ALABAMA POWER CO
Form 10-Q
November 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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 35203 (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

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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 þ 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 þ No ¨

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 þ (Response applicable to all registrants.)

Registrant	Description of Common Stock	Shares Outstanding at September 30, 2012
The Southern Company	Par Value $5 Per Share	874,105,516
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

This combined Form 10-Q 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 registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

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INDEX TO QUARTERLY REPORT ON FORM 10-Q
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DEFINITIONS

Term	Meaning
2010 ARP	Alternate Rate Plan approved by the Georgia PSC for Georgia Power, which became effective January 1, 2011 and will continue through December 31, 2013
2011 IRP Update	Georgia Power's 2011 Integrated Resource Plan update filed with the Georgia PSC on August 4, 2011
AFUDC	Allowance for funds used during construction
Alabama Power	Alabama Power Company
ARO	Asset retirement obligation
Clean Air Act	Clean Air Act Amendments of 1990
CPCN	Certificate of public convenience and necessity
CWIP	Construction work in progress
DOE	U.S. Department of Energy
DSM	Georgia Power's Demand-Side Management
ECO Plan	Mississippi Power's Environmental Compliance Overview Plan
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
Fitch	Fitch, Inc.
Form 10-K	Combined Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power for the year ended December 31, 2011
GAAP	Generally accepted accounting principles
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IFR	Georgia Power's Interim Fuel Rider
IIC	Intercompany Interchange Contract
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
Kemper IGCC	Integrated coal gasification combined cycle facility under construction in Kemper County, Mississippi
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
MFF	Georgia Power's Municipal Franchise Fee
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal unit
Moody's	Moody's Investors Service, Inc.
MW	Megawatt
MWH	Megawatt-hour
NCCR	Georgia Power's Nuclear Construction Cost Recovery
NDR	Alabama Power's natural disaster reserve
NRC	Nuclear Regulatory Commission
NSR	New Source Review
OCI	Other Comprehensive Income
PEP	Mississippi Power's Performance Evaluation Plan
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Plant Vogtle

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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
PPA	Power Purchase Agreement
Progress Energy Carolinas	Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., a subsidiary of Duke Energy Corporation
PSC	Public Service Commission
Qualifying Facility	A small power production facility (80 MW or less) that is a qualifying facility under the Public Utility Regulatory Policies Act of 1978
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power
ROE	Return on equity
SEC	Securities and Exchange Commission
SEGCO	Southern Electric Generating Company
SMEPA	South Mississippi Electric Power Association
Southern Company	The Southern Company
Southern Company system	Southern Company, the traditional operating companies, Southern Power, and other subsidiaries
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company
S&P	Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.
traditional operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Westinghouse	Westinghouse Electric Company LLC
wholesale revenues	revenues generated from sales for resale

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q 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, projections for the qualified pension plan and other postretirement benefit plan contributions, financing activities, start and completion 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, 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, implementation of the Energy Policy Act of 2005, 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 IRS 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 and budgetary 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, which includes projects involving facility designs that have not been finalized or previously constructed;
- 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 actions related to the Kemper IGCC, including Mississippi PSC approvals, potential DOE loan guarantees, the SMEPA purchase decision, satisfaction of requirements to utilize investment tax credits and grants, and the outcome of any further proceedings regarding the Mississippi PSC's issuance of the CPCN;
- 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;

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- 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.

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THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$4,379	$4,693	$11,068	$11,931
Wholesale revenues	497	557	1,261	1,513
Other electric revenues	157	161	459	464
Other revenues	16	17	46	53
Total operating revenues	5,049	5,428	12,834	13,961
Operating Expenses:				
Fuel	1,553	1,908	3,907	5,057
Purchased power	164	215	455	460
Other operations and maintenance	906	983	2,817	2,837
MC Asset Recovery insurance settlement	—	—	(19)	—
Depreciation and amortization	449	431	1,335	1,279
Taxes other than income taxes	237	239	690	686
Total operating expenses	3,309	3,776	9,185	10,319
Operating Income	1,740	1,652	3,649	3,642
Other Income and (Expense):				
Allowance for equity funds used during construction	39	42	102	113
Interest expense, net of amounts capitalized	(218)	(217)	(649)	(638)
Other income (expense), net	1	(1)	12	(3)
Total other income and (expense)	(178)	(176)	(535)	(528)
Earnings Before Income Taxes	1,562	1,476	3,114	3,114
Income taxes	569	543	1,098	1,123
Consolidated Net Income	993	933	2,016	1,991
Dividends on Preferred and Preference Stock of Subsidiaries	17	17	49	49
Consolidated Net Income After Dividends on Preferred and Preference Stock of Subsidiaries	$976	$916	$1,967	$1,942
Common Stock Data:				
Earnings per share (EPS) -				
Basic EPS	$1.11	$1.07	$2.26	$2.27
Diluted EPS	$1.11	$1.06	$2.23	$2.26
Average number of shares of common stock outstanding (in millions)				
Basic	876	860	872	854
Diluted	883	868	880	861
Cash dividends paid per share of common stock	$0.4900	$0.4725	$1.4525	$1.4000

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Consolidated Net Income	$993	$933	$2,016	$1,991
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $1, $(10), $(4) and $(8), respectively	(4)	(17)	(11)	(14)
Reclassification adjustment for amounts included in net income, net of tax of $1, $2, $4 and $4, respectively	3	3	7	6
Marketable securities:				
Change in fair value, net of tax of $-, $(2), $- and $(1), respectively	—	(5)	—	(3)
Pension and other post retirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $2, $1 and $2, respectively	1	—	3	—
Total other comprehensive income (loss)	—	(19)	(1)	(11)
Dividends on preferred and preference stock of subsidiaries	(17)	(17)	(49)	(49)
Comprehensive Income	$976	$897	$1,966	$1,931

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2012	2011
	(in millions)	
Operating Activities:		
Consolidated net income	$2,016	$1,991
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	1,602	1,530
Deferred income taxes	645	914
Allowance for equity funds used during construction	(102)	(113)
Pension, postretirement, and other employee benefits	78	(1)
Stock based compensation expense	45	35
Retail fuel cost over recovery—long-term	118	—
Other, net	17	11
Changes in certain current assets and liabilities —		
-Receivables	(157)	(118)
-Fossil fuel stock	(232)	229
-Other current assets	(5)	(45)
-Accounts payable	(240)	(155)
-Accrued taxes	311	440
-Accrued compensation	(142)	(96)
-Retail fuel cost over recovery—short-term	112	(14)
-Other current liabilities	(22)	(10)
Net cash provided from operating activities	4,044	4,598
Investing Activities:		
Property additions	(3,558)	(3,115)
Investment in restricted cash	(230)	1
Distribution of restricted cash	234	61
Nuclear decommissioning trust fund purchases	(758)	(1,946)
Nuclear decommissioning trust fund sales	756	1,942
Proceeds from property sales	2	21
Cost of removal, net of salvage	(83)	(90)
Change in construction payables	(73)	137
Other investing activities	(48)	91
Net cash used for investing activities	(3,758)	(2,898)
Financing Activities:		
Decrease in notes payable, net	(521)	(1,160)
Proceeds —		
Long-term debt issuances	3,114	3,144
Interest-bearing refundable deposit related to asset sale	150	—
Common stock issuances	381	620
Redemptions —		
Long-term debt	(2,098)	(1,987)
Common stock repurchased	(85)	—
Payment of common stock dividends	(1,267)	(1,193)

Payment of dividends on preferred and preference stock of subsidiaries	(49)	(49)
Other financing activities	30	(6)
Net cash provided from (used for) financing activities	(345)	(631)
Net Change in Cash and Cash Equivalents	(59)	1,069
Cash and Cash Equivalents at Beginning of Period	1,315	447
Cash and Cash Equivalents at End of Period	$1,256	$1,516
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $62 and $54 capitalized for 2012 and 2011, respectively)	$589	$369
Income taxes, net	6	(358)
Noncash transactions — accrued property additions at end of period	531	541

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2012	At December 31, 2011
	(in millions)	
Current Assets:		
Cash and cash equivalents	$1,256	$1,315
Restricted cash and cash equivalents	7	8
Receivables —		
Customer accounts receivable	1,369	1,074
Unbilled revenues	428	376
Under recovered regulatory clause revenues	7	143
Other accounts and notes receivable	233	282
Accumulated provision for uncollectible accounts	(23)	(26)
Fossil fuel stock, at average cost	1,599	1,367
Materials and supplies, at average cost	931	903
Vacation pay	161	160
Prepaid expenses	519	385
Other regulatory assets, current	149	239
Other current assets	60	46
Total current assets	6,696	6,272
Property, Plant, and Equipment:		
In service	61,980	59,744
Less accumulated depreciation	21,906	21,154
Plant in service, net of depreciation	40,074	38,590
Other utility plant, net	51	55
Nuclear fuel, at amortized cost	786	774
Construction work in progress	6,363	5,591
Total property, plant, and equipment	47,274	45,010
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	1,281	1,207
Leveraged leases	665	649
Miscellaneous property and investments	213	262
Total other property and investments	2,159	2,118
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,389	1,365
Unamortized debt issuance expense	139	156
Unamortized loss on reacquired debt	302	285
Deferred under recovered regulatory clause revenues	27	48
Other regulatory assets, deferred	3,409	3,532
Other deferred charges and assets	568	481
Total deferred charges and other assets	5,834	5,867
Total Assets	$61,963	$59,267

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholders' Equity	At September 30, 2012	At December 31, 2011
	(in millions)	
Current Liabilities:		
Securities due within one year	$2,433	$1,717
Interest-bearing refundable deposit related to asset sale	150	—
Notes payable	335	859
Accounts payable	1,280	1,553
Customer deposits	366	347
Accrued taxes —		
Accrued income taxes	65	36
Other accrued taxes	490	425
Accrued interest	250	226
Accrued vacation pay	205	205
Accrued compensation	325	450
Liabilities from risk management activities	105	209
Other regulatory liabilities, current	139	125
Other current liabilities	426	425
Total current liabilities	6,569	6,577
Long-term Debt	18,955	18,647
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	9,672	8,809
Deferred credits related to income taxes	213	224
Accumulated deferred investment tax credits	807	611
Employee benefit obligations	2,449	2,442
Asset retirement obligations	1,409	1,321
Other cost of removal obligations	1,214	1,165
Other regulatory liabilities, deferred	313	297
Other deferred credits and liabilities	641	514
Total deferred credits and other liabilities	16,718	15,383
Total Liabilities	42,242	40,607
Redeemable Preferred Stock of Subsidiaries	375	375
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value $5 per share —		
Authorized — 1.5 billion shares		
Issued — September 30, 2012: 877 million shares		
— December 31, 2011: 866 million shares		
Treasury — September 30, 2012: 3.1 million shares		
— December 31, 2011: 0.5 million shares		
Par value	4,386	4,328
Paid-in capital	4,831	4,410
Treasury, at cost	(136)	(17)
Retained earnings	9,670	8,968
Accumulated other comprehensive loss	(112)	(111)

Total Common Stockholders' Equity	18,639	17,578
Preferred and Preference Stock of Subsidiaries	707	707
Total Stockholders' Equity	19,346	18,285
Total Liabilities and Stockholders' Equity	$61,963	$59,267

The accompanying notes as they relate to Southern Company are an integral part of these condensed financial statements.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2012 vs. THIRD QUARTER 2011
AND
YEAR-TO-DATE 2012 vs. YEAR-TO-DATE 2011

OVERVIEW

Southern Company is a holding company that owns all of the common stock of the traditional operating companies – Alabama Power, Georgia Power, Gulf Power, and Mississippi Power – and Southern Power and other direct and indirect subsidiaries. Discussion of the results of operations is focused on the Southern Company system's primary business of 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. Southern Company's other business activities include investments in leveraged lease projects and telecommunications. For additional information on these businesses, see BUSINESS – The Southern Company System – "Traditional Operating Companies," "Southern Power," and "Other Businesses" in Item 1 of the Form 10-K.

Southern Company continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and earnings per share. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Southern Company in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$60	6.6	$25	1.3

Southern Company's third quarter 2012 net income after dividends on preferred and preference stock of subsidiaries was $976 million ($1.11 per share) compared to $916 million ($1.07 per share) for the third quarter 2011. The increase for the third quarter 2012 when compared to the corresponding period in 2011 was primarily the result of a net decrease in non-fuel operating expenses, partially offset by a net decrease in retail revenues. Retail revenues in the third quarter 2012 decreased primarily due to milder weather and a decrease in customer usage, largely offset by an increase 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.

Southern Company's year-to-date 2012 net income after dividends on preferred and preference stock of subsidiaries was $1.97 billion ($2.26 per share) compared to $1.94 billion ($2.27 per share) for year-to-date 2011. The net income increase for year-to-date 2012 when compared to the corresponding period in 2011 was primarily the result of a net decrease in non-fuel operating expenses, including an insurance recovery received related to the litigation settlement with MC Asset Recovery, LLC, partially offset by a net decrease in retail revenues and lower energy revenues at Southern Power. Retail revenues for year-to-date 2012 decreased primarily due to milder weather and a decrease in customer usage, largely offset by 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, an increase in revenues due to increases in retail base rates at Gulf Power, and an increase in customer growth.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Retail Revenues

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(314)	(6.7)	$(863)	(7.2)

In the third quarter 2012, retail revenues were $4.38 billion compared to $4.69 billion for the corresponding period in 2011. For year-to-date 2012, retail revenues were $11.07 billion compared to $11.93 billion for the corresponding period in 2011.

Details of the change to retail revenues were as follows:

	Third Quarter 2012 (in millions)	(% change)	Year-to-Date 2012 (in millions)	(% change)
Retail – prior year	$4,693		$11,931	
Estimated change in –				
Rates and pricing	118	2.5	252	2.1
Sales growth (decline)	(33)	(0.7)	7	0.1
Weather	(95)	(2.0)	(292)	(2.4)
Fuel and other cost recovery	(304)	(6.5)	(830)	(7.0)
Retail – current year	$4,379	(6.7)%	$11,068	(7.2)%

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 primarily due to 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. Also contributing to the increase were 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, the NCCR and demand-side management tariff increases effective January 1, 2012, as approved by the Georgia PSC, and for year-to-date 2012, the rate pricing effect of decreased customer usage. These increases at Georgia Power were partially offset by lower contributions from market-driven rates from commercial and industrial customers.

Revenues attributable to changes in sales decreased in the third quarter 2012 when compared to the corresponding period in 2011. For third quarter 2012, the decrease was due to a 2.1% decrease in weather-adjusted residential KWH sales and a 1.9% decrease in industrial KWH sales, while weather-adjusted commercial KWH sales remained flat. The decrease in weather-adjusted residential KWH sales for the third quarter 2012 was primarily due to a decrease in customer usage. The decrease in industrial KWH sales for the third quarter 2012 was primarily due to decreases in the chemical, paper, and textiles sectors, partially offset by increases in the non-manufacturing, transportation, and pipeline sectors. Revenues attributable to changes in sales remained relatively flat for all classes for year-to-date 2012 when compared to the corresponding period in 2011. While overall industrial KWH sales were relatively flat for year-to-date 2012, there were decreases in the chemical, paper, and textiles sectors, largely offset by increases in the non-manufacturing, transportation, and pipeline sectors.

Revenues resulting from changes in weather decreased $95 million in the third quarter 2012 and $292 million for year-to-date 2012 when compared to the corresponding periods in 2011 as a result of milder weather in 2012.

Fuel and other cost recovery revenues decreased $304 million in the third quarter 2012 and $830 million for year-to-date 2012 when compared to the corresponding periods in 2011. 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.

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Wholesale Revenues

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(60)	(10.8)	$(252)	(16.7)

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 the third quarter 2012, wholesale revenues were $497 million compared to $557 million for the corresponding period in 2011, reflecting a $87 million decrease in energy revenues, partially offset by a $27 million increase in capacity revenues. The decrease in energy revenues was primarily related to a reduction in the average price of energy and lower energy sales mainly due to lower customer demand.

For year-to-date 2012, wholesale revenues were $1.26 billion compared to $1.51 billion for the corresponding period in 2011, reflecting a $300 million decrease in energy revenues, partially offset by a $48 million increase in capacity revenues. The decrease in energy revenues was primarily related to a reduction in the average price of energy and lower energy sales mainly due to lower customer demand.

Fuel and Purchased Power Expenses

	Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$(355)	(18.6)	$(1,150)	(22.7)
Purchased power	(51)	(23.7)	(5)	(1.1)
Total fuel and purchased power expenses	$(406)		$(1,155)	

In the third quarter 2012, total fuel and purchased power expenses were $1.72 billion compared to $2.12 billion for the corresponding period in 2011. The decrease was primarily the result of a $281 million decrease in the average cost of fuel and purchased power, a $119 million decrease in the volume of KWHs generated, and a $6 million decrease in the volume of KWHs purchased.

For year-to-date 2012, total fuel and purchased power expenses were $4.36 billion compared to $5.52 billion for the corresponding period in 2011. The decrease was primarily the result of a $997 million decrease in the average cost of fuel and purchased power and a $552 million decrease in the volume of KWHs generated, partially offset by a $394 million increase in the volume of KWHs purchased.

Fuel and purchased power energy transactions at the traditional operating companies are generally offset by energy revenues and do not have a significant impact on net income. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail 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.

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Details of the Southern Company system's generation and purchased power were as follows:

	Third Quarter 2012	Third Quarter 2011	Year-to-Date 2012	Year-to-Date 2011
Total generation (billions of KWHs)	50	53	133	147
Total purchased power (billions of KWHs)	5	5	14	8
Sources of generation (percent) —				
Coal	43	54	40	54
Nuclear	16	15	17	16
Gas	40	30	41	28
Hydro	1	1	2	2
Cost of fuel, generated (cents per net KWH) —				
Coal	4.01	4.14	4.09	4.06
Nuclear	0.86	0.73	0.83	0.71
Gas	2.94	4.06	2.76	4.07
Average cost of fuel, generated (cents per net KWH)	3.09	3.59	2.97	3.52
Average cost of purchased power (cents per net KWH)[(a)]	4.98	6.29	4.32	7.06

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

Fuel

In the third quarter 2012, fuel expense was $1.55 billion compared to $1.91 billion for the corresponding period in 2011. The decrease was primarily due to a 27.6% decrease in the average cost of 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.

For year-to-date 2012, fuel expense was $3.91 billion compared to $5.06 billion for the corresponding period in 2011. The decrease was primarily due to a 32.2% decrease in the average cost of 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.

Purchased Power

In the third quarter 2012, purchased power expense was $164 million compared to $215 million for the corresponding period in 2011. The decrease was primarily due to a 20.8% decrease in the average cost per KWH purchased.

For year-to-date 2012, purchased power expense was $455 million compared to $460 million for the corresponding period in 2011. The decrease was due to a 38.8% decrease in the average cost per KWH purchased, partially offset by a 67.4% increase in the volume of KWHs purchased as the market cost of available energy was lower than the marginal cost of generation available.

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.

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Other Operations and Maintenance Expenses

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(77)	(7.8)	$(20)	(0.7)

In the third quarter 2012, other operations and maintenance expenses were $906 million compared to $983 million for the corresponding period in 2011. The decrease was primarily the result of a $29 million decrease in transmission and distribution costs and a $19 million decrease related to scheduled outage and maintenance costs and commodity and labor costs, which were attributable to cost containment efforts to offset the effect of milder weather in 2012. Also contributing to the decrease were a $13 million decrease in administrative and general costs, a $13 million net decrease in customer accounts and sales related costs, and an $11 million decrease at Mississippi Power related to the expiration of an operating lease for Plant Daniel Units 3 and 4. The decrease was partially offset by an $11 million increase at Alabama Power related to the amortization of nuclear outage expenses.

For year-to-date 2012, other operations and maintenance expenses were $2.82 billion compared to $2.84 billion for the corresponding period in 2011. The decrease was primarily the result of a $50 million decrease related to scheduled outage and maintenance costs and commodity and labor costs and a $14 million decrease in distribution costs, which were attributable to cost containment efforts to offset the effect of milder weather in 2012. Also contributing to the decrease were a $32 million decrease at Mississippi Power related to the expiration of an operating lease for Plant Daniel Units 3 and 4 and a $7 million net decrease in customer accounts, sales, and customer service related costs. The decrease was partially offset by a $58 million increase in administrative and general costs primarily due to increases in pension costs and a $24 million increase at Alabama Power related to the amortization of nuclear outage expenses.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Purchase of the Plant Daniel Combined Cycle Generating Units" and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Nuclear Outage Accounting Order" of Southern Company in Item 7 of the Form 10-K for additional information.

MC Asset Recovery Insurance Settlement

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$—	—	$(19)	N/M

N/M – Not meaningful

In the second quarter 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 (B) to the Condensed Financial Statements under "Insurance Recovery" herein for additional information.

Depreciation and Amortization

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$18	4.2	$56	4.4

In the third quarter 2012, depreciation and amortization was $449 million compared to $431 million for the corresponding period in 2011. For year-to-date 2012, depreciation and amortization was $1.34 billion compared to $1.28 billion for the corresponding period in 2011. The increases were primarily the result of an increase in depreciation due to 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.

