163	239
Other current assets	74	46
Total current assets	6,162	6,272
Property, Plant, and Equipment:		
In service	63,251	59,744
Less accumulated depreciation	21,964	21,154
Plant in service, net of depreciation	41,287	38,590
Other utility plant, net	263	55
Nuclear fuel, at amortized cost	851	774
Construction work in progress	5,989	5,591
Total property, plant, and equipment	48,390	45,010
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	1,303	1,207
Leveraged leases	670	649
Miscellaneous property and investments	216	262
Total other property and investments	2,189	2,118
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,385	1,365
Unamortized debt issuance expense	133	156
Unamortized loss on reacquired debt	309	285
Other regulatory assets, deferred	4,032	3,579
Other deferred charges and assets	549	482
Total deferred charges and other assets	6,408	5,867
Total Assets	$63,149	$59,267

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS
At December 31, 2012 and 2011
Southern Company and Subsidiary Companies 2012 Annual Report

Liabilities and Stockholders' Equity	2012	2011
		(in millions)
Current Liabilities:		
Securities due within one year	$2,335	$1,717
Interest-bearing refundable deposit related to asset sale	150	—
Notes payable	825	859
Accounts payable	1,387	1,553
Customer deposits	370	347
Accrued taxes —		
Accrued income taxes	7	13
Unrecognized tax benefits	2	22
Other accrued taxes	391	425
Accrued interest	237	226
Accrued vacation pay	212	205
Accrued compensation	433	450
Liabilities from risk management activities	75	209
Other regulatory liabilities, current	107	125
Other current liabilities	483	426
Total current liabilities	7,014	6,577
Long-Term Debt (See accompanying statements)	19,274	18,647
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	9,938	8,809
Deferred credits related to income taxes	211	224
Accumulated deferred investment tax credits	894	611
Employee benefit obligations	2,540	2,442
Asset retirement obligations	1,748	1,321
Other cost of removal obligations	1,194	1,165
Other regulatory liabilities, deferred	289	297
Other deferred credits and liabilities	668	514
Total deferred credits and other liabilities	17,482	15,383
Total Liabilities	43,770	40,607
Redeemable Preferred Stock of Subsidiaries (See accompanying statements)	375	375
Total Stockholders' Equity (See accompanying statements)	19,004	18,285
Total Liabilities and Stockholders' Equity	$63,149	$59,267
Commitments and Contingent Matters (See notes)		

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CAPITALIZATION
At December 31, 2012 and 2011
Southern Company and Subsidiary Companies 2012 Annual Report

		2012	2011	2012	2011
		(in millions)		(percent of total)	
Long-Term Debt:					
Long-term debt payable to affiliated trusts —					
Maturity	Interest Rates				
Variable rate (3.41% at 1/1/13) due 2042		$206	$206		
Total long-term debt payable to affiliated trusts		206	206		
Long-term senior notes and debt —					
Maturity	Interest Rates				
2012	4.85% to 5.30%	—	1,203		
2013	1.30% to 6.00%	1,436	1,436		
2014	4.15% to 4.90%	434	437		
2015	0.55% to 5.25%	2,375	1,175		
2016	1.95% to 5.30%	1,360	1,210		
2017	5.50% to 5.90%	1,095	1,095		
2018 through 2051	2.25% to 8.20%	10,073	8,702		
Variable rates (0.60% to 0.95% at 1/1/12) due 2012		—	490		
Variable rates (0.58% to 1.21% at 1/1/13) due 2013		876	650		
Total long-term senior notes and debt		17,649	16,398		
Other long-term debt —					
Pollution control revenue bonds —					
Maturity	Interest Rates				
2019 through 2049	0.55% to 6.00%	1,593	1,590		
Variable rate (0.13% at 1/1/13) due 2015		54	54		
Variable rate (0.17% at 1/1/13) due 2016		4	4		
Variable rate (0.13% to 0.17% at 1/1/13) due 2017		36	36		
Variable rates (0.08% to 0.24% at 1/1/13) due 2018 to 2052		1,664	1,667		
Plant Daniel revenue bonds (7.13%) due 2021		270	270		
Total other long-term debt		3,621	3,621		
Capitalized lease obligations		80	93		
Unamortized debt premium (related to plant acquisition)		88	78		
Unamortized debt discount		(35)	(32)		
Total long-term debt (annual interest requirement — $821 million)		21,609	20,364		
Less amount due within one year		2,335	1,717		
Long-term debt excluding amount due within one year		19,274	18,647	49.9 %	50.0 %

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(continued)
At December 31, 2012 and 2011
Southern Company and Subsidiary Companies 2012 Annual Report

	2012	2011	2012	2011
	(in millions)		(percent of total)	
Redeemable Preferred Stock of Subsidiaries:				
Cumulative preferred stock				
$100 par or stated value — 4.20% to 5.44%				
Authorized — 20 million shares				
Outstanding — 1 million shares	81	81		
$1 par value — 5.20% to 5.83%				
Authorized — 28 million shares				
Outstanding — 12 million shares: $25 stated value	294	294		
Total redeemable preferred stock of subsidiaries (annual dividend requirement — $20 million)	375	375	1.0	1.0
Common Stockholders' Equity:				
Common stock, par value $5 per share —	4,389	4,328		
Authorized — 1.5 billion shares				
Issued — 2012: 878 million shares				
— 2011: 866 million shares				
Treasury — 2012: 10.0 million shares				
— 2011: 0.5 million shares				
Paid-in capital	4,855	4,410		
Treasury, at cost	(450)	(17)		
Retained earnings	9,626	8,968		
Accumulated other comprehensive income (loss)	(123)	(111)		
Total common stockholders' equity	18,297	17,578	47.3	47.1
Preferred and Preference Stock of Subsidiaries:				
Non-cumulative preferred stock				
$25 par value — 6.00% to 6.13%				
Authorized — 60 million shares				
Outstanding — 2 million shares	45	45		
Preference stock				
Authorized — 65 million shares				
Outstanding—$1 par value — 5.63% to 6.50%	343	343		
— 14 million shares (non-cumulative)				
— $100 par or stated value — 6.00% to 6.50%	319	319		
— 3 million shares (non-cumulative)				
Total preferred and preference stock of subsidiaries (annual dividend requirement — $45 million)	707	707	1.8	1.9
Total stockholders' equity	19,004	18,285		
Total Capitalization	$38,653	$37,307	100.0 %	100.0 %

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2012, 2011, and 2010
Southern Company and Subsidiary Companies 2012 Annual Report

	Number of Common Shares		Common Stock						
	Issued	Treasury	Par Value	Paid-In Capital	Treasury	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Preferred and Preference Stock of Subsidiaries	Total
	(in thousands)		(in millions)						
Balance at December 31, 2009	820,152	(505)	$4,101	$2,995	$(15)	$7,885	$(88)	$707	$15,585
Net income after dividends on preferred and preference stock of subsidiaries	—	—	—	—	—	1,975	—	—	1,975
Other comprehensive income (loss)	—	—	—	—	—	—	18	—	18
Stock issued	23,662	—	118	654	—	—	—	—	772
Stock-based compensation	—	—	—	52	—	—	—	—	52
Cash dividends	—	—	—	—	—	(1,496)	—	—	(1,496)
Other	—	31	—	1	—	2	—	—	3
Balance at December 31, 2010	843,814	(474)	4,219	3,702	(15)	8,366	(70)	707	16,909
Net income after dividends on preferred and preference stock of subsidiaries	—	—	—	—	—	2,203	—	—	2,203
Other comprehensive income (loss)	—	—	—	—	—	—	(41)	—	(41)
Stock issued	21,850	—	109	616	—	—	—	—	725
Stock-based compensation	—	—	—	89	—	—	—	—	89
Cash dividends	—	—	—	—	—	(1,601)	—	—	(1,601)
Other	—	(65)	—	3	(2)	—	—	—	1
Balance at December 31, 2011	865,664	(539)	4,328	4,410	(17)	8,968	(111)	707	18,285
Net income after dividends on preferred and preference stock of subsidiaries	—	—	—	—	—	2,350	—	—	2,350
Other comprehensive income (loss)	—	—	—	—	—	—	(12)	—	(12)

Stock issued	12,139	—	61	336	—	—	—	—	397
Stock repurchased, at cost	—	(9,440)	—	—	(430)	—	—	—	(430)
Stock-based compensation	—	—	—	106	—	—	—	—	106
Cash dividends	—	—	—	—	—	(1,693)	—	—	(1,693)
Other	—	(56)	—	3	(3)	1	—	—	1
Balance at December 31, 2012	877,803	(10,035)	$4,389	$4,855	$(450)	$9,626	$(123)	$707	$19,004

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
Southern Company and Subsidiary Companies 2012 Annual Report
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
General
The Southern Company (Southern Company or the Company) is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies – Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and Mississippi Power Company (Mississippi Power) – are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary, primarily for Southern Company's investments in leveraged leases. Southern Nuclear operates and provides services to the Southern Company system's nuclear power plants.
The financial statements reflect Southern Company's investments in the subsidiaries on a consolidated basis. The equity method is used for entities in which the Company has significant influence but does not control and for variable interest entities (VIEs) where the Company has an equity investment, but is not the primary beneficiary. All material intercompany transactions have been eliminated in consolidation. Certain prior years' data presented in the financial statements have been reclassified to conform to the current year presentation.
The traditional operating companies, Southern Power, and certain of their subsidiaries are subject to regulation by the Federal Energy Regulatory Commission (FERC), and the traditional operating companies are also subject to regulation by their respective state public service commissions (PSC). The companies follow generally accepted accounting principles (GAAP) in the U.S. and comply with the accounting policies and practices prescribed by their respective commissions. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates.
Regulatory Assets and Liabilities
The traditional operating companies are subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

NOTES (continued)
Southern Company and Subsidiary Companies 2012 Annual Report

Regulatory assets and (liabilities) reflected in the balance sheets at December 31 relate to:

	2012	2011	Note
	(in millions)		
Deferred income tax charges	$1,318	$1,293	(a)
Deferred income tax charges — Medicare subsidy	72	77	(j)
Asset retirement obligations-asset	141	117	(a,h)
Asset retirement obligations-liability	(71)	(42)	(a,h)
Other cost of removal obligations	(1,225)	(1,196)	(a)
Deferred income tax credits	(212)	(225)	(a)
State income tax credits	(36)	(62)	(k)
Loss on reacquired debt	309	285	(b)
Vacation pay	165	160	(c,h)
Under recovered regulatory clause revenues	38	50	(d)
Over recovered regulatory clause revenues	(18)	(28)	(d)
Building leases	40	43	(f)
Generating plant outage costs	30	38	(l)
Under recovered storm damage costs	38	43	(d)
Property damage reserves	(193)	(206)	(g)
Cancelled construction projects	65	12	(m)
Power purchase agreement charges	138	95	(h,n)
Fuel hedging-asset	118	249	(d)
Fuel hedging-liability	(24)	(13)	(d)
Other regulatory assets	204	183	(d)
Environmental remediation-asset	74	71	(g,h)
Environmental remediation-liability	(8)	(8)	(g)
Other regulatory liabilities	(14)	(30)	(d,i)
Retiree benefit plans	3,373	2,959	(e,h)
Total regulatory assets (liabilities), net	$4,322	$3,865	

Note: The recovery and amortization periods for these regulatory assets and (liabilities) are as follows:

(a) Asset retirement and removal assets and liabilities are recorded, deferred income tax assets are recovered, and deferred income tax liabilities are amortized over the related property lives, which may range up to 65 years. Asset retirement and removal assets and liabilities will be settled and trued up following completion of the related activities. At December 31, 2012, other cost of removal obligations included $31 million that will be amortized during 2013 in accordance with an Alternate Rate Plan for Georgia Power for the years 2011 through 2013 (2010 ARP). See Note 3 under "Retail Regulatory Matters – Georgia Power – Rate Plans" for additional information.

(b) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 50 years.

(c) Recorded as earned by employees and recovered as paid, generally within one year. This includes both vacation and banked holiday pay.

(d) Recorded and recovered or amortized as approved or accepted by the appropriate state PSCs over periods generally not exceeding 10 years.

(e) Recovered and amortized over the average remaining service period which may range up to 15 years. See Note 2 for additional information.

(f) Recovered over the remaining lives of the buildings through 2026.
(g) Recovered as storm restoration and potential reliability-related expenses or environmental remediation expenses are incurred as approved by the appropriate state PSCs.
(h) Not earning a return as offset in rate base by a corresponding asset or liability.
(i) Recovered and amortized as approved or accepted by the appropriate state PSC over the life of the contract.
(j) Recovered and amortized as approved by the appropriate state PSCs over periods not exceeding 15 years.
(k) Additional tax benefits resulting from the Georgia state income tax credit settlement that are being amortized over a 21-month period that began in April 2012, in accordance with a Georgia PSC order.
(l) Recovered over the respective operating cycles, which range from 18 months to 10 years. See "Property, Plant, and Equipment" herein for additional information.

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(m) Costs associated with construction of environmental controls that will not be completed as a result of unit retirements and deferred in accordance with the 2010 ARP. Amortization is expected to begin January 1, 2014, subject to approval by the Georgia PSC.
(n) Recovered over the life of the power purchase agreement (PPA) for periods up to 14 years.

In the event that a portion of a traditional operating company's operations is no longer subject to applicable accounting rules for rate regulation, such company would be required to write off to income or reclassify to accumulated other comprehensive income (OCI) related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the traditional operating company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 3 under "Retail Regulatory Matters – Alabama Power," "Retail Regulatory Matters – Georgia Power," and "Integrated Coal Gasification Combined Cycle" for additional information.

Revenues

Wholesale capacity revenues are generally recognized on a levelized basis over the appropriate contract period. Energy and other revenues are recognized as services are provided. Unbilled revenues related to retail sales are accrued at the end of each fiscal period. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, fuel hedging, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between these actual costs and amounts billed in current regulated rates. Under or over recovered regulatory clause revenues are recorded in the balance sheets and are recovered or returned to customers through adjustments to the billing factors.

Southern Company's electric utility subsidiaries have a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Fuel Costs

Fuel costs are expensed as the fuel is used. Fuel expense generally includes fuel transportation costs and the cost of purchased emissions allowances as they are used. Fuel expense also includes the amortization of the cost of nuclear fuel and a charge, based on nuclear generation, for the permanent disposal of spent nuclear fuel. See Note 3 under "Nuclear Fuel Disposal Costs" for additional information.

Income and Other Taxes

Southern Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented net on the statements of income.

In accordance with regulatory requirements, deferred investment tax credits (ITCs) for the traditional operating companies are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the statements of income. Credits amortized in this manner amounted to $23 million in 2012, $19 million in 2011, and $23 million in 2010. At December 31, 2012, all ITCs available to reduce federal income taxes payable had not been utilized. The remaining ITCs will be carried forward and utilized in future years.

Under the American Recovery and Reinvestment Act of 2009, certain projects at certain Southern Company subsidiaries are eligible for ITCs or cash grants. These subsidiaries have elected to receive ITCs. The credits are recorded as a deferred credit, and are amortized to income tax expense over the life of the asset. Credits amortized in this manner amounted to $2.6 million and $0.9 million in 2012 and 2011, respectively. Furthermore, the tax basis of the asset is reduced by 50% of the credits received, resulting in a deferred tax asset. The subsidiaries have elected to recognize the tax benefit of this basis difference as a reduction to income tax expense as costs are incurred during the construction period. These basis differences will reverse and be recorded to income tax expense over the useful life of the asset once placed in service.

In accordance with accounting standards related to the uncertainty in income taxes, Southern Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 5 under "Unrecognized Tax Benefits" for additional information.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost less any regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and cost of equity funds used during construction.

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The Southern Company system's property, plant, and equipment in service consisted of the following at December 31:

	2012	2011
	(in millions)	
Generation	$33,444	$31,751
Transmission	8,747	8,240
Distribution	15,958	15,458
General	4,208	3,413
Plant acquisition adjustment	124	124
Utility plant in service	62,481	58,986
Information technology equipment and software	230	220
Communications equipment	430	428
Other	110	110
Other plant in service	770	758
Total plant in service	$63,251	$59,744

The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expense as incurred or performed with the exception of nuclear refueling costs, which are recorded in accordance with specific state PSC orders. Alabama Power and Georgia Power defer and amortize nuclear refueling costs over the unit's operating cycle. The refueling cycles for Alabama Power and Georgia Power range from 18 to 24 months for each unit. In accordance with a Georgia PSC order, Georgia Power also defers the costs of certain significant inspection costs for the combustion turbines at Plant McIntosh and amortizes such costs over 10 years, which approximates the expected maintenance cycle.

