ALABAMA POWER CO
Form 10-Q
May 07, 2008

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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 March 31, 2008
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________to __________

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-3526	**The Southern Company** (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-0690070
1-3164	**Alabama Power Company** (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	**Georgia Power Company** (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
0-2429	**Gulf Power Company** (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
001-11229	**Mississippi Power Company** (A Mississippi Corporation) 2992 West Beach Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
333-98553	**Southern Power Company** (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308	58-2598670

(404) 506-5000

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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 o

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 o No þ (Response applicable to all registrants.)

Registrant	**Description of Common Stock**	**Shares Outstanding at March 31, 2008**
The Southern Company	**Par Value $5 Per Share**	**767,212,302**
Alabama Power Company	**Par Value $40 Per Share**	**21,725,000**
Georgia Power Company	**Without Par Value**	**9,261,500**
Gulf Power Company	**Without Par Value**	**1,792,717**
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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March 31, 2008

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INDEX TO QUARTERLY REPORT ON FORM 10-Q
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DEFINITIONS

Term	**Meaning**
2007 Retail Rate Plan	Georgia Power s retail rate plan for the years 2008 through 2010
Alabama Power	Alabama Power Company
Clean Air Act	Clean Air Act Amendments of 1990
Dalton Utilities	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
DOE	U.S. Department of Energy
Duke Energy	Duke Energy Corporation
ECO Plan	Environmental Compliance Overview Plan
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
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, 2007
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany Interchange Contract
IRC	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
MEAG Power	Municipal Electric Authority of Georgia
Mirant	Mirant Corporation
Mississippi Power	Mississippi Power Company
MW	Megawatt
NRC	Nuclear Regulatory Commission
NSR	New Source Review
OPC	Oglethorpe Power Corporation
PEP	Performance Evaluation Plan
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
PSC	Public Service Commission
Rate CNP	Alabama Power s certified new plant rate mechanism
Rate ECR	Alabama Power s energy cost recovery rate mechanism
Rate NDR	Alabama Power s natural disaster recovery rate mechanism
Rate RSE	Alabama Power s rate stabilization and equilization rate mechanism
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power
SCS	Southern Company Services, Inc.
SEC	Securities and Exchange Commission
SFAS No. 157	FASB Statement No. 157, Fair Value Measurement

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DEFINITIONS
(continued)

Term	Meaning
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
Stone & Webster	Stone & Webster, 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 the strategic goals for the wholesale business, retail sales growth, customer growth, storm damage cost recovery and repairs, fuel cost recovery, environmental regulations and expenditures, earnings growth, dividend payout ratios, access to sources of capital, projections for postretirement benefit trust contributions, financing activities, completion of construction projects, plans and estimated costs for new generation resources, impacts of adoption of new accounting rules, costs of implementing the IIC settlement with the FERC, cash flow impact of the Economic Stimulus Act of 2008 on tax payments in 2008, unrecognized tax benefits related to leveraged lease transactions, 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, estimates, projects, predicts, potential, or continue or the negative of these terms or other similar terminology. T are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

the impact of recent and future federal and state regulatory change, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water quality and emissions of sulfur, nitrogen, mercury, carbon, soot, or particulate matter and other substances, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations;

current and future litigation, regulatory investigations, proceedings, or inquiries, including the pending EPA civil actions against certain Southern Company subsidiaries, FERC matters, IRS audits, and Mirant matters;

the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company s subsidiaries operate;

variations in demand for electricity, including those relating to weather, the general economy, population and business growth (and declines), and the effects of energy conservation measures;

available sources and costs of fuels;

effects of inflation;

ability to control costs;

investment performance of Southern Company s employee benefit plans;

advances in technology;

state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and storm restoration cost recovery;

regulatory approvals related to the potential Plant Vogtle expansion, including Georgia PSC and NRC approvals;

the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;

internal restructuring or other restructuring options that may be pursued;

potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;

the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;

the ability to obtain new short- and long-term contracts with neighboring utilities;

the direct or indirect effect on Southern Company s business resulting from terrorist incidents and the threat of terrorist incidents;

interest rate fluctuations and financial market conditions and the results of financing efforts, including Southern Company s and its subsidiaries credit ratings;

the ability of Southern Company and its subsidiaries to obtain additional generating capacity at competitive prices;

catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as an avian influenza, or other similar occurrences;

the direct or indirect effects on Southern Company s business resulting from incidents similar to the August 2003 power outage in the Northeast;

the effect of accounting pronouncements issued periodically by standard setting bodies; and

other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the registrants from time to time with the SEC.

Each registrant expressly disclaims 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 March 31,	
	2008	2007
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 3,005,614**	$ 2,743,811
Wholesale revenues	**513,662**	480,699
Other electric revenues	**130,190**	121,294
Other revenues	**33,444**	62,865
Total operating revenues	**3,682,910**	3,408,669
Operating Expenses:		
Fuel	**1,451,943**	1,316,519
Purchased power	**92,904**	64,073
Other operations	**590,426**	565,372
Maintenance	**306,391**	281,995
Depreciation and amortization	**343,885**	306,344
Taxes other than income taxes	**189,272**	183,039
Total operating expenses	**2,974,821**	2,717,342
Operating Income	**708,089**	691,327
Other Income and (Expense):		
Allowance for equity funds used during construction	**40,585**	20,174
Interest income	**9,805**	10,555
Equity in income (losses) of unconsolidated subsidiaries	**328**	(6,735)
Leveraged lease income	**10,925**	9,862
Interest expense, net of amounts capitalized	**(217,109)**	(217,850)
Preferred and preference dividends of subsidiaries	**(16,195)**	(10,129)
Other income (expense), net	**914**	(2,931)
Total other income and (expense)	**(170,747)**	(197,054)
Earnings Before Income Taxes	**537,342**	494,273
Income taxes	**178,138**	155,584
Consolidated Net Income	**$ 359,204**	$ 338,689
Common Stock Data:		
Earnings per share-		
Basic	**$ 0.47**	$ 0.45
Diluted	**$ 0.47**	$ 0.45
Average number of shares of common stock outstanding (in thousands)		
Basic	**766,150**	750,259
Diluted	**770,322**	755,352

Cash dividends paid per share of common stock	**$ 0.4025**	$ 0.3875

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 Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Operating Activities:		
Consolidated net income	**$ 359,204**	$ 338,689
Adjustments to reconcile consolidated net income to net cash provided from operating activities		
Depreciation and amortization	**407,690**	363,903
Deferred income taxes and investment tax credits	**(2,342)**	53,433
Deferred revenues	**33,446**	(5,583)
Allowance for equity funds used during construction	**(40,585)**	(20,174)
Equity in losses of unconsolidated subsidiaries	**(328)**	6,735
Leveraged lease income	**(10,925)**	(9,862)
Pension, postretirement, and other employee benefits	**30,916**	19,992
Stock option expense	**13,427**	20,554
Derivative fair value adjustments	**14,380**	(5,932)
Hedge settlements	**27,180**	(3,923)
Other, net	**(7,239)**	(4,475)
Changes in certain current assets and liabilities		
Receivables	**188,538**	161,960
Fossil fuel stock	**(53,305)**	(63,438)
Materials and supplies	**(22,762)**	(7,077)
Other current assets	**(61,320)**	(63,751)
Accounts payable	**(114,636)**	(92,238)
Accrued taxes	**13,865**	(100,356)
Accrued compensation	**(265,386)**	(325,500)
Other current liabilities	**10,213**	(1,107)
Net cash provided from operating activities	**520,031**	261,850
Investing Activities:		
Property additions	**(1,012,907)**	(742,384)
Distribution of restricted cash from pollution control bonds	**35,716**	
Nuclear decommissioning trust fund purchases	**(160,752)**	(167,193)
Nuclear decommissioning trust fund sales	**153,872**	160,313
Investment in unconsolidated subsidiaries	**(2,780)**	(11,423)
Cost of removal, net of salvage	**(25,581)**	(22,870)
Other	**17,191**	(4,315)
Net cash used for investing activities	**(995,241)**	(787,872)
Financing Activities:		
Decrease in notes payable, net	**(100,215)**	(299,583)
Proceeds		
Long-term debt	**930,000**	1,350,000