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Allowance for Equity Funds Used During Construction

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(3)	(7.1)	$(11)	(9.7)

In the third quarter 2012, AFUDC equity was $39 million compared to $42 million for the corresponding period in 2011. For year-to-date 2012, AFUDC equity was $102 million compared to $113 million for the corresponding period in 2011. The decreases were primarily due to the completion of Georgia Power's Plant McDonough-Atkinson Units 4 and 5 in December 2011 and April 2012, respectively, partially offset by increases in CWIP related to Mississippi Power's Kemper IGCC.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$1	0.5	$11	1.7

In the third quarter 2012, interest expense, net of amounts capitalized was $218 million compared to $217 million for the corresponding period in 2011. The increase when compared to the corresponding period in 2011 was not material. For year-to-date 2012, interest expense, net of amounts capitalized was $649 million compared to $638 million for the corresponding period in 2011. The increase was 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 and a net increase in interest expense related to senior notes. The increases were partially offset by a decrease related to the conclusion of certain state and federal income tax audits, a decrease in interest expense on existing variable rate pollution control revenue bonds, and an increase in capitalized interest associated with construction projects at Mississippi Power and Southern Power.

Other Income (Expense), Net

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$2	N/M	$15	N/M

N/M – Not meaningful

In the third quarter 2012, other income (expense), net was $1 million compared to $(1) million for the corresponding period in 2011. The increase when compared to the corresponding period in 2011 was not material. For year-to-date 2012, other income (expense), net was $12 million compared to $(3) million for the corresponding period in 2011. The increase was primarily due to the conclusion of certain federal income tax audits.

Income Taxes

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$26	4.8	$(25)	(2.2)

In the third quarter 2012, income taxes were $569 million compared to $543 million for the corresponding period in 2011. The increase was primarily due to higher pre-tax earnings.

For year-to-date 2012, income taxes were $1.10 billion compared to $1.12 billion for the corresponding period in 2011. The decrease was primarily due to state income tax credits. See Note (G) to the Condensed Financial Statements under "Unrecognized Tax Benefits" herein for additional information.

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FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Southern Company's 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. 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. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

New Source Review Actions

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – New Source Review Actions" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters – New Source Review Actions" in Item 8 of the Form 10-K for additional information. 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 (including claims related to a unit co-owned by Mississippi Power). The U.S. District Court for the Northern District of Alabama has not ruled on the EPA's motion seeking vacatur of the judgment. The ultimate outcome of this matter cannot be determined at this time.

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Climate Change Litigation
Kivalina Case
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Kivalina Case" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters – Climate Change Litigation – Kivalina Case" in Item 8 of the Form 10-K for additional information. 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 October 8, 2012, the plaintiffs filed for review of the decision by the U.S. Court of Appeals for the Ninth Circuit. The ultimate outcome of this matter cannot be determined at this time.
Hurricane Katrina Case
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" in Item 8 of the Form 10-K for additional information. On March 20, 2012, the U.S. District Court for the Southern District of Mississippi dismissed the amended class action complaint filed in May 2011 by the plaintiffs. On April 16, 2012, the plaintiffs appealed the case to the U.S. Court of Appeals for the Fifth Circuit. The ultimate outcome of this matter cannot be determined at this time.
Environmental Statutes and Regulations
General
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – General" of Southern Company in Item 7 of the Form 10-K for information regarding the Southern Company system's estimated base level capital expenditures to comply with existing statutes and regulations for 2012 through 2014, as well as the Southern Company system's preliminary estimates for potential incremental environmental compliance investments associated with complying with the EPA's final Mercury and Air Toxics Standards (MATS) rule (formerly referred to as the Utility Maximum Achievable Control Technology rule) and the EPA's proposed water and coal combustion byproducts rules.
The Southern Company system is continuing to develop its compliance strategy and to assess the potential costs of complying with the MATS rule and the EPA's proposed water and coal combustion byproducts rules. As part of the development of its compliance strategy for the MATS rule, the Southern Company system has entered into agreements for the construction of baghouses to control the emissions of mercury and particulates from certain generating units. While the final MATS compliance plan is still being developed and the ultimate costs remain uncertain, the compliance decisions made in 2012 have allowed the Southern Company system to further develop its cost estimates for compliance with the MATS rule. As a result, estimated compliance costs for the MATS rule in the 2012 through 2014 period have been revised from up to $2.7 billion to approximately $1.8 billion as follows:

	2012	2013	2014
		(in millions)	
MATS rule	$150	$440	$1,215

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In addition, the Southern Company system has further developed its estimated capital expenditures and associated timing of these expenditures to comply with the proposed water and coal combustion byproducts rules, resulting in a reduction, due primarily to timing, in estimated compliance costs for 2012 through 2014. Potential incremental environmental compliance investments to comply with the proposed water and coal combustion byproducts rules have been revised from up to $1.5 billion to approximately $500 million over the 2012 through 2014 period based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule. These potential incremental environmental compliance investments are estimated as follows:

	2012	2013	2014
		(in millions)	
Proposed water and coal combustion byproducts rules	$10	$85	$405

While the Southern Company system's ultimate costs of compliance with the MATS rule and the proposed water and coal combustion byproducts rules remain uncertain, the Southern Company system estimates that compliance costs through 2021 (assuming that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule) will be at the low end of the $13 billion to $18 billion range provided in the Form 10-K. Included in this amount is approximately $750 million that is also included in the 2012 through 2014 base level capital investment of the traditional operating companies described in the Form 10-K in anticipation of these rules.

The Southern Company system's ultimate compliance strategy and actual future environmental capital expenditures are dependent on development of the final MATS compliance plan and will be affected by the final requirements of new or revised environmental regulations 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 retirement and replacement of existing units, installation of additional environmental controls, upgrades to the transmission system, and changing fuel sources for certain existing units. The ultimate outcome of these matters cannot be determined at this time.

As part of SEGCO's environmental compliance strategy, the Board of Directors of SEGCO approved adding natural gas as the primary fuel source in 2015 for its 1,000 MWs of generating capacity and the construction of the necessary natural gas pipeline. SEGCO is jointly owned by Alabama Power and Georgia Power. The capacity of SEGCO's units is sold to Alabama Power and Georgia Power through a PPA. The impact of SEGCO's ultimate compliance strategy on the 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 impact on Southern Company's financial statements.

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Southern Company in Item 7 of the Form 10-K for additional information on the eight-hour ozone and fine particulate matter air quality standards, the MATS rule, the Cross-State Air Pollution Rule (CSAPR), and the Clean Air Visibility Rule (CAVR).

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 was a 15-county area within metropolitan Atlanta. The potential impact of the revised standard and nonattainment designation will depend on further evaluation and implementation by the Georgia Environmental Protection Division and cannot be determined at this time.

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On June 14, 2012, the EPA proposed a rule that would increase the stringency of the fine particulate matter national ambient air quality standards. If adopted, the proposed standards could result in the designation of new nonattainment areas within the Southern Company system's service territory. As part of a related settlement, the EPA has agreed to finalize the proposed rule by December 14, 2012. 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.

Numerous petitions for administrative reconsideration of the MATS rule, including a petition by Southern Company and its subsidiaries, have been filed with the EPA. 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. The impact of the MATS rule will depend on the outcome of these and any other legal challenges and, therefore, cannot be determined at this time.

On August 21, 2012, the U.S. Court of Appeals for the District of Columbia Circuit vacated CSAPR in its entirety and directed the EPA to continue to administer the Clean Air Interstate Rule pending the EPA's development of a valid replacement. The vacatur of CSAPR creates additional uncertainty with respect to whether additional controls may be required for CAVR and best available retrofit technology compliance. On October 5, 2012, the EPA filed for review of the decision by the U.S. Court of Appeals for the District of Columbia Circuit. The ultimate outcome of this matter depends on the outcome of any legal challenges and further action by the EPA and cannot be determined at this time.

On August 29, 2012, the EPA published proposed revisions to the New Source Performance Standard (NSPS) for Stationary Combustion Turbines (CTs). If finalized, 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. 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.

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Southern Company in Item 7 of the Form 10-K for additional information on the proposed rules regarding certain cooling water intake structures. The EPA has entered into an amended settlement agreement to extend the deadline for issuing a final rule until June 27, 2013. 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.

Coal Combustion Byproducts

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts" of Southern Company in Item 7 of the Form 10-K for additional information. 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. The ultimate outcome of these matters cannot be determined at this time.

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Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Southern Company in Item 7 of the Form 10-K for additional information.

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. As proposed, the standards would not apply to existing units. The EPA has delayed its plans to propose greenhouse gas emissions performance standards for modified sources and emissions guidelines 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.

On June 26, 2012, a three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit unanimously rejected all challenges to four of the EPA's actions relating to the greenhouse gas permitting programs under the Clean Air Act. These rules may impact the amount of time it takes to obtain prevention of significant deterioration permits for new generation and major modifications to existing generating units and the requirements ultimately imposed by those permits. The ultimate impact of these rules cannot be determined at this time and will depend on the outcome of any other legal challenges.

PSC Matters

Retail 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 at Alabama Power, Georgia Power, Gulf Power, and Mississippi Power included in Southern Company's Condensed Balance Sheet herein of approximately $282 million at September 30, 2012. At December 31, 2011, total under recovered fuel costs at Alabama Power and Georgia Power included in Southern Company's Condensed Balance Sheet herein were approximately $169 million, and Gulf Power and Mississippi Power had a total over recovered fuel balance included in Southern Company's Condensed Balance Sheet herein of 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 their under or over recovered fuel cost balances.

On June 21, 2012, the Georgia PSC approved a decrease in Georgia Power's fuel cost recovery rates of 19%, which reduced annual billings by $567 million effective June 1, 2012. The decrease in fuel costs resulted from lower natural gas prices as a result of increased natural gas supplies.

As of September 30, 2012, Georgia Power's fuel cost over recovery balance totaled $199 million. This balance is slightly below the $200 million required to automatically trigger the Georgia PSC's approved IFR adjustment mechanism. On November 1, 2012, Georgia Power filed a request with the Georgia PSC to voluntarily trigger the IFR early and reduce fuel cost recovery rates effective January 1, 2013. The requested reduction would reduce annual billings by approximately $122 million. In accordance with the IFR process, the Georgia PSC will have 30 days to consider Georgia Power's request. The ultimate outcome of this matter cannot be determined at this time.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Fuel Cost Recovery" and "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

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Alabama Power
Rate CNP
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Rate CNP" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Rate CNP" in Item 8 of the Form 10-K for additional information regarding Alabama Power's recovery of retail costs through Rate Certificated New Plant Power Purchase Agreement (Rate CNP) and Rate Certificated New Plant Environmental (Rate CNP Environmental). Alabama Power's under recovered Rate CNP balance as of September 30, 2012 was $14 million as compared to $6 million at December 31, 2011. Alabama Power's under recovered Rate CNP Environmental balance as of September 30, 2012 was $12 million as compared to $11 million at December 31, 2011. These under recovered balances at September 30, 2012 are included in deferred under recovered regulatory clause revenues on Southern Company's Condensed Balance Sheet herein. For Rate CNP, this classification is based on an estimate, which includes such factors as purchased power capacity and energy demand. For Rate CNP Environmental, this classification is based on an estimate, which includes such factors as costs to comply with environmental mandates and energy demand. A change in any of these factors could have a material impact on the timing of any recovery of the under recovered retail costs.
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Southern Company in Item 7 of the Form 10-K for additional information. On September 17, 2012, the Alabama PSC approved and certificated the remaining 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 the 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.
Natural Disaster Cost Recovery
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Alabama Power – Natural Disaster Reserve" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power – Natural Disaster Reserve" in Item 8 of the Form 10-K for additional information regarding natural disaster cost recovery. At September 30, 2012, the NDR had an accumulated balance of $102 million as compared to $110 million at December 31, 2011, which are included in Southern Company's Condensed Balance Sheets herein under other regulatory liabilities, deferred. The accruals are reflected as operations and maintenance expenses in Southern Company's Condensed Statement of Income herein.
Compliance and Pension Cost Accounting Order
On November 6, 2012, the Alabama PSC approved an accounting order for certain compliance-related operations and maintenance expenditures for the years 2013 through 2017, as well as the incremental increase in operations 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 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

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to defer an incremental increase in its pension cost for 2013. The 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.

Alabama Power expects that the accounting order and other cost containment measures will preclude a need for a rate adjustment under Rate RSE.

Georgia Power

Rate Plans

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Georgia Power – Rate Plans" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Rate Plans" in Item 8 of the Form 10-K for additional information on Georgia Power's 2010 ARP.

In accordance with the terms of the 2010 ARP, on November 1, 2012, Georgia Power filed the following tariff adjustments with the Georgia PSC to become effective on January 1, 2013:

- Increase the DSM tariffs by approximately $16 million;
- Increase the traditional base tariffs by approximately $58 million to recover the revenue requirements for Plant McDonough-Atkinson Units 4, 5, and 6 for the period through December 31, 2013, which also reflects a separate settlement agreement associated with the June 30, 2011 quarterly construction monitoring report for Plant McDonough-Atkinson (see Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Other Construction" in Item 8 of the Form 10-K for additional information); and
- Increase the MFF tariff, consistent with the adjustments above, as well as those related to the IFR and NCCR tariff adjustments described under "Retail Fuel Cost Recovery" and Note B to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein.

2011 Integrated Resource Plan Update

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," "– Water Quality," and "– Coal Combustion Byproducts" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Rate Plans" and "– 2011 Integrated Resource Plan Update" in Item 8 of the Form 10-K 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; the 2010 ARP; and the 2011 IRP Update.

On March 20, 2012, the Georgia PSC approved Georgia Power's request to decertify and retire two coal-fired generation units at Plant Branch as of October 31, 2013 and December 31, 2013 and an oil-fired unit at Plant Mitchell as of March 26, 2012, which was included in Georgia Power's 2011 IRP Update. 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. The PPAs remain subject to FERC approval. The ultimate outcome of this matter cannot be determined at this time.

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Income Tax Matters

Bonus Depreciation

In December 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 construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Southern Company through 2013. Due to the significant amount of estimated bonus depreciation for 2012, 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 $775 million and $860 million in 2012.

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 natural gas and 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. See Note 7 to the financial statements of Southern Company under "Construction Program" in Item 8 of the Form 10-K for estimated construction expenditures for the next three years. In addition, see Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction," "Retail Regulatory Matters – Georgia Power – Other Construction," and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information.

Investments in Leveraged Leases

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Investments in Leveraged Leases" of Southern Company in Item 7 and Note 1 to the financial statements of Southern Company under "Leveraged Leases" in Item 8 of the Form 10-K 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. Current projections indicate significant uncertainty as to whether the lessee will be able to pay the December 2012 semi-annual rent payment in full. Southern Company continues to be engaged in discussions with the lessee and the holders of the project's nonrecourse debt to restructure the debt payments and the related rental payments to allow additional capital investment in the project to be made to improve the operation of the generation assets and the financial viability of the lease transaction. Southern Company continues to believe there is a reasonable possibility that it will be able to reach an agreement with the lessee and the debtholders to restructure the project prior to the end of 2012. However, due to continued poor performance of the generation assets and the uncertainties surrounding the receipt of the December 2012 semi-annual rent payment and its ability to successfully restructure the project, Southern Company has placed the lease on nonaccrual status whereby, effective July 2012, income associated with this investment is not recognized in the financial statements. If the attempts at restructuring the project are unsuccessful and the project is ultimately abandoned, the potential impairment loss that would be incurred is approximately $90 million on an after-tax basis. If the restructuring is successfully completed prior to the end of 2012, Southern Company will be required to record a reduction in leveraged lease income of up to approximately $20 million in the fourth quarter 2012. 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 and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) herein or in Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K, 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 the Notes to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Other Matters" of Southern Company in Item 7 of the Form 10-K for additional information regarding the earthquake and tsunami that struck Japan in March 2011. On March 12, 2012, the NRC issued three orders and a request for information based on the 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. 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.

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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 of Southern Company in Item 8 of the Form 10-K. 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. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Southern Company in Item 7 of the Form 10-K for a complete discussion of Southern Company's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.

Alabama Power and Georgia Power are now using automated meter readings to measure unbilled KWH sales for energy delivered through month end. Increased usage of actual data to compute unbilled revenues reduces the impact that estimates could have on Southern Company's results of operations; therefore, Southern Company no longer considers unbilled revenues a critical accounting estimate.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Company in Item 7 of the Form 10-K for additional information. Southern Company's financial condition remained stable at September 30, 2012. 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.

Net cash provided from operating activities totaled $4.0 billion for the first nine months of 2012, a decrease of $554 million from the corresponding period in 2011. The decrease in net cash provided from operating activities was primarily due to an increase in fossil fuel stock as a result of milder weather in the first nine months of 2012 and lower natural gas prices and a decrease in accrued taxes due to the timing of tax payments. Net cash used for investing activities totaled $3.8 billion for the first nine months of 2012 primarily due to property additions to utility plant. Net cash used for financing activities totaled $345 million for the first nine months of 2012. This was primarily due to redemptions of long-term debt, the repurchase of common stock, and payments of common stock dividends, offset by issuances of long-term debt. 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 for the first nine months of 2012 include an increase of $2.3 billion in total property, plant, and equipment for the construction of generation, transmission, and distribution facilities. Other significant changes include an increase in deferred income taxes of $863 million due to bonus depreciation and an increase in equity of $1.1 billion.

The market price of Southern Company's common stock at the end of the third quarter 2012 was $46.09 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $21.32 per share, representing a market-to-book ratio of 216%, compared to $46.29, $20.32, and 228%, respectively, at the end of 2011. The dividend for the third quarter 2012 was $0.49 per share compared to $0.4725 per share in the third quarter 2011.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for the construction programs of the Southern Company system, including estimated capital expenditures to comply with existing environmental regulations, and other funding requirements associated with scheduled maturities of long-term debt, as well as the related interest, preferred and preference stock dividends, leases, trust funding requirements, other purchase commitments, unrecognized tax benefits and interest, and derivative obligations. Approximately $2.4 billion will be required through September 30, 2013 to fund maturities and announced redemptions of long-term debt.

See FUTURE EARNINGS POTENTIAL – "Environmental Statutes and Regulations – General" herein for a description of the Southern Company system's estimated capital expenditures to comply with the MATS rule and proposed water and coal combustion byproducts rules.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; 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 new regulatory requirements; changes in FERC rules and regulations; PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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 Southern Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital to be raised will be contingent on Southern Company's investment opportunities.

Except as described below with respect to potential DOE loan guarantees, 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. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Southern Company in Item 7 of the Form 10-K for additional information.

In June 2010, Georgia Power reached an agreement with the 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.

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In addition, Mississippi Power has applied to the DOE for federal loan guarantees to finance a portion of the eligible construction costs of the Kemper IGCC. Mississippi Power is in advanced due diligence with the DOE. There can be no assurance that the DOE will issue federal loan guarantees for Mississippi Power. In the event that the DOE does not issue a conditional commitment or a final definitive loan guarantee, Mississippi Power expects to finance the construction of the Kemper IGCC through traditional capital markets financings. Mississippi Power also 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.

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 September 30, 2012, Southern Company and its subsidiaries had approximately $1.3 billion of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2012, including expiration dates, were as follows:

	Expires					Executable Term Loans		Due Within One Year[a]	
Company	2012	2013	2014 and Beyond[b]	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	—	157	1,150	1,307	1,307	55	—	55	102
Georgia Power	—	—	1,750	1,750	1,740	—	—	—	—
Gulf Power	20	60	195	275	275	45	—	45	35
Mississippi Power	16	120	165	301	301	25	41	66	70
Southern Power	—	—	500	500	500	—	—	—	—
Other	—	50	—	50	50	25	—	25	25
Total	$36	$387	$4,760	$5,183	$5,173	$150	$41	$191	$232

(a) Reflects facilities expiring on or before September 30, 2013.
(b) All remaining Gulf Power and Mississippi Power credit agreements in this column expire in 2014.

See Note 6 to the financial statements of Southern Company under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

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

A portion of the unused credit with banks is allocated to provide liquidity support to the traditional operating companies' variable rate pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 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.

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2012		Short-term Debt During the Period[(a)]		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$329	0.3 %	$463	0.3 %	$592

(a) Average and maximum amounts are based upon daily balances during the three month period ended September 30, 2012.

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

Credit Rating Risk

Southern Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and Baa2, or BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, energy price risk management, and construction of new generation. The maximum potential collateral requirements under these contracts at September 30, 2012 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and Baa2	$9
At BBB- and/or Baa3	635
Below BBB- and/or Baa3	2,583

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 September 30, 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 Southern Company's ability to access capital markets, particularly the short-term debt market.

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Market Price Risk

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

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 third quarter 2012 when compared with 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 three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes		Year-to-Date 2012 Changes	
	Fair Value (in millions)			
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(170	)	$(231	)
Contracts realized or settled	56		184	
Current period changes[(a)]	51		(16	)
Contracts outstanding at the end of the period, assets (liabilities), net	$(63	)	$(63	)

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

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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 three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value (in millions)	
Natural gas swaps	$83	$142
Natural gas options	24	27
Other energy-related derivatives	—	(1)
Total changes	$107	$168

The net hedge volumes of energy-related derivative contracts were as follows:

	September 30, 2012	June 30, 2012	December 31, 2011
	mmBtu Volume (in millions)		
Commodity – Natural gas swaps	158	141	123
Commodity – Natural gas options	111	101	66
Total hedge volume	269	242	189

The weighted average swap contract cost above market prices was approximately $0.33 per mmBtu as of September 30, 2012, $0.95 per mmBtu as of June 30, 2012, and $1.51 per mmBtu as of December 31, 2011. The change in option premiums 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.

The net fair value of energy-related derivative contracts by hedge designation was reflected in the financial statements as follows:

Asset (Liability) Derivatives	September 30, 2012	December 31, 2011
	(in millions)	
Regulatory hedges	$(63)	$(221)
Cash flow hedges	(1)	(1)
Not designated	1	(9)
Total fair value	$(63)	$(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 OCI 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 recognized in income for the three and nine months ended September 30, 2012 were $5 million and $9 million, respectively, and were not material for the corresponding periods in 2011.