The amount of non-cash property additions recognized for the years ended December 31, 2012, 2011, and 2010 was $524 million, $929 million, and $427 million, respectively. These amounts are comprised of construction related accounts payable outstanding at each year end together with retention amounts accrued during the respective year. Included in the non-cash property additions for the year ended December 31, 2011 was $346 million for the fair value of the debt assumed for Mississippi Power's purchase of the combined cycle generating units 3 and 4 built at Plant Daniel (Plant Daniel Units 3 and 4). In October 2011, Mississippi Power purchased Plant Daniel Units 3 and 4 for approximately $85 million in cash and the assumption of $270 million face value of debt obligations of the lessor related to Plant Daniel Units 3 and 4, which mature in 2021 and bear interest at a fixed stated interest rate of 7.13% per annum. These obligations are secured by Plant Daniel Units 3 and 4 and certain personal property. Accounting rules require that Plant Daniel Units 3 and 4 be reflected on Southern Company's financial statements at the time of the purchase at the fair value of the consideration rendered. Based on interest rates as of October 20, 2011, the fair value of the debt assumed was approximately $346 million. The fair value of the debt was determined using a discounted cash flow model based on Mississippi Power's borrowing rate at the closing date. The fair value is considered a Level 2 disclosure for financial reporting purposes. Accordingly, Plant Daniel Units 3 and 4 are reflected in Southern Company's financial statements at approximately $431 million.

Southern Power acquires generation assets as part of its overall growth strategy. Southern Power accounts for business acquisitions from non-affiliates as business combinations utilizing the acquisition method in accordance with GAAP. Accordingly, Southern Power has included these operations in the consolidated financial statements from the respective date of acquisition. The purchase price, including contingent consideration, if any, of each acquisition was allocated based on the fair value of the identifiable assets and liabilities. Assets acquired that do not meet the definition of a business in accordance with GAAP are accounted for as asset acquisitions. The purchase price of each

asset acquisition was allocated based on the relative fair value of assets acquired. Any due diligence or transition costs incurred by Southern Power for successful or potential acquisitions have been expensed as incurred.
Depreciation and Amortization
Depreciation of the original cost of utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.2% in 2012, 3.2% in 2011, and 3.3% in 2010. Depreciation studies are conducted periodically to update the composite rates. These studies are filed with the respective state PSC and the FERC for the traditional operating companies. Accumulated depreciation for utility plant in service totaled $21.5 billion and $20.7 billion at December 31, 2012 and 2011,

respectively. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. For other property dispositions, the applicable cost and accumulated depreciation are removed from the balance sheet accounts, and a gain or loss is recognized. Minor items of property included in the original cost of the plant are retired when the related property unit is retired.

In 2009, the Georgia PSC approved an accounting order allowing Georgia Power to amortize a portion of its regulatory liability related to other cost of removal obligations. Under the terms of the 2010 ARP, Georgia Power is amortizing approximately $31 million annually of the remaining regulatory liability related to other cost of removal obligations over the three years ending December 31, 2013. See Note 3 under "Retail Regulatory Matters – Georgia Power – Rate Plans" for additional information.

Depreciation of the original cost of other plant in service is provided primarily on a straight-line basis over estimated useful lives ranging from three to 25 years. Accumulated depreciation for other plant in service totaled $479 million and $456 million at December 31, 2012 and 2011, respectively.

Asset Retirement Obligations and Other Costs of Removal

Asset retirement obligations are computed as the present value of the ultimate costs for an asset's future retirement and are recorded in the period in which the liability is incurred. The costs are capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Each traditional operating company has received accounting guidance from the various state PSCs allowing the continued accrual of other future retirement costs for long-lived assets that it does not have a legal obligation to retire. Accordingly, the accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability. See Note 3 under "Retail Regulatory Matters – Georgia Power – Rate Plans" for additional information related to Georgia Power's cost of removal regulatory liability.

The liability for asset retirement obligations primarily relates to the decommissioning of the Southern Company system's nuclear facilities, Plants Farley, Hatch, and Vogtle. In addition, the Southern Company system has retirement obligations related to various landfill sites, ash ponds, underground storage tanks, asbestos removal, and disposal of polychlorinated biphenyls in certain transformers. The Southern Company system also has identified retirement obligations related to certain transmission and distribution facilities, co-generation facilities, certain wireless communication towers, and certain structures authorized by the U.S. Army Corps of Engineers. However, liabilities for the removal of these assets have not been recorded because the range of time over which the applicable company may settle these obligations is unknown and cannot be reasonably estimated. The Company will continue to recognize in the statements of income allowed removal costs in accordance with regulatory treatment. Any differences between costs recognized in accordance with accounting standards related to asset retirement and environmental obligations and those reflected in rates are recognized as either a regulatory asset or liability, as ordered by the various state PSCs, and are reflected in the balance sheets. See "Nuclear Decommissioning" herein for additional information on amounts included in rates.

Details of the asset retirement obligations included in the balance sheets are as follows:

	2012	2011
	(in millions)	
Balance at beginning of year	$1,344	$1,266
Liabilities incurred	45	1
Liabilities settled	(16)	(13)
Accretion	112	82
Cash flow revisions	272	8
Balance at end of year	$1,757	$1,344

Nuclear Decommissioning

The Nuclear Regulatory Commission (NRC) requires licensees of commercial nuclear power reactors to establish a plan for providing reasonable assurance of funds for future decommissioning. Alabama Power and Georgia Power have external trust funds (Funds) to comply with the NRC's regulations. Use of the Funds is restricted to nuclear decommissioning activities. The Funds are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, the FERC, and state PSCs, as well as the Internal Revenue Service (IRS). The Funds are required to be held by one or more trustees with an individual net worth of at least $100 million. The FERC requires the Funds' managers to exercise the standard of care in investing that a "prudent investor" would use in the same circumstances. The FERC regulations also require that the Funds' managers may not invest in any securities of the utility for which it manages funds or its affiliates, except for investments tied to market indices or other mutual funds. While Southern Company is allowed to prescribe an overall investment policy to the Funds' managers, neither Southern Company nor its subsidiaries or affiliates are allowed to engage in the day-to-day management of the Funds or to mandate individual investment decisions. Day-to-day management of the investments in the Funds is delegated to unrelated third party managers with oversight by the management of Southern Company, Alabama Power, and Georgia Power. The Funds' managers are authorized, within certain investment guidelines, to actively buy and sell securities at their own discretion in order to maximize the return on the Funds' investments. The Funds are invested in a tax-efficient manner in a diversified mix of equity and fixed income securities and are reported as trading securities.

Southern Company records the investment securities held in the Funds at fair value, as disclosed in Note 10, as management believes that fair value best represents the nature of the Funds. Gains and losses, whether realized or unrealized, are recorded in the regulatory liability for asset retirement obligations in the balance sheets and are not included in net income or OCI. Fair value adjustments and realized gains and losses are determined on a specific identification basis.

The Funds at Georgia Power participate in a securities lending program through the managers of the Funds. Under this program, the Funds' investment securities are loaned to institutional investors for a fee. Securities so loaned are fully collateralized by cash, letters of credit, and securities issued or guaranteed by the U.S. government, its agencies, and the instrumentalities. As of December 31, 2012 and 2011, approximately $91 million and $39 million, respectively, of the fair market value of the Funds' securities were on loan and pledged to creditors under the Funds' managers' securities lending program. The fair value of the collateral received was approximately $93 million and $42 million at December 31, 2012 and 2011, respectively, and can only be sold by the borrower upon the return of the loaned securities. The collateral received is treated as a non-cash item in the statements of cash flows.

At December 31, 2012, investment securities in the Funds totaled $1.3 billion consisting of equity securities of $718 million, debt securities of $564 million, and $20 million of other securities. At December 31, 2011, investment securities in the Funds totaled $1.2 billion consisting of equity securities of $626 million, debt securities of $543 million, and $36 million of other securities. These amounts include the investment securities pledged to creditors and collateral received and exclude receivables related to investment income and pending investment sales and payables related to pending investment purchases and the lending pool.

Sales of the securities held in the Funds resulted in cash proceeds of $1.0 billion, $2.2 billion, and $2.0 billion in 2012, 2011, and 2010, respectively, all of which were reinvested. For 2012, fair value increases, including reinvested interest and dividends and excluding the Funds' expenses, were $137 million, of which $4 million related to realized gains and $75 million related to unrealized gains related to securities held in the Funds at December 31, 2012. For 2011, fair value increases, including reinvested interest and dividends and excluding the Funds' expenses, were $29 million, of which $41 million related to realized gains and $60 million related to unrealized losses related to securities held in the Funds at December 31, 2011. For 2010, fair value increases, including reinvested interest and dividends and excluding the Funds' expenses, were $139 million, of which $6 million related to securities held in the Funds at December 31, 2010. While the investment securities held in the Funds are reported as trading securities, the Funds continue to be managed with a long-term focus. Accordingly, all purchases and sales within the Funds are presented separately in the statements of cash flows as investing cash flows, consistent with the nature of and purpose for which the securities were acquired.

For Alabama Power, amounts previously recorded in internal reserves are being transferred into the Funds over periods approved by the Alabama PSC. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission only the radioactive portions of a nuclear unit based on the size and type of reactor. Alabama Power and Georgia Power have filed plans with the NRC designed to ensure that, over time, the deposits and earnings of the Funds will provide the minimum funding amounts prescribed by the NRC.

At December 31, 2012, the accumulated provisions for decommissioning were as follows:

	Plant Farley	Plant Hatch	Plant Vogtle Units 1 and 2
	(in millions)		
External trust funds	$604	$435	$256
Internal reserves	22	—	—
Total	$626	$435	$256

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Site study cost is the estimate to decommission a specific facility as of the site study year. The estimated costs of decommissioning based on the most current studies, which were performed in 2008 for Alabama Power's Plant Farley and in 2012 for the Georgia Power plants, were as follows for Alabama Power's Plant Farley and Georgia Power's ownership interests in Plant Hatch and Plant Vogtle Units 1 and 2:

	Plant Farley	Plant Hatch	Plant Vogtle Units 1 and 2
Decommissioning periods:			
Beginning year	2037	2034	2047
Completion year	2065	2068	2072
	(in millions)		
Site study costs:			
Radiated structures	$1,060	$680	$568
Non-radiated structures	72	51	76
Total site study costs	$1,132	$731	$644

The decommissioning periods and site study costs for Plant Vogtle Units 1 and 2 reflect the extended operating license approved by the NRC in 2009. The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from the above estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making these estimates.

For ratemaking purposes, Alabama Power's decommissioning costs are based on the site study, and Georgia Power's decommissioning costs are based on the NRC generic estimate to decommission the radioactive portion of the facilities and the site study estimate for spent fuel management as of 2009. Effective for the years 2011 through 2013, the annual decommissioning cost for ratemaking is $2 million for Plant Hatch. Georgia Power expects the Georgia PSC to periodically review and adjust, if necessary, the amounts collected in rates for nuclear decommissioning costs. Significant assumptions used to determine these costs for ratemaking were an inflation rate of 4.5% and 2.4% for Alabama Power and Georgia Power, respectively, and a trust earnings rate of 7.0% and 4.4% for Alabama Power and Georgia Power, respectively.

Amounts previously contributed to the Funds for Plant Farley are currently projected to be adequate to meet the decommissioning obligations. Alabama Power will continue to provide site specific estimates of the decommissioning costs and related projections of funds in the external trust to the Alabama PSC and, if necessary, would seek the Alabama PSC's approval to address any changes in a manner consistent with NRC and other applicable requirements.

Allowance for Funds Used During Construction and Interest Capitalized

In accordance with regulatory treatment, the traditional operating companies record allowance for funds used during construction (AFUDC), which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such allowance, AFUDC increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation. The equity component of AFUDC is not included in calculating taxable income. Interest related to the construction of new facilities not included in the traditional operating companies' regulated rates is capitalized in accordance with standard interest capitalization requirements. AFUDC and interest capitalized, net of income taxes were 8.2%, 9.1%, and 12.5% of net income for 2012, 2011, and 2010, respectively.

Cash payments for interest totaled $803 million, $832 million, and $789 million in 2012, 2011, and 2010, respectively, net of amounts capitalized of $83 million, $78 million, and $86 million, respectively.

Impairment of Long-Lived Assets and Intangibles

Southern Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by either the amount of regulatory disallowance or by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

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Storm Damage Reserves
Each traditional operating company maintains a reserve to cover the cost of damages from major storms to its transmission and distribution lines and generally the cost of uninsured damages to its generation facilities and other property. In accordance with their respective state PSC orders, the traditional operating companies accrued $28 million in 2012 and $29 million in 2011. Alabama Power, Gulf Power, and Mississippi Power also have the authority based on orders from their state PSCs to accrue certain additional amounts as circumstances warrant. In 2012, there were no such additional accruals. In 2011, such additional accruals totaled $31 million, all at Alabama Power. See Note 3 under "Retail Regulatory Matters – Alabama Power – Natural Disaster Reserve" for additional information regarding Alabama Power's natural disaster reserve.
Leveraged Leases
Southern Company has several leveraged lease agreements, with original terms ranging up to 45 years, which relate to international and domestic energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization, as well as interest on long-term debt related to these investments. The Company reviews all important lease assumptions at least annually, or more frequently if events or changes in circumstances indicate that a change in assumptions has occurred or may occur. These assumptions include the effective tax rate, the residual value, the credit quality of the lessees, and the timing of expected tax cash flows. The recent financial and operational performance of one of Southern Company's lessees and the associated generation assets has raised potential concerns on the part of Southern Company as to the credit quality of the lessee and the residual value of the assets. Due to the poor performance of the generation assets and the uncertainties surrounding the receipt of future rent payments and its ability to successfully restructure the project, Southern Company placed the lease on nonaccrual status whereby, effective July 2012, income associated with this investment is not recognized in the financial statements. The lessee was unable to pay its December 2012 semiannual rent payment in full. To avoid a default on the lease and the project's nonrecourse debt, the due date for the December 2012 rent payment and the associated debt payment was extended to March 6, 2013 while restructuring negotiations continued between the parties to the transaction. The aim of the negotiations is to restructure the debt payments and the related rental payments to allow additional capital investment in the project to be made by Southern Company to improve the operation of the generation assets. Such operational improvements are projected to provide sufficient cash flows for Southern Company to realize the full amount of its investment in the lease receivable. The parties to the lease have reached general agreement as to the restructuring and Southern Company believes that it is likely that it will be able to complete the restructuring prior to the end of the first quarter 2013. If the restructuring is successfully completed, Southern Company will be required to record a reduction in leveraged lease income of up to approximately $17 million at that time. However, if the restructuring is unsuccessful and the project is ultimately abandoned, the potential impairment loss that would be incurred is approximately $90 million on an after-tax basis. The ultimate outcome of this matter cannot be determined at this time.