Common stock		**132,107**		167,509
Redemptions				
Long-term debt		**(4,653)**		(405,210)
Preferred stock		**(125,000)**		
Payment of common stock dividends		**(307,960)**		(290,292)
Other		**(770)**		(1,759)
Net cash provided from financing activities		**523,509**		520,665
Net Change in Cash and Cash Equivalents		**48,299**		(5,357)
Cash and Cash Equivalents at Beginning of Period		**200,550**		166,846
Cash and Cash Equivalents at End of Period	**$**	**248,849**	$	161,489
Supplemental Cash Flow Information:				
Cash paid during the period for				
Interest (net of $21,800 and $12,259 capitalized for 2008 and 2007, respectively)	**$**	**197,570**	$	181,712
Income taxes (net of refunds)	**$**	**3,719**	$	(19,257)

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 March 31, 2008**	At December 31, 2007
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 248,849**	$ 200,550
Restricted cash	**32,442**	68,013
Receivables		
Customer accounts receivable	**988,001**	999,264
Unbilled revenues	**297,251**	294,487
Under recovered regulatory clause revenues	**667,391**	715,744
Other accounts and notes receivable	**294,072**	347,573
Accumulated provision for uncollectible accounts	**(23,217)**	(22,142)
Fossil fuel stock, at average cost	**763,886**	709,823
Materials and supplies, at average cost	**738,779**	725,001
Vacation pay	**133,926**	134,806
Prepaid expenses	**216,911**	147,903
Other	**467,709**	411,210
Total current assets	**4,826,000**	4,732,232
Property, Plant, and Equipment:		
In service	**47,719,321**	47,175,717
Less accumulated depreciation	**17,690,685**	17,412,658
	30,028,636	29,763,059
Nuclear fuel, at amortized cost	**423,370**	336,129
Construction work in progress	**3,551,358**	3,227,605
Total property, plant, and equipment	**34,003,364**	33,326,793
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	**1,064,197**	1,131,798
Leveraged leases	**995,400**	984,441
Other	**222,548**	237,400
Total other property and investments	**2,282,145**	2,353,639
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**927,458**	910,402
Prepaid pension costs	**2,399,735**	2,368,798
Unamortized debt issuance expense	**194,831**	190,700
Unamortized loss on reacquired debt	**283,537**	288,973
Deferred under recovered regulatory clause revenues	**318,089**	388,945
Other regulatory assets	**842,186**	769,226
Other	**518,408**	459,172

Total deferred charges and other assets	**5,484,244**		5,376,216
Total Assets	**$ 46,595,753**	$	45,788,880

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 March 31, 2008	At December 31, 2007
	(in thousands)	
Current Liabilities:		
Securities due within one year	$ 1,243,616	$ 1,177,889
Notes payable	1,171,242	1,271,457
Accounts payable	1,152,838	1,213,766
Customer deposits	283,786	273,800
Accrued taxes		
Income taxes	380,072	216,836
Other	177,480	329,895
Accrued interest	222,566	217,883
Accrued vacation pay	167,528	170,574
Accrued compensation	145,433	407,543
Other	498,050	351,017
Total current liabilities	5,442,611	5,630,660
Long-term Debt	14,887,512	14,143,114
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	5,831,898	5,838,674
Deferred credits related to income taxes	267,411	272,181
Accumulated deferred investment tax credits	473,345	479,302
Employee benefit obligations	1,525,566	1,492,472
Asset retirement obligations	1,200,297	1,200,094
Other cost of removal obligations	1,312,585	1,307,732
Other regulatory liabilities	1,649,585	1,613,004
Other	359,762	346,371
Total deferred credits and other liabilities	12,620,449	12,549,830
Total Liabilities	32,950,572	32,323,604
Preferred and Preference Stock of Subsidiaries	1,081,863	1,080,248
Common Stockholders Equity:		
Common stock, par value $5 per share		
Authorized 1 billion shares		
Issued March 31, 2008: 767,624,255 Shares;		
December 31, 2007: 763,502,427 Shares		
Treasury March 31, 2008: 411,953 Shares;		
December 31, 2007: 398,746 Shares		
Par value	3,838,068	3,817,453
Paid-in capital	1,587,414	1,454,288

Treasury, at cost	**(11,799)**	(11,143)
Retained earnings	**7,201,511**	7,154,596
Accumulated other comprehensive loss	**(51,876)**	(30,166)
Total Common Stockholders Equity	**12,563,318**	12,385,028
Total Liabilities and Stockholders Equity	**$ 46,595,753**	$ 45,788,880

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 March 31,	
	2008	2007
	(in thousands)	
Consolidated Net Income	**$ 359,204**	$ 338,689
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(13,988) and $(1,567), respectively	**(22,251)**	(2,468)
Reclassification adjustment for amounts included in net income, net of tax of $1,778 and $1,259, respectively	**2,775**	2,204
Marketable securities:		
Change in fair value, net of tax of $(2,137) and $818, respectively	**(3,101)**	1,307
Pension and other post retirement benefit plans:		
Reclassification adjustment for amounts included in net income, net of tax of $259 and $246, respectively	**411**	438
Total other comprehensive income (loss)	**(22,166)**	1,481
COMPREHENSIVE INCOME	**$ 337,038**	$ 340,170

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
FIRST QUARTER 2008 vs. FIRST QUARTER 2007

OVERVIEW

Discussion of the results of operations is focused on Southern Company s primary business of electricity sales in the Southeast by the traditional operating companies Alabama Power, Georgia Power, Gulf Power, and Mississippi Power and Southern Power. The traditional operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, and manages generation assets and sells electricity at market-based rates in the wholesale market. Southern Company s other business activities include investments in leveraged lease projects, telecommunications, and energy-related services. 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

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$20.5	6.1

Southern Company s first quarter 2008 earnings were $359.2 million ($0.47 per share) compared to $338.7 million ($0.45 per share) for the first quarter 2007. The increase in earnings for the first quarter 2008 when compared to the same period in 2007 resulted primarily from retail base rate increases at Alabama Power and Georgia Power and an increase in contributions from market-response rates to large commercial and industrial customers. The first quarter increase was partially offset by higher other operations and maintenance expenses and higher depreciation and amortization.

Retail Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$261.8	9.5

In the first quarter 2008, retail revenues were $3.01 billion compared to $2.74 billion in the same period in 2007. Details of the change to retail revenues follow:

	First Quarter 2008	
	(in millions)	*% change*
Retail prior year	$2,743.8	
Estimated change in		
Rates and pricing	131.9	4.8
Sales growth	22.5	0.8
Weather	1.1	0.1
Fuel and other cost recovery	106.3	3.8

Retail current year	$3,005.6	9.5%

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

Revenues associated with changes in rates and pricing increased in the first quarter 2008 when compared to the same period in 2007 primarily as a result of retail base rate increases at Alabama Power and Georgia Power and an increase in revenues from market-response rates to large commercial and industrial customers.

Revenues attributable to changes in sales growth increased in the first quarter 2008 when compared to the same period in 2007 due to a 1.4% increase in retail KWH sales resulting primarily from a 1.1% increase in customer growth and a 1.3% increase in electricity usage among commercial customers in the first quarter 2008 as compared to the first quarter 2007. For the first quarter 2008, residential KWH sales increased 1.9%, commercial KWH sales increased 1.9%, and industrial KWH sales increased 0.6%.

Revenues resulting from changes in weather were flat due to near normal weather in the first quarters of 2008 and 2007.

Fuel and other cost recovery revenues increased $106.3 million in the first quarter 2008 when compared to the same period in 2007. Electric rates for the traditional operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

Wholesale Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$33.0	6.9

In the first quarter 2008, wholesale revenues were $513.7 million compared to $480.7 million in the same period in 2007. The increase was primarily a result of a rise in fuel revenues due to a 9.6% increase in the average unit cost of fuel per net KWH generated. Also contributing to the increase were higher revenues associated with new and existing wholesale contracts. The first quarter increase was partially offset by lower revenues from short-term opportunity sales. Short-term opportunity sales are made at market-based rates that generally provide a margin above Southern Company s variable cost to produce the energy.