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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 (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at September 30, 2012 were as follows:

	September 30, 2012			
	Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$—	$—	$—	$—
Level 2	(63)	(54)	(12)	3
Level 3	—	—	—	—
Fair value of contracts outstanding at end of period	$(63)	$(54)	$(12)	$3

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Southern Company. Regulations to implement the Dodd-Frank Act will impose additional requirements on the use of over-the-counter derivatives for both Southern Company and its subsidiaries and their derivative counterparties, which could affect both the use and cost of over-the-counter derivatives. Although all relevant regulations have not been finalized, Southern Company does not expect the impact of these rules to be material.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Southern Company in Item 7 and Note 1 under "Financial Instruments" and Note 11 to the financial statements of Southern Company in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

Financing Activities

During the first nine months of 2012, Southern Company issued approximately 11.6 million shares of common stock for $381 million through 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 2.6 million shares have been repurchased through September 30, 2012 at a total cost of $117 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 debt financing activities during the first nine months of 2012:

Company	Senior Note Issuances	Senior Note Redemptions and Maturities	Pollution Control Bond Issuances	Pollution Control Bond Redemptions	Other Long-Term Debt Issuances	Other Long-Term Debt Redemptions and Maturities
			(in millions)			
Southern Company	$—	$500	$—	$—	$—	$—
Alabama Power	250	250	—	1	—	—
Georgia Power	1,900	550	234	234	—	250
Gulf Power	100	91	—	—	—	—
Mississippi Power	600	90	—	—	26	115
Southern Power	—	—	—	—	5	1
Total	$2,850	$1,481	$234	$235	$31	$366

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.

On January 17, 2012, Southern Company's $500 million aggregate principal amount of Series 2007A 5.30% Senior Notes matured.

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 September 30, 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.

In August 2012, the Mississippi Business Finance Corporation entered into an agreement to issue up to $42.5 million aggregate principal amount of Mississippi Business Finance Corporation Taxable Revenue Bonds, Series 2012A (Mississippi Power Company Project), up to $21.25 million aggregate principal amount of Mississippi Business Finance Corporation Taxable Revenue Bonds, Series 2012B (Mississippi Power Company Project), and up to $21.25 million aggregate principal amount of Mississippi Business Finance Corporation Taxable Revenue Bonds, Series 2012C (Mississippi Power Company Project) for the benefit of Mississippi Power. As reflected in the table above, in August 2012, the Mississippi Business Finance Corporation issued $4.36 million aggregate principal amount of Mississippi Business Finance Corporation Taxable Revenue Bonds (Mississippi Power Company Project), Series 2012B and $21.25 million aggregate principal amount of 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 these bonds will be used for this same purpose.

Subsequent to September 30, 2012, Alabama Power issued $400 million aggregate principal amount of Series 2012B 0.550% Senior Notes due October 15, 2015. The proceeds were used to redeem, in October 2012, $200 million aggregate principal amount of Series 2007C 6.00% Senior Insured Monthly Notes due October 15, 2037 and for general corporate purposes, including Alabama Power's continuous construction program.

Subsequent to September 30, 2012, Georgia Power announced the redemption that will occur in December 2012 of $100 million aggregate principal amount of its Series 2007F 6.05% Senior Monthly Notes due December 1, 2038.

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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.

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PART I

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" herein for each registrant and Note 1 to the financial statements of each registrant under "Financial Instruments," Note 11 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 10 to the financial statements of Gulf Power and Mississippi Power, and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K. Also, see Note (H) to the Condensed Financial Statements herein for information relating to derivative instruments.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this quarterly 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 the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon these evaluations, the Chief Executive Officer and the Chief Financial Officer, in each case, concluded that the disclosure controls and procedures are effective.

(b) 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 third 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.

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,476	$1,489	$3,822	$3,859
Wholesale revenues, non-affiliates	79	80	210	218
Wholesale revenues, affiliates	31	52	51	202
Other revenues	51	50	147	152
Total operating revenues	1,637	1,671	4,230	4,431
Operating Expenses:				
Fuel	469	512	1,118	1,335
Purchased power, non-affiliates	31	34	63	62
Purchased power, affiliates	41	49	147	152
Other operations and maintenance	307	309	944	896
Depreciation and amortization	161	160	478	476
Taxes other than income taxes	84	84	255	254
Total operating expenses	1,093	1,148	3,005	3,175
Operating Income	544	523	1,225	1,256
Other Income and (Expense):				
Allowance for equity funds used during construction	4	7	13	18
Interest income	4	4	12	13
Interest expense, net of amounts capitalized	(71)	(73)	(217)	(224)
Other income (expense), net	(7)	(7)	(18)	(20)
Total other income and (expense)	(70)	(69)	(210)	(213)
Earnings Before Income Taxes	474	454	1,015	1,043
Income taxes	184	180	394	407
Net Income	290	274	621	636
Dividends on Preferred and Preference Stock	10	10	30	30
Net Income After Dividends on Preferred and Preference Stock	$280	$264	$591	$606

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Net Income After Dividends on Preferred and Preference Stock	$280	$264	$591	$606
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(2), $(4), $(6) and $(3), respectively	(2)	(8)	(9)	(5)
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $- and $(1), respectively	—	—	—	(2)
Total other comprehensive income (loss)	(2)	(8)	(9)	(7)

Comprehensive Income	$278	$256	$582	$599

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2012	2011
	(in millions)	
Operating Activities:		
Net income	$621	$636
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	574	562
Deferred income taxes	132	350
Allowance for equity funds used during construction	(13)	(18)
Pension, postretirement, and other employee benefits	10	(17)
Stock based compensation expense	7	5
Other, net	(3)	6
Changes in certain current assets and liabilities —		
-Receivables	(83)	(74)
-Fossil fuel stock	(93)	75
-Materials and supplies	(5)	(13)
-Other current assets	(1)	(19)
-Accounts payable	(167)	(120)
-Accrued taxes	146	215
-Accrued compensation	(27)	(35)
-Other current liabilities	(13)	5
Net cash provided from operating activities	1,085	1,558
Investing Activities:		
Property additions	(616)	(694)
Distribution of restricted cash from pollution control revenue bonds	—	11
Nuclear decommissioning trust fund purchases	(128)	(301)
Nuclear decommissioning trust fund sales	128	301
Cost of removal, net of salvage	(17)	(52)
Change in construction payables	(2)	(13)
Other investing activities	(11)	14
Net cash used for investing activities	(646)	(734)
Financing Activities:		
Proceeds —		
Capital contributions from parent company	22	10
Senior notes issuances	250	700
Redemptions —		
Pollution control revenue bonds	(1)	(4)
Senior notes	(250)	(650)
Payment of preferred and preference stock dividends	(30)	(30)
Payment of common stock dividends	(404)	(415)
Other financing activities	(4)	(13)
Net cash used for financing activities	(417)	(402)
Net Change in Cash and Cash Equivalents	22	422

Cash and Cash Equivalents at Beginning of Period	344	154
Cash and Cash Equivalents at End of Period	$366	$576
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $5 and $7 capitalized for 2012 and 2011, respectively)	$203	$207
Income taxes, net	172	(95)
Noncash transactions—accrued property additions at end of period	16	15

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2012	At December 31, 2011
	(in millions)	
Current Assets:		
Cash and cash equivalents	$366	$344
Restricted cash and cash equivalents	—	1
Receivables —		
Customer accounts receivable	446	332
Unbilled revenues	121	126
Other accounts and notes receivable	59	35
Affiliated companies	43	79
Accumulated provision for uncollectible accounts	(9)	(10)
Fossil fuel stock, at average cost	437	344
Materials and supplies, at average cost	379	375
Vacation pay	59	59
Prepaid expenses	106	74
Other regulatory assets, current	21	44
Other current assets	11	11
Total current assets	2,039	1,814
Property, Plant, and Equipment:		
In service	21,253	20,809
Less accumulated provision for depreciation	7,659	7,344
Plant in service, net of depreciation	13,594	13,465
Nuclear fuel, at amortized cost	328	330
Construction work in progress	381	374
Total property, plant, and equipment	14,303	14,169
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	53	62
Nuclear decommissioning trusts, at fair value	597	540
Miscellaneous property and investments	74	73
Total other property and investments	724	675
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	528	532
Prepaid pension costs	82	59
Deferred under recovered regulatory clause revenues	27	48
Other regulatory assets, deferred	965	994
Other deferred charges and assets	158	186
Total deferred charges and other assets	1,760	1,819
Total Assets	$18,826	$18,477

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2012	At December 31, 2011
	(in millions)	
Current Liabilities:		
Securities due within one year	$700	$500
Accounts payable —		
Affiliated	183	203
Other	178	322
Customer deposits	86	85
Accrued taxes —		
Accrued income taxes	93	32
Other accrued taxes	104	34
Accrued interest	66	63
Accrued vacation pay	48	48
Accrued compensation	71	95
Liabilities from risk management activities	46	54
Other regulatory liabilities, current	5	18
Other current liabilities	37	38
Total current liabilities	1,617	1,492
Long-term Debt	5,430	5,632
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	3,366	3,257
Deferred credits related to income taxes	80	83
Accumulated deferred investment tax credits	143	149
Employee benefit obligations	356	343
Asset retirement obligations	580	553
Other cost of removal obligations	751	703
Other regulatory liabilities, deferred	185	156
Other deferred credits and liabilities	75	82
Total deferred credits and other liabilities	5,536	5,326
Total Liabilities	12,583	12,450
Redeemable Preferred Stock	342	342
Preference Stock	343	343
Common Stockholder's Equity:		
Common stock, par value $40 per share —		
Authorized - 40,000,000 shares		
Outstanding - 30,537,500 shares	1,222	1,222
Paid-in capital	2,220	2,182
Retained earnings	2,143	1,956
Accumulated other comprehensive loss	(27)	(18)
Total common stockholder's equity	5,558	5,342
Total Liabilities and Stockholder's Equity	$18,826	$18,477

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2012 vs. THIRD QUARTER 2011
AND
YEAR-TO-DATE 2012 vs. YEAR-TO-DATE 2011

OVERVIEW

Alabama Power operates as a vertically integrated utility providing electricity to retail and wholesale customers within its traditional service territory located within the State of Alabama in addition to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Alabama Power's business of selling electricity. These factors include the 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, and restoration following major storms. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Alabama Power for the foreseeable future.

Alabama Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Alabama Power in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$16	6.1	$(15)	(2.5)

Alabama Power's net income after dividends on preferred and preference stock for the third quarter 2012 was $280 million compared to $264 million for the corresponding period in 2011. The increase for the third quarter 2012 when compared to the corresponding period in 2011 was related to an increase in revenues associated with the elimination of a tax-related adjustment under Alabama Power's rate structure, increases in industrial energy sales, and decreases in other operations and maintenance expenses, partially offset by decreases in weather-related revenues due to milder weather in the third quarter 2012 when compared to the corresponding period in 2011.

Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2012 was $591 million compared to $606 million for the corresponding period in 2011. The decrease for year-to-date 2012 when compared to the corresponding period in 2011 was related to decreases in weather-related revenues due to milder weather, increases in other operations and maintenance expenses, and a decrease in AFUDC equity in 2012. These decreases were partially offset by increases in revenues associated with the elimination of a tax-related adjustment under Alabama Power's rate structure and increases in energy sales. See BUSINESS – "Rate Matters – Rate Structure and Cost Recovery Plans" of Alabama Power in Item 1 and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail Rate Adjustments" of Alabama Power in Item 7 of the Form 10-K for information regarding the rate structure of Alabama Power.

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Retail Revenues

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(13)	(0.9)	$(37)	(1.0)

In the third quarter 2012, retail revenues were $1.48 billion compared to $1.49 billion for the corresponding period in 2011. For year-to-date 2012, retail revenues were $3.82 billion compared to $3.86 billion for the corresponding period in 2011.

Details of the change to retail revenues were as follows:

	Third Quarter 2012		Year-to-Date 2012	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,489		$3,859	
Estimated change in –				
Rates and pricing	40	2.7	96	2.5
Sales growth (decline)	5	0.3	49	1.3
Weather	(27)	(1.8)	(114)	(3.0)
Fuel and other cost recovery	(31)	(2.1)	(68)	(1.8)
Retail – current year	$1,476	(0.9)%	$3,822	(1.0)%

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 primarily due to the elimination of a tax-related adjustment under Alabama Power's rate structure that was effective with October 2011 billings, slightly offset by decreased revenues associated with Rate Certificated New Plant Environmental (Rate CNP Environmental).

Revenues attributable to changes in sales increased in the third quarter 2012 when compared to the corresponding period in 2011. Industrial KWH energy sales increased 0.3% due to an increase in usage resulting from changes in production levels primarily in the pipelines, automotive and plastics, and stone, clay, and glass sectors, offset by decreases in the primary metals, forest products, and textiles sectors. The changes in weather-adjusted residential and commercial KWH energy sales were not material.

Revenues attributable to changes in sales increased year-to-date 2012 when compared to the corresponding period in 2011. Weather-adjusted residential and commercial KWH energy sales increased 2.1% and 1.0%, respectively, as a result of increases in usage. Industrial KWH energy sales increased 1.9% due to an increase in usage resulting from changes in production levels primarily in the primary metals, pipelines, automotive and plastics, and forest products sectors, partially offset by decreases in the textiles, stone, clay, and glass, and water and sewer sectors.

Revenues resulting from changes in weather decreased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011. Alabama Power's service territory experienced milder weather conditions in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011. The resulting decreases for the third quarter 2012 were 2.9% and 1.7% for residential and commercial sales revenue, respectively. The resulting decreases for year-to-date 2012 were 5.4% and 1.9% for residential and commercial sales revenue, respectively.

Fuel and other cost recovery revenues decreased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 primarily due to lower fuel costs associated with decreased KWH generation and lower average cost per KWH generated due to lower natural gas prices. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the NDR. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not affect net income.

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ALABAMA POWER COMPANY
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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See BUSINESS – "Rate Matters – Rate Structure and Cost Recovery Plans" of Alabama Power in Item 1, MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail Rate Adjustments" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Wholesale Revenues - Non-Affiliates

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(1.3)	$(8)	(3.7)

Wholesale revenues from sales to non-affiliates will vary depending on the market prices of available wholesale energy compared to the cost of Alabama Power's and the Southern Company system's generation, demand for energy within the Southern Company system's service territory, and 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.

In the third quarter 2012, the decrease in wholesale revenues from non-affiliates was not material. For year-to-date 2012, wholesale revenues from non-affiliates were $210 million compared to $218 million for the corresponding period in 2011. The decrease was primarily due to a 2.3% decrease in KWH sales and a 1.3% decrease in the price of energy.

Wholesale Revenues – Affiliates

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(21)	(40.4)	$(151)	(74.8)

Wholesale revenues from sales to affiliated companies within the Southern Company system will vary depending on demand and the availability and cost of generating resources at each company. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since this energy is generally sold at marginal cost and energy purchases are generally offset by energy revenues through Alabama Power's energy cost recovery clauses.

In the third quarter 2012, wholesale revenues from affiliates were $31 million compared to $52 million for the corresponding period in 2011. The decrease was primarily due to a 27.0% decrease in KWH sales and a 19.2% decrease in the price of energy.

For year-to-date 2012, wholesale revenues from affiliates were $51 million compared to $202 million for the corresponding period in 2011. The decrease was primarily due to a 70.0% decrease in KWH sales and a 16.4% decrease in the price of energy.

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fuel and Purchased Power Expenses

	Third Quarter 2012 vs. Third Quarter 2011 (change in millions)	(% change)	Year-to-Date 2012 vs. Year-to-Date 2011 (change in millions)	(% change)
Fuel	$(43)	(8.4)	$(217)	(16.3)
Purchased power – non-affiliates	(3)	(8.8)	1	1.6
Purchased power – affiliates	(8)	(16.3)	(5)	(3.3)
Total fuel and purchased power expenses	$(54)		$(221)	

In the third quarter 2012, total fuel and purchased power expenses were $541 million compared to $595 million for the corresponding period in 2011. The decrease was primarily due to a $21 million decrease related to a reduction in total KWHs generated as a result of milder weather in the third quarter 2012, a $16 million decrease in the cost of fuel, a $12 million decrease in the average cost of purchased power, and a $4 million decrease in KWHs purchased.

For year-to-date 2012, total fuel and purchased power expenses were $1.33 billion compared to $1.55 billion for the corresponding period in 2011. The decrease was primarily due to a $176 million decrease related to a reduction in total KWHs generated as a result of milder weather for year-to-date 2012, a $69 million decrease in the average cost of purchased power, and a $36 million decrease in the cost of fuel, partially offset by a $59 million increase in KWHs purchased.

Fuel and purchased power energy transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Alabama Power's Energy Cost Recovery Rate mechanism. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail Fuel Cost Recovery" herein for additional information.

Details of Alabama Power's generation and purchased power were as follows:

	Third Quarter 2012	Third Quarter 2011	Year-to-Date 2012	Year-to-Date 2011
Total generation (billions of KWHs)	17	18	44	50
Total purchased power (billions of KWHs)	1	1	5	4
Sources of generation (percent) –				
Coal	59	61	52	57
Nuclear	22	22	24	22
Gas	17	15	19	16
Hydro	2	2	5	5
Cost of fuel, generated (cents per net KWH) –				
Coal	3.40	3.39	3.38	3.18
Nuclear	0.82	0.64	0.79	0.65
Gas	3.17	4.05	2.98	4.13
Average cost of fuel, generated (cents per net KWH)[(a)]	2.77	2.89	2.63	2.75
Average cost of purchased power (cents per net KWH)[(b)]	6.04	6.97	4.67	6.14

(a) KWHs generated by hydro are excluded from the average cost of fuel, generated.

(b) Average cost of purchased power includes fuel purchased by Alabama Power for tolling agreements where power is generated by the provider.

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fuel
In the third quarter 2012, fuel expense was $469 million compared to $512 million for the corresponding period in 2011. The $43 million decrease was due to a 21.7% decrease in the average cost of KWHs generated by natural gas, which excludes fuel associated with tolling agreements, and a 6.2% decrease in KWHs generated by coal, slightly offset by a 1.5% increase in KWHs generated by natural gas.
For year-to-date 2012, fuel expense was $1.12 billion compared to $1.34 billion for the corresponding period in 2011. The $217 million decrease was due to a 27.9% decrease in the average cost of KWHs generated by natural gas, which excludes fuel associated with tolling agreements, and a 20.8% decrease in KWHs generated by coal, slightly offset by a 6.0% increase in KWHs generated by natural gas.
Purchased Power – Non-Affiliates
In the third quarter 2012, purchased power expense from non-affiliates was $31 million compared to $34 million for the corresponding period in 2011. The decrease was related to a 34.8% decrease in the average cost per KWH, partially offset by a 25.2% increase in the amount of energy purchased.
For year-to-date 2012, purchased power expense from non-affiliates was $63 million compared to $62 million for the corresponding period in 2011. The increase was related to a 129.6% increase in the amount of energy purchased, partially offset by a 58.8% decrease in the average cost per KWH.
Energy purchases from non-affiliates will vary depending on the market prices of wholesale energy as compared to the cost of 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.
Purchased Power – Affiliates
In the third quarter 2012, purchased power expense from affiliates was $41 million compared to $49 million for the corresponding period in 2011. The decrease was related to a 13.9% decrease in the amount of energy purchased and a 2.6% decrease in the average cost per KWH.
For year-to-date 2012, purchased power expense from affiliates was $147 million compared to $152 million for the corresponding period in 2011. The decrease was related to a 13.5% decrease in the average cost per KWH, partially offset by an 11.4% increase in the amount of energy purchased.
Energy purchases from affiliates will vary depending on demand for energy and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.
Other Operations and Maintenance Expenses

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(2)	(0.6)	$48	5.4

In the third quarter 2012, the decrease in other operations and maintenance expenses was not material. For year-to-date 2012, other operations and maintenance expenses were $944 million compared to $896 million for the corresponding period in 2011. Administrative and general expenses increased $32 million primarily due to pension and other benefit-related expenses and property insurance expenses. Nuclear production expenses increased $10 million primarily due to the amortization of nuclear outage expenses of $24 million, partially offset by a decrease in operation costs related to decreases in labor. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Nuclear Outage Accounting Order" of Alabama Power in Item 7 of the Form 10-K for additional information.

Allowance for Funds Used During Construction

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(3)	(42.9)	$(5)	(27.8)

In the third quarter 2012, AFUDC equity was $4 million compared to $7 million for the corresponding period in 2011. For year-to-date 2012, AFUDC equity was $13 million compared to $18 million for the corresponding period in 2011. These decreases were primarily due to decreases in capital expenditures for nuclear facility and general plant projects.

Income Taxes

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$4	2.2	$(13)	(3.2)

In the third quarter 2012, the increase in income taxes was not material. For year-to-date 2012, income taxes were $394 million compared to $407 million for the corresponding period in 2011. The decrease for year-to-date 2012 was primarily due to lower pre-tax earnings as a result of lower revenues due to milder weather and an increase in operations and maintenance expense.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Alabama Power's future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of selling electricity. These factors include Alabama Power's 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. Future earnings in the near term will depend, in part, upon maintaining energy sales which are subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service territory. Changes in economic conditions impact sales for Alabama 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. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Alabama Power in Item 7 of the Form 10-K.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

New Source Review Actions

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – New Source Review Actions" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Environmental Matters – New Source Review Actions" in Item 8 of the Form 10-K for additional information. 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. The U.S. District Court for the Northern District of Alabama has not ruled on the EPA's motion seeking vacatur of the judgment. The ultimate outcome of this matter cannot be determined at this time.

Climate Change Litigation

Kivalina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Kivalina Case" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Environmental Matters – Climate Change Litigation – Kivalina Case" in Item 8 of the Form 10-K for additional information. 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 October 8, 2012, the plaintiffs filed for review of the decision by the U.S. Court of Appeals for the Ninth Circuit. The ultimate outcome of this matter cannot be determined at this time.