Southern Company's net investment in domestic and international leveraged leases consists of the following at December 31:

	2012	2011
	(in millions)	
Net rentals receivable	$1,214	$1,216
Unearned income	(544)	(567)
Investment in leveraged leases	670	649
Deferred taxes from leveraged leases	(278)	(277)
Net investment in leveraged leases	$392	$372

A summary of the components of income from the leveraged leases follows:

	2012	2011	2010
	(in millions)		
Pretax leveraged lease income	$21	$25	$18
Income tax expense	(8)	(9)	(8)
Net leveraged lease income	$13	$16	$10

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Cash and Cash Equivalents
For purposes of the financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.
Materials and Supplies
Generally, materials and supplies include the average cost of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.
Fuel Inventory
Fuel inventory includes the average cost of coal, natural gas, oil, transportation, and emissions allowances. Fuel is charged to inventory when purchased and then expensed, at weighted average cost, as used and recovered by the traditional operating companies through fuel cost recovery rates approved by each state PSC. Emissions allowances granted by the Environmental Protection Agency (EPA) are included in inventory at zero cost.
Financial Instruments
Southern Company and its subsidiaries use derivative financial instruments to limit exposure to fluctuations in interest rates, the prices of certain fuel purchases, electricity purchases and sales, and occasionally foreign currency exchange rates. All derivative financial instruments are recognized as either assets or liabilities (included in "Other" or shown separately as "Risk Management Activities") and are measured at fair value. See Note 10 for additional information. Substantially all of the Southern Company system's bulk energy purchases and sales contracts that meet the definition of a derivative are excluded from fair value accounting requirements because they qualify for the "normal" scope exception, and are accounted for under the accrual method. Other derivative contracts qualify as cash flow hedges of anticipated transactions or are recoverable through the traditional operating companies' fuel hedging programs. This results in the deferral of related gains and losses in OCI or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges is recognized currently in net income. Other derivative contracts are marked to market through current period income and are recorded on a net basis in the statements of income. See Note 11 for additional information.
The Company does not offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. At December 31, 2012, the amount included in accounts payable in the balance sheets that the Company has recognized for the obligation to return cash collateral arising from derivative instruments was immaterial.
Southern Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the Company's exposure to counterparty credit risk.
Comprehensive Income
The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income, changes in the fair value of qualifying cash flow hedges and marketable securities, certain changes in pension and other postretirement benefit plans, reclassifications for amounts included in net income, and dividends on preferred and preference stock of subsidiaries.
Accumulated OCI (loss) balances, net of tax effects, were as follows:

	Qualifying Hedges	Marketable Securities	Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Income (Loss)

	(in millions)			
Balance at December 31, 2011	$(44)	$3	$(70)	$(111)
Current period change	(1)	—	(11)	(12)
Balance at December 31, 2012	$(45)	$3	$(81)	$(123)

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2. RETIREMENT BENEFITS

Southern Company has a defined benefit, trusteed, pension plan covering substantially all employees. This qualified pension plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). In December 2012, certain of the traditional operating companies and other subsidiaries contributed $445 million to the qualified pension plan. No mandatory contributions to the qualified pension plan are anticipated for the year ending December 31, 2013. Southern Company also provides certain defined benefit pension plans for a selected group of management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. In addition, Southern Company provides certain medical care and life insurance benefits for retired employees through other postretirement benefit plans. The traditional operating companies fund related other postretirement trusts to the extent required by their respective regulatory commissions. For the year ending December 31, 2013, other postretirement trust contributions are expected to total approximately $28 million.

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the benefit obligations as of the measurement date and the net periodic costs for the pension and other postretirement benefit plans for the following year are presented below. Net periodic benefit costs were calculated in 2009 for the 2010 plan year using discount rates for the pension plans and the other postretirement benefit plans of 5.93% and 5.83%, respectively, and an annual salary increase of 4.18%.

	2012		2011		2010	
Discount rate:						
Pension plans	4.26	%	4.98	%	5.52	%
Other postretirement benefit plans	4.05		4.88		5.40	
Annual salary increase	3.59		3.84		3.84	
Long-term return on plan assets:						
Pension plans	8.20		8.45		8.45	
Other postretirement benefit plans	7.29		7.39		7.40	

The Company estimates the expected rate of return on pension plan and other postretirement benefit plan assets using a financial model to project the expected return on each current investment portfolio. The analysis projects an expected rate of return on each of seven different asset classes in order to arrive at the expected return on the entire portfolio relying on each trust's target asset allocation and reasonable capital market assumptions. The financial model is based on four key inputs: anticipated returns by asset class (based in part on historical returns), each trust's target asset allocation, an anticipated inflation rate, and the projected impact of a periodic rebalancing of each trust's portfolio.

An additional assumption used in measuring the accumulated other postretirement benefit obligations (APBO) is the weighted average medical care cost trend rate. The weighted average medical care cost trend rates used in measuring the APBO as of December 31, 2012 were as follows:

	Initial Cost Trend Rate	Ultimate Cost Trend Rate	Year That Ultimate Rate Is Reached
Pre-65	8.00%	5.00%	2020

Post-65 medical	6.00	5.00	2020
Post-65 prescription	6.00	5.00	2020

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An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO and the service and interest cost components at December 31, 2012 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$126	$(106)
Service and interest costs	7	(6)

Pension Plans
The total accumulated benefit obligation for the pension plans was $8.5 billion at December 31, 2012 and $7.4 billion at December 31, 2011. Changes in the projected benefit obligations and the fair value of plan assets during the plan years ended December 31, 2012 and 2011 were as follows:

	2012	2011
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	$8,079	$7,223
Service cost	198	184
Interest cost	393	389
Benefits paid	(336)	(324)
Actuarial loss	968	607
Balance at end of year	9,302	8,079
Change in plan assets		
Fair value of plan assets at beginning of year	6,800	6,834
Actual return (loss) on plan assets	1,010	256
Employer contributions	479	34
Benefits paid	(336)	(324)
Fair value of plan assets at end of year	7,953	6,800
Accrued liability	$(1,349)	$(1,279)

At December 31, 2012, the projected benefit obligations for the qualified and non-qualified pension plans were $8.7 billion and $582 million, respectively. All pension plan assets are related to the qualified pension plan.
Amounts recognized in the balance sheets at December 31, 2012 and 2011 related to the Company's pension plans consist of the following:

	2012	2011
	(in millions)	
Other regulatory assets, deferred	$3,013	$2,614
Other current liabilities	(37)	(34)
Employee benefit obligations	(1,312)	(1,245)
Accumulated OCI	125	109

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Presented below are the amounts included in accumulated OCI and regulatory assets at December 31, 2012 and 2011 related to the defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2013.

	Prior Service Cost	Net (Gain) Loss
	(in millions)	
Balance at December 31, 2012:		
Accumulated OCI	$7	$118
Regulatory assets	100	2,913
Total	$107	$3,031
Balance at December 31, 2011:		
Accumulated OCI	$7	$102
Regulatory assets	128	2,486
Total	$135	$2,588
Estimated amortization in net periodic pension cost in 2013:		
Accumulated OCI	$1	$8
Regulatory assets	26	192
Total	$27	$200

The components of OCI and the changes in the balance of regulatory assets related to the defined benefit pension plans for the years ended December 31, 2012 and 2011 are presented in the following table:

	Accumulated OCI	Regulatory Assets
	(in millions)	
Balance at December 31, 2010	$68	$1,749
Net (gain) loss	43	915
Change in prior service costs	—	1
Reclassification adjustments:		
Amortization of prior service costs	(1)	(31)
Amortization of net gain (loss)	(1)	(20)
Total reclassification adjustments	(2)	(51)
Total change	41	865
Balance at December 31, 2011	$109	$2,614
Net (gain) loss	21	519
Change in prior service costs	—	—
Reclassification adjustments:		
Amortization of prior service costs	(1)	(29)
Amortization of net gain (loss)	(4)	(91)
Total reclassification adjustments	(5)	(120)
Total change	16	399
Balance at December 31, 2012	$125	$3,013

NOTES (continued)
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Components of net periodic pension cost were as follows:

	2012	2011	2010
	(in millions)		
Service cost	$198	$184	$172
Interest cost	393	389	391
Expected return on plan assets	(581)	(607)	(552)
Recognized net loss	95	21	10
Net amortization	30	32	33
Net periodic pension cost	$135	$19	$54

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets. In determining the market-related value of plan assets, the Company has elected to amortize changes in the market value of all plan assets over five years rather than recognize the changes immediately. As a result, the accounting value of plan assets that is used to calculate the expected return on plan assets differs from the current fair value of the plan assets. Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2012, estimated benefit payments were as follows:

	Benefit Payments
	(in millions)
2013	$376
2014	397
2015	419
2016	440
2017	465
2018 to 2022	2,632

NOTES (continued)
Southern Company and Subsidiary Companies 2012 Annual Report

Other Postretirement Benefits
Changes in the APBO and in the fair value of plan assets during the plan years ended December 31, 2012 and 2011 were as follows:

	2012	2011
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	$1,787	$1,752
Service cost	21	21
Interest cost	85	92
Benefits paid	(99)	(103)
Actuarial loss	71	29
Plan amendments	—	(12)
Retiree drug subsidy	7	8
Balance at end of year	1,872	1,787
Change in plan assets		
Fair value of plan assets at beginning of year	765	802
Actual return on plan assets	93	4
Employer contributions	55	54
Benefits paid	(92)	(95)
Fair value of plan assets at end of year	821	765
Accrued liability	$(1,051)	$(1,022)

Amounts recognized in the balance sheets at December 31, 2012 and 2011 related to the Company's other postretirement benefit plans consist of the following:

	2012	2011
	(in millions)	
Other regulatory assets, deferred	$360	$345
Other current liabilities	(3)	(4)
Employee benefit obligations	(1,048)	(1,018)
Accumulated OCI	7	6

NOTES (continued)
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Presented below are the amounts included in accumulated OCI and regulatory assets at December 31, 2012 and 2011 related to the other postretirement benefit plans that had not yet been recognized in net periodic other postretirement benefit cost along with the estimated amortization of such amounts for 2013.

	Prior Service Cost	Net (Gain) Loss (in millions)	Transition Obligation
Balance at December 31, 2012:			
Accumulated OCI	$—	$7	$—
Regulatory assets	13	342	5
Total	$13	$349	$5
Balance at December 31, 2011:			
Accumulated OCI	$—	$6	$—
Regulatory assets	17	314	14
Total	$17	$320	$14
Estimated amortization as net periodic postretirement benefit cost in 2013:			
Accumulated OCI	$—	$—	$—
Regulatory assets	4	12	5
Total	$4	$12	$5

The components of OCI, along with the changes in the balance of regulatory assets, related to the other postretirement benefit plans for the plan years ended December 31, 2012 and 2011 are presented in the following table:

	Accumulated OCI (in millions)	Regulatory Assets
Balance at December 31, 2010	$3	$292
Net (gain) loss	3	84
Change in prior service costs/transition obligation	—	(12)
Reclassification adjustments:		
Amortization of transition obligation	—	(10)
Amortization of prior service costs	—	(5)
Amortization of net gain (loss)	—	(4)
Total reclassification adjustments	—	(19)
Total change	3	53
Balance at December 31, 2011	$6	$345
Net (gain) loss	1	35
Change in prior service costs/transition obligation	—	—
Reclassification adjustments:		
Amortization of transition obligation	—	(10)
Amortization of prior service costs	—	(4)
Amortization of net gain (loss)	—	(6)
Total reclassification adjustments	—	(20)
Total change	1	15

Balance at December 31, 2012	$7	$360

NOTES (continued)
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Components of the other postretirement benefit plans' net periodic cost were as follows:

	2012	2011	2010
	(in millions)		
Service cost	$21	$21	$25
Interest cost	85	92	100
Expected return on plan assets	(60)	(64)	(63)
Net amortization	20	20	20
Net postretirement cost	$66	$69	$82

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO for the other postretirement benefit plans. Estimated benefit payments are reduced by drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 as follows:

	Benefit Payments	Subsidy Receipts	Total
	(in millions)		
2013	$110	$(11)	$99
2014	116	(12)	104
2015	122	(13)	109
2016	127	(14)	113
2017	130	(16)	114
2018 to 2022	661	(88)	573

Benefit Plan Assets

Pension plan and other postretirement benefit plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended (Internal Revenue Code). The Company's investment policies for both the pension plan and the other postretirement benefit plans cover a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Derivative instruments are used primarily to gain efficient exposure to the various asset classes and as hedging tools. The Company minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

NOTES (continued)
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The composition of the Company's pension plan and other postretirement benefit plan assets as of December 31, 2012 and 2011, along with the targeted mix of assets for each plan, is presented below:

	Target	2012	2011
Pension plan assets:			
Domestic equity	26 %	28 %	29 %
International equity	25	24	25
Fixed income	23	27	23
Special situations	3	1	—
Real estate investments	14	13	14
Private equity	9	7	9
Total	100 %	100 %	100 %
Other postretirement benefit plan assets:			
Domestic equity	40 %	38 %	39 %
International equity	21	24	18
Domestic fixed income	25	28	31
Global fixed income	4	3	4
Special situations	1	—	—
Real estate investments	6	5	5
Private equity	3	2	3
Total	100 %	100 %	100 %

The investment strategy for plan assets related to the Company's qualified pension plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Company employs a formal rebalancing program. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Investment Strategies

Detailed below is a description of the investment strategies for each major asset category for the pension and other postretirement benefit plans disclosed above:

- Domestic equity. A mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes, managed both actively and through passive index approaches.
- International equity. A mix of growth stocks and value stocks with both developed and emerging market exposure, managed both actively and through passive index approaches.
- Fixed income. A mix of domestic and international bonds.
- Trust-owned life insurance (TOLI). Investments of the Company's taxable trusts aimed at minimizing the impact of taxes on the portfolio.
- Special situations. Investments in opportunistic strategies with the objective of diversifying and enhancing returns and exploiting short-term inefficiencies as well as investments in promising new strategies of a longer-term nature.
- Real estate investments. Investments in traditional private market, equity-oriented investments in real properties (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.

- Private equity. Investments in private partnerships that invest in private or public securities typically through privately-negotiated and/or structured transactions, including leveraged buyouts, venture capital, and distressed debt.

NOTES (continued)
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Benefit Plan Asset Fair Values

Following are the fair value measurements for the pension plan and the other postretirement benefit plan assets as of December 31, 2012 and 2011. The fair values presented are prepared in accordance with GAAP. For purposes of determining the fair value of the pension plan and other postretirement benefit plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Valuation methods of the primary fair value measurements disclosed in the following tables are as follows:

- Investments in equity securities: Investments in equity securities such as common stocks, American depositary receipts, and real estate investment trusts that trade on a public exchange are classified as Level 1 investments and are valued at the closing price in the active market. Equity investments with unpublished prices (i.e. pooled funds) are valued as Level 2, when the underlying holdings used to value the investment are comprised of Level 1 or Level 2 equity securities.
- Investments in fixed income securities: Investments in fixed income securities are generally classified as Level 2 investments and are valued based on prices reported in the market place. Additionally, the value of fixed income securities takes into consideration certain items such as broker quotes, spreads, yield curves, interest rates, and discount rates that apply to the term of a specific instrument.
- Investments in TOLI: Investments in TOLI policies are classified as Level 2 investments and are valued based on the underlying investments held in the policy's separate account. The underlying assets are equity and fixed income pooled funds that are comprised of Level 1 and Level 2 securities.
- Investments in private equity and real estate: Investments in private equity and real estate are generally classified as Level 3 as the underlying assets typically do not have observable inputs. The fund manager values the assets using various inputs and techniques depending on the nature of the underlying investments. In the case of private equity, techniques may include purchase multiples for comparable transactions, comparable public company trading multiples, and discounted cash flow analysis. Real estate managers generally use prevailing market capitalization rates, recent sales of comparable investments, and independent third-party appraisals to value underlying real estate investments. The fair value of partnerships is determined by aggregating the value of the underlying assets.

NOTES (continued)
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The fair values of pension plan assets as of December 31, 2012 and 2011 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases. Assets that are considered special situations investments, primarily real estate investments and private equities, are presented in the tables below based on the nature of the investment.

	Fair Value Measurements Using			
As of December 31, 2012:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Assets:				
Domestic equity*	$1,163	$670	$—	$1,833
International equity*	912	979	—	1,891
Fixed income:				
U.S. Treasury, government, and agency bonds	—	516	—	516
Mortgage- and asset-backed securities	—	127	—	127
Corporate bonds	—	876	3	879
Pooled funds	—	399	—	399
Cash equivalents and other	5	548	—	553
Real estate investments	258	—	841	1,099
Private equity	—	—	593	593
Total	$2,338	$4,115	$1,437	$7,890

* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

NOTES (continued)
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As of December 31, 2011:	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Assets:				
Domestic equity*	$1,155	$533	$—	$1,688
International equity*	1,187	340	—	1,527
Fixed income:				
U.S. Treasury, government, and agency bonds	—	433	—	433
Mortgage- and asset-backed securities	—	135	—	135
Corporate bonds	—	832	3	835
Pooled funds	—	380	—	380
Cash equivalents and other	1	139	—	140
Real estate investments	220	—	782	1,002
Private equity	—	—	582	582
Total	$2,563	$2,792	$1,367	$6,722

* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the pension plan assets valued using significant unobservable inputs for the years ended December 31, 2012 and 2011 were as follows:

	2012 Real Estate Investments	Private Equity	2011 Real Estate Investments	Private Equity
	(in millions)			
Beginning balance	$782	$582	$674	$638
Actual return on investments:				
Related to investments held at year end	56	1	72	(12)
Related to investments sold during the year	3	41	20	47
Total return on investments	59	42	92	35
Purchases, sales, and settlements	—	(31)	16	(91)
Transfers into/out of Level 3	—	—	—	—
Ending balance	$841	$593	$782	$582

NOTES (continued)
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The fair values of other postretirement benefit plan assets as of December 31, 2012 and 2011 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases. Assets that are considered special situations investments, primarily real estate investments and private equities, are presented in the tables below based on the nature of the investment.