Other Electric Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$8.9	7.3

In the first quarter 2008, other electric revenues were $130.2 million compared to $121.3 million in the same period in 2007. The increase was primarily a result of a $3.1 million increase in revenues from co-generation facilities due to higher natural gas prices, an increase in transmission revenues of $2.8 million, and an increase in outdoor lighting revenues of $1.9 million.

Other Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$(29.5)	(46.8)

In the first quarter 2008, other revenues were $33.4 million compared to $62.9 million in the same period in 2007. The decrease was primarily a result of a $16.5 million decrease in fuel procurement service revenues following a contract termination in February 2007, a $4.7 million decrease in telecommunication service

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

revenues related to lower average revenue per subscriber and fewer subscribers due to increased competition within the industry, and a $2.3 million decrease in revenues at a subsidiary that provides energy-related services.

Fuel and Purchased Power Expenses

	First Quarter 2008 vs. First Quarter 2007	
	(change in millions)	*% change*
Fuel	$ 135.4	10.3
Purchased power	28.8	45.0
Total fuel and purchased power expenses	$ 164.2	

Fuel and purchased power expenses for the first quarter 2008 were $1.54 billion compared to $1.38 billion for the corresponding period in 2007. The increase in fuel and purchased power expenses was due to a $135.3 million net increase in the average cost of fuel and purchased power, primarily related to a 12.8% increase in the cost of coal per net KWH generated. Also contributing to the increase was a $28.9 million net increase related to total KWHs generated and purchased when compared to the same period in 2007.

Increases in fuel expense at the traditional operating companies are generally offset by fuel revenues and do not affect net income. See FUTURE EARNINGS POTENTIAL FERC and State 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 affect net income.

Details of Southern Company s cost of generation and purchased power are as follows:

Average Cost	First Quarter 2008	First Quarter 2007	Percent Change
	(cents per net KWH)		
Fuel	3.07	2.80	9.6
Purchased power	5.60	5.10	9.8

Energy purchases will vary depending on demand for energy within the Southern Company service area, the market cost of available energy as compared to the cost of Southern Company system-generated energy, and the availability of Southern Company system generation.

Other Operations and Maintenance Expenses

	First Quarter 2008 vs. First Quarter 2007	
	(change in millions)	*% change*
Other operations	$ 25.0	4.4
Maintenance	24.4	8.7

Total other operations and maintenance expenses	$ 49.4

In the first quarter 2008, other operations and maintenance expenses were $896.8 million compared to $847.4 million in the same period in 2007. The increase in other operations and maintenance expenses was primarily a result of a $28.0 million increase in fossil and hydro expenses due to costs incurred for scheduled outages and maintenance of fossil and hydro generating units; an $11.6 million increase in nuclear expenses due to costs incurred for scheduled outages and maintenance of nuclear generating units; and a $9.3 million increase in customer account expenses largely related to increases in records and collections expenses and meter reading expenses.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Depreciation and Amortization

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$37.6	12.3

In the first quarter 2008, depreciation and amortization was $343.9 million compared to $306.3 million in the same period in 2007. The increase in depreciation and amortization resulted primarily from an increase in plant in service related to environmental, transmission, and distribution projects mainly at Alabama Power and Georgia Power.

Allowance for Equity Funds Used During Construction

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$20.4	101.2

In the first quarter 2008, allowance for equity funds used during construction was $40.6 million compared to $20.2 million in the same period in 2007. The increase was a result of additional investments in environmental projects mainly at Alabama Power and Georgia Power, and generation facilities at Georgia Power.

Equity in Income (Losses) of Unconsolidated Subsidiaries

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$7.0	104.9

In the first quarter 2008, equity in income (losses) of unconsolidated subsidiaries was $0.3 million compared to $(6.7) million for the same period in 2007. The increase in the first quarter 2008 when compared with the same period in 2007 was primarily a result of Southern Company terminating, in December 2007, its investment in synthetic fuel production facilities which had generated operating losses.

Interest Expense, Net of Amounts Capitalized

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$(0.8)	(0.3)

Interest expense, net of amounts capitalized, was $217.1 million in the first quarter 2008 compared to $217.9 million for the corresponding period in 2007. This decrease is primarily the result of $9.7 million related to lower average interest rates on existing variable rate debt and $9.5 million more capitalized interest in the first quarter 2008 compared to the first quarter 2007. These decreases were mostly offset by an $18.4 million increase associated with $795 million in additional debt outstanding at March 31, 2008 compared to March 31, 2007. See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Financing Activities of Southern Company in Item 7 of the Form 10-K and herein for additional information.

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Preferred and Preference Dividends of Subsidiaries

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$6.1	59.9

Preferred and preference dividends of subsidiaries were $16.2 million for the first quarter 2008 compared to $10.1 million for the corresponding period in 2007. This increase is primarily related to the issuance of $470 million of preference stock in September and October 2007, partially offset by the redemption of $125 million of preferred stock in January 2008. See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Financing Activities of Southern Company in Item 7 of the Form 10-K and herein for additional information.

Income Taxes

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$22.5	14.5

Income taxes for the first quarter 2008 were $178.1 million compared to $155.6 million for the corresponding period in 2007. The increase was due to higher pre-tax earnings and the unavailability of net synthetic fuel tax credits in the first quarter 2008 compared to the same period in 2007.

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 Southern Company s primary business of selling electricity. These factors include the traditional operating companies ability to maintain a stable regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Other major factors include profitability of the competitive wholesale supply business and federal regulatory policy (including the FERC s market-based rate proceeding), which may impact Southern Company s level of participation in this market. Future earnings for the electricity business in the near term will depend, in part, upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth in the service area. In addition, the level of future earnings for the wholesale supply business also depends on numerous factors including creditworthiness of customers, total generating capacity available in the Southeast, and the successful remarketing of capacity as current contracts expire. 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 the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. 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.

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Eight-Hour Ozone Regulations

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 regarding revisions to the eight-hour ozone air quality standard. In March 2008, the EPA finalized its revisions to the eight-hour ozone standard, increasing its stringency. The EPA plans to designate nonattainment areas based on the new standard by 2010, and new nonattainment areas within Southern Company s service territory are expected. The ultimate outcome of this matter cannot be determined at this time and will depend on subsequent legal action and/or future nonattainment designations and regulatory plans.

Carbon Dioxide Litigation

On February 26, 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs damages. The suit seeks damages for lost property values and for the cost of relocating the village, which cost is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. The ultimate outcome of this matter cannot be determined at this time.

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 regarding executive orders issued by the Governor of the State of Florida addressing reduction of greenhouse gas emissions within the state. On April 30, 2008, the Florida legislature enacted comprehensive energy-related legislation that includes authorization for the Florida Department of Environmental Protection to adopt rules for a cap-and-trade regulatory program to address greenhouse gas emissions from electric utilities, conditioned upon their ratification by the legislature no sooner than the 2010 legislative session. This legislation, which has not yet been signed by the Governor, also authorizes the Florida PSC to adopt a renewable portfolio standard for public utilities, subject to legislative ratification. The impact of this legislation on Southern Company will depend on the development, adoption, legislative ratification, implementation, and potential legal challenges in connection with rules governing greenhouse gas emissions and mandates regarding the use of renewable energy, and the ultimate outcome cannot be determined at this time.

FERC and State PSC Matters

Retail Fuel Cost Recovery

The traditional operating companies each have established fuel cost recovery rates approved by their respective state PSCs. Over the past several years, the traditional operating companies have continued to experience higher than expected fuel costs for coal, natural gas, and uranium. These higher fuel costs have resulted in under recovered fuel costs included in the balance sheets of approximately $957 million at March 31, 2008 as compared to $1.1 billion at December 31, 2007. Operating revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes to the billing factors

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will have no significant effect on Southern Company s revenues or net income but will affect cash flow. The traditional operating companies continuously monitor the under recovered fuel cost balance in light of these higher fuel costs. 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 Alabama Power Retail Regulatory Matters and Georgia Power Retail Regulatory Matters in Item 8 of the Form 10-K for additional information.

In February 2008, Georgia Power filed a request with the Georgia PSC to change the fuel cost recovery rate effective June 1, 2008. If approved as filed, total annual fuel billings will increase by $222 million. The Georgia PSC is scheduled to rule on the request May 20, 2008. The ultimate outcome of this matter cannot be determined at this time.