Hurricane Katrina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" in Item 8 of the Form 10-K for additional information. On March 20, 2012, the U.S. District Court for the Southern District of Mississippi dismissed the amended class action complaint filed in May 2011 by the plaintiffs. On April 16, 2012, the plaintiffs appealed the case to the U.S. Court of Appeals for the Fifth Circuit. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – General" of Alabama Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein for information regarding Alabama Power's estimated base level capital expenditures to comply with existing statutes and regulations for 2012 through 2014, as well as Alabama Power's estimates for environmental compliance investments associated with complying with the EPA's final Mercury and Air Toxics Standards (MATS) rule (formerly referred to as the Utility Maximum Achievable Control Technology rule) and preliminary estimates for potential incremental environmental compliance investments associated with complying with the EPA's proposed water and coal combustion byproducts rules.

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Alabama Power is continuing to develop its compliance strategy and to assess the potential costs of complying with the MATS rule and the EPA's proposed water and coal combustion byproducts rules. As part of the development of its compliance strategy for the MATS rule, Alabama Power has entered into agreements for the construction of baghouses on generating units with an aggregate capacity of 1,901 MWs and plans to utilize additional compliance strategies at other units with an aggregate capacity of 4,678 MWs including utilizing existing or additional natural gas capability and/or using additives or other injection technologies. Certain transmission system upgrades may also be required. While the final MATS compliance plan is still being developed and the ultimate costs remain uncertain, the compliance decisions made in 2012 have allowed Alabama Power to further develop its cost estimates for compliance with the MATS rule. As a result, estimated compliance costs for the MATS rule in the 2012 through 2014 period have been revised from up to $1.2 billion to approximately $585 million as follows:

	2012	2013	2014
	(in millions)		
MATS rule	$55	$180	$350

In addition, Alabama Power has further developed its estimated capital expenditures and associated timing of these expenditures to comply with the proposed water and coal combustion byproducts rules, resulting in a reduction, due primarily to timing, in estimated compliance costs for 2012 through 2014. Potential incremental environmental compliance investments to comply with the proposed water and coal combustion byproducts rules have been revised from up to $630 million to approximately $175 million over the 2012 through 2014 period, based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule. These potential incremental environmental compliance investments are estimated as follows:

	2012	2013	2014
	(in millions)		
Proposed water and coal combustion byproducts rules	$5	$10	$160

While Alabama Power's ultimate costs of compliance with the MATS rule and the proposed water and coal combustion byproducts rules remain uncertain, Alabama Power estimates that compliance costs through 2021 (assuming that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule) will be at the low end of the $5 billion to $7 billion range provided in the Form 10-K.

Alabama Power's ultimate compliance strategy and actual future environmental capital expenditures are dependent on development of the final MATS compliance plan and will be affected by the final requirements of new or revised environmental regulations that are promulgated; the outcome of any legal challenges to the environmental rules; the cost, availability, and existing inventory of emissions allowances; and Alabama Power's fuel mix. Compliance costs may arise from retirement and replacement of existing units, installation of additional environmental controls, upgrades to the transmission system, and changing fuel sources for certain existing units. The ultimate outcome of these matters cannot be determined at this time.

As part of SEGCO's environmental compliance strategy, the Board of Directors of SEGCO approved adding natural gas as the primary fuel source in 2015 for its 1,000 MWs of generating capacity and the construction of the necessary natural gas pipeline. SEGCO is jointly owned by Alabama Power and Georgia Power. The capacity of SEGCO's units is sold to Alabama Power and Georgia Power through a PPA. See Note 4 to the financial statements of Alabama Power in Item 8 of the Form 10-K for additional information. The impact of SEGCO's ultimate compliance strategy on the 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 impact on Alabama Power's financial statements.

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Alabama Power in Item 7 of the Form 10-K for additional information on the eight-hour ozone and fine particulate matter air quality standards, the MATS rule, the Cross-State Air Pollution Rule (CSAPR), and the Clean Air Visibility Rule (CAVR).

On May 21, 2012, the EPA published its final determination of nonattainment areas based on the 2008 eight-hour ozone air quality standards. None of the areas within Alabama Power's service territory were designated as nonattainment areas.

On June 14, 2012, the EPA proposed a rule that would increase the stringency of the fine particulate matter national ambient air quality standards. If adopted, the proposed standards could result in the designation of new nonattainment areas within Alabama Power's service territory. As part of a related settlement, the EPA has agreed to finalize the proposed rule by December 14, 2012. 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.

Numerous petitions for administrative reconsideration of the MATS rule, including a petition by Southern Company and its subsidiaries, including Alabama Power, have been filed with the EPA. 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. The impact of the MATS rule will depend on the outcome of these and any other legal challenges and, therefore, cannot be determined at this time.

On August 21, 2012, the U.S. Court of Appeals for the District of Columbia Circuit vacated CSAPR in its entirety and directed the EPA to continue to administer the Clean Air Interstate Rule pending the EPA's development of a valid replacement. The vacatur of CSAPR creates additional uncertainty with respect to whether additional controls may be required for CAVR and best available retrofit technology compliance. On October 5, 2012, the EPA filed for review of the decision by the U.S. Court of Appeals for the District of Columbia Circuit. The ultimate outcome of this matter depends on the outcome of any legal challenges and further action by the EPA and cannot be determined at this time.

On August 29, 2012, the EPA published proposed revisions to the New Source Performance Standard (NSPS) for Stationary Combustion Turbines (CTs). If finalized, 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. 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.

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Alabama Power in Item 7 of the Form 10-K for additional information on the proposed rules regarding certain cooling water intake structures. The EPA has entered into an amended settlement agreement to extend the deadline for issuing a final rule until June 27, 2013. 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.

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Coal Combustion Byproducts

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts" of Alabama Power in Item 7 of the Form 10-K for additional information. 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. The ultimate outcome of these matters cannot be determined at this time.

Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Alabama Power in Item 7 of the Form 10-K for additional information.

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. As proposed, the standards would not apply to existing units. The EPA has delayed its plans to propose greenhouse gas emissions performance standards for modified sources and emissions guidelines 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.

On June 26, 2012, a three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit unanimously rejected all challenges to four of the EPA's actions relating to the greenhouse gas permitting programs under the Clean Air Act. These rules may impact the amount of time it takes to obtain prevention of significant deterioration permits for new generation and major modifications to existing generating units and the requirements ultimately imposed by those permits. The ultimate impact of these rules cannot be determined at this time and will depend on the outcome of any other legal challenges.

PSC Matters

Rate CNP

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail Rate Adjustments – Rate CNP" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate CNP" in Item 8 of the Form 10-K for additional information regarding Alabama Power's recovery of retail costs through Rate Certificated New Plant Power Purchase Agreement (Rate CNP) and Rate CNP Environmental. Alabama Power's under recovered Rate CNP balance as of September 30, 2012 was $14 million as compared to $6 million at December 31, 2011. Alabama Power's under recovered Rate CNP Environmental balance as of September 30, 2012 was $12 million as compared to $11 million at December 31, 2011. These under recovered balances at September 30, 2012 are included in deferred under recovered regulatory clause revenues on Alabama Power's Condensed Balance Sheet herein. For Rate CNP, this classification is based on an estimate, which includes such factors as purchased power capacity and energy demand. For Rate CNP Environmental, this classification is based on an estimate, which includes such factors as costs to comply with environmental mandates and energy demand. A change in any of these factors could have a material impact on the timing of any recovery of the under recovered retail costs.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Alabama Power in Item 7 of the Form 10-K for additional information. On September 17, 2012, the Alabama PSC approved and certificated the remaining 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 the 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.

Retail Fuel Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Fuel Cost Recovery" in Item 8 of the Form 10-K for information regarding Alabama Power's fuel cost recovery. Alabama Power's over recovered fuel costs as of September 30, 2012 totaled $1 million as compared to a $31 million under recovered balance at December 31, 2011. The over recovered fuel costs at September 30, 2012 are included in other regulatory liabilities, current and the under recovered fuel costs at December 31, 2011 are included in deferred under recovered regulatory clause revenues on Alabama Power's Condensed Balance Sheets herein. These classifications are based on estimates, which include such factors as weather, generation availability, energy demand, and the price of energy. A change in any of these factors could have a material impact on the timing of any return of the over recovered fuel costs.

Natural Disaster Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Natural Disaster Reserve" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Natural Disaster Reserve" in Item 8 of the Form 10-K for additional information regarding natural disaster cost recovery. At September 30, 2012, the NDR had an accumulated balance of $102 million, which is included in Alabama Power's Condensed Balance Sheet herein under other regulatory liabilities, deferred. The accruals are reflected as operations and maintenance expenses in Alabama Power's Condensed Statement of Income herein.

Compliance and Pension Cost Accounting Order

On November 6, 2012, the Alabama PSC approved an accounting order for certain compliance-related operations and maintenance expenditures for the years 2013 through 2017, as well as the incremental increase in operations 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 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. The 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.

Alabama Power expects that the accounting order and other cost containment measures will preclude a need for a rate adjustment under Rate RSE.

Income Tax Matters

Bonus Depreciation

In December 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 construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Alabama Power through 2013. Consequently, Alabama Power's positive cash flow benefit is estimated to be between $105 million and $120 million in 2012.

Other Matters

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Alabama Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) herein or in Note 3 to the financial statements of Alabama Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power's financial statements.

See the Notes to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Other Matters" of Alabama Power in Item 7 of the Form 10-K for additional information regarding the earthquake and tsunami that struck Japan in March 2011. On March 12, 2012, the NRC issued three orders and a request for information based on the 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, 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. See RISK FACTORS of Alabama Power in Item 1A of the Form 10-K for a discussion of certain risks associated with the 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 – 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.

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ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Alabama Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Alabama Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Alabama Power'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. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Alabama Power in Item 7 of the Form 10-K for a complete discussion of Alabama Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, and Pension and Other Postretirement Benefits.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Alabama Power in Item 7 of the Form 10-K for additional information. Alabama Power's financial condition remained stable at September 30, 2012. Alabama Power 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.

Net cash provided from operating activities totaled $1.1 billion for the first nine months of 2012, a decrease of $473 million as compared to the first nine months of 2011. The decrease in cash provided from operating activities was primarily due to an increase in fossil fuel stock, a decrease in deferred income taxes, and the timing of income tax payments and refunds associated with bonus depreciation. Net cash used for investing activities totaled $646 million for the first nine months of 2012 primarily due to gross property additions related to nuclear fuel and transmission, distribution, and steam generating equipment. Net cash used for financing activities totaled $417 million for the first nine months of 2012. This was primarily due to the payment of common stock dividends.

Fluctuations in cash flow from financing activities vary year to year based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first nine months of 2012 include increases of $200 million of securities due within one year, $187 million in retained earnings, $134 million in property, plant, and equipment associated with routine property additions, $114 million in customer accounts receivable due to seasonal variations in customer usage, $109 million in accumulated deferred income taxes related to bonus depreciation, and $93 million in fossil fuel stock, at average cost, and decreases of $202 million in long-term debt and $144 million in other accounts payable associated with the timing of property tax payments.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental regulations, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately $700 million will be required through September 30, 2013 to fund maturities and announced redemptions of long-term debt.

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Alabama Power's updated construction program for 2013 and 2014 includes anticipated costs for MATS compliance but does not include the potential incremental compliance cost estimates for the proposed water and coal combustion byproducts rules. Alabama Power's updated base level construction program and the potential incremental environmental compliance estimates for the proposed water and coal combustion byproducts rules (based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule) for 2013 and 2014 are as follows:

	2013	2014
Construction program:	(in millions)	
Base capital	$954	$1,117
Existing environmental statutes and regulations, including MATS	195	424
Total construction program base level capital investment	$1,149	$1,541
Potential incremental environmental compliance investment:		
Proposed water and coal combustion byproducts rules	$10	$160

See FUTURE EARNINGS POTENTIAL – "Environmental Statutes and Regulations – General" herein for additional information on Alabama Power's estimated capital expenditures to comply with the MATS rule and proposed water and coal combustion byproducts rules.

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; 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 new regulatory requirements; changes in the expected environmental compliance program; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

Alabama Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Alabama Power has primarily utilized funds from operating cash flows, short-term debt, security issuances, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Alabama Power in Item 7 of the Form 10-K for additional information.

Alabama Power's current liabilities sometimes exceed current assets because of Alabama Power's debt due within one year and the periodic use of short-term debt as a funding source primarily to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate significantly due to the seasonality of the business.

At September 30, 2012, Alabama Power had approximately $366 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2012, including expiration dates, were as follows:

Expires					Executable Term Loans		Due Within One Year[(a)]	
2012	2013	2014 and Beyond	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			(in millions)		(in millions)		(in millions)	

$—	$157	$1,150	$1,307	$1,307	$55	$—	$55	$102

(a) Reflects facilities expiring on or before September 30, 2013.

See Note 6 to the financial statements of Alabama Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

Most of these arrangements contain covenants that limit debt levels and typically contain cross default provisions that are restricted only to the indebtedness of Alabama Power. Alabama Power is currently in compliance with all such covenants. Alabama Power expects to renew its credit arrangements, as needed, prior to expiration. These credit arrangements provide liquidity support to Alabama Power's commercial paper borrowings and variable rate pollution control revenue bonds. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 2012 was approximately $793 million.

Alabama Power may meet short-term cash needs through its commercial paper program. Alabama Power 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 Alabama Power and the other traditional operating companies. Proceeds from such issuances for the benefit of Alabama Power are loaned directly to Alabama Power. The obligations of each traditional operating company under these arrangements are several and there is no cross affiliate credit support.

During the three months ended September 30, 2012, Alabama Power had no commercial paper or other short-term debt outstanding.

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

Credit Rating Risk

Alabama Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to below BBB- and/or Baa3. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, and energy price risk management. At September 30, 2012, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $291 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participant has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Alabama Power's ability to access capital markets, particularly the short-term debt market.

Market Price Risk

Alabama Power's market risk exposure relative to interest rate changes for the third quarter 2012 has not changed materially compared to the December 31, 2011 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Alabama Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation and other various cost recovery mechanisms, Alabama Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Alabama Power enters 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. Alabama Power continues to manage a retail fuel-hedging program implemented per the guidelines of the Alabama PSC. As such, Alabama Power had no material change in market risk exposure for the third quarter 2012 when compared with the December 31, 2011 reporting period.

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The changes in fair value of energy-related derivative contracts, substantially all of which are composed of regulatory hedges, for the three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value (in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(32)	$(48)
Contracts realized or settled	12	41
Current period changes[(a)]	12	(1)
Contracts outstanding at the end of the period, assets (liabilities), net	$(8)	$(8)

(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 three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value (in millions)	
Natural gas swaps	$19	$33
Natural gas options	5	7
Total changes	$24	$40

The net hedge volumes of energy-related derivative contracts were as follows:

	September 30, 2012	June 30, 2012	December 31, 2011
	mmBtu Volume (in millions)		
Commodity – Natural gas swaps	41	32	30
Commodity – Natural gas options	14	11	9
Total hedge volume	55	43	39

The weighted average swap contract cost above market prices was approximately $0.25 per mmBtu as of September 30, 2012, $0.93 per mmBtu as of June 30, 2012, and $1.45 per mmBtu as of December 31, 2011. The change in option premiums is primarily attributable to the volatility of the market and the underlying change in the natural gas price. A majority of the natural gas hedge gains and losses is recovered through Alabama Power's retail fuel cost recovery clause.

Regulatory hedges relate to Alabama Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through Alabama Power's fuel cost recovery clause.

Unrealized pre-tax gains and losses recognized in income for the three and nine months ended September 30, 2012 and 2011 for energy-related derivative contracts that are not hedges were not material.

Alabama Power 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 (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at September 30, 2012 were as follows:

	September 30, 2012 Fair Value Measurements			
	Total	Maturity		
	Fair Value	Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$—	$—	$—	$—
Level 2	(8)	(11)	3	—
Level 3	—	—	—	—
Fair value of contracts outstanding at end of period	$(8)	$(11)	$3	$—

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Alabama Power. Regulations to implement the Dodd-Frank Act will impose additional requirements on the use of over-the-counter derivatives for both Alabama Power and its derivative counterparties, which could affect both the use and cost of over-the-counter derivatives. Although all relevant regulations have not been finalized, Alabama Power does not expect the impact of these rules to be material.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Alabama Power in Item 7 and Note 1 under "Financial Instruments" and Note 11 to the financial statements of Alabama Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

Financing Activities

In January 2012, Alabama Power issued $250 million aggregate principal amount of Series 2012A 4.10% Senior Notes due January 15, 2042. The proceeds were used for general corporate purposes, including Alabama Power's continuous construction program. Alabama Power settled $100 million of interest rate swaps related to this issuance at a loss of $1 million. The loss is being amortized to interest expense, in earnings, over 10 years.

In March 2012, Alabama Power redeemed approximately $1 million aggregate principal amount of The Industrial Development Board of the Town of West Jefferson Solid Waste Disposal Revenue Bonds (Alabama Power Company Miller Plant Project), Series 2008.

In April 2012, Alabama Power redeemed $250 million aggregate principal amount of its Series 2007B 5.875% Senior Notes due April 1, 2047.

Subsequent to September 30, 2012, Alabama Power issued $400 million aggregate principal amount of Series 2012B 0.550% Senior Notes due October 15, 2015. The proceeds were used to redeem, on October 15, 2012, $200 million aggregate principal amount of Series 2007C 6.00% Senior Insured Monthly Notes due October 15, 2037 and for general corporate purposes, including Alabama Power's continuous construction program.

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

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GEORGIA POWER COMPANY

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$2,335	$2,609	$5,786	$6,494
Wholesale revenues, non-affiliates	73	90	214	270
Wholesale revenues, affiliates	5	4	14	31
Other revenues	85	85	249	247
Total operating revenues	2,498	2,788	6,263	7,042
Operating Expenses:				
Fuel	630	838	1,642	2,299
Purchased power, non-affiliates	79	127	266	297
Purchased power, affiliates	181	193	469	513
Other operations and maintenance	398	453	1,243	1,294
Depreciation and amortization	186	180	559	531
Taxes other than income taxes	100	102	281	283
Total operating expenses	1,574	1,893	4,460	5,217
Operating Income	924	895	1,803	1,825
Other Income and (Expense):				
Allowance for equity funds used during construction	15	26	41	73
Interest expense, net of amounts capitalized	(95)	(90)	(276)	(257)
Other income (expense), net	(1)	(4)	(10)	(10)
Total other income and (expense)	(81)	(68)	(245)	(194)
Earnings Before Income Taxes	843	827	1,558	1,631
Income taxes	314	303	558	583
Net Income	529	524	1,000	1,048
Dividends on Preferred and Preference Stock	4	4	13	13
Net Income After Dividends on Preferred and Preference Stock	$525	$520	$987	$1,035

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Net Income After Dividends on Preferred and Preference Stock	$525	$520	$987	$1,035
Other comprehensive income (loss):				
Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $1 and $1, respectively	1	1	2	2
Total other comprehensive income (loss)	1	1	2	2
Comprehensive Income	$526	$521	$989	$1,037

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2012	2011
	(in millions)	
Operating Activities:		
Net income	$1,000	$1,048
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	684	646
Deferred income taxes	243	422
Allowance for equity funds used during construction	(41)	(73)
Retail fuel cost over recovery—long-term	118	—
Deferred expenses	(20)	(30)
Other, net	23	(38)
Changes in certain current assets and liabilities —		
-Receivables	(23)	(68)
-Fossil fuel stock	(126)	115
-Prepaid income taxes	40	81
-Other current assets	4	(2)
-Accounts payable	(57)	(46)
-Accrued taxes	40	(1)
-Accrued compensation	(43)	(18)
-Retail fuel cost over recovery—short-term	81	—
-Other current liabilities	48	43
Net cash provided from operating activities	1,971	2,079
Investing Activities:		
Property additions	(1,291)	(1,363)
Investment of restricted cash	(234)	—
Distribution of restricted cash	234	—
Nuclear decommissioning trust fund purchases	(630)	(1,645)
Nuclear decommissioning trust fund sales	628	1,641
Cost of removal, net of salvage	(42)	(21)
Change in construction payables, net of joint owner portion	(141)	108
Other investing activities	9	(9)
Net cash used for investing activities	(1,467)	(1,289)
Financing Activities:		
Decrease in notes payable, net	(513)	(575)
Proceeds —		
Capital contributions from parent company	29	199
Pollution control revenue bonds issuances	234	604
Senior notes issuances	1,900	550
Other long-term debt issuances	—	250
Redemptions —		
Pollution control revenue bonds	(234)	(286)
Senior notes	(550)	(277)
Other long-term debt	(250)	(509)
Payment of preferred and preference stock dividends	(13)	(13)

Payment of common stock dividends	(681)	(672)
Other financing activities	(14)	(3)
Net cash provided from (used for) financing activities	(92)	(732)
Net Change in Cash and Cash Equivalents	412	58
Cash and Cash Equivalents at Beginning of Period	13	8
Cash and Cash Equivalents at End of Period	$425	$66
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $17 and $27 capitalized for 2012 and 2011, respectively)	$237	$240
Income taxes, net	186	(2)
Noncash transactions—accrued property additions at end of period	253	375