	Fair Value Measurements Using			
As of December 31, 2012:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Assets:				
Domestic equity*	$140	$43	$—	$183
International equity*	33	75	—	108
Fixed income:				
U.S. Treasury, government, and agency bonds	—	24	—	24
Mortgage- and asset-backed securities	—	4	—	4
Corporate bonds	—	31	—	31
Pooled funds	—	42	—	42
Cash equivalents and other	—	44	—	44
Trust-owned life insurance	—	320	—	320
Real estate investments	10	—	30	40
Private equity	—	—	21	21
Total	$183	$583	$51	$817

* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

NOTES (continued)
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As of December 31, 2011:	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Assets:				
Domestic equity*	$156	$38	$—	$194
International equity*	45	39	—	84
Fixed income:				
U.S. Treasury, government, and agency bonds	—	24	—	24
Mortgage- and asset-backed securities	—	5	—	5
Corporate bonds	—	32	—	32
Pooled funds	—	48	—	48
Cash equivalents and other	—	46	—	46
Trust-owned life insurance	—	291	—	291
Real estate investments	9	—	30	39
Private equity	—	—	23	23
Total	$210	$523	$53	$786

* Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

Changes in the fair value measurement of the Level 3 items in the other postretirement benefit plan assets valued using significant unobservable inputs for the years ended December 31, 2012 and 2011 were as follows:

	2012 Real Estate Investments	2012 Private Equity	2011 Real Estate Investments	2011 Private Equity
	(in millions)			
Beginning balance	$30	$23	$26	$23
Actual return on investments:				
Related to investments held at year end	—	—	3	—
Related to investments sold during the year	—	1	1	2
Total return on investments	—	1	4	2
Purchases, sales, and settlements	—	(3)	—	(2)
Transfers into/out of Level 3	—	—	—	—
Ending balance	$30	$21	$30	$23

Employee Savings Plan

Southern Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The Company provides an 85% matching contribution on up to 6% of an employee's base salary. Total matching contributions made to the plan for 2012, 2011, and 2010 were $82 million, $78 million, and $76 million, respectively.

NOTES (continued)
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3. CONTINGENCIES AND REGULATORY MATTERS
General Litigation Matters
Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. In addition, the business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury, property damage, and other claims for damages alleged to have been caused by carbon dioxide (CO_2) and other emissions, coal combustion byproducts, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters, have become more frequent. The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Company's financial statements.
Insurance Recovery
Mirant Corporation (Mirant) was an energy company with businesses that included independent power projects and energy trading and risk management companies in the U.S. and other countries. Mirant was a wholly-owned subsidiary of Southern Company until its initial public offering in 2000. In 2001, Southern Company completed a spin-off to its stockholders of its remaining ownership, and Mirant became an independent corporate entity.
In 2003, Mirant and certain of its affiliates filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. In 2005, Mirant, as a debtor in possession, and the unsecured creditors' committee filed a complaint against Southern Company. Later in 2005, this complaint was transferred to MC Asset Recovery, LLC (MC Asset Recovery) as part of Mirant's plan of reorganization. In 2009, Southern Company entered into a settlement agreement with MC Asset Recovery to resolve this action. The settlement included an agreement where Southern Company paid MC Asset Recovery $202 million. Southern Company filed an insurance claim in 2009 to recover a portion of this settlement and received a nontaxable $25 million payment from its insurance provider on June 14, 2012. Additionally, legal fees related to this insurance settlement totaled approximately $6 million. As a result, the net reduction to expense presented as MC Asset Recovery insurance settlement in the statement of income was approximately $19 million.
Environmental Matters
New Source Review Actions
In 1999, the EPA brought a civil action in the U.S. District Court for the Northern District of Georgia against certain Southern Company subsidiaries, including Alabama Power and Georgia Power, alleging that these subsidiaries had violated the New Source Review (NSR) provisions of the Clean Air Act and related state laws at certain coal-fired generating facilities. The EPA alleged NSR violations at five coal-fired generating facilities operated by Alabama Power, including a unit co-owned by Mississippi Power, and three coal-fired generating facilities operated by Georgia Power, including a unit co-owned by Gulf Power. The civil action sought penalties and injunctive relief, including an order requiring installation of the best available control technology at the affected units. The case against Georgia Power (including claims related to the unit co-owned by Gulf Power) was administratively closed in 2001 and has not been reopened. After Alabama Power was dismissed from the original action, the EPA filed a separate action in 2001 against Alabama Power (including claims related to the unit co-owned by Mississippi Power) in the U.S. District Court for the Northern District of Alabama.
In 2006, the U.S. District Court for the Northern District of Alabama entered a consent decree, resolving claims relating to the alleged NSR violations at Plant Miller. In 2010, the EPA dismissed five of its eight remaining claims against Alabama Power, leaving only three claims, including one relating to the unit co-owned by Mississippi Power. In March 2011, the U.S. District Court for the Northern District of Alabama granted Alabama Power summary

judgment on all remaining claims and dismissed the case with prejudice. That judgment is on appeal to the U.S. Court of Appeals for the Eleventh Circuit. On February 23, 2012, the EPA filed a motion in the U.S. District Court for the Northern District of Alabama seeking vacatur of the judgment and recusal of the judge in the case involving Alabama Power.

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

Climate Change Litigation

Kivalina Case

In 2008, the Native Village of Kivalina and the City of Kivalina filed a lawsuit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs allege that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that some of the defendants (including Southern Company) acted in concert and are therefore jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village, which is alleged to be $95 million to $400 million. In 2009, the U.S. District Court for the Northern District of California granted the defendants' motions to dismiss the case. On September 21, 2012, the U.S. Court of Appeals for the Ninth Circuit upheld the U.S. District Court for the Northern District of California's dismissal of the case. On November 27, 2012, the U.S. Court of Appeals for the Ninth Circuit denied the plaintiffs' request for review of the decision. On February 25, 2013, the plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court. Southern Company believes that these claims are without merit. While Southern Company believes the likelihood of loss is remote based on existing case law, it is not possible to predict with certainty whether Southern Company will incur any liability in connection with this matter. The ultimate outcome of this matter cannot be determined at this time.

Hurricane Katrina Case

In 2005, immediately following Hurricane Katrina, a lawsuit was filed in the U.S. District Court for the Southern District of Mississippi by Ned Comer on behalf of Mississippi residents seeking recovery for property damage and personal injuries caused by Hurricane Katrina. In 2006, the plaintiffs amended the complaint to include Southern Company and many other electric utilities, oil companies, chemical companies, and coal producers. The plaintiffs allege that the defendants contributed to climate change, which contributed to the intensity of Hurricane Katrina. In 2007, the U.S. District Court for the Southern District of Mississippi dismissed the case. On appeal to the U.S. Court of Appeals for the Fifth Circuit, a three-judge panel reversed the U.S. District Court for the Southern District of Mississippi, holding that the case could proceed, but, on rehearing, the full U.S. Court of Appeals for the Fifth Circuit dismissed the plaintiffs' appeal, resulting in reinstatement of the decision of the U.S. District Court for the Southern District of Mississippi in favor of the defendants. In May 2011, the plaintiffs filed an amended version of their class action complaint, arguing that the earlier dismissal was on procedural grounds and under Mississippi law the plaintiffs have a right to re-file. The amended complaint was also filed against numerous chemical, coal, oil, and utility companies, including Alabama Power, Georgia Power, Gulf Power, and Southern Power. On March 20, 2012, the U.S. District Court for the Southern District of Mississippi dismissed the plaintiffs' amended complaint. On April 16, 2012, the plaintiffs appealed the case to the U.S. Court of Appeals for the Fifth Circuit. Southern Company believes that these claims are without merit. While Southern Company believes the likelihood of loss is remote based on existing case law, it is not possible to predict with certainty whether the Company will incur any liability in connection with this matter. The ultimate outcome of this matter cannot be determined at this time.

Environmental Remediation

The Southern Company system must comply with environmental laws and regulations that cover the handling and disposal of waste and releases of hazardous substances. Under these various laws and regulations, the Southern Company system could incur substantial costs to clean up properties. The traditional operating companies have each received authority from their respective state PSCs to recover approved environmental compliance costs through regulatory mechanisms. These rates are adjusted annually or as necessary within limits approved by the state PSCs. Georgia Power's environmental remediation liability as of December 31, 2012 was $19 million. Georgia Power has been designated or identified as a potentially responsible party (PRP) at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), including a large site in Brunswick, Georgia on the CERCLA National Priorities List (NPL). The parties have completed the removal of wastes from the Brunswick site as ordered by the EPA. Additional cleanup and claims for recovery of natural resource damages at this site or for the assessment and potential cleanup of other sites on the Georgia Hazardous Sites Inventory and the CERCLA NPL

are anticipated.
Georgia Power and numerous other entities have been designated by the EPA as PRPs at the Ward Transformer Superfund site located in Raleigh, North Carolina. In September 2011, the EPA issued a Unilateral Administrative Order (UAO) to Georgia Power and 22 other parties, ordering specific remedial action of certain areas at the site. In November 2011, Georgia Power filed a response with the EPA stating it has sufficient cause to believe it is not a liable party under CERCLA. The EPA notified Georgia Power in November 2011 that it is considering enforcement options against Georgia Power and other non-complying UAO recipients. If the court determines that a respondent failed to comply with the UAO without sufficient cause, the EPA may also seek civil penalties of up to $37,500 per day for the violation and punitive damages of up to three times the costs incurred by the EPA as a result of the party's failure to comply with the UAO.
In addition to the EPA's action at this site, Georgia Power, along with many other parties, was sued in a private action by several existing PRPs for cost recovery related to the removal action. On February 1, 2013, the court granted Georgia Power's summary judgment motion ruling that Georgia Power has no liability in the private action. The plaintiffs may appeal the court's order to the U.S. Court of Appeals for the Fourth Circuit.
The ultimate outcome of these matters will depend upon the success of defenses asserted, the ultimate number of PRPs participating in the cleanup, and numerous other factors and cannot be determined at this time; however, as a result of the regulatory treatment, these matters are not expected to have a material impact on Southern Company's financial statements.
Gulf Power's environmental remediation liability includes estimated costs of environmental remediation projects of approximately $61 million as of December 31, 2012. These estimated costs relate to site closure criteria by the Florida Department of Environmental Protection (FDEP) for potential impacts to soil and groundwater from herbicide applications at Gulf Power substations. The schedule for completion of the remediation projects will be subject to FDEP approval. The projects have been approved by the Florida PSC for recovery through Gulf Power's environmental cost recovery clause; therefore, there was no impact on net income as a result of these estimates.
The final outcome of these matters cannot be determined at this time. However, based on the currently known conditions at these sites and the nature and extent of activities relating to these sites, management does not believe that additional liabilities, if any, at these sites would be material to the financial statements.

Nuclear Fuel Disposal Costs

Acting through the U.S. Department of Energy (DOE) and pursuant to the Nuclear Waste Policy Act of 1982, the U.S. government entered into contracts with Alabama Power and Georgia Power that require the DOE to dispose of spent nuclear fuel and high level radioactive waste generated at Plants Hatch and Farley and Plant Vogtle Units 1 and 2. The DOE failed to timely perform and has yet to commence the performance of its contractual and statutory obligation to dispose of spent nuclear fuel beginning no later than January 31, 1998. Consequently, Alabama Power and Georgia Power have pursued and continue to pursue legal remedies against the U.S. government for its partial breach of contract.
As a result of the first lawsuit, Georgia Power recovered approximately $27 million, based on its ownership interests, and Alabama Power recovered approximately $17 million, representing substantially all of the Southern Company system's direct costs of the expansion of spent nuclear fuel storage facilities at Plants Farley and Hatch and Plant Vogtle Units 1 and 2 from 1998 through 2004.
In 2008, Alabama Power and Georgia Power filed a second lawsuit against the U.S. government for the costs of continuing to store spent nuclear fuel at Plants Farley and Hatch and Plant Vogtle Units 1 and 2. Damages are being sought for the period from January 1, 2005 through December 31, 2010. Damages will continue to accrue until the issue is resolved or storage is provided. No amounts have been recognized in the financial statements as of December 31, 2012 for any potential recoveries from the second lawsuit. The final outcome of these matters cannot be determined at this time; however, no material impact on Southern Company's net income is expected.

Sufficient pool storage capacity for spent fuel is available at Plant Vogtle Units 1 and 2 to maintain full-core discharge capability for both units into 2014. Construction of an on-site dry storage facility at Plant Vogtle Units 1 and 2 has begun. The facility is expected to begin operation in sufficient time to maintain full-core discharge capability, with additional on-site dry storage to be added as needed. At Plants Hatch and Farley, on-site dry spent fuel storage facilities are operational and can be expanded to accommodate spent fuel through the expected life of each plant.

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Retail Regulatory Matters
Alabama Power
Retail Rate Adjustments
In July 2011, the Alabama PSC issued an order to eliminate a tax-related adjustment under Alabama Power's rate structure effective with October 2011 billings. The elimination of this adjustment resulted in additional revenues of approximately $31 million for 2011. In accordance with the order, Alabama Power made additional accruals to the natural disaster reserve (NDR) in the fourth quarter 2011 of an amount equal to such additional 2011 revenues. The NDR was impacted as a result of operations and maintenance expenses incurred in connection with the April 2011 storms in Alabama. See "Natural Disaster Reserve" below for additional information. The elimination of this adjustment resulted in additional revenues of approximately $106 million for 2012.
Rate RSE
Alabama Power operates under a rate stabilization and equalization plan (Rate RSE) approved by the Alabama PSC. Alabama Power's Rate RSE adjustments are based on forward-looking information for the applicable upcoming calendar year. Rate adjustments for any two-year period, when averaged together, cannot exceed 4.0% and any annual adjustment is limited to 5.0%. Retail rates remain unchanged when the retail return on common equity (ROE) is projected to be between 13.0% and 14.5%. If Alabama Power's actual retail ROE is above the allowed equity return range, customer refunds will be required; however, there is no provision for additional customer billings should the actual retail ROE fall below the allowed equity return range.
In 2011 and 2012, retail rates under Rate RSE remained unchanged from 2010. On November 30, 2012, Alabama Power made its Rate RSE submission to the Alabama PSC of projected data for calendar year 2013; projected earnings were within the specified return range, and, therefore, retail rates under Rate RSE remained unchanged for 2013. Under the terms of Rate RSE, the maximum possible increase for 2014 is 5.00%. However, Alabama Power is working with the Alabama PSC to develop a plan that will potentially preclude the need for a Rate RSE increase in 2014. The ultimate outcome of this matter cannot be determined at this time.
Rate CNP
Alabama Power's retail rates, approved by the Alabama PSC, provide for adjustments to recognize the placing of new generating facilities into retail service under rate certificated new plant (Rate CNP). Alabama Power may also recover retail costs associated with certificated PPAs under rate certificated new plant (Rate CNP PPA). Effective April 2011, Rate CNP PPA was reduced by approximately $5 million annually. On March 6, 2012, the Alabama PSC issued a consent order that Alabama Power leave in effect the current Rate CNP PPA factor for billings for the period April 1, 2012 through March 31, 2013. It is anticipated that no adjustment will be made to Rate CNP PPA in 2013. As of December 31, 2012, Alabama Power had an under recovered certificated PPA balance of $9 million, $7 million of which is included in deferred under recovered regulatory clause revenues and $2 million of which is included in under recovered regulatory clause revenues in the balance sheet.
On September 17, 2012, the Alabama PSC approved and certificated a PPA for the purchase of approximately 200 megawatts (MWs) of the approximately 400 MWs of energy from wind-powered generating facilities and all associated environmental attributes, including renewable energy credits. The terms of this PPA and a previously approved and certificated PPA permit Alabama Power to use the energy and retire the associated environmental attributes in service of its customers or to sell environmental attributes, separately or bundled with energy, to third parties. Approximately 200 MWs of energy from wind-powered generating facilities was operational in December 2012.
Alabama Power's retail rates, approved by the Alabama PSC also allow for the recovery of Alabama Power's retail costs associated with environmental laws, regulations, or other such mandates (Rate CNP Environmental). Rate CNP Environmental is based on forward-looking information and provides for the recovery of these costs pursuant to a factor that is calculated annually. Environmental costs to be recovered include operations and maintenance expenses,

depreciation, and a return on certain invested capital. There was no adjustment to Rate CNP Environmental to recover environmental costs in 2011 or 2012. On November 26, 2012, Alabama Power submitted calculations associated with its cost of complying with environmental mandates, as provided under Rate CNP Environmental. The filing reflected a projected unrecovered retail revenue requirement for environmental compliance of less than $1 million, which is to be recovered in the billing months of January 2013 through December 2013. On December 4, 2012, the Alabama PSC issued a consent order that Alabama Power leave in effect for 2013 the factors associated with Alabama Power's environmental compliance costs for the year 2012. Any unrecovered amounts associated with 2013 will be reflected in the 2014 filing. As of December 31, 2012, Alabama Power had an under recovered environmental clause balance of $21 million which is included in under recovered regulatory clause revenues in the balance sheet.