Mississippi Base Load Construction Legislation

In the 2008 regular session of the Mississippi legislature, a bill was introduced to enhance the Mississippi PSC s authority to facilitate development and construction of base load generation in the State of Mississippi. The bill, passed by the legislature on April 16, 2008 and awaiting approval by the Governor, authorizes, but does not require, the Mississippi PSC to include in retail base rates, prior to and during construction, all or a portion of the prudently incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. The bill also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the bill authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant.

Income Tax Matters

Leveraged Lease Transactions

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Income Tax Matters Leveraged Lease Transactions of Southern Company in Item 7 of the Form 10-K for information regarding pending litigation and proposed legislation related to the sale-in-lease-out (SILO) transactions. Also see Note 1 to the financial statements of Southern Company under Income and Other Taxes and Note 5 to the financial statements of Southern Company under Unrecognized Tax Benefits in Item 8 of the Form 10-K for information regarding Southern Company s unrecognized tax benefit related to the SILO litigation. The IRS challenged Southern Company s deductions related to three international lease transactions in connection with its audits of Southern Company s 2000 through 2003 tax returns. Southern Company is continuing to pursue resolution of these matters; however, the ultimate outcome cannot now be determined. In accordance with the requirements of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes and FASB Staff Position No. 13-2, Accounting for a Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction, Southern Company will continue to evaluate the SILO transactions and the projected timing of income tax cash flows in light of Southern Company s pending litigation, other recent court decisions involving lease-in-lease-out and SILO transactions, and proposed legislation. As a result, it is reasonably possible that the amount of the unrecognized tax benefit could significantly change within the next 12 months. The ultimate impact on Southern Company s net income and cash flow will be dependent on the outcome of the pending litigation, other court decisions, and proposed legislation, but could be significant, and potentially material.

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Bonus Depreciation

On February 13, 2008, President Bush signed the Economic Stimulus Act of 2008 (Stimulus Act) into law. The Stimulus Act includes a provision that allows 50% bonus depreciation for certain property acquired in 2008 and placed in service in 2008 or, in certain limited cases, 2009. Southern Company is currently assessing the financial implications of the Stimulus Act and estimates the cash flow reduction to tax payments for 2008 to be between $120 million and $215 million.

Construction Projects

Integrated Coal Gasification Combined Cycle

As part of the evaluation and screening of alternatives to meet its future generation needs, Mississippi Power is considering the construction of an advanced coal gasification facility to be located in Kemper County, Mississippi, that would use locally mined lignite coal. The plant would use an air-blown IGCC technology that generates power from low-rank coals and coals with high moisture or high ash content. These coals, which include lignite, make up approximately half the proven United States and worldwide coal reserves. The feasibility assessment of the project is currently underway. Mississippi Power filed an application in June 2006 with the DOE for certain tax credits available to projects using clean coal technologies under the Energy Policy Act of 2005. The DOE subsequently certified the project and in November 2006, the IRS allocated IRC Section 48A tax credits of $133 million to Mississippi Power. The utilization of these credits is dependent upon meeting the certification requirements for the project, including an in-service date no later than November 2013. On February 14, 2008, Mississippi Power also requested that the DOE transfer the remaining funds previously granted to another Southern Company project that would have been located in Orlando, Florida. The Orlando project was cancelled in 2007.

In December 2006, the Mississippi PSC approved Mississippi Power s request for accounting treatment of the costs associated with Mississippi Power s generation resource planning, evaluation, and screening activities. The Mississippi PSC gave Mississippi Power the authority to create and recognize a regulatory asset for such costs. In December 2007, Mississippi Power reported to the Mississippi PSC an updated estimate and received an order directing Mississippi Power to continue charging all costs associated with the generation capacity assessment to the regulatory asset. At March 31, 2008, Mississippi Power had spent $25.3 million, of which $2.7 million related to land purchases capitalized. The retail portion of $16.4 million was deferred in other regulatory assets and the wholesale portion of $6.2 million was expensed. The retail portion of these costs will be charged to and remain as a regulatory asset until the Mississippi PSC determines the prudence and ultimate recovery of such costs, which decision is expected by January 2009. The balance of such regulatory asset is included in Mississippi Power s rate base for retail ratemaking purposes. Approval by various regulatory agencies, including the Mississippi PSC, will also be required if the project proceeds. The Mississippi PSC, in its discretion, may exercise its additional rate authority granted to the Mississippi PSC in the Mississippi base load construction legislation if such legislation is signed by the Governor and if the project proceeds. See FERC and State PSC Matters Mississippi Base Load Construction Legislation herein for additional information.

The final outcome of this matter cannot now be determined.

Nuclear

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Construction Projects Nuclear of Southern Company in Item 7 of the Form 10-K for information regarding the potential expansion of Plant Vogtle.

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In August 2006, Southern Nuclear, on behalf of Georgia Power, OPC, MEAG Power, and Dalton Utilities (collectively, Owners), filed an application with the NRC for an early site permit approving two additional nuclear units on the site of Plant Vogtle. In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license (COL) for the new units.

On April 8, 2008, Georgia Power, acting for itself and as agent for the Owners, and a consortium consisting of Westinghouse and Stone & Webster (collectively, Consortium) entered into an engineering, procurement, and construction agreement to design, engineer, procure, construct, and test two AP1000 nuclear units with electric generating capacity of approximately 1,100 MWs each and related facilities, structures, and improvements at Plant Vogtle (Vogtle 3 and 4 Agreement).

The Vogtle 3 and 4 Agreement is an arrangement whereby the Consortium supplies and constructs the entire facility with the exception of certain items provided by the Owners. Under the terms of the Vogtle 3 and 4 Agreement, the Owners will pay a purchase price that will be subject to certain price escalation and adjustments, adjustments for change orders, and performance bonuses. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Consortium under the Vogtle 3 and 4 Agreement. Georgia Power s proportionate share, based on its current ownership interest, is 45.7%. Under the terms of a separate joint development agreement, the Owners must finalize their ownership percentages by July 2, 2008, except for allowed changes, under certain limited circumstances, during the Georgia PSC certification process.

Georgia Power submitted its self-build nuclear proposal to the Georgia PSC on May 1, 2008 in connection with its 2016-2017 baseload capacity request for proposals (RFP). No other responses to the RFP were received. Georgia Power will work with the Georgia PSC s Independent Evaluator to finalize information required for certification, including updated fossil fuel and generation technology costs, before submitting a final recommendation on August 1, 2008 for the Georgia PSC s approval. A final certification decision is expected in March 2009.

If certified by the Georgia PSC and licensed by the NRC, Vogtle Units 3 and 4 are scheduled to be placed in service in 2016 and 2017, respectively. The total plant value to be placed in service will also include financing costs for each of the Owners, the impacts of inflation on costs, and transmission and other costs that are the responsibility of the Owners. Georgia Power s proportionate share of the estimated in-service costs, based on its current ownership interest, is approximately $6.4 billion, subject to adjustments and performance bonuses under the Vogtle 3 and 4 Agreement.

The Owners and the Consortium have agreed to certain liquidated damages upon the Consortium s failure to comply with the schedule and performance guarantees. The Owners and the Consortium also have agreed to certain bonuses payable to the Consortium for early completion and unit performance. The Consortium s liability to the Owners for schedule and performance liquidated damages and warranty claims is subject to a cap.

The obligations of Westinghouse and Stone & Webster under the Vogtle 3 and 4 Agreement are guaranteed by Toshiba Corporation and The Shaw Group, Inc., respectively. In the event of certain credit rating downgrades of any Owner, such Owner will be required to provide a letter of credit or other credit enhancement.

The Vogtle 3 and 4 Agreement is subject to certification by the Georgia PSC. In addition, the Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Owners will be required to pay certain termination costs and, at certain stages of the work, cancellation fees to the Consortium. The Consortium may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including delays in receipt of the COL or delivery of full notice to proceed, certain Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Owners, Owner insolvency, and certain other events.

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Other Matters

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

See the Notes to the Condensed Financial Statements herein for 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

Southern Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements 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 Leveraged Leases.