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2012	At December 31, 2011
	(in millions)	
Current Assets:		
Cash and cash equivalents	$425	$13
Receivables —		
Customer accounts receivable	713	571
Unbilled revenues	224	172
Under recovered regulatory clause revenues	—	137
Joint owner accounts receivable	48	87
Other accounts and notes receivable	54	61
Affiliated companies	28	26
Accumulated provision for uncollectible accounts	(11)	(13)
Fossil fuel stock, at average cost	849	723
Materials and supplies, at average cost	403	406
Vacation pay	84	82
Prepaid income taxes	122	71
Other regulatory assets, current	68	108
Other current assets	111	106
Total current assets	3,118	2,550
Property, Plant, and Equipment:		
In service	28,667	27,804
Less accumulated provision for depreciation	10,537	10,296
Plant in service, net of depreciation	18,130	17,508
Other utility plant, net	51	55
Nuclear fuel, at amortized cost	458	443
Construction work in progress	3,342	3,274
Total property, plant, and equipment	21,981	21,280
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	45	63
Nuclear decommissioning trusts, at fair value	684	667
Miscellaneous property and investments	44	44
Total other property and investments	773	774
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	760	756
Other regulatory assets, deferred	1,534	1,604
Other deferred charges and assets	255	187
Total deferred charges and other assets	2,549	2,547
Total Assets	$28,421	$27,151

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2012	At December 31, 2011
	(in millions)	
Current Liabilities:		
Securities due within one year	$1,455	$455
Notes payable	2	515
Accounts payable —		
Affiliated	378	337
Other	441	686
Customer deposits	230	213
Accrued taxes —		
Accrued income taxes	134	50
Other accrued taxes	269	304
Accrued interest	117	92
Accrued vacation pay	60	60
Accrued compensation	87	125
Liabilities from risk management activities	31	68
Other regulatory liabilities, current	75	65
Over recovered regulatory clause revenues, current	81	—
Other current liabilities	131	171
Total current liabilities	3,491	3,141
Long-term Debt	8,121	8,018
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,737	4,388
Deferred credits related to income taxes	116	122
Accumulated deferred investment tax credits	211	220
Employee benefit obligations	922	905
Asset retirement obligations	773	734
Other cost of removal obligations	94	110
Other deferred credits and liabilities	311	224
Total deferred credits and other liabilities	7,164	6,703
Total Liabilities	18,776	17,862
Preferred Stock	45	45
Preference Stock	221	221
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — 9,261,500 shares	398	398
Paid-in capital	5,570	5,522
Retained earnings	3,418	3,112
Accumulated other comprehensive loss	(7)	(9)
Total common stockholder's equity	9,379	9,023
Total Liabilities and Stockholder's Equity	$28,421	$27,151

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2012 vs. THIRD QUARTER 2011
AND
YEAR-TO-DATE 2012 vs. YEAR-TO-DATE 2011
OVERVIEW
Georgia Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service territory located within the State of Georgia and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include the 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, reliability, and fuel. In addition, Georgia Power is currently constructing two new nuclear units. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future.
Georgia Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Georgia Power in Item 7 of the Form 10-K.
RESULTS OF OPERATIONS
Net Income

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$5	1.0	$(48)	(4.6)

Georgia Power's net income after dividends on preferred and preference stock for the third quarter 2012 was $525 million compared to $520 million for the corresponding period in 2011. The increase was primarily due to lower non-fuel operating expenses largely offset by lower retail revenues, as well as lower AFUDC and higher income taxes. Retail revenues in the third quarter 2012 decreased primarily due to milder weather and a decrease in customer usage, partially offset by an increase related to retail revenue rate effects.
Georgia Power's net income after dividends on preferred and preference stock for year-to-date 2012 was $987 million compared to $1.04 billion for the corresponding period in 2011. The decrease was primarily due to lower operating revenues primarily as a result of milder weather and a decrease in customer usage, as well as lower AFUDC, higher interest expense reflecting a 2011 litigation settlement, and higher depreciation and amortization. These income reductions were partially offset by retail revenue rate effects, lower operations and maintenance expenses, and lower income taxes.
Retail Revenues

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(274)	(10.5)	$(708)	(10.9)

In the third quarter 2012, retail revenues were $2.34 billion compared to $2.61 billion for the corresponding period in 2011. For year-to-date 2012, retail revenues were $5.79 billion compared to $6.49 billion for the corresponding period in 2011.

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Details of the change to retail revenues were as follows:

	Third Quarter 2012 (in millions)	(% change)	Year-to-Date 2012 (in millions)	(% change)
Retail – prior year	$2,609		$6,494	
Estimated change in –				
Rates and pricing	60	2.3	108	1.7
Sales growth (decline)	(39)	(1.5)	(44)	(0.7)
Weather	(64)	(2.4)	(157)	(2.4)
Fuel cost recovery	(231)	(8.9)	(615)	(9.5)
Retail – current year	$2,335	(10.5)%	$5,786	(10.9)%

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 due to base tariff increases effective April 1, 2012 related to placing Plant McDonough-Atkinson Units 4 and 5 in service, the NCCR and demand-side management tariff increases effective January 1, 2012, as approved by the Georgia PSC, and, for year-to-date 2012, the rate pricing effect of decreased customer usage. These increases were partially offset by lower contributions from market-driven rates from commercial and industrial customers.

Revenues attributable to changes in sales decreased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011. Weather-adjusted residential KWH sales decreased 4.0%, weather-adjusted commercial KWH sales decreased 0.2%, and weather-adjusted industrial KWH sales decreased 1.7% in the third quarter 2012 when compared to the corresponding period in 2011. Weather-adjusted residential KWH sales decreased 1.3%, weather-adjusted commercial KWH sales decreased 0.5%, and weather-adjusted industrial KWH sales decreased 1.0% for year-to-date 2012 when compared to the corresponding period in 2011. Georgia Power had an increase of over 12,000 new residential customers in 2012. However, weather-adjusted usage per residential customer decreased 4.5% and 1.9% in the third quarter and year-to-date 2012, respectively. In addition to the continued impact of the sluggish economy, Georgia Power implemented five residential and two commercial energy efficiency programs in 2011. Participation in these programs has continued to increase and has reduced residential and commercial KWH energy sales by approximately 0.2% and 0.3%, respectively, for year-to-date 2012 when compared to the corresponding period in 2011.

Revenues resulting from changes in weather decreased in the third quarter 2012 when compared to the corresponding period in 2011 due to milder weather in 2012. Revenues resulting from changes in weather decreased year-to-date 2012 when compared to the corresponding period in 2011 as a result of milder weather in 2012 and cold weather in January 2011.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues decreased $231 million and $615 million in the third quarter and year-to-date 2012, respectively, when compared to the corresponding periods in 2011 due to both lower demand, as discussed above, and lower costs primarily due to lower natural gas prices.

Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses, including the energy component of purchased power costs, and do not affect net income. Georgia Power lowered fuel rates effective June 1, 2012 and has filed a request with the Georgia PSC to further lower fuel rates effective January 1, 2013. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information.

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GEORGIA POWER COMPANY
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Wholesale Revenues – Non-Affiliates

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(17)	(18.9)	$(56)	(20.7)

Wholesale revenues from sales to non-affiliates consist of PPAs and short-term opportunity sales. Wholesale revenues from PPAs have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment. Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Georgia Power's and 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 Georgia Power's variable cost of energy.

In the third quarter 2012, wholesale revenues from non-affiliates were $73 million compared to $90 million in the corresponding period in 2011. For year-to-date 2012, wholesale revenues from non-affiliates were $214 million compared to $270 million in the corresponding period in 2011. The decreases were primarily due to 24.2% and 32.7% decreases in KWH sales in the third quarter and year-to-date 2012, respectively, due to lower demand resulting from milder weather and the availability of market energy at a lower cost than Georgia Power-owned generation.

Wholesale Revenues – Affiliates

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$1	25.0	$(17)	(54.8)

Wholesale revenues from sales to affiliated companies within the Southern Company system will vary depending on demand and the availability and cost of generating resources at each company. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since the energy is generally sold at marginal cost.

In the third quarter 2012 and 2011, wholesale revenues from affiliates were immaterial. For year-to-date 2012, wholesale revenues from affiliates were $14 million compared to $31 million in the corresponding period in 2011. The decrease was primarily due to a 31.3% decrease in KWH sales due to lower demand resulting from milder weather in 2012 and the availability of market energy at a lower cost than Georgia Power-owned generation.

Fuel and Purchased Power Expenses

	Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$(208)	(24.8)	$(657)	(28.6)
Purchased power — non-affiliates	(48)	(37.8)	(31)	(10.4)
Purchased power — affiliates	(12)	(6.2)	(44)	(8.6)
Total fuel and purchased power expenses	$(268)		$(732)	

In the third quarter 2012, total fuel and purchased power expenses were $890 million compared to $1.16 billion in the corresponding period in 2011. For year-to-date 2012, total fuel and purchased power expenses were $2.38 billion compared to $3.11 billion for the corresponding period in 2011. The decreases were primarily due to the lower cost of natural gas used for generation and lower demand related to milder weather in 2012.

Fuel and purchased power energy transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Georgia Power's fuel cost recovery mechanism. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" herein for additional information.

Details of Georgia Power's generation and purchased power were as follows:

	Third Quarter 2012	Third Quarter 2011	Year-to-Date 2012	Year-to-Date 2011
Total generation (billions of KWHs)	17	19	46	53
Total purchased power (billions of KWHs)	8	8	22	19
Sources of generation (percent) —				
Coal	45	66	44	65
Nuclear	23	21	26	22
Gas	32	12	29	12
Hydro	—	1	1	1
Cost of fuel, generated (cents per net KWH) —				
Coal	4.56	4.74	4.74	4.73
Nuclear	0.89	0.81	0.86	0.76
Gas	3.00	5.48	2.94	5.10
Average cost of fuel, generated (cents per net KWH)	3.21	3.99	3.19	3.90
Average cost of purchased power (cents per net KWH)[(a)]	4.45	5.51	4.18	5.61

(a) Average cost of purchased power includes fuel purchased by Georgia Power for tolling agreements where power is generated by the provider.

Fuel

In the third quarter 2012, fuel expense was $630 million compared to $838 million in the corresponding period in 2011. The decrease was primarily due to a 6.3% decrease in KWHs generated as a result of lower KWH demand and a 19.6% decrease in the average cost of fuel per KWH generated primarily due to lower natural gas prices.

For year-to-date 2012, fuel expense was $1.64 billion compared to $2.30 billion in the corresponding period in 2011. The decrease was primarily due to a 12.3% decrease in KWHs generated as a result of lower KWH demand and an 18.2% decrease in the average cost of fuel per KWH generated primarily due to lower natural gas prices.

Purchased Power – Non-Affiliates

In the third quarter 2012, purchased power expense from non-affiliates was $79 million compared to $127 million in the corresponding period in 2011. The decrease was due to a 21.8% decrease in the volume of KWHs purchased and a decrease of 14.0% in the average cost per KWH purchased primarily due to lower natural gas prices.

For year-to-date 2012, purchased power expense from non-affiliates was $266 million compared to $297 million in the corresponding period in 2011. The decrease was due to a decrease of 30.4% in the average cost per KWH purchased primarily due to lower natural gas prices, partially offset by a 30.3% increase in the volume of KWHs purchased as the market cost of available energy was lower than the additional Georgia Power-owned generation available.

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Energy purchases from non-affiliates will vary depending on the market prices of wholesale energy as compared to the cost of 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.

Purchased Power – Affiliates

In the third quarter 2012, purchased power expense from affiliates was $181 million compared to $193 million in the corresponding period in 2011. The decrease was due to an 18.8% decrease in the average cost per KWH purchased, reflecting lower natural gas prices, partially offset by a 6.4% increase in the volume of KWHs purchased as the cost of available energy was lower than the Georgia Power-owned generation available.

For year-to-date 2012, purchased power expense from affiliates was $469 million compared to $513 million in the corresponding period in 2011. The decrease was due to a 24.9% decrease in the average cost per KWH purchased, reflecting lower natural gas prices, partially offset by a 10.4% increase in the volume of KWHs purchased as the cost of the available energy was lower than the Georgia Power-owned generation available.

Energy purchases from affiliates will vary depending on the demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, all as approved by the FERC.

Other Operations and Maintenance Expenses

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(55)	(12.1)	$(51)	(3.9)

In the third quarter 2012, other operations and maintenance expenses were $398 million compared to $453 million in the corresponding period in 2011. For year-to-date 2012, other operations and maintenance expenses were $1.24 billion compared to $1.29 billion in the corresponding period in 2011. The decreases in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 were primarily due to decreases in transmission and distribution maintenance and the timing of outages as the result of cost containment efforts to offset the effect of milder weather in 2012, and decreases in uncollectible account expense of $6 million and $15 million, respectively, partially offset by increases in employee benefits expense of $10 million and $30 million, respectively.

Depreciation and Amortization

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$6	3.3	$28	5.3

In the third quarter 2012, depreciation and amortization was $186 million compared to $180 million in the corresponding period in 2011. For year-to-date 2012, depreciation and amortization was $559 million compared to $531 million in the corresponding period in 2011. The increases were primarily due to increases of $15 million and $42 million, respectively, in depreciation on additional plant in service primarily related to new generation at Plant McDonough-Atkinson Units 4 and 5, partially offset by $9 million and $18 million, respectively, in amortization of the regulatory liability for state income tax credits as authorized by the Georgia PSC. See Note 3 to the financial statements of Georgia Power under "Income Tax Matters – Georgia State Income Tax Credits" in Item 8 of the Form 10-K.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Allowance for Equity Funds Used During Construction

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(11)	(42.3)	$(32)	(43.8)

In the third quarter 2012, AFUDC equity was $15 million compared to $26 million in the corresponding period in 2011. For year-to-date 2012, AFUDC equity was $41 million compared to $73 million in the corresponding period in 2011. The decreases were primarily due to the completion of Plant McDonough-Atkinson Units 4 and 5 in December 2011 and April 2012, respectively.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$5	5.6	$19	7.4

In the third quarter 2012, interest expense, net of amounts capitalized was $95 million compared to $90 million in the corresponding period in 2011. The increase was immaterial. For year-to-date 2012, interest expense, net of amounts capitalized was $276 million compared to $257 million in the corresponding period in 2011. The increase was primarily due to a $23 million reduction in interest expense in 2011 resulting from the settlement of litigation with the Georgia Department of Revenue, as well as a $10 million decrease in allowance for debt funds used during construction due to the completion of Plant McDonough-Atkinson Units 4 and 5 discussed above. See Note 3 to the financial statements of Georgia Power under "Income Tax Matters – Georgia State Income Tax Credits" in Item 8 of the Form 10-K for additional information on the litigation settlement.

Income Taxes

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$11	3.6	$(25)	(4.3)

In the third quarter 2012, income taxes were $314 million compared to $303 million in the corresponding period in 2011. The increase was primarily due to higher pre-tax earnings and a decrease in non-taxable AFUDC equity.
For year-to-date 2012, income taxes were $558 million compared to $583 million in the corresponding period in 2011. The decrease was primarily due to lower pre-tax earnings and state income tax credits, partially offset by a decrease in non-taxable AFUDC equity.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Georgia Power's future earnings potential. The level of Georgia Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power's business of selling electricity. These factors include Georgia Power's 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. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Georgia Power's service territory. Changes in economic conditions impact sales for Georgia 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. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Georgia Power in Item 7 of the Form 10-K.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

New Source Review Actions

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – New Source Review Actions" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Environmental Matters – New Source Review Actions" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Environmental Matters – New Source Review Actions" herein for additional information. The case against Georgia Power was administratively closed in 2001 and has not been reopened. The ultimate outcome of this matter cannot be determined at this time.

Climate Change Litigation

Kivalina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Kivalina Case" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Environmental Matters – Climate Change Litigation – Kivalina Case" in Item 8 of the Form 10-K for additional information. 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 October 8, 2012, the plaintiffs filed for review of the decision by the U.S. Court of Appeals for the Ninth Circuit. The ultimate outcome of this matter cannot be determined at this time.

Hurricane Katrina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" in Item 8 of the Form 10-K for additional information. On March 20, 2012, the U.S. District Court for the Southern District of Mississippi dismissed the amended class action complaint filed in May 2011 by the plaintiffs. On April 16, 2012, the plaintiffs appealed the case to the U.S. Court of Appeals for the Fifth Circuit. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – General" of Georgia Power in Item 7 of the Form 10-K for information regarding Georgia Power's estimated base level capital expenditures to comply with existing statutes and regulations for 2012 through 2014, as well as Georgia Power's preliminary estimates for potential incremental environmental compliance investments associated with complying with the EPA's final Mercury and Air Toxics Standards (MATS) rule (formerly referred to as the Utility Maximum Achievable Control Technology rule) and the EPA's proposed water and coal combustion byproducts rules.

Georgia Power is continuing to develop its compliance strategy and to assess the potential costs of complying with the MATS rule and the EPA's proposed water and coal combustion byproducts rules. As part of the development of its compliance strategy for the MATS rule, Georgia Power has entered into agreements for the construction of baghouses to control the emissions of mercury and particulates from certain generating units. While the final MATS compliance plan is still being developed and the ultimate costs remain uncertain, compliance decisions made in 2012 have allowed Georgia Power to further develop its cost estimates for compliance with the MATS rule. As a result, estimated compliance costs for the MATS rule in the 2012 through 2014 period (in addition to $237 million included in base environmental capital disclosed in the Form 10-K) have been revised from up to $320 million to approximately $440 million as follows:

	2012	2013	2014
		(in millions)	
MATS rule	$—	$—	$440

In addition, Georgia Power has further developed its estimated capital expenditures and associated timing of these expenditures to comply with the proposed water and coal combustion byproducts rules, resulting in a reduction, due primarily to timing, in estimated compliance costs for 2012 through 2014. Potential incremental environmental compliance investments to comply with the proposed water and coal combustion byproducts rules have been revised from up to $640 million to approximately $250 million over the 2012 through 2014 period, based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule. These potential incremental environmental compliance investments are estimated as follows:

	2012	2013	2014
		(in millions)	
Proposed water and coal combustion byproducts rules	$5	$55	$190

While Georgia Power's ultimate costs of compliance with the MATS rule and the proposed water and coal combustion byproducts rules remain uncertain, Georgia Power estimates that compliance costs through 2021 (assuming that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule) will be at the low end of the $5 billion to $7 billion range provided in the Form 10-K.

Georgia Power's ultimate compliance strategy and actual future environmental capital expenditures are dependent on development of the final MATS compliance plan and will be affected by the final requirements of new or revised environmental regulations that are promulgated; the outcome of any legal challenges to the environmental rules; the cost, availability, and existing inventory of emissions allowances; and Georgia Power's fuel mix. Compliance costs may arise from retirement and replacement of existing units, installation of additional environmental controls, upgrades to the transmission system, and changing fuel sources for certain existing units. The ultimate outcome of these matters cannot be determined at this time.

As part of SEGCO's environmental compliance strategy, the Board of Directors of SEGCO approved adding natural gas as the primary fuel source in 2015 for its 1,000 MWs of generating capacity and the construction of the necessary natural gas pipeline. SEGCO is jointly owned by Georgia Power and Alabama Power. The capacity of SEGCO's units is sold to Georgia Power and Alabama Power through a PPA. See Note 4 to the financial statements of Georgia Power in Item 8 of the Form 10-K for additional information. The impact of SEGCO's ultimate compliance strategy on the 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 impact on Georgia Power's financial statements.

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Georgia Power in Item 7 of the Form 10-K for additional information on the eight-hour ozone and fine particulate matter air quality standards, the MATS rule, the Cross-State Air Pollution Rule (CSAPR), and the Clean Air Visibility Rule (CAVR).

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 Georgia Power's service territory designated as a nonattainment area was a 15-county area within metropolitan Atlanta. The potential impact of the revised standard and nonattainment designation will depend on further evaluation and implementation by the Georgia Environmental Protection Division and cannot be determined at this time.

On June 14, 2012, the EPA proposed a rule that would increase the stringency of the fine particulate matter national ambient air quality standards. If adopted, the proposed standards could result in the designation of new nonattainment areas within Georgia Power's service territory. As part of a related settlement, the EPA has agreed to finalize the proposed rule by December 14, 2012. 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.

Numerous petitions for administrative reconsideration of the MATS rule, including a petition by Southern Company and its subsidiaries, including Georgia Power, have been filed with the EPA. 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. The impact of the MATS rule will depend on the outcome of these and any other legal challenges and, therefore, cannot be determined at this time.

On August 21, 2012, the U.S. Court of Appeals for the District of Columbia Circuit vacated CSAPR in its entirety and directed the EPA to continue to administer the Clean Air Interstate Rule pending the EPA's development of a valid replacement. The vacatur of CSAPR creates additional uncertainty with respect to whether additional controls may be required for CAVR and best available retrofit technology compliance. On October 5, 2012, the EPA filed for review of the decision by the U.S. Court of Appeals for the District of Columbia Circuit. The ultimate outcome of this matter depends on the outcome of any legal challenges and further action by the EPA and cannot be determined at this time.

On August 29, 2012, the EPA published proposed revisions to the New Source Performance Standard (NSPS) for Stationary Combustion Turbines (CTs). If finalized, 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. 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.

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Georgia Power in Item 7 of the Form 10-K for additional information on the proposed rules regarding certain cooling water intake structures. The EPA has entered into an amended settlement agreement to extend the deadline for issuing a final rule until June 27, 2013. 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.

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Coal Combustion Byproducts

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts" of Georgia Power in Item 7 of the Form 10-K for additional information. 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. The ultimate outcome of these matters cannot be determined at this time.

Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Georgia Power in Item 7 of the Form 10-K for additional information.

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. As proposed, the standards would not apply to existing units. The EPA has delayed its plans to propose greenhouse gas emissions performance standards for modified sources and emissions guidelines 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.

On June 26, 2012, a three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit unanimously rejected all challenges to four of the EPA's actions relating to the greenhouse gas permitting programs under the Clean Air Act. These rules may impact the amount of time it takes to obtain prevention of significant deterioration permits for new generation and major modifications to existing generating units and the requirements ultimately imposed by those permits. The ultimate impact of these rules cannot be determined at this time and will depend on the outcome of any other legal challenges.