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Environmental Accounting Order
Proposed and final environmental regulations could result in significant additional compliance costs that could affect future unit retirement and replacement decisions. In September 2011, the Alabama PSC approved an order allowing for the establishment of a regulatory asset to record the unrecovered investment costs associated with any such decisions, including the unrecovered plant asset balance and the unrecovered costs associated with site removal and closure. These costs would be amortized over the affected unit's remaining useful life, as established prior to the decision regarding early retirement.

Compliance and Pension Cost Accounting Order
On November 6, 2012, the Alabama PSC approved an accounting order for certain compliance-related operation and maintenance expenditures for the years 2013 through 2017, as well as the incremental increase in operation expense related to pension cost for 2013. Under the accounting order, expenses from January 2013 through December 2017 related to compliance with standards addressing Critical Infrastructure Protection issued by the North American Electric Reliability Corporation and cyber security requirements issued by the NRC will be deferred to a regulatory asset account and amortized over a three-year period beginning in January 2015. Expenses from January 2013 through December 2017 related to compliance with NRC guidance addressing the readiness at nuclear facilities within the U.S., as prompted by the earthquake and tsunami that struck Japan in March 2011, also will be deferred as a regulatory asset and recovered over the same amortization period. The compliance-related expenses to be afforded regulatory asset treatment over the five-year period are currently estimated to be approximately $43 million. In addition, the accounting order authorizes Alabama Power to defer an incremental increase in its pension cost for 2013. That increased pension cost is estimated to be approximately $17 million. During 2013, the actual incremental increase will be deferred to a regulatory asset account and will be amortized over a three-year period beginning in January 2015. Pursuant to the accounting order, Alabama Power has the ability to accelerate the amortization of the regulatory assets.

Energy Cost Recovery
Alabama Power has established energy cost recovery rates under Alabama Power's energy cost recovery rate (Rate ECR) as approved by the Alabama PSC. Rates are based on an estimate of future energy costs and the current over or under recovered balance. Revenues recognized under Rate ECR and recorded on the financial statements are adjusted for the difference in actual recoverable fuel costs and amounts billed in current regulated rates. The difference in the recoverable fuel costs and amounts billed give rise to the over or under recovered amounts recorded as regulatory assets or liabilities. Alabama Power, along with the Alabama PSC, continually monitors the over or under recovered cost balance to determine whether an adjustment to billing rates is required. Changes in the Rate ECR factor have no significant effect on net income, but will impact operating cash flows. Currently, the Alabama PSC may approve billing rates under Rate ECR of up to 5.910 cents per kilowatt hour (KWH). On December 4, 2012, the Alabama PSC issued a consent order that Alabama Power leave in effect the energy cost recovery rates which began in April 2011 for 2013. Therefore, the Rate ECR factor as of January 1, 2013 remained at 2.681 cents per KWH. Effective with billings beginning in January 2014, the Rate ECR factor will be 5.910 cents per KWH, absent a further order from the Alabama PSC.

As of December 31, 2012 and 2011, Alabama Power had under recovered fuel balances of approximately $4 million and $31 million, respectively, which are included in deferred under recovered regulatory clause revenues in the balance sheets. This classification is based on estimates, which include such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any recovery of the under recovered fuel costs.

Natural Disaster Reserve
Based on an order from the Alabama PSC, Alabama Power maintains a reserve for operations and maintenance expenses to cover the cost of damages from major storms to its transmission and distribution facilities. The order

approves a separate monthly Rate Natural Disaster Reserve (Rate NDR) charge to customers consisting of two components. The first component is intended to establish and maintain a reserve balance for future storms and is an on-going part of customer billing. The second component of the Rate NDR charge is intended to allow recovery of any existing deferred storm-related operations and maintenance costs and any future reserve deficits over a 24-month period. The Alabama PSC order gives Alabama Power authority to record a deficit balance in the NDR when costs of storm damage exceed any established reserve balance. Alabama Power has the authority, based on an order from the Alabama PSC, to accrue certain additional amounts as circumstances warrant. The order allows for reliability-related expenditures to be charged against the additional accruals when the NDR balance exceeds $75 million. Alabama Power may designate a portion of the NDR to reliability-related expenditures as a part of an annual budget process for the following year or during the current year for identified unbudgeted reliability-related expenditures that are incurred. Accruals that have not been designated can be used to offset storm charges. Additional accruals to the NDR will

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enhance Alabama Power's ability to deal with the financial effects of future natural disasters, promote system reliability, and offset costs retail customers would otherwise bear.

As revenue from the Rate NDR charge is recognized, an equal amount of operations and maintenance expenses related to the NDR will also be recognized. As a result, the Rate NDR charge will not have an effect on net income but will impact operating cash flows.

During the first half of 2011, multiple storms caused varying degrees of damage to Alabama Power's transmission and distribution facilities. The most significant storms occurred in April 2011, causing over 400,000 of Alabama Power's 1.4 million customers to be without electrical service. The cost of repairing the damage to facilities and restoring electrical service to customers as a result of these storms was $42 million for operations and maintenance expenses and $161 million for capital-related expenditures.

In accordance with the order that was issued by the Alabama PSC in July 2011 to eliminate a tax-related adjustment under Alabama Power's rate structure that resulted in additional revenues, Alabama Power made additional accruals to the NDR in the fourth quarter 2011 of an amount equal to the additional 2011 revenues, which were approximately $31 million.

The accumulated balances in the NDR for the years ended December 31, 2012 and December 31, 2011 were approximately $103 million and $110 million, respectively. Any accruals to the NDR are included in the balance sheets under other regulatory liabilities, deferred and are reflected as other operations and maintenance expenses in the statements of income.

Nuclear Outage Accounting Order

In 2010, the Alabama PSC approved a change to the nuclear maintenance outage accounting process associated with routine refueling activities. Previously, Alabama Power accrued nuclear outage operations and maintenance expenses for the two units at Plant Farley during the 18-month cycle for the outages. In accordance with the 2010 order, nuclear outage expenses are deferred when the charges actually occur and then amortized over the subsequent 18-month period.

The initial result of implementation of the accounting order was that no nuclear maintenance outage expenses were recognized from January 2011 through December 2011, which decreased nuclear outage operations and maintenance expenses in 2011 from 2010 by approximately $50 million. During the fall of 2011, approximately $38 million of actual nuclear outage expenses associated with one unit at Plant Farley was deferred to a regulatory asset account; beginning in January 2012, these deferred costs are being amortized to nuclear operations and maintenance expenses over an 18-month period. During the spring of 2012, approximately $31 million of actual nuclear outage expenses associated with the second unit at Plant Farley was deferred to a regulatory asset account; beginning in July 2012, these deferred costs are being amortized to nuclear operations and maintenance expenses over an 18-month period. Alabama Power will continue the pattern of deferral of nuclear outage expenses as incurred and the recognition of expenses over a subsequent 18-month period pursuant to the existing order.

Georgia Power

Rate Plans

The economic recession significantly reduced Georgia Power's revenues upon which retail rates were set by the Georgia PSC for 2008 through 2010 (2007 Retail Rate Plan). In 2009, despite stringent efforts to reduce expenses, Georgia Power's projected retail ROE for both 2009 and 2010 was below 10.25%. However, in lieu of a full base rate case to increase customer rates as allowed under the 2007 Retail Rate Plan, in 2009, the Georgia PSC approved Georgia Power's request for an accounting order. Under the terms of the accounting order, Georgia Power could amortize up to $108 million of the regulatory liability related to other cost of removal obligations in 2009 and up to $216 million in 2010, limited to the amount needed to earn no more than a 9.75% and 10.15% retail ROE in 2009 and 2010, respectively. For the years ended December 31, 2009 and 2010, Georgia Power amortized $41 million and $174 million, respectively, of the regulatory liability related to other cost of removal obligations.

In 2010, the Georgia PSC approved the 2010 ARP, which became effective January 1, 2011. The terms of the 2010 ARP reflect a settlement agreement among Georgia Power, the Georgia PSC Public Interest Advocacy Staff, and eight other intervenors. Under the terms of the 2010 ARP, Georgia Power is amortizing approximately $92 million of its remaining regulatory liability related to other cost of removal obligations over the three years ending December 31, 2013.

Also under the terms of the 2010 ARP, effective January 1, 2011, Georgia Power increased its (1) traditional base tariff rates by approximately $347 million; (2) Demand-Side Management (DSM) tariff rates by approximately $31 million; (3) environmental compliance cost recovery tariff rate by approximately $168 million; and (4) Municipal Franchise Fee (MFF) tariff rate by approximately $16 million, for a total increase in base revenues of approximately $562 million.

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Under the 2010 ARP, the following additional base rate adjustments have been made to Georgia Power's tariffs in 2012 and 2013:

- Effective January 1, 2012 and 2013, the DSM tariffs increased by $17 million and $14 million, respectively;
- Effective April 1, 2012 and January 1, 2013, the traditional base tariffs increased by an estimated $122 million and $58 million, respectively, to recover the revenue requirements for Plant McDonough-Atkinson Units 4, 5, and 6 for the period through December 31, 2013; and
- The MFF tariff increased consistently with the adjustments above, as well as those related to the interim fuel rider (IFR) and Nuclear Construction Cost Recovery (NCCR) tariff adjustments described herein under "Fuel Cost Recovery" and "Nuclear Construction."

Under the 2010 ARP, Georgia Power's allowed retail ROE is set at 11.15%, and earnings will be evaluated against a retail ROE range of 10.25% to 12.25%. Two-thirds of any earnings above 12.25% will be directly refunded to customers, with the remaining one-third retained by Georgia Power. There were no refunds related to earnings for 2011 or 2012. Georgia Power is required to file a general base rate case by July 1, 2013, in response to which the Georgia PSC would be expected to determine whether the 2010 ARP should be continued, modified, or discontinued.

Integrated Resource Plans

On March 20, 2012, the Georgia PSC approved Georgia Power's request to decertify and retire Plant Branch Units 1 and 2 as of December 31, 2013 and October 31, 2013, the compliance dates for the respective units under the Georgia Multi-Pollutant Rule, and an oil-fired unit at Plant Mitchell as of March 26, 2012, as requested in the 2011 Integrated Resource Plan (IRP). The Georgia PSC also approved three PPAs totaling 998 MWs with Southern Power for capacity and energy that will commence in 2015 and end in 2030. On November 21, 2012, the FERC accepted the PPAs.

Separately, on March 20, 2012, the Georgia PSC certified 495 MWs of wholesale capacity to be returned to retail service in 2015 and 2016 under a 2010 agreement, subject to the decertification of any related generating units including 243 MWs of the 16 units described below.

On January 31, 2013, Georgia Power filed its triennial IRP (2013 IRP). The filing included Georgia Power's request to decertify 16 coal- and oil-fired units totaling 2,093 MWs. Several factors, including the cost to comply with existing and future environmental regulations, recent and forecasted economic conditions, and lower natural gas prices, contributed to the decision to close these units.

Georgia Power requested the decertification of Plant Boulevard Units 2 and 3 (28 MWs) upon approval of the 2013 IRP and the decertification of Plant Bowen Unit 6 (32 MWs) by April 16, 2013. Plant Branch Units 3 and 4 (1,016 MWs), Plant Yates Units 1 through 5 (579 MWs), and Plant McManus Units 1 and 2 (122 MWs) will be retired by April 16, 2015, the compliance date of the Mercury and Air Toxics Standards (MATS) rule. Georgia Power has also requested a revision to the decertification date of Plant Branch Unit 1 from December 31, 2013 to April 16, 2015. To allow for necessary transmission reliability improvements, Georgia Power expects to seek a one-year extension of the MATS rule compliance date for Plant Kraft Units 1 through 4 (316 MWs) and to retire these units by April 16, 2016. The filing also included Georgia Power's request to switch the primary fuel source for Plant Yates Units 6 and 7 from coal to natural gas. Additionally, Georgia Power plans to switch the primary fuel source for Plant McIntosh Unit 1 from Central Appalachian coal to Powder River Basin (PRB) coal following further evaluation, including a successful test burn of the PRB fuel.

Under the terms of the 2010 ARP, any costs associated with changes to Georgia Power's approved environmental operating or capital budgets resulting from new or revised environmental regulations through 2013 that are approved by the Georgia PSC in connection with an updated IRP will be deferred as a regulatory asset to be recovered over a time period deemed appropriate by the Georgia PSC. In connection with the retirement decisions, Georgia Power reclassified the retail portion of the net carrying value of Plant Branch Units 1 through 4 from plant in service, net of depreciation, to other utility plant, net. Georgia Power is continuing to depreciate these units using the current composite straight-line rates previously approved by the Georgia PSC. Upon actual retirement, the Georgia PSC approved the continued deferral and amortization of the remaining net carrying values for Plant Branch Units 1 and 2 in its order for the 2011 IRP and Georgia Power has requested similar treatment for Plant Branch Units 3 and 4 in the 2013 IRP. Georgia Power also reclassified the construction work in progress (CWIP) balances totaling $65 million related to environmental controls for Plant Branch Units 1 through 4 and Plant Yates Units 6 and 7 that will not be completed as a result of the retirement decisions to regulatory assets and ceased accruing AFUDC. The Georgia PSC approved a three-year amortization period beginning January 2014 for the $13 million balance relating to Plant Branch Units 1 and 2 in its order for the 2011 IRP and Georgia Power has requested similar treatment for the balances related to Plant Branch Units 3 and 4 and Plant Yates Units 6 and 7 in the 2013 IRP. Georgia Power has also requested that the Georgia PSC approve the deferral of the

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costs associated with material and supplies remaining at the unit retirement dates to a regulatory asset, to be amortized over a time period deemed appropriate by the Georgia PSC. As a result of this regulatory treatment, the decertification of these units is not expected to have a material impact on Southern Company's financial statements. The Georgia PSC is scheduled to vote on the 2013 IRP by July 2013.

Fuel Cost Recovery

Georgia Power has established fuel cost recovery rates approved by the Georgia PSC. The Georgia PSC approved reductions in Georgia Power's total annual billings of approximately $43 million effective June 1, 2011, $567 million effective June 1, 2012, and $122 million effective January 1, 2013. In addition, the Georgia PSC has authorized an IFR, which allows Georgia Power to adjust its fuel cost recovery rates prior to the next fuel case if the under or over recovered fuel balance exceeds $215 million through February 2013 and $200 million thereafter. Georgia Power's fuel cost recovery includes costs associated with a natural gas hedging program as revised and approved by the Georgia PSC on February 7, 2013, requiring it to use options and hedges within a 24-month time horizon. Georgia Power expects to file its next fuel case by March 1, 2014.

Georgia Power's over recovered fuel balance totaled approximately $230 million at December 31, 2012 and is included in current liabilities and other deferred credits and liabilities.

Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will not have a significant effect on Southern Company's revenues or net income, but will affect cash flow.

Storm Damage Recovery

Georgia Power defers and recovers certain costs related to damages from major storms as mandated by the Georgia PSC. As of December 31, 2012, the balance in the regulatory asset related to storm damage was $38 million. As a result of this regulatory treatment, the costs related to storms are generally not expected to have a material impact on Southern Company's financial statements.

Nuclear Construction

In 2008, Georgia Power, acting for itself and as agent for Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia (MEAG Power), and the City of Dalton, Georgia (Dalton), acting by and through its Board of Water, Light, and Sinking Fund Commissioners (collectively, Owners), entered into an agreement (Vogtle 3 and 4 Agreement) with a consortium consisting of Westinghouse Electric Company LLC (Westinghouse) and Stone & Webster, Inc. (collectively, Contractor), pursuant to which the Contractor agreed to design, engineer, procure, construct, and test two AP1000 nuclear units (with electric generating capacity of approximately 1,100 MWs each) and related facilities at Plant Vogtle (Plant Vogtle Units 3 and 4). Under the terms of the Vogtle 3 and 4 Agreement, the Owners agreed to pay a purchase price that is subject to certain price escalations and adjustments, including fixed escalation amounts and index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Contractor under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%. The Vogtle 3 and 4 Agreement provides for liquidated damages upon the Contractor's failure to fulfill the schedule and performance guarantees. The Contractor's liability to the Owners for schedule and performance liquidated damages and warranty claims is subject to a cap.