New Accounting Standards

Business Combinations

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R, when adopted, will significantly change the accounting for business combinations, specifically the accounting for contingent consideration, contingencies, acquisition costs, and restructuring costs. Southern Company plans to adopt SFAS No. 141R on January 1, 2009. It is likely that the adoption of SFAS No. 141R will have a significant impact on the accounting for any business combinations completed by Southern Company after January 1, 2009.

In December 2007, the FASB issued FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements and establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in

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deconsolidation. Southern Company plans to adopt SFAS No. 160 on January 1, 2009. Southern Company is currently assessing its impact, if any.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Southern Company s financial condition remained stable at March 31, 2008. Net cash provided from operating activities totaled $520 million for the first quarter 2008 compared to $262 million for the first quarter 2007. The $258 million increase in cash provided from operating activities in the first quarter 2008 is primarily due to a reduction in cash outflow for tax payments of $114 million, a decrease in cash used for compensation earned of $60 million, an increase in non-cash depreciation and amortization of $44 million primarily for new plant in service, an increase in cash inflow from accounts receivable of $27 million primarily related to fuel cost recovery, and an increase of $21 million in net income.

Net cash used for investing activities totaled $995 million for the first quarter 2008, an increase of $207 million over the prior period, primarily due to property additions to utility plant. Net cash provided from financing activities totaled $524 million for the first quarter 2008 compared to $521 million for the first quarter 2007 primarily due to the issuance of new long-term debt.

Significant balance sheet changes for the first three months of the year include an increase in total property, plant, and equipment of $677 million and an increase in long-term debt, excluding amounts due within one year, of $744 million used primarily for the repayment of short-term debt, construction expenditures, and general corporate purposes.

The market price of Southern Company s common stock at March 31, 2008 was $35.61 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $16.38 per share, representing a market-to-book ratio of 217%, compared to $38.75, $16.23, and 239%, respectively, at the end of 2007. The dividend for the first quarter 2008 was $0.4025 per share compared to $0.3875 per share in the first quarter 2007. In April 2008, the dividend was increased to $0.42 for the dividend payable in June 2008.

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 its construction program 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, and derivative obligations. Approximately $1.2 billion will be required by March 31, 2009 for maturities of long-term debt. In addition, in connection with Georgia Power s entering into the Vogtle 3 and 4 Agreement, as described under FUTURE EARNINGS POTENTIAL - Construction Projects herein, the revised estimated total construction program for Southern Company is $4.4 billion in 2008, $5.2 billion in 2009, and $4.8 billion in 2010. Actual construction costs may vary from these estimates because of changes in such factors as: business conditions; environmental statutes and regulations; nuclear plant regulation; FERC rules and regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

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

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placements, or public offerings. The amount and timing of additional equity capital to be raised in 2008, as well as in subsequent years, will be contingent on Southern Company s investment opportunities. The traditional operating companies and Southern Power plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, security issuances, term loans, and short-term borrowings. However, the amount, type, and timing of any 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.

Southern Company s current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet cash needs as well as scheduled maturities of long-term debt. To meet short-term cash needs and contingencies, Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs, to meet liquidity needs. At March 31, 2008, Southern Company and its subsidiaries had approximately $249 million of cash and cash equivalents and approximately $4.3 billion of unused credit arrangements with banks, of which $841 million expire in 2008, $185 million expire in 2009, and $3.3 billion expire in 2012. Approximately $79 million of the credit facilities expiring in 2008 allow for the execution of term loans for an additional two-year period, and $530 million contain provisions allowing one-year term loans. See Note 6 to the financial statements of Southern Company under Bank Credit Arrangements in Item 8 of the Form 10-K for additional information. The traditional operating companies may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of each of the traditional operating companies. At March 31, 2008, the Southern Company system had outstanding commercial paper of $1.0 billion and short-term bank notes of $150 million. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs and lines of credit without maintaining large cash balances.

Off-Balance Sheet Financing Arrangements

See MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Off-Balance Sheet Financing Arrangements of Southern Company in Item 7 and Note 7 to the financial statements of Southern Company under Operating Leases in Item 8 of the Form 10-K for information related to Mississippi Power s lease of a combined cycle generating facility at Plant Daniel.

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 to BBB and Baa2, or BBB- or Baa3 or below. These contracts are primarily for physical electricity purchases and sales. At March 31, 2008, the maximum potential collateral requirements at a BBB and Baa2 rating were approximately $9 million and at a BBB- or Baa3 rating were approximately $298 million. At March 31, 2008, the maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $1.0 billion. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash.

Southern Company s operating subsidiaries are also party to certain agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade for Alabama Power and/or Georgia Power. These agreements are primarily for natural gas and power price risk management activities. At March 31, 2008, Southern Company s total exposure to these types of agreements was approximately $47 million.

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Market Price Risk

Southern Company s market risk exposures relative to interest rate changes have not changed materially compared with the December 31, 2007 reporting period. In addition, Southern Company is not aware of any facts or circumstances that would significantly affect such exposures in the near term.

Due to cost-based rate regulation, the traditional operating companies have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. In addition, Southern Power s exposure to market volatility in commodity fuel prices and prices of electricity is limited because its long-term sales contracts shift substantially all fuel cost responsibility to the purchaser. To mitigate residual risks relative to movements in electricity prices, the traditional operating companies enter into physical fixed-price contracts for the purchase and sale of electricity through the wholesale electricity market and, to a lesser extent, into financial hedge contracts for natural gas purchases. The traditional operating companies have implemented fuel-hedging programs at the instruction of their respective state PSCs.

The changes in fair value of energy-related derivative contracts and valuations at March 31, 2008 were as follows:

	First Quarter 2008 Changes
	Fair Value
	(in millions)
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ 4
Contracts realized or settled	10
Current period changes[(a)]	148
Contracts outstanding at the end of the period, assets (liabilities), net	$ 162

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

Gains and losses on energy-related derivative contracts related to the traditional operating companies fuel hedging programs 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. In addition, gains and losses on energy-related derivatives used by Southern Power to hedge anticipated purchases and sales are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred.

The fair value gain/(loss) of energy-related derivative contracts outstanding at March 31, 2008 was reflected in the financial statements as follows:

	Amounts
	(in millions)
Regulatory liabilities, net	$ 183
Accumulated other comprehensive income	(10)
Net income	(11)
Total fair value gain/(loss)	$ 162

Unrealized pre-tax losses recognized in income for the three months ended March 31, 2008 for energy-related derivative contracts that are not hedges were $14.0 million and were immaterial for the three months ended March 31, 2007.

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The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2008 are as follows:

	March 31, 2008 Fair Value Measurements		
	Total	Maturity	
	Fair Value	Year 1	1-3 Years
		(in millions)	
Level 1	$	$	$
Level 2	162	127	35
Level 3			
Fair value of contracts outstanding at end of period	$162	$127	$35

As part of the adoption of SFAS No. 157 to increase consistency and comparability in fair value measurements and related disclosures, the table above now uses the three-tier fair value hierarchy, as discussed in Note (C) to the Condensed Financial Statements herein, as opposed to the previously used descriptions actively quoted, external sources, and models and other methods. The three-tier fair value hierarchy focuses on the fair value of the contract itself, whereas the previous descriptions focused on the source of the inputs. Because Southern Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, the valuations of those contracts now appear in Level 2; previously they were shown as actively quoted.

For additional information, see MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Southern Company in Item 7 and Notes 1 and 6 to the financial statements of Southern Company under Financial Instruments in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements herein.

Financing Activities

In the first three months of 2008, Southern Company s subsidiaries issued $550 million of senior notes, and Southern Company issued $132 million of common stock through the Southern Investment Plan and employee and director stock plans. In addition, Georgia Power and Mississippi Power entered into long-term bank loans of $300 million and $80 million, respectively. The proceeds were primarily used to repay short-term indebtedness and to fund ongoing construction projects. See Southern Company s Condensed Consolidated Statements of Cash Flows herein for further details on financing activities during the first three months of 2008. During the first quarter 2008, interest rate hedges of $225 million notional amount were settled at a loss of $15.8 million related to the issuances. These losses were deferred in other comprehensive income and will be amortized to income over the original term of the hedges. See Note (F) to the Condensed Financial Statements herein for further details. Also during the first three months of 2008, Southern Company and its subsidiaries paid at maturity $5 million of long-term debt and also redeemed $125 million of preferred stock. Subsequent to March 31, 2008, Gulf Power entered into a $110 million long-term bank loan, of which $80 million was borrowed in April 2008 and $30 million is to be borrowed in June 2008, and settled an interest rate hedge with an $80 million notional amount at a loss of $5.2 million.