PSC Matters

Rate Plans

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Rate Plans" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Rate Plans" in Item 8 of the Form 10-K for additional information on Georgia Power's 2010 ARP.

In accordance with the terms of the 2010 ARP, on November 1, 2012, Georgia Power filed the following tariff adjustments with the Georgia PSC to become effective on January 1, 2013:

- Increase the DSM tariffs by approximately $16 million;
- Increase the traditional base tariffs by approximately $58 million to recover the revenue requirements for Plant McDonough-Atkinson Units 4, 5, and 6 for the period through December 31, 2013, which also reflects a separate settlement agreement associated with the June 30, 2011 quarterly construction monitoring report for Plant McDonough-Atkinson (see Note 3 to the financial statements of Georgia Power under "Construction – Other Construction" in Item 8 of the Form 10-K for additional information); and
- Increase the MFF tariff, consistent with the adjustments above, as well as those related to the IFR and NCCR tariff adjustments described under "Fuel Cost Recovery" and "Construction – Nuclear," respectively, herein.

Fuel Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

On June 21, 2012, the Georgia PSC approved a 19% decrease in Georgia Power's fuel cost recovery rates, which reduced annual billings by $567 million effective June 1, 2012. The decrease in fuel costs resulted from lower natural gas prices as a result of increased natural gas supplies.

As of September 30, 2012, Georgia Power's fuel cost over recovery balance totaled $199 million. This balance is slightly below the $200 million required to automatically trigger the Georgia PSC's approved IFR adjustment mechanism. On November 1, 2012, Georgia Power filed a request with the Georgia PSC to reduce fuel cost recovery rates effective January 1, 2013 using the IFR process. The requested reduction would reduce annual billings by approximately $122 million. In accordance with the IFR process, the Georgia PSC will have 30 days to consider Georgia Power's request. The ultimate outcome of this matter cannot be determined at this time.

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, any changes in the billing factor will not have a significant effect on Georgia Power's revenues or net income, but will affect cash flow. See Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" herein for additional information.

2011 Integrated Resource Plan Update

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," " – Water Quality," and " – Coal Combustion Byproducts" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Rate Plans" and " – 2011 Integrated Resource Plan Update" in Item 8 of the Form 10-K 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; the 2010 ARP; and the 2011 IRP Update.

On March 20, 2012, the Georgia PSC approved Georgia Power's request to decertify and retire two coal-fired generation units at Plant Branch as of October 31, 2013 and December 31, 2013 and an oil-fired unit at Plant Mitchell as of March 26, 2012, which was included in Georgia Power's 2011 IRP Update. 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. The PPAs remain subject to FERC approval. The ultimate outcome of this matter cannot be determined at this time.

Separately, on October 16, 2012, the Georgia PSC approved a 50 MW PPA with a Qualifying Facility for capacity and energy that will commence in 2015 and end in 2035.

Advanced Solar Initiative

Georgia Power filed a new solar initiative with the Georgia PSC on September 26, 2012. If approved, Georgia Power may acquire up to 210 MWs of additional solar capacity over a three-year period through long-term contracts. The ultimate outcome of this matter cannot be determined at this time.

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Income Tax Matters

Bonus Depreciation

In December 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 construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Georgia Power through 2013. Consequently, Georgia Power's positive cash flow benefit is estimated to be between $410 million and $460 million in 2012.

Construction

Nuclear

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Construction – Nuclear" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Construction – Nuclear" in Item 8 of the Form 10-K for additional information regarding the construction of Plant Vogtle Units 3 and 4.

On February 16, 2012, a group of petitioners who had intervened in the NRC's combined construction and operating licenses (COLs) proceedings for Plant Vogtle Units 3 and 4 filed a petition in the U.S. Court of Appeals for the District of Columbia Circuit seeking judicial review and a stay of the NRC's issuance of the COLs. In addition, on February 16, 2012, another group of petitioners filed a petition with the U.S. Court of Appeals for the District of Columbia Circuit seeking judicial review of the NRC's certification of the Westinghouse Design Control Document, as amended (DCD). On April 3, 2012, the U.S. Court of Appeals for the District of Columbia Circuit granted a motion filed by these two groups of petitioners to consolidate their challenges. On April 18, 2012, another group of petitioners filed a motion to stay the effectiveness of the order issuing the COLs for Plant Vogtle Units 3 and 4 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.

In 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4. In addition, the Georgia PSC voted to approve inclusion of the related CWIP accounts in rate base. Also in 2009, the Governor of the State of Georgia signed into law the Georgia Nuclear Energy Financing Act that allows Georgia Power to recover financing costs for nuclear construction projects by including the related CWIP accounts in rate base during the construction period. With respect to Plant Vogtle Units 3 and 4, this legislation allows Georgia Power to recover projected financing costs of approximately $1.7 billion during the construction period beginning in 2011, which reduces the projected in-service cost to approximately $4.4 billion. The Georgia PSC has ordered Georgia Power to report against this total certified cost of approximately $6.1 billion. On August 21, 2012, the Georgia PSC voted to approve Georgia Power's sixth semi-annual construction monitoring report including total costs of $2.0 billion for Plant Vogtle Units 3 and 4 incurred through December 31, 2011. Georgia Power will continue to file construction monitoring reports by February 28 and August 31 of each year during the construction period.

In addition, in December 2010, the Georgia PSC approved Georgia Power's NCCR tariff. The NCCR tariff became effective January 1, 2011 and adjustments are filed with the Georgia PSC on November 1 of each year to become effective on January 1 of the following year. On November 1, 2012, Georgia Power filed to increase the NCCR tariff by approximately $50 million effective January 1, 2013. 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 September 30, 2012, approximately $59 million of these 2009 and 2010 costs remained in CWIP.

Georgia Power, Oglethorpe Power Corporation, the Municipal Electric Authority of Georgia, and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners (collectively, Owners) and Westinghouse and Stone & Webster, Inc. (collectively, Contractor) have established both informal and formal dispute resolution procedures in accordance with the engineering, procurement, and construction agreement for Plant Vogtle Units 3 and 4 (Vogtle 3 and 4 Agreement) in order to resolve issues arising during the course of constructing a project of this magnitude. The Contractor and Georgia Power (on behalf of the Owners) have successfully initiated both formal and informal claims through these procedures, including ongoing claims, to resolve disputes. When matters are not resolved through these procedures, the parties may proceed to litigation. The Contractor and the Owners are involved in litigation with respect to certain claims that have not been resolved through the formal dispute resolution process.

During the course of construction activities, issues have arisen that may impact the project budget and schedule. The most significant issues relate to costs associated with design changes to the DCD and costs associated with delays in the project schedule related to the timing of approval of the DCD and issuance of the COLs by the NRC. The Owners and the Contractor have begun negotiations regarding these issues, including the assertion by the Contractor that the Owners are responsible for these costs under the terms of the Vogtle 3 and 4 Agreement. Through correspondence sent to the Owners, the Contractor provided its proposed adjustment to the contract price and initiated the formal dispute resolution process. The Contractor's 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. Georgia Power has not agreed with the amount of these proposed adjustments or that the Owners have responsibility for any 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 the costs related to these issues. 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 the costs related to these issues and seeking payment from the Owners of the full amount of these costs. While litigation has commenced, Georgia Power expects negotiations with the Contractor to continue with respect to cost and schedule during which time the parties will attempt to reach a mutually acceptable compromise of their positions. Georgia Power intends to vigorously defend its positions. If these costs ultimately are imposed upon the Owners, Georgia Power would seek an amendment to the certified cost of Plant Vogtle Units 3 and 4, if necessary. In connection with these negotiations, the Owners are evaluating whether maintaining the currently scheduled commercial operation dates of 2016 and 2017 remains in the best interest of their customers. Additional claims by the Contractor or Georgia Power (on behalf of the Owners) are expected to arise throughout the construction of Plant Vogtle Units 3 and 4.

In addition, there are processes in place that are designed to assure compliance with the design requirements specified in the DCD and the COLs, including rigorous inspection by Southern Nuclear and the NRC that occurs throughout construction. During a routine inspection in April 2012, the NRC identified that certain details of the rebar construction in the Plant Vogtle Unit 3 nuclear island were not consistent with the DCD. In May 2012, Southern Nuclear received an official notice of violation relating to these findings from the NRC. The design changes were determined to have minimal safety significance and, on October 18, 2012, the NRC approved a license amendment request to clarify that the nuclear island concrete and rebar construction will conform to NRC requirements. Various inspection and other issues are expected to arise from time to time as construction proceeds, which may result in additional license amendments or require other resolution.

There are pending technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4, including legal challenges to the NRC issuance of the COLs and certification of the DCD. Similar additional challenges at the state and federal level are expected as construction proceeds.

See RISK FACTORS of Georgia Power 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.

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

Other Construction

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Construction – Other Construction" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Construction – Other Construction" in Item 8 of the Form 10-K for additional information.

Plant McDonough Unit 1 was retired on February 29, 2012. Georgia Power placed Plant McDonough-Atkinson Unit 5 into service on April 26, 2012 and Plant McDonough-Atkinson Unit 6 into service on October 28, 2012.

Other Matters

Georgia Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Georgia Power is subject to certain claims and legal actions arising in the ordinary course of business. Georgia Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Georgia Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) herein or in Note 3 to the financial statements of Georgia Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Georgia Power's financial statements.

See the Notes to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Other Matters" of Georgia Power in Item 7 of the Form 10-K for additional information regarding the earthquake and tsunami that struck Japan in March 2011. On March 12, 2012, the NRC issued three orders and a request for information based on the 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. See RISK FACTORS of Georgia Power 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.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Georgia Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Georgia Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Georgia Power'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. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Georgia Power in Item 7 of the Form 10-K for a complete discussion of Georgia Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.

In March 2012, Georgia Power began using automated meter readings to measure unbilled KWH sales for energy delivered through month end. As of September 30, 2012, these measured unbilled KWH sales represent approximately 90% of total unbilled KWH sales. Increased usage of actual data to compute unbilled revenues reduces the impact that estimates could have on Georgia Power's results of operations; therefore, Georgia Power no longer considers unbilled revenue a critical accounting estimate.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Georgia Power in Item 7 of the Form 10-K for additional information. Georgia Power's financial condition remained stable at September 30, 2012. Georgia Power 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.

Net cash provided from operating activities totaled $1.97 billion for the first nine months of 2012 compared to $2.08 billion for the corresponding period in 2011. The decrease was primarily due to lower retail operating revenues, higher fuel inventory additions in 2012, and lower deferred taxes due to the effect of bonus depreciation in 2011, partially offset by higher recovery of retail fuel costs. Net cash used for investing activities totaled $1.47 billion primarily related to the construction of Plant Vogtle Units 3 and 4 and Plant McDonough-Atkinson Units 5 and 6. Net cash used for financing activities totaled $92 million for the first nine months of 2012 compared to $732 million used for financing activities in the corresponding period in 2011. The decrease is primarily due to increased debt issuances in 2012 to support the ongoing construction program. 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 for the first nine months of 2012 include increases of $701 million in total property, plant, and equipment, $590 million in debt, and $412 million in cash and cash equivalents, as well as a $336 million change in under/over recovered fuel.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental regulations, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately $1.46 billion will be required through September 30, 2013 to fund maturities of long-term debt.

See FUTURE EARNINGS POTENTIAL – "Environmental Statutes and Regulations – General" herein for a description of Georgia Power's estimated capital expenditures to comply with the MATS rule and proposed water and coal combustion byproducts rules.

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; 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 new regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

On March 20, 2012, the Georgia PSC approved three PPAs totaling 998 MWs with Southern Power for capacity and energy that will commence in 2015 and end in 2030. However, these PPAs remain subject to FERC approval. See FUTURE EARNINGS POTENTIAL – "PSC Matters – 2011 Integrated Resource Plan Update" herein for additional information. On October 16, 2012, the Georgia PSC approved a 50 MW PPA with a Qualifying Facility for capacity and energy that will commence in 2015 and end in 2035. These four PPAs will be accounted for as operating leases and are expected to result in additional obligations of approximately $69 million in 2015, $82 million in 2016, and a total of $1.35 billion thereafter. The ultimate outcome of this matter cannot be determined at this time.

Sources of Capital

Except as described below with respect to potential DOE loan guarantees, Georgia Power plans to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, short-term debt, security issuances, term loans, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Georgia Power in Item 7 of the Form 10-K for additional information.

In June 2010, Georgia Power reached an agreement with the DOE to accept terms for a conditional commitment for federal loan guarantees that would apply to future borrowings by Georgia Power 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. See FUTURE EARNINGS POTENTIAL – "Construction – Nuclear" herein for more information on Plant Vogtle Units 3 and 4.

Georgia Power'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.

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GEORGIA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At September 30, 2012, Georgia Power had approximately $425 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2012, including expiration dates, were as follows:

Expires					Executable Term Loans		Due Within One Year[a]	
2012	2013	2014 and Beyond	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			(in millions)		(in millions)		(in millions)	
$—	$—	$1,750	$1,750	$1,740	$—	$—	$—	$—

(a) Reflects facilities expiring on or before September 30, 2013.

See Note 6 to the financial statements of Georgia Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

Most of these arrangements contain covenants that limit debt levels and typically contain cross default provisions that are restricted only to the indebtedness of Georgia Power. Georgia Power is currently in compliance with all such covenants. Georgia Power expects to renew its credit arrangements, as needed, prior to expiration. These credit arrangements provide liquidity support to Georgia Power's commercial paper borrowings and variable rate pollution control revenue bonds. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 2012 was approximately $868 million.

Georgia Power 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 Georgia Power and the other traditional operating companies. Proceeds from such issuances for the benefit of Georgia Power are loaned directly to Georgia Power. The obligations of each traditional operating company under these arrangements are several and there is no cross affiliate credit support.

During the three months ended September 30, 2012, Georgia Power had no commercial paper or other short-term debt outstanding.

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

Credit Rating Risk

Georgia Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, and construction of new generation. The maximum potential collateral requirements under these contracts at September 30, 2012 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$65
Below BBB- and/or Baa3	1,296

Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participant has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Georgia Power's ability to access capital markets, particularly the short-term debt market.

Market Price Risk

Georgia Power's market risk exposure relative to interest rate changes for the third quarter 2012 has not changed materially compared with the December 31, 2011 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Georgia Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.

Due to cost-based rate regulation and other various cost recovery mechanisms, Georgia Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices, Georgia Power enters 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. Georgia Power continues to manage a fuel-hedging program implemented per the guidelines of the Georgia PSC. As such, Georgia Power had no material change in market risk exposure for the third quarter 2012 relative to fuel and electricity prices when compared with the December 31, 2011 reporting period.

The changes in fair value of energy-related derivative contracts, substantially all of which are composed of regulatory hedges, for the three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value	
	(in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(58)	$(82)
Contracts realized or settled	18	63
Current period changes[a]	13	(8)
Contracts outstanding at the end of the period, assets (liabilities), net	$(27)	$(27)

(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 three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value	
	(in millions)	
Natural gas swaps	$16	$42
Natural gas options	15	13
Total changes	$31	$55

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GEORGIA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The net hedge volumes of energy-related derivative contracts were as follows:

	September 30, 2012	June 30, 2012	December 31, 2011
	mmBtu Volume (in millions)		
Commodity – Natural gas swaps	17	23	29
Commodity – Natural gas options	90	73	44
Total hedge volume	107	96	73

The weighted average swap contract cost above market prices was approximately $0.88 per mmBtu as of September 30, 2012, $1.37 per mmBtu as of June 30, 2012, and $1.65 per mmBtu as of December 31, 2011. The change in option premiums is primarily attributable to the volatility of the market and the underlying change in the natural gas price. All natural gas hedge gains and losses are recovered through Georgia Power's fuel cost recovery mechanism.

Regulatory hedges relate to Georgia Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through Georgia Power's fuel cost recovery mechanism.

Unrealized pre-tax gains and losses recognized in income for the three and nine months ended September 30, 2012 and 2011 for energy-related derivative contracts that are not hedges were not material.

Georgia Power 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 (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at September 30, 2012 were as follows:

	September 30, 2012 Fair Value Measurements		
	Total	Maturity	
	Fair Value	Year 1	Years 2&3
		(in millions)	
Level 1	$—	$—	$—
Level 2	(27)	(22)	(5)
Level 3	—	—	—
Fair value of contracts outstanding at end of period	$(27)	$(22)	$(5)

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Georgia Power. Regulations to implement the Dodd-Frank Act will impose additional requirements on the use of over-the-counter derivatives for both Georgia Power and its derivative counterparties, which could affect both the use and cost of over-the-counter derivatives. Although all relevant regulations have not been finalized, Georgia Power does not expect the impact of these rules to be material.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Georgia Power in Item 7 and Note 1 under "Financial Instruments" and Note 11 to the financial statements of Georgia Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

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Financing Activities

In January 2012, Georgia Power entered into a six-month floating rate bank loan in an aggregate amount of $100 million, bearing interest based on one-month LIBOR. The proceeds were used for general corporate purposes, including Georgia Power's continuous construction program. This bank loan was paid at maturity on July 10, 2012.

In March 2012 and May 2012, Georgia Power issued $750 million and $350 million, respectively, aggregate principal amount of Series 2012A 4.30% Senior Notes due March 15, 2042. Also in May 2012, Georgia Power issued $400 million aggregate principal amount of Series 2012B 2.85% Senior Notes due May 15, 2022. The net proceeds from the sale of the Series 2012B Senior Notes, together with the net proceeds from the sale of the Series 2012A Senior Notes, were used to repay a portion of Georgia Power's short-term debt and bank loans, for the redemption in July 2012 of $300 million aggregate principal amount of Georgia Power's Series 2007D 6.375% Senior Notes due July 15, 2047, and for general corporate purposes, including Georgia Power's continuous construction program.

In May 2012, the Development Authority of Monroe County issued $48.72 million aggregate principal amount of Pollution Control Revenue Bonds (Georgia Power Company Plant Scherer Project), First Series 2012 for the benefit of Georgia Power. The proceeds were used in June 2012 to redeem $48.72 million aggregate principal amount of Development Authority of Monroe County Pollution Control Revenue Bonds (Georgia Power Company Plant Scherer Project), First Series 2006.

In June 2012, the Development Authority of Burke County issued $85 million aggregate principal amount of Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 2012 and $100 million aggregate principal amount of Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Second Series 2012 for the benefit of Georgia Power. The proceeds were used in July 2012 to redeem $85 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 2005 and $100 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Second Series 2005.

In August 2012, Georgia Power issued $400 million aggregate principal amount of Series 2012C 0.75% Senior Notes due August 10, 2015. The proceeds were used in September 2012 to redeem $250 million aggregate principal amount of Georgia Power's Series 2007E 6.00% Senior Insured Monthly Notes due September 1, 2040 and for general corporate purposes, including Georgia Power's continuous construction program.

Subsequent to September 30, 2012, Georgia Power announced the redemption that will occur in December 2012 of $100 million aggregate principal amount of its Series 2007F 6.05% Senior Monthly Notes due December 1, 2038.