Certain payment obligations of Westinghouse and Stone & Webster, Inc. under the Vogtle 3 and 4 Agreement are guaranteed by Toshiba Corporation and The Shaw Group, Inc., respectively. In the event of certain credit rating downgrades of any Owner, such Owner will be required to provide a letter of credit or other credit enhancement. The Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Owners will be required to pay certain termination costs and, at certain stages of the work, cancellation fees to the Contractor. The Contractor may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including certain Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the

Vogtle 3 and 4 Agreement by the Owners, Owner insolvency, and certain other events.
In 2009, the Georgia PSC originally certified construction costs of $6.4 billion to place Plant Vogtle Units 3 and 4 into service in April 2016 and April 2017, respectively, and approved inclusion of the related CWIP accounts in rate base. Also in 2009, the State of Georgia enacted the Georgia Nuclear Energy Financing Act, which allows Georgia Power to recover financing costs for nuclear construction projects through annual adjustments to an NCCR tariff by including the related CWIP accounts in rate base during the construction period. With respect to Plant Vogtle Units 3 and 4, this legislation allowed Georgia Power, beginning in 2011, to recover an estimated $1.7 billion of related financing costs during the construction period. As a result, in 2009, the Georgia PSC also revised the certified in-service capital cost to approximately $4.4 billion.

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The Georgia PSC approved increases to the NCCR tariff of approximately $223 million, $35 million, and $50 million, effective January 1, 2011, 2012, and 2013, respectively. Through the NCCR tariff, Georgia Power is collecting and amortizing to earnings approximately $91 million of financing costs, capitalized in 2009 and 2010, over the five-year period ending December 31, 2015, in addition to the ongoing financing costs. At December 31, 2012, approximately $55 million of these 2009 and 2010 costs remained unamortized in CWIP. At December 31, 2012, Georgia Power's CWIP balance for Plant Vogtle Units 3 and 4 totaled $2.3 billion.

In 2009, the NRC issued an Early Site Permit and Limited Work Authorization which allowed limited work to begin on Plant Vogtle Units 3 and 4. The NRC certified the Westinghouse Design Control Document, as amended (DCD), for the AP1000 nuclear reactor design, effective December 30, 2011, and issued combined construction and operating licenses (COLs) on February 10, 2012. Receipt of the COLs allowed full construction to begin.

On February 16, 2012, separate groups of petitioners filed petitions in the U.S. Court of Appeals for the District of Columbia Circuit seeking judicial review of the NRC's issuance of the COLs and certification of the DCD. These petitions were consolidated on April 3, 2012. On April 18, 2012, another group of petitioners filed a motion to stay the effectiveness of the COLs with the U.S. District Court for the District of Columbia. On July 11, 2012, the U.S. Court of Appeals for the District of Columbia Circuit denied the petitioners' motion to stay the effectiveness of the COLs. Georgia Power has intervened in, and intends to vigorously contest, these petitions. Additional technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4, at the federal and state level, are expected as construction proceeds.

Georgia Power is required to file semi-annual Vogtle Construction Monitoring (VCM) reports with the Georgia PSC by February 28 and August 31 each year. On February 19, 2013, the Georgia PSC voted to approve Georgia Power's seventh VCM report, including construction capital costs incurred through June 30, 2012 of approximately $2.0 billion. Georgia Power's eighth VCM report requests approval for an additional $0.2 billion of construction capital costs incurred through December 31, 2012. If the projected certified construction capital costs to be borne by Georgia Power increase by 5% or the projected in-service dates are significantly extended, Georgia Power is required to seek an amendment to the Plant Vogtle Units 3 and 4 certificate from the Georgia PSC. Accordingly, the eighth VCM also requests an amendment to the certificate to increase the estimated in-service capital cost of Plant Vogtle Units 3 and 4 to $4.8 billion and to extend the estimated in-service dates to fourth quarter 2017 and fourth quarter 2018 for Plant Vogtle Units 3 and 4, respectively. Associated financing costs during the construction period are estimated to total approximately $2.0 billion.

In July 2012, the Owners and the Contractor began negotiations regarding the costs associated with design changes to the DCD and the delays in the timing of approval of the DCD and issuance of the COLs, including the assertion by the Contractor that the Owners are responsible for these costs under the terms of the Vogtle 3 and 4 Agreement. The Contractor has claimed that its estimated adjustment attributable to Georgia Power (based on Georgia Power's ownership interest) is approximately $425 million (in 2008 dollars) with respect to these issues. The Contractor also has asserted it is entitled to further schedule extensions. Georgia Power has not agreed with either the proposed cost or schedule adjustments or that the Owners have any responsibility for costs related to these issues. On November 1, 2012, Georgia Power and the other Owners filed suit against the Contractor in the U.S. District Court for the Southern District of Georgia seeking a declaratory judgment that the Owners are not responsible for these costs. Also on November 1, 2012, the Contractor filed suit against Georgia Power and the other Owners in the U.S. District Court for the District of Columbia alleging the Owners are responsible for these costs. While litigation has commenced and Georgia Power intends to vigorously defend its positions, Georgia Power expects negotiations with the Contractor to continue with respect to cost and schedule during which negotiations the parties may reach a mutually acceptable compromise of their positions.

In addition, there are processes in place that are designed to assure compliance with the requirements specified in the DCD and the COLs, including rigorous inspections by Southern Nuclear and the NRC that occur throughout construction. During the fourth quarter 2012, certain details of the rebar design for the Plant Vogtle Unit 3 nuclear island were evaluated for consistency with the DCD and a few non-safety-related deviations were identified. On January 15, 2013 and January 18, 2013, Southern Nuclear submitted two license amendment requests to conform the rebar design details to NRC requirements. On January 29, 2013, the NRC issued "no objection" letters in response to the related preliminary amendment requests, enabling completion of final work supporting the pouring of base mat concrete, which is expected to occur following approval of the license amendment requests in March 2013. Various design and other issues are expected to arise as construction proceeds, which may result in additional license amendments or require other resolution. If any license amendment requests are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs either to the Owners, the Contractor, or both.

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As construction continues, additional delays in the fabrication and assembly of structural modules, the failure of such modules to meet applicable standards, or other issues may further impact project schedule and cost. Additional claims by the Contractor or Georgia Power (on behalf of the Owners) are also likely to arise throughout construction. These claims may be resolved through formal and informal dispute resolution procedures under the Vogtle 3 and 4 Agreement, but also may be resolved through litigation.

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

Integrated Coal Gasification Combined Cycle

General

Mississippi Power is constructing a new electric generating facility located in Kemper County, Mississippi which will utilize an integrated coal gasification combined cycle technology with an output capacity of 582 MWs (Kemper IGCC). The Kemper IGCC will use as fuel locally mined lignite (an abundant, lower heating value coal) from a mine owned by Mississippi Power and situated adjacent to the Kemper IGCC. In connection with the Kemper IGCC, Mississippi Power also plans to construct and operate approximately 61 miles of CO_2 pipeline infrastructure. The Kemper IGCC is scheduled to be placed in-service in May 2014.

In 2010, the Mississippi PSC issued a certificate of public convenience and necessity (CPCN) authorizing the acquisition, construction, and operation of the Kemper IGCC (2010 MPSC Order). The Sierra Club filed an appeal of the Mississippi PSC's issuance of the CPCN and, on March 15, 2012, the Mississippi Supreme Court reversed the decision of the Chancery Court of Harrison County, Mississippi (Chancery Court) upholding the 2010 MPSC Order and remanded the matter to the Mississippi PSC. The Mississippi Supreme Court concluded that the 2010 MPSC Order did not cite in sufficient detail substantial evidence upon which the Mississippi Supreme Court could determine the basis for the findings of the Mississippi PSC granting the CPCN. On March 30, 2012, the Mississippi PSC issued a temporary authorization which allowed Mississippi Power to continue construction and, on April 24, 2012, issued a detailed order (2012 MPSC Order) confirming the CPCN for the Kemper IGCC. On April 26, 2012, the Sierra Club appealed the 2012 MPSC Order to the Chancery Court. On December 17, 2012, the Chancery Court affirmed the 2012 MPSC Order which confirmed the issuance of the CPCN for the Kemper IGCC. On January 8, 2013, the Sierra Club filed an appeal of the Chancery Court's ruling with the Mississippi Supreme Court.

The certificated cost estimate of the Kemper IGCC included in the 2012 MPSC Order was $2.4 billion, net of $245 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (CCPI2) and excluding the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, and financing costs related to the Kemper IGCC. The 2012 MPSC Order approved a construction cost cap of up to $2.88 billion, with recovery of prudently-incurred costs subject to approval by the Mississippi PSC. Exemptions from the cost cap included in the 2012 MPSC Order included the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, financing costs, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on the ratepayers, relative to the original proposal for the CPCN).

Mississippi Power's current cost estimate for the Kemper IGCC (net of the $245 million CCPI2 grant, and excluding the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, financing costs, and certain general exceptions as contemplated in the 2012 MPSC Order and the settlement agreement between Mississippi Power and the Mississippi PSC entered into on January 24, 2013 (Settlement Agreement) that must be specifically approved by the Mississippi PSC) is approximately $2.88 billion. The Mississippi PSC and the Mississippi Public Utilities Staff (MPUS) have engaged their independent monitors to assess the current cost estimates and schedule projections for the Kemper IGCC. These consultants have issued reports with their own opinions as to the likelihood that costs for the Kemper IGCC will remain at or under the $2.88 billion cost cap and as to the expected in-service date. While Mississippi Power continues to believe its cost estimate and schedule projection remain appropriate based on the current status of the project, it is possible that Mississippi Power could experience further cost increases and/or schedule delays with respect to the Kemper IGCC. Certain factors have caused and may continue to cause the costs for the Kemper IGCC to increase and/or schedule delays to occur including, but not limited to, costs and productivity of labor, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, contractor or supplier delay or non-performance under construction or other agreements, and unforeseen engineering problems. To the extent it becomes probable that costs beyond any permitted exceptions to the cost cap will exceed $2.88 billion or it becomes probable that the Mississippi PSC will disallow a portion of the costs relating to the Kemper IGCC, including certain general exceptions as contemplated in the 2012 MPSC Order and the Settlement Agreement, charges to expense may occur and these charges could be material. See "Cost Recovery Plans" below for additional information relating to the Settlement Agreement that defines the process for resolving matters regarding cost recovery related to the Kemper IGCC.

As of December 31, 2012, Mississippi Power had spent a total of $2.51 billion on the Kemper IGCC, including the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, and other deferred costs. Of this total, $2.47 billion was included in CWIP (which is net of $245 million of CCPI2 grant funds), $35 million was recorded in other regulatory assets, $4 million was recorded in other deferred charges and assets, and $1 million was previously expensed. Consistent with the treatment of non-capital costs incurred during the pre-construction period, the Mississippi PSC granted Mississippi Power the authority to defer all non-capital Kemper IGCC-related costs to a regulatory asset during the construction period. This includes deferred costs associated with the generation resource planning, evaluation, and screening activities. The amortization period for the regulatory asset will be determined by the Mississippi PSC at a later date.

In addition, Mississippi Power is authorized to accrue carrying costs on the unamortized balance of such regulatory assets at a rate and in a manner to be determined by the Mississippi PSC in future cost recovery mechanism proceedings.

The 2012 MPSC Order established periodic prudence reviews during the annual CWIP review process. Of the total costs of $51 million incurred through March 2009, $46 million has been reviewed and deemed prudent by the Mississippi PSC. Due to the decision of the Mississippi PSC to deny the Certificated New Plant-A (CNP-A) rate filing and a 2012 rate request related to the Kemper IGCC described below, prudence reviews for the construction costs of the Kemper IGCC incurred after March 2009 have not been made. The Settlement Agreement provides for completion of all prudence reviews within six months of the date the Kemper IGCC is placed in service. See "Cost Recovery Plans" herein for additional information.

The ultimate outcome of these matters, including the determinations of prudency and the specific manner of recovery of prudently-incurred costs relating to the Kemper IGCC, is subject to further regulatory actions and cannot be determined at this time.

Cost Recovery Plans

The 2012 MPSC Order included provisions relating to both Mississippi Power's recovery of financing costs during the course of construction of the Kemper IGCC and Mississippi Power's recovery of costs following the date the Kemper IGCC is placed in service. In the 2012 MPSC Order, the Mississippi PSC approved financing cost recovery on CWIP balances not to exceed the $2.4 billion certificated cost estimate for the Kemper IGCC. The 2012 MPSC Order provided for the accrual of AFUDC in 2010 and 2011 and for the current recovery of financing costs on 100% of CWIP in 2012, 2013, and through May 1, 2014 (provided that the amount of financing cost recovery allowed is to be reduced by the amount of certain state and federal government construction cost incentives received by Mississippi Power and must be justified by a showing that such recovery will benefit customers over the life of the Kemper IGCC). With respect to recovery of costs following the in-service date of the Kemper IGCC, the 2012 MPSC Order provided for the establishment of operational cost and revenue parameters based upon assumptions in Mississippi Power's petition for the CPCN.

On June 1, 2012, the MPUS signed a joint stipulation with Mississippi Power to establish a proposed rate schedule detailing CNP-A and, on June 14, 2012, Mississippi Power submitted to the Mississippi PSC a filing to establish the new CNP-A rate schedule and a stipulated rate increase based upon the revenue request of between $55 million and $59 million to recover financing costs over the remainder of 2012. On June 22, 2012, the Mississippi PSC denied the proposed CNP-A rate schedule and the 2012 rate recovery filings submitted by Mississippi Power, pending a final ruling from the Mississippi Supreme Court regarding the Sierra Club's appeal of the Mississippi PSC's issuance of the CPCN for the Kemper IGCC.

On July 9, 2012, Mississippi Power appealed the Mississippi PSC's June 22, 2012 decision to the Mississippi Supreme Court and requested interim rates under bond of $55 million. On July 31, 2012, the Mississippi Supreme Court denied Mississippi Power's request for interim rates under bond until the Mississippi Supreme Court decides Mississippi Power's appeal of the Mississippi PSC's June 22, 2012 decision.

On January 24, 2013, Mississippi Power and the Mississippi PSC entered into the Settlement Agreement that (1) establishes the process for resolving matters regarding cost recovery related to the Kemper IGCC for the purpose of mitigating risks to Mississippi Power and its customers and expediting the regulatory process associated with future rate filings required under the Settlement Agreement and (2) resolves Mississippi Power's CNP-A rate appeal before the Mississippi Supreme Court.

On February 12, 2013, the Mississippi Supreme Court granted Mississippi Power and the Mississippi PSC's joint filing for dismissal of Mississippi Power's appeal of the Mississippi PSC's June 22, 2012 decision.

Under the terms of the Settlement Agreement, Mississippi Power and the Mississippi PSC will follow certain agreed-upon regulatory procedures and schedules for resolving the cost recovery matters related to the Kemper IGCC. These procedures and schedules include the following: (1) Mississippi Power's filing within 30 days of the Settlement Agreement of a new request to increase rates in 2013 in an amount not to exceed a $172 million annual revenue requirement, based upon projected investment as December 31, 2013, to be recorded to a regulatory liability to be used to mitigate rate impacts when the Kemper IGCC is placed in service (which filing for $172 million was made on January 25, 2013); (2) the Mississippi PSC's decision on that matter within 50 days of Mississippi Power's request; (3) Mississippi Power's collaboration with the MPUS to file with the Mississippi PSC within three months of the Settlement Agreement a rate recovery plan for the Kemper IGCC for the first seven years of its operation, along with a proposed revenue requirement under such plan for 2014 through 2020 (which filing was made on February 26, 2013 as described below); (4) the Mississippi PSC's decision on the rate recovery plan within four months of that filing; (5) Mississippi Power's agreement to limit the portion of prudently-incurred Kemper IGCC costs to be included in rate base to the $2.4 billion certificated cost estimate, plus costs related to the lignite mine and CO_2 pipeline as well as any other costs permitted or determined to be excluded from the cost cap, provided that this limitation will not prevent Mississippi Power from securing alternate financing to recover any prudently-incurred Kemper IGCC costs, including financing costs and plant costs above the $2.4 billion certificated cost estimate, not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement; and (6) the Mississippi PSC's completion of its prudence review of the Kemper IGCC costs incurred through 2012 within six months of the Settlement Agreement, an additional prudence review upon considering the seven-year rate plan for costs incurred through the most recent reporting period, and a final prudence review of the remaining project costs within six months of the Kemper IGCC's in-service date.