During the first three months of 2008, Southern Company and its subsidiaries entered into additional derivative transactions designed to hedge interest rate risk related to variable rate obligations. The total notional amount of these derivatives is $1.2 billion.

Also in 2008, Southern Company s subsidiaries converted their entire $1.2 billion of obligations related to auction rate tax-exempt securities from an auction rate mode to other interest rate modes. Approximately

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

$696 million of the auction rate tax-exempt securities were converted to fixed interest rate modes and approximately $553 million were converted to a daily floating rate mode.

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 Notes 1 and 6 to the financial statements of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power under Financial Instruments in Item 8 of the Form 10-K. Also, see Note (F) 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 conducted an evaluation under the supervision and with the participation of Southern 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 this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective in alerting them in a timely manner to material information relating to Southern Company (including its consolidated subsidiaries) required to be included in periodic filings with the SEC.

(b) Changes in internal controls.

There have been no changes in Southern Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the first quarter of 2008 that have materially affected or are reasonably likely to materially affect Southern Company s internal control over financial reporting.

Item 4T. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this quarterly report, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power conducted separate evaluations under the supervision and with the participation of each company s management, including the Chief Executive Officer and 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 in alerting them in a timely manner to material information relating to their company (including its consolidated subsidiaries, if any) required to be included in periodic filings with the SEC.

(b) Changes in internal controls.

There have been no changes in 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 first quarter of 2008 that have materially affected or are reasonably likely to materially affect 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 March 31,	
	2008	2007
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 1,034,254**	$ 955,773
Wholesale revenues		
Non-affiliates	**170,040**	155,122
Affiliates	**83,692**	42,194
Other revenues	**48,693**	44,113
Total operating revenues	**1,336,679**	1,197,202
Operating Expenses:		
Fuel	**453,149**	386,072
Purchased power		
Non-affiliates	**11,219**	4,638
Affiliates	**88,707**	72,714
Other operations	**184,550**	171,403
Maintenance	**125,000**	118,762
Depreciation and amortization	**124,637**	115,943
Taxes other than income taxes	**75,771**	72,718
Total operating expenses	**1,063,033**	942,250
Operating Income	**273,646**	254,952
Other Income and (Expense):		
Allowance for equity funds used during construction	**11,304**	6,586
Interest income	**4,642**	4,394
Interest expense, net of amounts capitalized	**(68,975)**	(67,190)
Other income (expense), net	**(7,223)**	(2,924)
Total other income and (expense)	**(60,252)**	(59,134)
Earnings Before Income Taxes	**213,394**	195,818
Income taxes	**73,428**	72,702
Net Income	**139,966**	123,116
Dividends on Preferred and Preference Stock	**9,866**	8,182
Net Income After Dividends on Preferred and Preference Stock	**$ 130,100**	$ 114,934

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the Three Months
Ended March 31,

	2008	2007
	(in thousands)	
Net Income After Dividends on Preferred and Preference Stock	**$ 130,100**	$ 114,934
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(2,211) and $(102), respectively	**(3,637)**	(168)
Reclassification adjustment for amounts included in net income, net of tax of $185 and $59, respectively	**305**	96
Total other comprehensive income (loss)	**(3,332)**	(72)
COMPREHENSIVE INCOME	**$ 126,768**	$ 114,862

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 Three Months Ended March 31, 2008	2007
	(in thousands)	
Operating Activities:		
Net income	**$ 139,966**	$ 123,116
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	**146,208**	136,060
Deferred income taxes and investment tax credits, net	**4,513**	(889)
Allowance for equity funds used during construction	**(11,304)**	(6,586)
Pension, postretirement, and other employee benefits	**(3,995)**	(2,439)
Stock option expense	**2,178**	3,713
Tax benefit of stock options	**347**	286
Other, net	**9,223**	3,779
Changes in certain current assets and liabilities		
Receivables	**62,227**	43,143
Fossil fuel stock	**(34,750)**	(21,732)
Materials and supplies	**(7,751)**	(2,288)
Other current assets	**(63,757)**	(45,381)
Accounts payable	**(124,728)**	(94,769)
Accrued taxes	**79,338**	93,770
Accrued compensation	**(64,851)**	(61,830)
Other current liabilities	**9,358**	7,811
Net cash provided from operating activities	**142,222**	175,764
Investing Activities:		
Property additions	**(349,684)**	(263,712)
Investment in restricted cash from pollution control bonds	**(145)**	
Distribution of restricted cash from pollution control bonds	**19,622**	
Nuclear decommissioning trust fund purchases	**(46,941)**	(73,062)
Nuclear decommissioning trust fund sales	**46,941**	73,062
Cost of removal, net of salvage	**(8,863)**	(10,012)
Other	**13,454**	(1,863)
Net cash used for investing activities	**(325,616)**	(275,587)
Financing Activities:		
Decrease in notes payable, net		(44,875)
Proceeds		
Senior notes	**300,000**	200,000
Common stock issued to parent	**150,000**	70,000
Capital contributions	**6,016**	
Gross excess tax benefit of stock options	**607**	741
Redemptions		
Preferred stock	**(125,000)**	

Payment of preferred and preference stock dividends	**(11,275)**	(6,515)
Payment of common stock dividends	**(122,825)**	(116,250)
Other	**(1,684)**	(2,469)
Net cash provided from financing activities	**195,839**	100,632
Net Change in Cash and Cash Equivalents	**12,445**	809
Cash and Cash Equivalents at Beginning of Period	**73,616**	15,539
Cash and Cash Equivalents at End of Period	**$ 86,061**	$ 16,348
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $5,130 and $3,346 capitalized for 2008 and 2007, respectively)	**$ 63,324**	$ 52,607
Income taxes (net of refunds)	**$ 1,550**	$ (3,250)

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 March 31, 2008	At December 31, 2007
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 86,061**	$ 73,616
Restricted cash	**255**	19,732
Receivables		
Customer accounts receivable	**353,244**	357,355
Unbilled revenues	**94,032**	95,278
Under recovered regulatory clause revenues	**204,157**	232,226
Other accounts and notes receivable	**33,326**	42,745
Affiliated companies	**90,758**	61,250
Accumulated provision for uncollectible accounts	**(9,119)**	(7,988)
Fossil fuel stock, at average cost	**218,470**	182,963
Materials and supplies, at average cost	**295,411**	287,994
Vacation pay	**50,382**	50,266
Prepaid expenses	**97,391**	72,952
Other	**47,018**	19,610
Total current assets	**1,561,386**	1,487,999
Property, Plant, and Equipment:		
In service	**17,033,807**	16,669,142
Less accumulated provision for depreciation	**6,046,690**	5,950,373
	10,987,117	10,718,769
Nuclear fuel, at amortized cost	**175,808**	137,146
Construction work in progress	**855,363**	928,182
Total property, plant, and equipment	**12,018,288**	11,784,097
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	**50,293**	48,664
Nuclear decommissioning trusts, at fair value	**509,034**	542,846
Other	**31,714**	31,146
Total other property and investments	**591,041**	622,656
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**351,302**	347,193
Prepaid pension costs	**1,011,680**	989,085
Deferred under recovered regulatory clause revenues	**33,459**	81,650
Other regulatory assets	**227,474**	224,792
Other	**227,969**	209,153

Total deferred charges and other assets	**1,851,884**	1,851,873
Total Assets	**$ 16,022,599**	$ 15,746,625