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

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GULF POWER COMPANY

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Operating Revenues:				
Retail revenues	$347,435	$362,109	$880,833	$957,409
Wholesale revenues, non-affiliates	27,462	33,921	83,309	103,814
Wholesale revenues, affiliates	30,113	52,833	95,179	79,825
Other revenues	16,809	19,167	48,951	50,855
Total operating revenues	421,819	468,030	1,108,272	1,191,903
Operating Expenses:				
Fuel	160,749	220,305	423,057	530,773
Purchased power, non-affiliates	18,380	20,046	41,690	37,938
Purchased power, affiliates	10,785	9,941	18,508	39,108
Other operations and maintenance	74,781	74,144	229,790	227,236
Depreciation and amortization	36,169	32,673	104,649	96,733
Taxes other than income taxes	27,142	29,467	76,202	79,230
Total operating expenses	328,006	386,576	893,896	1,011,018
Operating Income	93,813	81,454	214,376	180,885
Other Income and (Expense):				
Allowance for equity funds used during construction	1,015	2,434	3,988	7,091
Interest income	10	22	1,406	56
Interest expense, net of amounts capitalized	(14,637)	(15,156)	(45,703)	(43,208)
Other income (expense), net	(567)	(451)	(1,860)	(1,461)
Total other income and (expense)	(14,179)	(13,151)	(42,169)	(37,522)
Earnings Before Income Taxes	79,634	68,303	172,207	143,363
Income taxes	30,329	25,535	64,172	52,451
Net Income	49,305	42,768	108,035	90,912
Dividends on Preference Stock	1,551	1,551	4,652	4,652
Net Income After Dividends on Preference Stock	$47,754	$41,217	$103,383	$86,260

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Net Income After Dividends on Preference Stock	$47,754	$41,217	$103,383	$86,260
Other comprehensive income (loss):				
Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of $90, $90, $270 and $270, respectively	143	143	429	430
Total other comprehensive income (loss)	143	143	429	430
Comprehensive Income	$47,897	$41,360	$103,812	$86,690

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2012	2011
	(in thousands)	
Operating Activities:		
Net income	$108,035	$90,912
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	109,132	101,335
Deferred income taxes	132,367	56,869
Allowance for equity funds used during construction	(3,988)	(7,091)
Pension, postretirement, and other employee benefits	4,361	(179)
Stock based compensation expense	1,346	1,055
Other, net	3,839	(5,787)
Changes in certain current assets and liabilities —		
-Receivables	(10,995)	(13,605)
-Prepayments	3,066	7,745
-Fossil fuel stock	14,055	36,802
-Materials and supplies	(3,859)	(6,382)
-Prepaid income taxes	28,108	36,081
-Other current assets	—	(571)
-Accounts payable	(453)	(65)
-Accrued taxes	18,566	22,186
-Accrued compensation	(4,263)	(4,290)
-Over recovered regulatory clause revenues	7,387	2,771
-Other current liabilities	(925)	7,513
Net cash provided from operating activities	405,779	325,299
Investing Activities:		
Property additions	(239,705)	(228,696)
Cost of removal, net of salvage	(20,931)	(9,137)
Change in construction payables	(542)	636
Payments pursuant to long-term service agreements	(6,184)	(6,173)
Other investing activities	627	303
Net cash used for investing activities	(266,735)	(243,067)
Financing Activities:		
Decrease in notes payable, net	(91,699)	(56,607)
Proceeds —		
Common stock issued to parent	40,000	50,000
Capital contributions from parent company	1,569	1,569
Senior notes	100,000	125,000
Redemptions —		
Senior notes	(91,363)	(553)
Other long-term debt	—	(110,000)
Payment of preference stock dividends	(4,652)	(4,652)
Payment of common stock dividends	(86,850)	(82,500)
Other financing activities	(468)	(3,593)

Net cash provided from (used for) financing activities	(133,463)	(81,336)
Net Change in Cash and Cash Equivalents	5,581	896
Cash and Cash Equivalents at Beginning of Period	17,328	16,434
Cash and Cash Equivalents at End of Period	$22,909	$17,330
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $1,846 and $2,826 capitalized for 2012 and 2011, respectively)	$38,806	$36,427
Income taxes, net	(101,825)	(46,319)
Noncash transactions — accrued property additions at end of period	25,115	15,820

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2012	At December 31, 2011
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$22,909	$17,328
Receivables —		
Customer accounts receivable	87,198	72,754
Unbilled revenues	52,812	49,921
Under recovered regulatory clause revenues	6,757	5,530
Other accounts and notes receivable	10,626	13,350
Affiliated companies	8,359	14,844
Accumulated provision for uncollectible accounts	(1,745)	(1,962)
Fossil fuel stock, at average cost	133,512	147,567
Materials and supplies, at average cost	54,189	49,781
Other regulatory assets, current	27,247	35,849
Prepaid expenses	43,845	28,327
Other current assets	5,185	2,051
Total current assets	450,894	435,340
Property, Plant, and Equipment:		
In service	4,126,794	3,846,446
Less accumulated provision for depreciation	1,149,685	1,124,291
Plant in service, net of depreciation	2,977,109	2,722,155
Construction work in progress	201,929	287,173
Total property, plant, and equipment	3,179,038	3,009,328
Other Property and Investments	15,765	16,394
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	51,939	48,210
Other regulatory assets, deferred	333,299	323,116
Other deferred charges and assets	36,611	39,493
Total deferred charges and other assets	421,849	410,819
Total Assets	$4,067,546	$3,871,881

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2012 (in thousands)	At December 31, 2011
Current Liabilities:		
Securities due within one year	$60,000	$—
Notes payable	19,228	114,507
Accounts payable —		
Affiliated	72,051	54,874
Other	51,500	63,265
Customer deposits	35,805	35,779
Accrued taxes —		
Accrued income taxes	5,438	1,362
Other accrued taxes	25,888	12,114
Accrued interest	17,622	14,018
Accrued compensation	10,222	14,485
Other regulatory liabilities, current	51,585	35,639
Liabilities from risk management activities	12,851	22,786
Other current liabilities	20,353	22,916
Total current liabilities	382,543	391,745
Long-term Debt	1,185,719	1,235,447
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	616,122	458,978
Accumulated deferred investment tax credits	5,746	6,760
Employee benefit obligations	109,721	109,740
Other cost of removal obligations	215,138	214,598
Other regulatory liabilities, deferred	53,796	44,843
Other deferred credits and liabilities	214,687	186,824
Total deferred credits and other liabilities	1,215,210	1,021,743
Total Liabilities	2,783,472	2,648,935
Preference Stock	97,998	97,998
Common Stockholder's Equity:		
Common stock, without par value—		
Authorized — 20,000,000 shares		
Outstanding — September 30, 2012: 4,542,717 shares		
— December 31, 2011: 4,142,717 shares	393,060	353,060
Paid-in capital	546,875	542,709
Retained earnings	247,866	231,333
Accumulated other comprehensive loss	(1,725)	(2,154)
Total common stockholder's equity	1,186,076	1,124,948
Total Liabilities and Stockholder's Equity	$4,067,546	$3,871,881

The accompanying notes as they relate to Gulf Power are an integral part of these condensed financial statements.

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GULF POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2012 vs. THIRD QUARTER 2011
AND
YEAR-TO-DATE 2012 vs. YEAR-TO-DATE 2011

OVERVIEW

Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service territory located in northwest Florida and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Gulf Power's business of selling electricity. These factors include the 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, reliability, fuel prices, and storm restoration following major storms. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Gulf Power for the foreseeable future.

On March 12, 2012, the Florida PSC approved a permanent increase in retail base rates and charges of $64 million effective April 11, 2012. The amount of the permanent increase includes the previously approved $38.5 million interim retail rate increase implemented in September 2011. The Florida PSC's decision on the amount of the permanent increase also included a determination that none of the base rate revenues collected on an interim basis would be refunded. Gulf Power's authorized retail ROE is a range of 9.25% to 11.25% with new retail base rates set at the midpoint retail ROE of 10.25%. In addition, the Florida PSC also approved a step increase to Gulf Power's retail base rates and charges of $4 million to be effective in January 2013.

Gulf Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Gulf Power in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$6.5	15.9	$17.1	19.9

Gulf Power's net income after dividends on preference stock for the third quarter 2012 was $47.7 million compared to $41.2 million for the corresponding period in 2011. The increase was primarily due to higher revenues due to increases in retail base rates, partially offset by milder weather in 2012 and a decrease in retail energy sales in 2012 due to a decrease in customer usage.

Gulf Power's net income after dividends on preference stock for year-to-date 2012 was $103.4 million compared to $86.3 million for the corresponding period in 2011. The increase was primarily due to higher revenues due to increases in retail base rates and higher wholesale capacity revenues from non-affiliates in 2012. These increases were partially offset by milder weather in 2012 and a decrease in retail energy sales in 2012 due to a decrease in customer usage.

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GULF POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Retail Revenues

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(14.7)	(4.1)	$(76.6)	(8.0)

In the third quarter 2012, retail revenues were $347.4 million compared to $362.1 million for the corresponding period in 2011. For year-to-date 2012, retail revenues were $880.8 million compared to $957.4 million for the corresponding period in 2011.

Details of the change to retail revenues were as follows:

	Third Quarter 2012 (in millions)	(% change)	Year-to-Date 2012 (in millions)	(% change)
Retail – prior year	$362.1		$957.4	
Estimated change in –				
Rates and pricing	17.7	4.9	49.9	5.2
Sales growth (decline)	(0.4)	(0.2)	(5.5)	(0.6)
Weather	(1.8)	(0.5)	(10.5)	(1.1)
Fuel and other cost recovery	(30.2)	(8.3)	(110.5)	(11.5)
Retail – current year	$347.4	(4.1)%	$880.8	(8.0)%

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters" of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under "Revenues" and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding Gulf Power's retail base rate case and cost recovery clauses, including Gulf Power's fuel cost recovery, purchased power capacity recovery, environmental cost recovery, and energy conservation cost recovery clauses.

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 primarily due to higher revenues due to increases in retail base rates and revenues associated with higher recoverable costs under Gulf Power's energy conservation cost recovery clause, partially offset by a decrease in revenues associated with lower recoverable costs under Gulf Power's environmental cost recovery clause.

Revenues attributable to changes in sales decreased in the third quarter 2012 when compared to the corresponding period in 2011. Weather-adjusted KWH energy sales to residential and commercial customers decreased 2.1% and 0.3%, respectively, primarily due to lower use per customer. KWH energy sales to industrial customers decreased 4.2% primarily due to a billing adjustment recorded in July 2011, partially offset by an increase in sales due to decreased customer co-generation and changes in customer production levels.

Revenues attributable to changes in sales decreased year-to-date 2012 when compared to the corresponding period in 2011. Weather-adjusted KWH energy sales to residential and commercial customers decreased 1.9% and 1.3%, respectively, due to lower use per customer. KWH energy sales to industrial customers decreased 6.6% primarily due to increased customer co-generation due to the lower cost of natural gas in 2012 and changes in customer production levels.

Revenues attributable to changes in weather decreased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 due to milder weather in 2012.

Fuel and other cost recovery revenues decreased in the third quarter and year-to-date 2012 when compared to the corresponding periods in 2011 primarily due to lower costs due to lower natural gas prices and decreased KWH energy sales. Fuel and other cost recovery provisions include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and the difference between projected and actual costs and revenues related to energy conservation and environmental compliance. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Cost Recovery Clauses – Fuel Cost Recovery" herein for additional information.

Wholesale Revenues – Non-Affiliates

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(6.5)	(19.0)	$(20.5)	(19.8)

Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Gulf Power's and 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. Wholesale revenues from non-affiliates include unit power sales under long-term contracts to other utilities in Florida and Georgia. Wholesale revenues from these contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment under the contracts. Energy is generally sold at variable cost.

In the third quarter 2012, wholesale revenues from non-affiliates were $27.4 million compared to $33.9 million for the corresponding period in 2011. The decrease was primarily due to lower energy revenues related to a 43.1% decrease in KWH sales as a result of less energy scheduled by unit power customers due to their use of lower cost generation resources to serve their loads. The decrease was partially offset by an 8.0% increase in capacity revenues related to higher capacity rates resulting from change-in-law contract provisions that provide for recovery of costs related to the generating resource's compliance with new environmental requirements.

For year-to-date 2012, wholesale revenues from non-affiliates were $83.3 million compared to $103.8 million for the corresponding period in 2011. The decrease was primarily due to lower energy revenues related to a 51.3% decrease in KWH sales as a result of less energy scheduled by unit power customers due to their use of lower cost generation resources to serve their loads. The decrease was partially offset by a 12.4% increase in capacity revenues related to higher capacity rates resulting from change-in-law contract provisions that provide for recovery of costs related to the generating resource's compliance with new environmental requirements.

Wholesale Revenues – Affiliates

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(22.7)	(43.0)	$15.4	19.2

Wholesale revenues from sales to affiliated companies within the Southern Company system will vary depending on demand and the availability and cost of generating resources at each company. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since the fuel revenue related to energy sales and the cost of energy purchases are both included in the determination of recoverable fuel costs and are generally offset by revenues collected in Gulf Power's fuel cost recovery clause.

In the third quarter 2012, wholesale revenues from affiliates were $30.1 million compared to $52.8 million for the corresponding period in 2011. The decrease was primarily due to lower energy revenues related to a 19.7% decrease in KWH sales to serve affiliate demand, primarily resulting from milder weather in the third quarter 2012 compared to the corresponding period in 2011, and a 29.0% decrease in the price of energy in the third quarter 2012.

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For year-to-date 2012, wholesale revenues from affiliates were $95.2 million compared to $79.8 million for the corresponding period in 2011. The increase was primarily due to higher energy revenues related to a 99.1% increase in KWH sales resulting from the availability of Gulf Power's lower priced generation resources to serve affiliate demand. The increase was partially offset by a 40.1% decrease in the price of energy for year-to-date 2012.

Fuel and Purchased Power Expenses

	Third Quarter 2012 vs. Third Quarter 2011 (change in millions)	(% change)	Year-to-Date 2012 vs. Year-to-Date 2011 (change in millions)	(% change)
Fuel	$(59.5)	(27.0)	$(107.7)	(20.3)
Purchased power – non-affiliates	(1.7)	(8.3)	3.8	9.9
Purchased power – affiliates	0.8	8.5	(20.6)	(52.7)
Total fuel and purchased power expenses	$(60.4)		$(124.5)	

In the third quarter 2012, total fuel and purchased power expenses were $189.9 million compared to $250.3 million for the corresponding period in 2011. The decrease in fuel and purchased power expenses was primarily due to a $29.3 million decrease in the average cost of fuel and purchased power and a $43.5 million decrease related to the volume of KWHs generated. The decrease was partially offset by a $12.4 million increase related to the volume of KWHs purchased.

For year-to-date 2012, total fuel and purchased power expenses were $483.3 million compared to $607.8 million for the corresponding period in 2011. The decrease in fuel and purchased power expenses was primarily due to a $136.0 million decrease in the average cost of fuel and purchased power and a $96.7 million decrease related to the volume of KWHs generated. The decrease was partially offset by a $108.2 million increase related to the volume of KWHs purchased.

Fuel and purchased power transactions do not have a significant impact on earnings since energy and capacity expenses are generally offset by energy and capacity revenues through Gulf Power's fuel cost and purchased power capacity recovery clauses. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Cost Recovery Clauses – Fuel Cost Recovery" and "– Purchased Power Capacity Recovery" herein for additional information.

Details of Gulf Power's generation and purchased power were as follows:

	Third Quarter 2012	Third Quarter 2011	Year-to-Date 2012	Year-to-Date 2011
Total generation (millions of KWHs)	2,642	3,531	7,633	9,562
Total purchased power (millions of KWHs)	1,992	1,729	5,352	3,124
Sources of generation (percent) –				
Coal	63	70	61	70
Gas	37	30	39	30
Cost of fuel, generated (cents per net KWH) –				
Coal	4.56	4.94	4.41	4.99
Gas	4.39	4.42	4.00	4.27
Average cost of fuel, generated (cents per net KWH)	4.50	4.79	4.25	4.77
Average cost of purchased power (cents per net KWH)[a]	3.57	4.70	2.97	4.86

(a) Average cost of purchased power includes fuel purchased by Gulf Power for tolling agreements where power is generated by the provider.

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Fuel

In the third quarter 2012, fuel expense was $160.8 million compared to $220.3 million for the corresponding period in 2011. The decrease was primarily due to a higher utilization of lower cost natural gas-fired sources, a 0.7% decrease in the average cost of natural gas per KWH generated, and a 25.2% decrease in KWHs generated as a result of displacement of coal-fired generation by energy purchases and lower demand related to milder weather in 2012. These decreases were partially offset by a 15.2% increase in KWHs purchased.

For year-to-date 2012, fuel expense was $423.1 million compared to $530.8 million for the corresponding period in 2011. The decrease was primarily due to a higher utilization of lower cost natural gas-fired sources, a 6.3% decrease in the average cost of natural gas per KWH generated, and a 20.2% decrease in KWHs generated as a result of displacement of coal-fired generation by energy purchases and lower demand related to milder weather and decreased customer usage in 2012. These decreases were partially offset by a 71.3% increase in KWHs purchased.

In the third quarter and year-to-date 2012, the decrease in the average cost of fuel was a result of decreases in the average costs of natural gas and coal per KWH generated and a higher percentage of utilization of Gulf Power's lower cost natural gas-fired generation sources.

Purchased Power – Non-Affiliates

In the third quarter 2012, purchased power expense from non-affiliates was $18.3 million compared to $20.0 million for the corresponding period in 2011. The decrease was due to decreases of $1.5 million in energy costs and $0.2 million in capacity costs. The decrease in energy costs resulted from lower average cost per KWH purchased, partially offset by an increase in the volume of KWHs purchased.

For year-to-date 2012, purchased power expense from non-affiliates was $41.7 million compared to $37.9 million for the corresponding period in 2011. The increase was due to a $3.9 million increase in energy costs, partially offset by a $0.1 million decrease in capacity costs. The increase in energy costs was due to an increase in the volume of KWHs purchased, partially offset by lower average cost per KWH.

Energy purchases from non-affiliates will vary depending on the market prices of wholesale energy as compared to the cost of 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.

Purchased Power – Affiliates

In the third quarter 2012, purchased power expense from affiliates was $10.8 million compared to $10.0 million for the corresponding period in 2011. The increase was due to increases of $0.6 million in energy costs and $0.2 million in capacity costs. The increase in energy costs was due to an increase in the volume of KWHs purchased, partially offset by a lower average cost per KWH purchased.

For year-to-date 2012, purchased power expense from affiliates was $18.5 million compared to $39.1 million for the corresponding period in 2011. The decrease was due to a decrease of $20.9 million in energy costs, partially offset by a $0.3 million increase in capacity costs. The decrease in energy costs was due to a decrease in the volume of KWHs purchased and a lower average cost per KWH purchased.

Energy purchases from affiliates will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, all as approved by the FERC.

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Other Operations and Maintenance Expenses

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$0.6	0.9	$2.6	1.1

In the third quarter 2012, other operations and maintenance expenses were $74.7 million compared to $74.1 million for the corresponding period in 2011. The increase was primarily due to a $3.6 million increase in routine and planned outage maintenance expense at generation facilities, partially offset by a $2.7 million decrease for labor and benefit-related expenses.

For year-to-date 2012, other operations and maintenance expenses were $229.8 million compared to $227.2 million for the corresponding period in 2011. The increase was primarily due to increases of $4.2 million for labor and benefit-related expenses and $5.2 million in marketing programs, partially offset by a $6.6 million decrease in routine and planned outage maintenance expense at generation facilities. The increased expense from marketing programs did not have a significant impact on earnings since the expense was offset by energy conservation revenues through Gulf Power's energy conservation cost recovery clause. See FUTURE EARNINGS POTENTIAL – "PSC Matters – Cost Recovery Clauses – Energy Conservation Cost Recovery" herein for additional information.

Depreciation and Amortization

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$3.5	10.7	$7.9	8.2

In the third quarter 2012, depreciation and amortization was $36.2 million compared to $32.7 million for the corresponding period in 2011. For year-to-date 2012, depreciation and amortization was $104.6 million compared to $96.7 million for the corresponding period in 2011. The increases were primarily due to additions of environmental control projects at generation facilities and net additions to transmission and distribution facilities.

Taxes Other Than Income Taxes

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(2.3)	(7.9)	$(3.0)	(3.8)

In the third quarter 2012, taxes other than income taxes were $27.1 million compared to $29.4 million for the corresponding period in 2011. The decrease was primarily due to a $2.5 million decrease in gross receipts taxes and franchise fees.

For year-to-date 2012, taxes other than income taxes were $76.2 million compared to $79.2 million for the corresponding period in 2011. The decrease was primarily due to a $4.6 million decrease in gross receipts taxes and franchise fees, partially offset by a $1.0 million increase in property taxes and a $0.6 million increase in payroll taxes. Gross receipts taxes and franchise fees have no impact on net income.

Allowance for Equity Funds Used During Construction

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(1.4)	(58.3)	$(3.1)	(43.8)

In the third quarter 2012, AFUDC equity was $1.0 million compared to $2.4 million for the corresponding period in 2011. The decrease was primarily due to the completion of construction projects related to environmental control projects at generating facilities.

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For year-to-date 2012, AFUDC equity was $4.0 million compared to $7.1 million for the corresponding period in 2011. The decrease was primarily due to an adjustment related to deferred future generation carrying costs and the completion of construction projects related to environmental control projects at generating facilities.

Interest Income

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$—	—	$1.4	N/M

N/M – Not meaningful

The amounts of interest income for the third quarter 2012 and the corresponding period in 2011 were immaterial. Interest income was $1.4 million for year-to-date 2012 and was immaterial for the corresponding period in 2011. The year-to-date 2012 increase was primarily due to an IRS refund of interest claims for multiple tax years.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$(0.5)	(3.4)	$2.5	5.8

In the third quarter 2012, interest expense, net of amounts capitalized was $14.7 million compared to $15.2 million for the corresponding period in 2011. The decrease was primarily due to lower interest rates on outstanding senior notes and customer deposits.

For year-to-date 2012, interest expense, net of amounts capitalized was $45.7 million compared to $43.2 million for the corresponding period in 2011. The increase was primarily due to net increases in long-term debt.

Income Taxes

Third Quarter 2012 vs. Third Quarter 2011		Year-to-Date 2012 vs. Year-to-Date 2011	
(change in millions)	(% change)	(change in millions)	(% change)
$4.8	18.8	$11.7	22.3

In the third quarter 2012, income taxes were $30.3 million compared to $25.5 million for the corresponding period in 2011. For year-to-date 2012, income taxes were $64.2 million compared to $52.5 million for the corresponding period in 2011. The increases were primarily due to higher pre-tax earnings.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Gulf Power's future earnings potential. The level of Gulf Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Gulf Power's business of selling electricity. These factors include Gulf Power's 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. Future earnings in the near term will depend, in part, upon maintaining energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Gulf Power's service territory. Changes in economic conditions impact sales for Gulf 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. For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Gulf Power in Item 7 of the Form 10-K.

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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 MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

New Source Review Actions

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – New Source Review Actions" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Environmental Matters – New Source Review Actions" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Environmental Matters – New Source Review Actions" herein for additional information. 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. The ultimate outcome of this matter cannot be determined at this time.

Climate Change Litigation

Kivalina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Kivalina Case" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Environmental Matters – Climate Change Litigation – Kivalina Case" in Item 8 of the Form 10-K for additional information. 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 October 8, 2012, the plaintiffs filed for review of the decision by the U.S. Court of Appeals for the Ninth Circuit. The ultimate outcome of this matter cannot be determined at this time.

Hurricane Katrina Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Environmental Matters – Climate Change Litigation – Hurricane Katrina Case" in Item 8 of the Form 10-K for additional information. On March 20, 2012, the U.S. District Court for the Southern District of Mississippi dismissed the amended class action complaint filed in May 2011 by the plaintiffs. On April 16, 2012, the plaintiffs appealed the case to the U.S. Court of Appeals for the Fifth Circuit. The ultimate outcome of this matter cannot be determined at this time.