Legislation to authorize a multi-year rate plan and legislation to provide for alternate financing through securitization was passed in the Mississippi legislature and was signed by the Governor on February 26, 2013. Mississippi Power contemplates using securitization as provided in the legislation as its form of alternate financing for prudently-incurred Kemper IGCC costs, including financing costs and plant costs above the $2.4 billion certificated cost estimate, not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement.

On February 26, 2013, Mississippi Power, in compliance with the Settlement Agreement, filed with the Mississippi PSC a rate recovery plan for the Kemper IGCC for 2014 through 2020, the first seven years of operation of the Kemper IGCC. The rate recovery plan proposes recovery of an annual revenue requirement of approximately $150 million of Kemper IGCC-related operational costs and rate base amounts, including plant costs equal to the $2.4 billion certificated cost estimate. Approval of Mississippi Power's request to increase rates in 2013 to mitigate the rate impacts of the Kemper IGCC filed on January 25, 2013 is integral to the rate recovery plan as the proposed filing contemplates amortization of the regulatory liability to be used to mitigate rate impacts from 2014 through 2020, based on a fixed amortization schedule that requires approval by the Mississippi PSC. Under the rate recovery plan filing, Mississippi Power proposes annual recovery to remain the same from 2014 through 2020 and, while it is the intent of Mississippi Power for the actual revenue requirement to equal the proposed revenue requirement for certain items, Mississippi Power proposes that the annual differences for those items through 2020 will be deferred, subject to accrual of carrying costs, and the cumulative balance will be reviewed at the end of the term of the Settlement Agreement by the Mississippi PSC for determination of the manner of the recovery. Mississippi Power proposes to secure recovery of prudently-incurred Kemper IGCC costs, including financing costs and plant costs above the $2.4 billion certificated cost estimate, not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement to be provided for with alternate financing through securitization. The rate recovery necessary to recover the annual costs of securitization is proposed to be filed and begin after the Kemper IGCC is placed in service.

Under the terms of the Settlement Agreement, Mississippi Power has the right to terminate the Settlement Agreement if certain conditions, including the passage of multi-year rate plan legislation that is contemplated under the Settlement Agreement, are not met, if Mississippi Power is unable to secure alternate financing for any prudently-incurred Kemper IGCC costs not otherwise recovered in any Mississippi PSC rate proceeding contemplated by the Settlement Agreement, or if the Mississippi PSC fails to comply with the requirements of the Settlement Agreement.

The ultimate outcome of these matters, including the determinations of prudency and the specific manner of recovery of prudently-incurred costs relating to the Kemper IGCC, is subject to further regulatory actions and cannot be determined at this time.

Tax Incentives

The IRS has allocated $133 million (Phase I) and $279 million (Phase II) of Internal Revenue Code Section 48A tax credits to Mississippi Power in connection with the Kemper IGCC. Mississippi Power's utilization of Phase I and Phase II credits is dependent upon meeting the IRS certification requirements, including an in-service date no later than May 11, 2014 for the Phase I credits and April 19, 2016 for the Phase II credits. In order to remain eligible for the Phase II credits, Mississippi Power plans to capture and sequester (via enhanced oil recovery) at least 65% of the CO_2 produced by the Kemper IGCC during operations in accordance with the rules for Section 48A investment tax credits. Through December 31, 2012, Mississippi Power received or accrued tax benefits totaling $362 million for these tax credits, which will be amortized as a reduction to depreciation and amortization over the life of the Kemper IGCC. As a result of bonus tax depreciation on certain assets placed, or to be placed, in service in 2012 and 2013, and the subsequent reduction in federal taxable income, Mississippi Power estimates that it will not be able to utilize $171 million of these tax credits until after 2013. IRS guidelines allow these unused tax credits to be carried forward for 20 years, expiring at the end of 2031, if not utilized before then. On October 15, 2012, Mississippi Power filed an application with the DOE for certification of the Kemper IGCC for additional tax credits under the Internal Revenue Code Section 48A (Phase III). A portion of the tax credits realized by Mississippi Power may be subject to recapture upon successful completion of South Mississippi Electric Power Association's (SMEPA) purchase of an undivided interest in the Kemper IGCC as described below. In addition, all or a portion of the tax credits will be subject to recapture if Mississippi Power fails to satisfy the in-service date requirements and carbon capture requirements described above.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (ATRA) was signed into law. The ATRA retroactively extended several tax credits through 2013 and 50% bonus depreciation for property to be placed in service in 2013 (and for certain long-term production-period projects to be placed in service in 2014), which is expected to apply to the Kemper IGCC.

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

Lignite Mine and CO_2 Pipeline Facilities

In conjunction with the Kemper IGCC, Mississippi Power will own the lignite mine and equipment and has acquired and will continue to acquire mineral reserves located around the Kemper IGCC site in Kemper County. The mine is scheduled to be placed in service in June 2013. The estimated capital cost of the mine is approximately $245 million, of which $163 million has been incurred through December 31, 2012.

In 2010, Mississippi Power executed a 40-year management fee contract with Liberty Fuels Company, LLC, a wholly-owned subsidiary of The North American Coal Corporation (Liberty Fuels), which will develop, construct, and manage the mining operations. Because Liberty Fuels conducts all of its activities on behalf of Mississippi Power, Liberty Fuels qualifies as a VIE for which Mississippi Power is the primary beneficiary. The contract with Liberty Fuels is effective through the end of the mine reclamation. As the mining permit holder, Liberty Fuels has a legal obligation to perform mine reclamation and Mississippi Power has a contractual obligation to fund all reclamation activities. Consistent with the requirements of consolidation accounting, Liberty Fuels is consolidated in the financial statements of Mississippi Power and accordingly the asset retirement cost and the asset retirement obligation have been recorded in Mississippi Power's financial statements. In addition to the obligation to fund the reclamation activities, Mississippi Power currently provides working capital support to Liberty Fuels through cash advances for capital purchases, payroll, and other operating expenses.

In addition, Mississippi Power will acquire, construct, and operate the CO_2 pipeline for the planned transport of captured CO_2 for use in enhanced oil recovery. Mississippi Power has entered into agreements with Denbury Onshore (Denbury), a subsidiary of Denbury Resources Inc., and Treetop Midstream Services, LLC (Treetop), an affiliate of Tellus Operating Group, LLC and a subsidiary of Tengrys, LLC, pursuant to which Denbury will purchase 70% of the CO_2 captured from the Kemper IGCC and Treetop will purchase 30% of the CO_2 captured from the Kemper IGCC. The estimated capital cost of the CO_2 pipeline facilities is approximately $132 million, of which $78 million has been incurred through December 31, 2012.

The ultimate outcome of these matters, including the determinations of prudency and the specific manner of recovery of prudently-incurred costs relating to the Kemper IGCC, is subject to further regulatory actions and cannot be determined at this time.

Proposed Sale of Undivided Interest to SMEPA

In 2010, Mississippi Power and SMEPA entered into an asset purchase agreement whereby SMEPA agreed to purchase a 17.5% undivided interest in the Kemper IGCC. On February 28, 2012, the Mississippi PSC approved the sale and transfer of 17.5% of the Kemper IGCC to SMEPA. On June 29, 2012, Mississippi Power and SMEPA signed an amendment to the asset purchase agreement whereby SMEPA extended its option to purchase until December 31, 2012 and reduced its purchase commitment percentage from a 17.5% to a 15% undivided interest in the Kemper

IGCC, subject to approval by the Mississippi PSC. On December 31, 2012, Mississippi Power and SMEPA agreed to extend SMEPA's option to purchase through December 31, 2013.

The closing of this transaction is conditioned upon execution of a joint ownership and operating agreement, receipt of all construction permits, appropriate regulatory approvals, financing, and other conditions. On September 27, 2012, SMEPA received a conditional loan commitment from Rural Utilities Service to provide funding for SMEPA's undivided interest in the Kemper IGCC.

On March 6, 2012, Mississippi Power received a $150 million interest-bearing refundable deposit from SMEPA to be applied to the purchase. While the expectation is that the amount will be applied to the purchase price at closing, Mississippi Power would be required to refund the deposit upon the termination of the asset purchase agreement, within 60 days of a request by SMEPA for a full or partial refund, or within 15 days at SMEPA's discretion in the event that Mississippi Power is assigned a senior unsecured credit rating of BBB+ or lower by Standard and Poor's Ratings Services, a division of The McGraw Hill Companies,

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Inc. (S&P) or Baa1 or lower by Moody's Investors Services, Inc. (Moody's) or ceases to be rated by either of these rating agencies. Given the interest-bearing nature of the deposit and SMEPA's ability to request a refund, the deposit has been presented as a current liability in Southern Company's balance sheet herein and as financing proceeds in Southern Company's statement of cash flows herein.

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

Baseload Act

In the 2008 regular session of the Mississippi legislature, a bill was passed and signed by the Governor to enhance the Mississippi PSC's authority to facilitate development and construction of base load generation in the State of Mississippi (Baseload Act). The Baseload Act authorizes, but does not require, the Mississippi PSC to adopt a cost recovery mechanism that includes in retail base rates, prior to and during construction, all or a portion of the prudently-incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. Prior to the passage of the Baseload Act, such costs would traditionally be recovered only after the plant was placed in service. The Baseload Act also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the Baseload Act authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant. There are legal challenges to the constitutionality of the Baseload Act currently pending before the Mississippi Supreme Court. The ultimate impact of this legislation will depend on the outcome of any legal challenges and cannot be determined at this time. See "Cost Recovery Plans" herein for additional information regarding certain legislation related to the Kemper IGCC.

4. JOINT OWNERSHIP AGREEMENTS

Alabama Power owns an undivided interest in Units 1 and 2 at Plant Miller and related facilities jointly with Power South Energy Cooperative, Inc. Georgia Power owns undivided interests in Plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with OPC, MEAG Power, the City of Dalton, Georgia, Florida Power & Light Company, and Jacksonville Electric Authority. In addition, Georgia Power has joint ownership agreements with OPC for the Rocky Mountain facilities and with Florida Power Corporation for a combustion turbine unit at Intercession City, Florida. Southern Power owns an undivided interest in Plant Stanton Unit A and related facilities jointly with the Orlando Utilities Commission, Kissimmee Utility Authority, and Florida Municipal Power Agency.

At December 31, 2012, Alabama Power's, Georgia Power's, and Southern Power's percentage ownership and investment (exclusive of nuclear fuel) in jointly-owned facilities in commercial operation with the above entities were as follows:

Facility (Type)	Percent Ownership		Plant in Service	Accumulated Depreciation	CWIP
			(in millions)		
Plant Vogtle (nuclear) Units 1 and 2	45.7	%	$3,327	$1,996	$67
Plant Hatch (nuclear)	50.1		1,037	551	49
Plant Miller (coal) Units 1 and 2	91.8		1,401	551	8
Plant Scherer (coal) Units 1 and 2	8.4		161	78	77
Plant Wansley (coal)	53.5		801	240	8
Rocky Mountain (pumped storage)	25.4		181	116	—
Intercession City (combustion turbine)	33.3		12	4	1
Plant Stanton (combined cycle) Unit A	65.0		156	36	—

Georgia Power also owns 45.7% of Plant Vogtle Units 3 and 4 that are currently under construction. See Note 3 to the financial statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" for additional information.

Alabama Power, Georgia Power, and Southern Power have contracted to operate and maintain the jointly owned facilities, except for Rocky Mountain and Intercession City, as agents for their respective co-owners. The companies' proportionate share of their plant operating expenses is included in the corresponding operating expenses in the statements of income and each company is responsible for providing its own financing.

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5. INCOME TAXES

Southern Company files a consolidated federal income tax return and combined state income tax returns for the States of Alabama, Georgia, Mississippi, and Texas. Under a joint consolidated income tax allocation agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more current expense than would be paid if it filed a separate income tax return. In accordance with IRS regulations, each company is jointly and severally liable for the federal tax liability.

Current and Deferred Income Taxes

Details of income tax provisions are as follows:

	2012	2011	2010
	(in millions)		
Federal —			
Current	$177	$57	$42
Deferred	1,011	1,035	898
	1,188	1,092	940
State —			
Current	61	8	(54)
Deferred	85	119	140
	146	127	86
Total	$1,334	$1,219	$1,026

Net cash payments/(refunds) for income taxes in 2012, 2011, and 2010 were $38 million, $(401) million, and $276 million, respectively.

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The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

	2012	2011
	(in millions)	
Deferred tax liabilities —		
Accelerated depreciation	$9,022	$7,882
Property basis differences	1,254	1,256
Leveraged lease basis differences	278	277
Employee benefit obligations	536	499
Under recovered fuel clause	16	82
Premium on reacquired debt	84	111
Regulatory assets associated with employee benefit obligations	988	1,198
Regulatory assets associated with asset retirement obligations	1,108	546
Other	333	276
Total	13,619	12,127
Deferred tax assets —		
Federal effect of state deferred taxes	394	393
Employee benefit obligations	1,678	1,594
Over recovered fuel clause	135	33
Other property basis differences	134	134
Deferred costs	39	55
Cost of removal	29	40
Tax credit carryforward	256	129
Unbilled revenue	101	110
Other comprehensive losses	84	81
Asset retirement obligations	720	546
Other	362	358
Total	3,932	3,473
Total deferred tax liabilities, net	9,687	8,654
Portion included in prepaid expenses (accrued income taxes), net	237	125
Deferred state tax assets	68	86
Valuation allowance	(54)	(56)
Accumulated deferred income taxes	$9,938	$8,809

At December 31, 2012, Southern Company had subsidiaries with State of Georgia net operating loss (NOL) carryforwards totaling $827 million, which could result in net state income tax benefits of $48 million, if utilized. However, the subsidiaries have established a valuation allowance for the potential $48 million tax benefit due to the remote likelihood that the tax benefit will be realized. These NOLs expire between 2013 and 2021. Beginning in 2002, the State of Georgia allowed Southern Company to file a combined return, which has prevented the creation of any additional NOL carryforwards.

At December 31, 2012, the tax-related regulatory assets to be recovered from customers were $1.4 billion. These assets are primarily attributable to tax benefits that flowed through to customers in prior years, to deferred taxes previously recognized at rates lower than the current enacted tax law, and to taxes applicable to capitalized interest.

At December 31, 2012, the tax-related regulatory liabilities to be credited to customers were $211 million. These liabilities are primarily attributable to deferred taxes previously recognized at rates higher than the current enacted tax law and to unamortized investment tax credits.

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In accordance with regulatory requirements, deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation in the statements of income. Credits amortized in this manner amounted to $23 million in 2012, $19 million in 2011, and $23 million in 2010. At December 31, 2012, all investment tax credits available to reduce federal income taxes payable had not been utilized. The remaining investment tax credits will be carried forward and utilized in future years.

In 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) was signed into law. Major tax incentives in the Tax Relief Act include 100% bonus depreciation for property placed in service after September 8, 2010 and through 2011 (and for certain long-term production-period projects placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term production-period projects to be placed in service in 2013). The application of the bonus depreciation provisions in the Tax Relief Act significantly increased deferred tax liabilities related to accelerated depreciation.

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2012	2011	2010
Federal statutory rate	35.0 %	35.0 %	35.0 %
State income tax, net of federal deduction	2.5	2.4	1.8
Employee stock plans dividend deduction	(1.0)	(1.1)	(1.2)
Non-deductible book depreciation	0.9	0.7	0.8
Difference in prior years' deferred and current tax rate	(0.1)	(0.1)	(0.1)
AFUDC-Equity	(1.3)	(1.5)	(2.2)
ITC basis difference	(0.3)	(0.2)	(0.4)
Other	(0.1)	(0.2)	(0.2)
Effective income tax rate	35.6 %	35.0 %	33.5 %

Southern Company's effective tax rate is typically lower than the statutory rate due to its employee stock plans' dividend deduction and non-taxable AFUDC equity.

Unrecognized Tax Benefits

For 2012, the total amount of unrecognized tax benefits decreased by $50 million, resulting in a balance of $70 million as of December 31, 2012.