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 March 31, 2008	At December 31, 2007
	(in thousands)	
Current Liabilities:		
Securities due within one year	$ **410,154**	$ 535,152
Accounts payable		
Affiliated	**161,392**	193,518
Other	**247,832**	308,177
Customer deposits	**70,316**	67,722
Accrued taxes		
Income taxes	**63,655**	45,958
Other	**48,057**	29,198
Accrued interest	**55,935**	55,263
Accrued vacation pay	**42,138**	42,138
Accrued compensation	**29,060**	92,385
Other	**105,032**	55,331
Total current liabilities	**1,233,571**	1,424,842
Long-term Debt	**5,051,860**	4,750,196
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**2,072,146**	2,065,264
Deferred credits related to income taxes	**92,789**	93,709
Accumulated deferred investment tax credits	**178,589**	180,578
Employee benefit obligations	**358,597**	349,974
Asset retirement obligations	**513,547**	505,794
Other cost of removal obligations	**617,972**	613,616
Other regulatory liabilities	**613,618**	637,040
Other	**32,784**	31,417
Total deferred credits and other liabilities	**4,480,042**	4,477,392
Total Liabilities	**10,765,473**	10,652,430
Preferred and Preference Stock	**685,127**	683,512
Common Stockholder s Equity:		
Common stock, par value $40 per share		
Authorized - 25,000,000 shares		
Outstanding March 31, 2008: 21,725,000 shares		
December 31, 2007: 17,975,000 shares	**869,000**	719,000
Paid-in capital	**2,074,339**	2,065,298
Retained earnings	**1,636,439**	1,630,832
Accumulated other comprehensive loss	**(7,779)**	(4,447)

Total common stockholder s equity	**4,571,999**	4,410,683
Total Liabilities and Stockholder s Equity	**$ 16,022,599**	$ 15,746,625

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
FIRST QUARTER 2008 vs. FIRST QUARTER 2007

OVERVIEW

Alabama Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Alabama and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Alabama Power s primary business of selling electricity. These factors include the ability to maintain a stable regulatory environment, to achieve energy sales growth, and to effectively manage and secure timely recovery of rising costs. These costs include those related to growing demand, increasingly stringent environmental standards, fuel prices, capital expenditures, and restoration following major storms. Appropriately balancing these 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. 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

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$15.2	13.2

Alabama Power s net income after dividends on preferred and preference stock for the first quarter 2008 was $130.1 million compared to $114.9 million for the corresponding period of 2007. The increase in earnings was primarily due to retail base rate increases resulting from an increase in rates under Rate RSE and Rate CNP for environmental costs (Rate CNP Environmental) in January 2008, as well as customer and demand growth. See 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 on Alabama Power s rates. These increases in revenues were partially offset by increases in operations and maintenance expenses related to steam power associated with environmental mandates and scheduled outages, routine nuclear operation expenses, and depreciation and amortization resulting from additional plant-in-service.

Retail Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$78.5	8.2

In the first quarter 2008, retail revenues were $1.03 billion compared to $955.8 million in same period in 2007.

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

Details of retail revenues are as follows:

	First Quarter 2008	
	(in millions)	*% change*
Retail prior year	$ 955.8	
Estimated change in		
Rates and pricing	48.4	5.1
Sales growth	19.5	2.0
Weather	(7.4)	(0.8)
Fuel and other cost recovery	18.0	1.9
Retail current year	$1,034.3	8.2%

Revenues associated with changes in rates and pricing increased in the first quarter 2008 when compared to the same period in 2007 primarily due to the Rate RSE and Rate CNP Environmental increases effective in January 2008. See 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.

Revenues attributable to changes in sales growth increased in the first quarter 2008 when compared to the same period in 2007. KWH energy sales to residential and commercial customers increased 2.8% and 0.7%, respectively, due to customer and demand growth which includes the effects of mild weather conditions. KWH energy sales to industrial customers increased 3.1% as a result of increased sales demand in the primary metal sector.

Revenues resulting from changes in weather decreased due to mild weather conditions in the first quarter 2008 compared to normal weather in the first quarter 2007. Milder weather reduced KWH energy sales to residential and commercial customers of 2.3% and 1.0%, respectively.

Fuel and other cost recovery revenues increased in the first quarter 2008 when compared to the same period in 2007 due to an increase in fuel costs, purchased power costs, and costs associated with PPAs certificated by the Alabama PSC. These costs were offset by a reduction in the Rate NDR customer billing rate due to the full recovery of the 2005 storm costs related to Hurricanes Dennis and Katrina. Electric rates for Alabama Power include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with Alabama Power s natural disaster reserve. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not impact net income.

Wholesale Revenues Non-Affiliates

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$14.9	9.6

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Alabama Power and Southern Company system-owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. In the first quarter 2008, wholesale revenues from non-affiliates were $170.0 million compared to $155.1 million in the

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ALABAMA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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same period in 2007. This increase was primarily due to an 18.2% increase in price, partially offset by a 7.3% decrease in KWH sales.

Wholesale Revenues Affiliates

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$41.5	98.4

Wholesale revenues from affiliates will vary from period to period depending on demand and the availability and cost of generating resources at each company within the Southern Company system. 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 first quarter 2008, wholesale revenues from affiliates were $83.7 million compared to $42.2 million in the same period in 2007. This increase was primarily due to a 52.9% increase in price and a 29.7% increase in KWH sales.

Fuel and Purchased Power Expenses

	First Quarter 2008 vs. First Quarter 2007	
	(change in millions)	*% change*
Fuel	$ 67.1	17.4
Purchased power - non-affiliates	6.6	141.9
Purchased power - affiliates	16.0	22.0
Total fuel and purchased power expenses	$ 89.7	

In the first quarter 2008, total fuel and purchased power expenses were $553.1 million compared to $463.4 million in the same period in 2007. This increase was primarily due to a $75.7 million increase in the cost of energy resulting from an increase in the average cost of fuel and a $14.0 million increase related to greater KWHs purchased.

Fuel and purchased power transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Rate ECR.

Details of Alabama Power s cost of generation and purchased power are as follows:

Average Cost	First Quarter 2008	First Quarter 2007	Percent Change
	(cents per net KWH)		
Fuel	2.60	2.29	13.5
Purchased power	5.67	4.55	24.6

In the first quarter 2008, fuel expense was $453.2 million compared to $386.1 million in the same period in 2007. This increase was due to a 15.5% increase in the generation from Alabama Power-owned gas fired facilities related to a 14.0% decrease in hydro generation due to a continued drought, a 15.0% increase in the average cost of coal, a 7.1%

increase in natural gas prices, and a 3.8% increase in the cost of nuclear fuel.

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

Non-Affiliates

In the first quarter 2008, purchased power from non-affiliates was $11.2 million compared to $4.6 million in the same period in 2007. This increase was primarily related to a 31.6% increase in the amount of energy purchased due to the use of available lower price market purchases from non-affiliates and a 105.5% increase in price.

Energy purchases from non-affiliates will vary depending on the market cost of available energy being lower than Southern Company system-generated energy, demand for energy within the Southern Company system service territory, and availability of Southern Company system generation.

Affiliates

In the first quarter 2008, purchased power from affiliates was $88.7 million compared to $72.7 million in the same period in 2007. This increase was related to a 6.2% increase in the amount of energy purchased and a 20.8% increase in price.

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, as approved by the FERC.

Other Operations and Maintenance Expenses

	First Quarter 2008 vs. First Quarter 2007	
	(change in millions)	*% change*
Other operations	$ 13.1	7.7
Maintenance	6.2	5.3
Total other operations and maintenance expenses	$ 19.3	

In the first quarter 2008, other operations and maintenance expenses were $309.5 million compared to $290.2 million in the corresponding period in 2007. This increase was primarily a result of an $11.1 million increase in steam power expense associated with compliance with environmental mandates, scheduled outages, contract labor and materials cost, as well as a $4.7 million increase in nuclear production expense related to routine operations. Also contributing to the increase was a $3.0 million increase in administrative and general expenses primarily related to an increase in employee benefits.

Depreciation and Amortization

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$8.7	7.5

For the first quarter 2008, depreciation and amortization was $124.6 million compared to $115.9 million in the same period in 2007. This increase was primarily due to additions to property, plant, and equipment related to environmental mandates and distribution projects.

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

Allowance for Equity Funds Used During Construction

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$4.7	71.6

For the first quarter 2008, allowance for equity funds used during construction was $11.3 million compared to $6.6 million in the same period in 2007. This increase was principally due to increases in the amount of construction work in progress related to environmental mandates at generating facilities and transmission and distribution projects compared to the prior year.