Environmental Statutes and Regulations

General

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – General" of Gulf Power in Item 7 of the Form 10-K for information regarding Gulf Power's estimated base level capital expenditures to comply with existing statutes and regulations for 2012 through 2014, as well as Gulf Power's preliminary estimates for potential incremental environmental compliance investments associated with complying with the EPA's final Mercury and Air Toxics Standards (MATS) rule (formerly referred to as the Utility Maximum Achievable Control Technology rule) and the EPA's proposed water and coal combustion byproducts rules.

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Gulf Power is continuing to develop its compliance strategy and to assess the potential costs of complying with the MATS rule and the EPA's proposed water and coal combustion byproducts rules. While the final MATS compliance plan is still being developed and the ultimate costs remain uncertain, compliance decisions made in 2012 have allowed Gulf Power to further develop its cost estimates for compliance with the MATS rule. As a result, estimated compliance costs for the MATS rule in the 2012 through 2014 period have been revised from up to $375 million to up to $205 million as follows:

	2012	2013	2014
		(in millions)	
MATS rule	—	Up to $55	Up to $150

In addition, Gulf Power has further developed its estimated capital expenditures and associated timing of these expenditures to comply with the proposed water and coal combustion byproducts rules, resulting in a reduction, due primarily to timing, in estimated compliance costs for 2012 through 2014. Potential incremental environmental compliance investments to comply with the proposed water and coal combustion byproducts rules have been revised from up to $105 million to up to $35 million over the 2012 through 2014 period, based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule. These potential incremental environmental compliance investments are estimated as follows:

	2012	2013	2014
		(in millions)	
Proposed water and coal combustion byproducts rules	—	Up to $10	Up to $25

While Gulf Power's ultimate costs of compliance with the MATS rule and the proposed water and coal combustion byproducts rules remain uncertain, Gulf Power estimates that compliance costs through 2021 (assuming that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule) could be approximately $1.3 billion. Included in this amount is approximately $400 million that is also included in the 2012 through 2014 base level capital investment of Gulf Power described in the Form 10-K in anticipation of these rules.
Gulf Power's ultimate compliance strategy and actual future environmental capital expenditures are dependent on development of the final MATS compliance plan and will be affected by the final requirements of new or revised environmental regulations that are promulgated; the outcome of any legal challenges to the environmental rules; the cost, availability, and existing inventory of emissions allowances; and Gulf Power's fuel mix. Compliance costs may arise from retirement and replacement of existing units, installation of additional environmental controls, upgrades to the transmission system, and changing fuel sources for certain existing units. The ultimate outcome of these matters cannot be determined at this time.

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Gulf Power in Item 7 of the Form 10-K for additional information on the eight-hour ozone and fine particulate matter air quality standards, the MATS rule, the Cross-State Air Pollution Rule (CSAPR), and the Clean Air Visibility Rule (CAVR).
On May 21, 2012, the EPA published its final determination of nonattainment areas based on the 2008 eight-hour ozone air quality standards. None of the areas within Gulf Power's service territory were designated as nonattainment areas.

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On June 14, 2012, the EPA proposed a rule that would increase the stringency of the fine particulate matter national ambient air quality standards. If adopted, the proposed standards could result in the designation of new nonattainment areas within Gulf Power's service territory. As part of a related settlement, the EPA has agreed to finalize the proposed rule by December 14, 2012. 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.

Numerous petitions for administrative reconsideration of the MATS rule, including a petition by Southern Company and its subsidiaries, including Gulf Power, have been filed with the EPA. 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. The impact of the MATS rule will depend on the outcome of these and any other legal challenges and, therefore, cannot be determined at this time.

On August 21, 2012, the U.S. Court of Appeals for the District of Columbia Circuit vacated CSAPR in its entirety and directed the EPA to continue to administer the Clean Air Interstate Rule pending the EPA's development of a valid replacement. The vacatur of CSAPR creates additional uncertainty with respect to whether additional controls may be required for CAVR and best available retrofit technology compliance. On October 5, 2012, the EPA filed for review of the decision by the U.S. Court of Appeals for the District of Columbia Circuit. The ultimate outcome of this matter depends on the outcome of any legal challenges and further action by the EPA and cannot be determined at this time.

On August 29, 2012, the EPA published proposed revisions to the New Source Performance Standard (NSPS) for Stationary Combustion Turbines (CTs). If finalized, 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. 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.

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Gulf Power in Item 7 of the Form 10-K for additional information on the proposed rules regarding certain cooling water intake structures. The EPA has entered into an amended settlement agreement to extend the deadline for issuing a final rule until June 27, 2013. 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.

Coal Combustion Byproducts

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Byproducts" of Gulf Power in Item 7 of the Form 10-K for additional information. 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. The ultimate outcome of these matters cannot be determined at this time.

Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Gulf Power in Item 7 of the Form 10-K for additional information.

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. As proposed, the standards would not apply to existing units. The EPA has delayed its plans to propose greenhouse gas emissions performance standards for modified sources and emissions guidelines 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.

On June 26, 2012, a three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit unanimously rejected all challenges to four of the EPA's actions relating to the greenhouse gas permitting programs under the Clean Air Act. These rules may impact the amount of time it takes to obtain prevention of significant deterioration permits for new generation and major modifications to existing generating units and the requirements ultimately imposed by those permits. The ultimate impact of these rules cannot be determined at this time and will depend on the outcome of any other legal challenges.

PSC Matters

Retail Base Rate Case

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Retail Base Rate Case" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Case" in Item 8 of the Form 10-K for additional information.

On March 12, 2012, the Florida PSC approved a permanent increase in retail base rates and charges of $64 million effective April 11, 2012. The amount of the permanent increase includes the previously approved $38.5 million interim retail rate increase implemented in September 2011. The Florida PSC's decision on the amount of the permanent increase also included a determination that none of the base rate revenues collected on an interim basis would be refunded. Gulf Power's authorized retail ROE is a range of 9.25% to 11.25% with new retail base rates set at the midpoint retail ROE of 10.25%. In addition, the Florida PSC also approved a step increase to Gulf Power's retail base rates and charges of $4 million to be effective in January 2013.

Cost Recovery Clauses

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Cost Recovery Clauses" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses" in Item 8 of the Form 10-K for additional information.

On November 5, 2012, the Florida PSC approved Gulf Power's annual rate clause requests for its fuel, purchased power capacity, conservation, and environmental compliance cost recovery factors for 2013. The net effect of the approved changes is a 1.9% rate increase for residential customers using 1,000 KWHs per month.

Fuel Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Fuel Cost Recovery" of Gulf Power in Item 7 and Notes 1 and 3 to the financial statements of Gulf Power under "Revenues" and "Retail Regulatory Matters – Fuel Cost Recovery," respectively, in Item 8 of the Form 10-K for additional information.

On June 19, 2012, the Florida PSC approved a decrease in Gulf Power's fuel rates of 7.8%, which will reduce annual billings by approximately $58.8 million effective July 2, 2012.

Over recovered fuel costs at September 30, 2012 totaled $28.5 million compared to $9.9 million at December 31, 2011. These amounts are included in other regulatory liabilities, current on Gulf Power's Condensed Balance Sheets herein.

Purchased Power Capacity Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Purchased Power Capacity Recovery" of Gulf Power in Item 7 and Notes 1 and 3 to the financial statements of Gulf Power under "Revenues" and "Retail Regulatory Matters – Purchased Power Capacity Recovery," respectively, in Item 8 of the Form 10-K for additional information.

At September 30, 2012, the under recovered purchased power capacity costs totaled $3.3 million, which is included in under recovered regulatory clause revenues on Gulf Power's Condensed Balance Sheets herein. At December 31, 2011, the over recovered purchased power capacity costs totaled $8.0 million, which is included in other regulatory liabilities, current on Gulf Power's Condensed Balance Sheets herein.

Environmental Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Environmental Cost Recovery" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Environmental Cost Recovery" in Item 8 of the Form 10-K for additional information.

On April 3, 2012, the Mississippi PSC approved Mississippi Power's request for a CPCN to construct a flue gas desulfurization system (scrubber) on Plant Daniel Units 1 and 2. On May 3, 2012, the Sierra Club filed a notice of appeal of the order with the Chancery Court of Harrison County, Mississippi. These units are jointly owned by Mississippi Power and Gulf Power, with 50% ownership each. The estimated total cost of the project is approximately $660 million, excluding AFUDC, and it is scheduled for completion in December 2015. Gulf Power's portion of the cost is expected to be recovered through the environmental cost recovery clause. The ultimate outcome of this matter cannot be determined at this time.

Over recovered environmental costs at September 30, 2012 totaled $6.9 million compared to $10.0 million at December 31, 2011. These amounts are included in other regulatory liabilities, current on Gulf Power's Condensed Balance Sheets herein.

Energy Conservation Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "PSC Matters – Energy Conservation Cost Recovery" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Energy Conservation Cost Recovery" in Item 8 of the Form 10-K for additional information.

Under recovered energy conservation costs at September 30, 2012 totaled $0.2 million compared to $3.1 million at December 31, 2011. These amounts are included in under recovered regulatory clause revenues on Gulf Power's Condensed Balance Sheets herein.

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Income Tax Matters
Bonus Depreciation
In December 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 construction projects to be placed in service in 2012) and 50% bonus depreciation for property placed in service in 2012 (and for certain long-term construction projects to be placed in service in 2013), which will have a positive impact on the future cash flows of Gulf Power through 2013. Consequently, Gulf Power's positive cash flow benefit is estimated to be between $135 million and $150 million in 2012.
Other Matters
Gulf Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Gulf Power is subject to certain claims and legal actions arising in the ordinary course of business. Gulf Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against Gulf Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) herein or in Note 3 to the financial statements of Gulf Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Gulf Power's financial statements.
See the Notes to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.
ACCOUNTING POLICIES
Application of Critical Accounting Policies and Estimates
Gulf Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Gulf Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Gulf Power'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. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Gulf Power in Item 7 of the Form 10-K for a complete discussion of Gulf Power's critical accounting policies and estimates related to Electric Utility Regulation, Contingent Obligations, Unbilled Revenues, and Pension and Other Postretirement Benefits.
FINANCIAL CONDITION AND LIQUIDITY
Overview
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Gulf Power in Item 7 of the Form 10-K for additional information. Gulf Power's financial condition remained stable at September 30, 2012. Gulf Power 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.

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Net cash provided from operating activities totaled $405.8 million for the first nine months of 2012 compared to $325.3 million for the corresponding period in 2011. The $80.5 million increase was primarily due to a $75.5 million increase in deferred income taxes primarily related to bonus depreciation. Net cash used for investing activities totaled $266.7 million in the first nine months of 2012 primarily due to property additions to utility plant and costs of removal. Net cash used for financing activities totaled $133.5 million for the first nine months of 2012. This was primarily due to short-term debt payments, long-term debt redemptions, and payment of common stock dividends, partially offset by common stock and long-term debt issuances. 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 for the first nine months of 2012 include a net increase of $169.7 million in property, plant, and equipment, primarily due to the addition of environmental control projects, an increase of $157.1 million in accumulated deferred income taxes, primarily related to bonus depreciation, an increase of $60.0 million in securities due within one year, an increase in common stock, without par value due to the issuance of common stock to Southern Company for $40 million, and a decrease of $95.3 million in notes payable primarily reduced by funds from operating activities and long-term debt.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Gulf Power in Item 7 of the Form 10-K for a description of Gulf Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental regulations, scheduled maturities of long-term debt, as well as the related interest, leases, derivative obligations, preference stock dividends, purchase commitments, trust funding requirements, and unrecognized tax benefits. Approximately $60 million will be required through September 30, 2013 to fund maturities of long-term debt.

See FUTURE EARNINGS POTENTIAL – "Environmental Statutes and Regulations – General" herein for a description of Gulf Power's estimated capital expenditures to comply with the MATS rule and proposed water and coal combustion byproducts rules.

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; storm impacts; 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 new regulatory requirements; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

Gulf Power plans to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, short-term debt, security issuances, term loans, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Gulf Power in Item 7 of the Form 10-K for additional information.

Gulf Power'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.

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At September 30, 2012, Gulf Power had approximately $22.9 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2012, including expiration dates, were as follows:

Expires					Executable Term Loans		Due Within One Year[a]	
2012	2013	2014	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			(in millions)		(in millions)		(in millions)	
$20	$60	$195	$275	$275	$45	—	$45	$35

(a) Reflects facilities expiring on or before September 30, 2013.

See Note 6 to the financial statements of Gulf Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

Most of these arrangements contain covenants that limit debt levels and typically contain cross default provisions that are restricted only to the indebtedness of Gulf Power. Gulf Power is currently in compliance with all such covenants. Gulf Power expects to renew its credit arrangements, as needed, prior to expiration. These credit arrangements provide liquidity support to Gulf Power's commercial paper borrowings and variable rate pollution control revenue bonds. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 2012 was approximately $69 million.

Gulf Power 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 Gulf Power and the other traditional operating companies. Proceeds from such issuances for the benefit of Gulf Power are loaned directly to Gulf Power. The obligations of each traditional operating company under these arrangements are several and there is no cross affiliate credit support.

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2012		Short-term Debt During the Period[a]		
	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$16	0.3 %	$82	0.3 %	$118

(a) Average and maximum amounts are based upon daily balances during the three month period ended September 30, 2012.

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

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Credit Rating Risk
Gulf Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management. The maximum potential collateral requirements under these contracts at September 30, 2012 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$117
Below BBB- and/or Baa3	502

Included in these amounts are certain agreements that could require collateral in the event that one or more Power Pool participant has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact Gulf Power's ability to access capital markets, particularly the short-term debt market.
Market Price Risk
Gulf Power's market risk exposure relative to interest rate changes for the third quarter 2012 has not changed materially compared with the December 31, 2011 reporting period. Since a significant portion of outstanding indebtedness is at fixed rates, Gulf Power is not aware of any facts or circumstances that would significantly affect exposures on existing indebtedness in the near term. However, the impact on future financing costs cannot now be determined.
Due to cost-based rate regulation and other various cost recovery mechanisms, Gulf Power continues to have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. Gulf Power continues to manage a financial hedging program for fuel purchased to operate its electric generating fleet implemented per the guidelines of the Florida PSC. As such, Gulf Power had no material change in market risk exposure for the third quarter 2012 when compared with the December 31, 2011 reporting period.
The changes in fair value of energy-related derivative contracts, substantially all of which are composed of regulatory hedges, for the three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value	
	(in millions)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	$(37)	$(41)
Contracts realized or settled	8	27
Current period changes[(a)]	16	1
Contracts outstanding at the end of the period, assets (liabilities), net	$(13)	$(13)

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

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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 three and nine months ended September 30, 2012 were as follows:

	Third Quarter 2012 Changes	Year-to-Date 2012 Changes
	Fair Value (in millions)	
Natural gas swaps	$23	$27
Natural gas options	1	1
Total changes	$24	$28

The net hedge volumes of energy-related derivative contracts were as follows:

	September 30, 2012	June 30, 2012	December 31, 2011
	mmBtu Volume (in millions)		
Commodity – Natural gas swaps	62	50	35
Commodity – Natural gas options	1	1	3
Total hedge volume	63	51	38

The weighted average swap contract cost above market prices was approximately $0.20 per mmBtu as of September 30, 2012, $0.72 per mmBtu as of June 30, 2012, and $1.14 per mmBtu as of December 31, 2011. The change in option premiums is primarily attributable to the volatility of the market and the underlying change in the natural gas price. Natural gas settlements are recovered through Gulf Power's fuel cost recovery clause.

Regulatory hedges relate to Gulf Power's fuel-hedging program where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through Gulf Power's fuel cost recovery clause.

Unrealized pre-tax gains and losses recognized in income for the three and nine months ended September 30, 2012 and 2011 for energy-related derivative contracts that are not hedges were not material.

Gulf Power 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 (C) to the Condensed Financial Statements herein for further discussion on fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at September 30, 2012 were as follows:

	September 30, 2012 Fair Value Measurements			
	Total Fair Value	Maturity Year 1	Years 2&3	Years 4&5
	(in millions)			
Level 1	$—	$—	$—	$—
Level 2	(13)	(9)	(5)	1
Level 3	—	—	—	—
Fair value of contracts outstanding at end of period	$(13)	$(9)	$(5)	$1

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The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by Gulf Power. Regulations to implement the Dodd-Frank Act will impose additional requirements on the use of over-the-counter derivatives for both Gulf Power and its derivative counterparties, which could affect both the use and cost of over-the-counter derivatives. Although all relevant regulations have not been finalized, Gulf Power does not expect the impact of these rules to be material.

For additional information, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Gulf Power in Item 7 and Note 1 under "Financial Instruments" and Note 10 to the financial statements of Gulf Power in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein.

Financing Activities

In January 2012, Gulf Power issued to Southern Company 400,000 shares of Gulf Power's common stock, without par value, and realized proceeds of $40 million. The proceeds were used to repay a portion of Gulf Power's short-term debt and for other general corporate purposes, including Gulf Power's continuous construction program.

In May 2012, Gulf Power issued $100 million aggregate principal amount of Series 2012A 3.10% Senior Notes due May 15, 2022. The proceeds from the sale of the Series 2012A Senior Notes were used by Gulf Power for the redemption in June 2012 of all of approximately $61 million aggregate principal amount of Gulf Power's Series F 5.60% Senior Insured Quarterly Notes due April 1, 2033 and $30 million aggregate principal amount of Gulf Power's Series H 5.25% Senior Notes due July 15, 2033, to repay a portion of its outstanding short-term indebtedness, and for general corporate purposes, including Gulf Power's continuous construction program.

In addition to any financings that may be necessary to meet capital requirements, contractual obligations, and storm-recovery, Gulf Power plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Operating Revenues:				
Retail revenues	$220,296	$233,298	$578,744	$620,777
Wholesale revenues, non-affiliates	77,017	78,147	195,364	215,811
Wholesale revenues, affiliates	4,232	9,804	13,596	25,407
Other revenues	3,874	4,517	12,513	13,088
Total operating revenues	305,419	325,766	800,217	875,083
Operating Expenses:				
Fuel	127,576	157,961	321,664	402,689
Purchased power, non-affiliates	1,357	2,314	4,434	4,660
Purchased power, affiliates	15,683	8,504	35,386	36,721
Other operations and maintenance	53,541	65,851	168,937	200,730
Depreciation and amortization	21,136	19,668	66,134	59,876
Taxes other than income taxes	19,975	18,297	60,312	53,029
Total operating expenses	239,268	272,595	656,867	757,705
Operating Income	66,151	53,171	143,350	117,378
Other Income and (Expense):				
Allowance for equity funds used during construction	17,763	7,291	43,460	15,413
Interest income	143	167	643	910
Interest expense, net of amounts capitalized	(9,735)	(3,856)	(30,563)	(15,401)
Other income (expense), net	2,441	257	1,660	(759)
Total other income and (expense)	10,612	3,859	15,200	163
Earnings Before Income Taxes	76,763	57,030	158,550	117,541
Income taxes	21,705	18,578	42,344	38,323
Net Income	55,058	38,452	116,206	79,218
Dividends on Preferred Stock	433	433	1,299	1,299
Net Income After Dividends on Preferred Stock	$54,625	$38,019	$114,907	$77,919

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Net Income After Dividends on Preferred Stock	$54,625	$38,019	$114,907	$77,919
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $(5,630), $(296) and $(5,624), respectively	1	(9,090)	(477)	(9,079)
Reclassification adjustment for amounts included in net income, net of tax of $131, $-, $279 and $-, respectively	212	—	450	—
Total other comprehensive income (loss)	213	(9,090)	(27)	(9,079)
Comprehensive Income	$54,838	$28,929	$114,880	$68,840

The accompanying notes as they relate to Mississippi Power are an integral part of these condensed financial statements.

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30, 2012	2011
	(in thousands)	
Operating Activities:		
Net income	$116,206	$79,218
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	65,902	64,329
Deferred income taxes	8,527	35,225
Investment tax credits received	38,811	51,761
Allowance for equity funds used during construction	(43,460)	(15,413)
Pension, postretirement, and other employee benefits	6,700	3,327
Hedge settlements	(15,983)	—
Stock based compensation expense	1,718	1,302
Other, net	(4,834)	(7,642)
Changes in certain current assets and liabilities —		
-Receivables	(17,622)	(5,295)
-Fossil fuel stock	(19,888)	2,345
-Materials and supplies	(2,683)	(1,442)
-Prepaid income taxes	2,517	(18,762)
-Other current assets	(14,652)	2,295
-Accounts payable	13,581	21,711
-Accrued taxes	2,361	(3,751)
-Accrued compensation	(4,830)	(4,514)
-Over recovered regulatory clause revenues	10,982	(17,754)
-Other current liabilities	14,526	(296)
Net cash provided from operating activities	157,879	186,644
Investing Activities:		
Property additions	(1,169,653)	(605,710)
Cost of removal, net of salvage	(3,092)	(6,931)
Construction payables	97,360	70,909
Capital grant proceeds	10,058	139,921
Distribution of restricted cash	—	50,000
Other investing activities	(12,891)	(3,399)
Net cash used for investing activities	(1,078,218)	(355,210)
Financing Activities:		
Proceeds —		
Capital contributions from parent company	429,272	199,782
Senior notes issuances	600,000	—
Interest-bearing refundable deposit related to asset sale	150,000	—
Other long-term debt issuances	25,613	115,000
Redemptions —		
Capital leases	(633)	(1,067)
Other long-term debt	(205,000)	(130,000)
Payment of preferred stock dividends	(1,299)	(1,299)

Payment of common stock dividends	(80,100)	(56,625)
Other financing activities	7,597	(377)
Net cash provided from financing activities	925,450	125,414
Net Change in Cash and Cash Equivalents	5,111	(43,152)
Cash and Cash Equivalents at Beginning of Period	211,585	160,779
Cash and Cash Equivalents at End of Period	$216,696	$117,627
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		