Changes during the year in unrecognized tax benefits were as follows:

	2012	2011	2010
	(in millions)		
Unrecognized tax benefits at beginning of year	$120	$296	$199
Tax positions from current periods	13	46	62
Tax positions increase from prior periods	7	1	62
Tax positions decrease from prior periods	(56)	(111)	(27)
Reductions due to settlements	(10)	(112)	—
Reductions due to expired statute of limitations	(4)	—	—
Balance at end of year	$70	$120	$296

The tax positions from current periods for 2012 relate primarily to the tax accounting method change for repairs-generation assets. See "Tax Method of Accounting for Repairs" herein for additional information. The decreases in tax positions from prior periods primarily relate to state income tax credits and the 2009 MC Asset Recovery, LLC refund claim. The American Jobs Creation Act of 2004 created a tax deduction for a portion of income attributable to U.S. production activities as defined in

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Section 199 of the Internal Revenue Code (production activities deduction). The reductions due to settlements relate to a settlement with the IRS of the calculation methodology for the production activities deduction.
The impact on Southern Company's effective tax rate, if recognized, was as follows:

	2012	2011	2010
	(in millions)		
Tax positions impacting the effective tax rate	$5	$69	$217
Tax positions not impacting the effective tax rate	65	51	79
Balance of unrecognized tax benefits	$70	$120	$296

The tax positions impacting the effective tax rate for 2012 primarily relate to state income tax credits. The tax positions not impacting the effective tax rate for 2012 relate to the timing difference associated with the tax accounting method change for repairs-generation assets. See "Tax Method of Accounting for Repairs" herein for additional information. These amounts are presented on a gross basis without considering the related federal or state income tax impact.
Accrued interest for unrecognized tax benefits was as follows:

	2012	2011	2010
	(in millions)		
Interest accrued at beginning of year	$10	$29	$21
Interest reclassified due to settlements	(9)	(24)	—
Interest accrued during the year	—	5	8
Balance at end of year	$1	$10	$29

Southern Company classifies interest on tax uncertainties as interest expense. The interest reclassified due to settlements in 2012 is primarily associated with state income tax credits and a settlement with the IRS related to the calculation methodology for the production activities deduction.
Southern Company did not accrue any penalties on uncertain tax positions.
It is reasonably possible that the amount of the unrecognized tax benefits associated with a majority of Southern Company's unrecognized tax positions will significantly increase or decrease within 12 months. The resolution of the tax accounting method change for repairs-generation assets, as well as the conclusion or settlement of state audits, could impact the balances significantly. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.
The IRS has audited and closed all of Southern Company's consolidated federal income tax returns prior to 2009 and has settled its audits of Southern Company's consolidated federal income tax returns for 2009 and 2010, in principle, pending final approval. Additionally, the IRS has audited and closed Southern Company's 2011 consolidated federal income tax return. For tax years 2010 through 2013, Southern Company is a participant in the Compliance Assurance Process of the IRS. The audits for Southern Company's state income tax returns have either been concluded, or the statute of limitations has expired, for years prior to 2007.
Tax Method of Accounting for Repairs
Southern Company submitted a tax accounting method change related to the deductibility of repair costs associated with its subsidiaries' generation, transmission, and distribution systems effective for the 2009 consolidated federal income tax return in 2010. In August 2011, the IRS issued a revenue procedure, which provides a safe harbor method of accounting that taxpayers may use to determine eligible repair costs for transmission and distribution property. The IRS continues to work with the utility industry in an effort to define eligible repair costs for generation assets in a consistent manner for all utilities. The IRS published regulations on the deduction and capitalization of expenditures related to tangible property that generally apply for tax years beginning on or after January 1, 2014. The utility

industry anticipates more detailed guidance concerning these regulations. Due to the uncertainty regarding the ultimate resolution of the repair costs for generation assets, an unrecognized tax position has been recorded for the tax accounting method change for repairs-generation assets. The ultimate outcome of this matter cannot be determined at this time; however, it is not expected to materially impact net income.

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6. FINANCING

Long-Term Debt Payable to an Affiliated Trust

Alabama Power has formed a wholly-owned trust subsidiary for the purpose of issuing preferred securities. The proceeds of the related equity investments and preferred security sales were loaned back to Alabama Power through the issuance of junior subordinated notes totaling $206 million as of December 31, 2012 and $206 million as of December 31, 2011, which constitute substantially all of the assets of this trust and are reflected in the balance sheets as long-term debt payable. Alabama Power considers that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the trust's payment obligations with respect to these securities. At December 31, 2012 and 2011, trust preferred securities of $200 million and $200 million, respectively, were outstanding.

Securities Due Within One Year

A summary of scheduled maturities and redemptions of securities due within one year at December 31 was as follows:

	2012	2011
	(in millions)	
Senior notes	$2,085	$1,200
Other long-term debt	227	493
Capitalized leases	23	24
Total	$2,335	$1,717

Maturities through 2017 applicable to total long-term debt are as follows: $2.34 billion in 2013; $448 million in 2014; $2.44 billion in 2015; $1.37 billion in 2016; and $1.14 billion in 2017.

Bank Term Loans

Certain of the traditional operating companies have entered into various floating rate bank term loan agreements for loans bearing interest based on one-month London Interbank Offered Rate (LIBOR). At December 31, 2012, Mississippi Power had outstanding bank term loans totaling $175 million. At December 31, 2011, Mississippi Power had outstanding bank term loans totaling $240 million and Georgia Power had outstanding bank term loans totaling $450 million. Such amounts are reflected in the statements of capitalization as amounts due within one year.

During 2012, the traditional operating companies repaid approximately $565 million of floating rate bank notes bearing interest based on one-month LIBOR. In March 2012, Georgia Power paid at maturity a $250 million aggregate principal amount variable rate long-term bank note. In May 2012, Georgia Power repaid a $200 million aggregate principal amount variable rate short-term bank note due June 2012. In March 2012, Mississippi Power paid at maturity a $75 million aggregate principal amount variable rate long-term bank note. In September 2012, Mississippi Power paid at maturity a $40 million aggregate principal amount variable rate long-term bank note.

During 2012, Mississippi Power entered into a 366-day $100 million aggregate principal amount variable rate bank note bearing interest based on one-month LIBOR. The first advance in the amount of $50 million was made in November 2012. Subsequent to December 31, 2012, the second advance in the amount of $50 million was made. The proceeds of this loan were used for working capital and for other general corporate purposes, including Mississippi Power's continuous construction program.

These bank loans have covenants that limit debt levels to 65% of total capitalization, as defined in the agreements. For purposes of these definitions, debt excludes the long-term debt payable to affiliated trusts and other hybrid securities. At December 31, 2012, Mississippi Power was in compliance with its debt limits.

In addition, these bank loans contain cross default provisions that would be triggered if the borrower defaulted on other indebtedness above a specified threshold. The cross default provisions are restricted to the indebtedness, including any guarantee obligations, of the company that has such bank loans. Mississippi Power is currently in compliance with all such covenants.

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Senior Notes
The traditional operating companies issued a total of $4.0 billion of senior notes in 2012. The proceeds of these issuances were used to repay approximately $2.8 billion of long-term indebtedness, to repay short-term indebtedness, and for other general corporate purposes, including the applicable subsidiary's continuous construction program.
At December 31, 2012 and 2011, Southern Company and its subsidiaries had a total of $17.4 billion and $15.9 billion, respectively, of senior notes outstanding. At December 31, 2012 and 2011, Southern Company had a total of $1.3 billion and $1.8 billion, respectively, of senior notes outstanding.
Since Southern Company is a holding company, the right of Southern Company and, hence, the right of creditors of Southern Company (including holders of Southern Company senior notes) to participate in any distribution of the assets of any subsidiary of Southern Company, whether upon liquidation, reorganization or otherwise, is subject to prior claims of creditors and preferred and preference stockholders of such subsidiary.
Pollution Control Revenue Bonds
Pollution control obligations represent loans to the traditional operating companies from public authorities of funds derived from sales by such authorities of revenue bonds issued to finance pollution control and solid waste disposal facilities. In some cases, the pollution control obligations represent obligations under installment sales agreements with respect to facilities constructed with the proceeds of pollution control bonds issued by public authorities. The traditional operating companies had $3.4 billion and $3.4 billion of outstanding pollution control revenue bonds at December 31, 2012 and 2011, respectively. The traditional operating companies are required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. Proceeds from certain issuances are restricted until qualifying expenditures are incurred.
Plant Daniel Revenue Bonds
In October 2011, in connection with Mississippi Power's election under its operating lease of Plant Daniel Units 3 and 4 to purchase the assets, Mississippi Power assumed the obligations of the lessor related to $270 million aggregate principal amount of Mississippi Business Finance Corporation Taxable Revenue Bonds, 7.13% Series 1999A due October 21, 2021, issued for the benefit of the lessor. See Note 1 under "Property, Plant, and Equipment" and "Assets Subject to Lien" herein for additional information.
Other Revenue Bonds
Other revenue bond obligations represent loans to Mississippi Power from a public authority of funds derived from the sale by such authority of revenue bonds issued to finance a portion of the costs of constructing the Kemper IGCC and related facilities.
In August 2012, the Mississippi Business Finance Corporation (MBFC) entered into an agreement to issue up to $42.5 million aggregate principal amount of MBFC Taxable Revenue Bonds, Series 2012A (Mississippi Power Company Project), up to $21.25 million aggregate principal amount of MBFC Taxable Revenue Bonds, Series 2012B (Mississippi Power Company Project), and up to $21.25 million aggregate principal amount of MBFC Taxable Revenue Bonds, Series 2012C (Mississippi Power Company Project) for the benefit of Mississippi Power. During 2012, the MBFC issued $8.97 million aggregate principal amount of MBFC Taxable Revenue Bonds (Mississippi Power Company Project), Series 2012A, $21.25 million aggregate principal amount of MBFC Taxable Revenue Bonds (Mississippi Power Company Project), Series 2012B, and $21.25 million aggregate principal amount of MBFC Taxable Revenue Bonds (Mississippi Power Company Project), Series 2012C for the benefit of Mississippi Power. The proceeds were used to reimburse Mississippi Power for the cost of the acquisition, construction, equipping, installation, and improvement of certain equipment and facilities for the lignite mining facility related to the Kemper IGCC. Any future issuances of the Series 2012A bonds will be used for this same purpose.
Mississippi Power had $50.0 million of such obligations outstanding related to tax-exempt revenue bonds at December 31, 2012 and 2011 and $51.5 million of such obligations related to taxable revenue bonds outstanding at December 31, 2012. Such amounts are reflected in the statements of capitalization as long-term senior notes and debt.

Other Obligations

In March 2012, Mississippi Power received a $150 million interest-bearing refundable deposit from SMEPA to be applied to the sale price for the proposed sale of an undivided interest in the Kemper IGCC. Until the acquisition is closed, the deposit bears interest at Mississippi Power's AFUDC rate adjusted for income taxes, which was 9.967% per annum at December 31, 2012, and is refundable to SMEPA upon termination of the asset purchase agreement related to such purchase, within 60 days of a request by SMEPA for a full or partial refund, or within 15 days at SMEPA's discretion in the event that Mississippi Power is assigned a

NOTES (continued)
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senior unsecured credit rating of BBB+ or lower by S&P or Baa1 or lower by Moody's or ceases to be rated by either of these rating agencies.

Assets Subject to Lien

Each of Southern Company's subsidiaries is organized as a legal entity, separate and apart from Southern Company and its other subsidiaries. Alabama Power and Gulf Power have granted one or more liens on certain of their respective property in connection with the issuance of certain series of pollution control revenue bonds with an outstanding principal amount of $194 million as of December 31, 2012. There are no agreements or other arrangements among the Southern Company system companies under which the assets of one company have been pledged or otherwise made available to satisfy obligations of Southern Company or any of its other subsidiaries.

In October 2011, Mississippi Power purchased Plant Daniel Units 3 and 4 for approximately $85 million in cash and the assumption of $270 million face value (with a fair value on the assumption date of $346 million) of debt obligations of the lessor related to Plant Daniel Units 3 and 4, which mature in 2021 and bear interest at a fixed stated interest rate of 7.13% per annum. These obligations are secured by Plant Daniel Units 3 and 4 and certain personal property. See Note 1 under "Property, Plant, and Equipment" for additional information.

Bank Credit Arrangements

At December 31, 2012, committed credit arrangements with banks were as follows:

	Expires[(a)]					Executable Term Loans		Due Within One Year	
Company	2013	2014	2016	Total	Unused	One Year	Two Years	Term Out	No Term Out
	(in millions)			(in millions)		(in millions)		(in millions)	
Southern Company	$—	$—	$1,000	$1,000	$1,000	$—	$—	$—	$—
Alabama Power	158	350	800	1,308	1,308	56	—	56	102
Georgia Power	—	250	1,500	1,750	1,740	—	—	—	—
Gulf Power	80	195	—	275	275	45	—	45	35
Mississippi Power	135	165	—	300	300	25	40	65	70
Southern Power	—	—	500	500	500	—	—	—	—
Other	50	—	—	50	50	25	—	25	25
Total	$423	$960	$3,800	$5,183	$5,173	$151	$40	$191	$232

(a) No credit arrangements expire in 2015.

Most of the credit arrangements require payment of commitment fees based on the unused portion of the commitments or the maintenance of compensating balances with the banks. Commitment fees average less than 1/4 of 1% for Southern Company, the traditional operating companies, and Southern Power. Compensating balances are not legally restricted from withdrawal.

Most of the credit arrangements with banks have covenants that limit debt levels to 65% of total capitalization, as defined in the agreements. For purposes of these definitions, debt excludes the long-term debt payable to affiliated trusts and, in certain arrangements, other hybrid securities. At December 31, 2012, Southern Company, the traditional operating companies, and Southern Power were each in compliance with their respective debt limit covenants.

In addition, certain credit arrangements contain cross default provisions to other indebtedness that would trigger an event of default if the applicable borrower defaulted on indebtedness or guarantee obligations over a specified threshold. The cross default provisions are restricted only to the indebtedness, including any guarantee obligations, of the company that has such credit arrangements. Southern Company, the traditional operating companies, and Southern Power are currently in compliance with all such covenants.

A portion of the $5.2 billion unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds requiring liquidity support as of December 31, 2012 was approximately $1.8 billion.

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Southern Company, the traditional operating companies, and Southern Power make short-term borrowings primarily through commercial paper programs that have the liquidity support of committed bank credit arrangements. Southern Company, the traditional operating companies, and Southern Power may also borrow through various other arrangements with banks. Commercial paper and short-term bank loans are included in notes payable in the balance sheets.

Details of short-term borrowings were as follows:

	Short-term Debt at the End of the Period[a]		
	Amount Outstanding	Weighted Average Interest Rate	
	(in millions)		
December 31, 2012:			
Commercial paper	$820	0.3	%
December 31, 2011:			
Commercial paper	$654	0.3	%
Short-term bank debt	200	1.2	%
Total	$854	0.5	%

(a) Excludes notes payable related to other energy service contracts of $5 million and $6 million at December 31, 2012 and 2011, respectively.

Redeemable Preferred Stock of Subsidiaries

Each of the traditional operating companies has issued preferred and/or preference stock. The preferred stock of Alabama Power and Mississippi Power contains a feature that allows the holders to elect a majority of such subsidiary's board of directors if dividends are not paid for four consecutive quarters. Because such a potential redemption-triggering event is not solely within the control of Alabama Power and Mississippi Power, this preferred stock is presented as "Redeemable Preferred Stock of Subsidiaries" in a manner consistent with temporary equity under applicable accounting standards. The preferred and preference stock at Georgia Power and the preference stock at Alabama Power and Gulf Power do not contain such a provision that would allow the holders to elect a majority of such subsidiary's board. As a result, under applicable accounting standards, the preferred and preference stock at Georgia Power and the preference stock at Alabama Power and Gulf Power are required to be shown as "noncontrolling interest," separately presented as a component of "Stockholders' Equity" on Southern Company's balance sheets, statements of capitalization, and statements of stockholders' equity.

There were no changes for the years ended December 31, 2012 and 2011 in redeemable preferred stock of subsidiaries for Southern Company.

7. COMMITMENTS

Fuel and Purchased Power Agreements

To supply a portion of the fuel requirements of the generating plants, the Southern Company system has entered into various long-term commitments for the procurement and delivery of fossil and nuclear fuel which are not recognized on the balance sheets. In 2012, 2011, and 2010, the traditional operating companies and Southern Power incurred fuel expense of $5.1 billion, $6.3 billion, and $6.7 billion, respectively, the majority of which was purchased under long-term commitments. Southern Company expects that a substantial amount of the Southern Company system's future fuel needs will continue to be purchased under long-term commitments. In addition, the Southern Company system has entered into various long-term commitments for the purchase of capacity and electricity, some of which are accounted for as operating leases or have been used by a third party to secure financing. Total capacity expense under PPAs accounted for as operating leases was $171 million,