Other Income (Expense), Net

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$(4.3)	(147.0)

Other income (expense), net in the first quarter 2008 was $(7.2) million compared to $(2.9) million in the same period in 2007. This decrease was primarily due to a $2.1 million decrease in merchandise operating income and a $1.1 million decrease in miscellaneous non-operating income resulting from a decrease in timber sales and the discontinuation of Alabama Power s flat-bill revenue program.

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 stable regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth in Alabama Power s service area. 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 the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. 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.

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ALABAMA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Eight-Hour Ozone Regulations

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 regarding revisions to the eight-hour ozone air quality standard. In March 2008, the EPA finalized its revisions to the eight-hour ozone standard, increasing its stringency. The EPA plans to designate nonattainment areas based on the new standard by 2010, and new nonattainment areas within Alabama Power s service territory are expected. The ultimate outcome of this matter cannot be determined at this time and will depend on subsequent legal action and/or future nonattainment designations and regulatory plans.

Carbon Dioxide Litigation

On February 26, 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs damages. The suit seeks damages for lost property values and for the cost of relocating the village, which cost is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. The ultimate outcome of this matter cannot be determined at this time.

FERC and Alabama PSC Matters

Retail Fuel Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Retail 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 under recovered fuel costs as of March 31, 2008 totaled $222.3 million as compared to $279.8 million at December 31, 2007. As a result of the Alabama PSC order, Alabama Power classified $33.5 million of the under recovered regulatory clause revenues as deferred charges and other assets in the Condensed Balance Sheet as of March 31, 2008. This classification is based on an estimate which includes 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 the recovery of the under recovered fuel costs.

Natural Disaster Cost Recovery

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Natural Disaster Cost Recovery of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under Retail Regulatory Matters Natural Disaster Cost Recovery in Item 8 of the Form 10-K for information regarding natural disaster cost recovery. At March 31, 2008, Alabama Power had accumulated a balance of $28.1 million in the target reserve for future storms, which is included in the Condensed Balance Sheet herein under Other Regulatory Liabilities.

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ALABAMA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Income Tax Matters

Bonus Depreciation

On February 13, 2008, President Bush signed the Economic Stimulus Act of 2008 (Stimulus Act) into law. The Stimulus Act includes a provision that allows 50% bonus depreciation for certain property acquired in 2008 and placed in service in 2008 or, in certain limited cases, 2009. Alabama Power is currently assessing the financial implications of the Stimulus Act and estimates the cash flow reduction to tax payments for 2008 to be between $55 million and $100 million.

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. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials 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 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 liabilities, if any, arising from such current proceedings would have a material adverse effect on Alabama Power s financial statements.

See the Notes to the Condensed Financial Statements herein for 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

Alabama Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements 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 Unbilled Revenues.

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FINANCIAL CONDITION AND LIQUIDITY

Overview

Alabama Power s financial condition remained stable at March 31, 2008. Net cash provided from operating activities totaled $142.2 million for the first quarter 2008, compared to $175.8 million for the first quarter 2007. The $33.6 million decrease in cash provided from operating activities in the first quarter 2008 is primarily due to a $30.0 million increase in cash outflow for accounts payable. Net cash used for investing activities totaled $325.6 million for the first quarter 2008 primarily due to gross property additions to utility plant of $349.7 million. These additions were primarily related to construction of transmission and distribution facilities, replacement of steam equipment, purchases of nuclear fuel, and environmental mandates. Net cash provided from financing activities totaled $195.8 million for the first quarter 2008, compared to $100.6 million for the first quarter 2007. The increase was primarily due to cash proceeds from senior notes and common stock issued in the first quarter 2008.

Significant balance sheet changes for the first quarter 2008 include an increase of $364.7 million in gross plant, primarily due to an increase in environmental-related equipment and an increase of $301.7 million in long-term debt.

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, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, and other purchase commitments. Approximately $410.2 million will be required through March 31, 2009 for maturities of long-term debt.

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. Recently, Alabama Power has primarily utilized funds from operating cash flows, unsecured debt, common stock, preferred stock, and preference stock. 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. To meet short-term cash needs and contingencies, Alabama Power had at March 31, 2008 approximately $86.1 million of cash and cash equivalents, unused committed lines of credit of approximately $1.3 billion (including $582.4 million of such lines which are dedicated to funding purchase obligations related to variable rate pollution control bonds), a commercial paper program, and an extendible commercial note program. Of the unused credit facilities, $464.9 million will expire at various times in 2008 (of which $384.9 million allow for one-year term loans). The remaining $800.0 million of credit facilities expire in 2012. Alabama Power expects to renew its credit facilities, as needed, prior to expiration. See Note 6 to the financial statements of Alabama Power under Bank Credit Arrangements in Item 8 of the Form 10-K for additional

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information. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of Alabama Power and other Southern Company subsidiaries. Alabama Power has regulatory authority for up to $2.0 billion of short-term borrowings. At March 31, 2008, Alabama Power had no commercial paper outstanding. Management believes that the need for working capital can be adequately met by issuing commercial paper or utilizing lines of credit without maintaining large cash balances.

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- or Baa3. Generally, collateral may be provided by cash, letter of credit, or a Southern Company guaranty. These contracts are primarily for coal purchases. At March 31, 2008, the maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $8.0 million.

Alabama Power is also party to certain agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade for Alabama Power and/or Georgia Power. These agreements are primarily for natural gas and power price risk management activities. At March 31, 2008, Alabama Power s exposure related to these agreements was approximately $47 million.

Market Price Risk

Alabama Power s market risk exposures relative to interest rate changes have not changed materially compared with the December 31, 2007 reporting period. In addition, Alabama Power is not aware of any facts or circumstances that would significantly affect such exposures in the near term.

Due to cost-based rate regulation, Alabama Power has 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. Alabama Power has also implemented a retail fuel-hedging program at the instruction of the Alabama PSC.

The changes in fair value of energy-related derivative contracts and valuations at March 31, 2008 were as follows:

	First Quarter 2008 Changes
	Fair Value
	(in millions)
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (0.4)
Contracts realized or settled	4.6
Current period changes[(a)]	51.7
Contracts outstanding at the end of the period, assets (liabilities), net	$ 55.9

(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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Gains and losses on energy-related derivative contracts related to Alabama Power s fuel hedging program 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. Certain other gains and losses on energy-related derivatives, designated as hedges, are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated as hedges are recognized in the statements of income as incurred.

The fair value gain/(loss) of energy-related derivative contracts outstanding at March 31, 2008 was reflected in the financial statements as follows:

	Amounts
	(in millions)
Regulatory liabilities, net	$ 56.1
Accumulated other comprehensive income	(0.1)
Net income	(0.1)
Total fair value gain/(loss)	$ 55.9

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2008 and 2007 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2008 are as follows:

	March 31, 2008 Fair Value Measurements		
	Total Fair Value	Maturity	
		Year 1	1-3 Years
		(in millions)	
Level 1	$	$	$
Level 2	55.9	45.3	10.6
Level 3			
Fair value of contracts outstanding at end of period	$ 55.9	$ 45.3	$ 10.6

As part of the adoption of SFAS No. 157 to increase consistency and comparability in fair value measurements and related disclosures, the table above now uses the three-tier fair value hierarchy, as discussed in Note (C) to the Condensed Financial Statements herein, as opposed to the previously used descriptions actively quoted, external sources, and models and other methods. The three-tier fair value hierarchy focuses on the fair value of the contract itself, whereas the previous descriptions focused on the source of the inputs. Because Alabama Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, the valuations of those contracts now appear in Level 2; previously they were shown as actively quoted.

For additional information, see MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Alabama Power in Item 7, Notes 1 and 6 to the financial statements of Alabama Power under Financial Instruments in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements herein.

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Financing Activities

In January 2008, Alabama Power issued $300 million of Series 2007D 4.85% Senior Notes due December 15, 2012. The proceeds were used to repay short-term indebtedness and for other general corporate purposes. Additionally, Alabama Power redeemed 1,250 shares of its Flexible Money Market Class A Preferred Stock (Series 2003A), Stated Capital $100,000 Per Share ($125 million aggregate value).

In January 2008, Alabama Power also entered into $330 million notional amount of interest rate swaps related to variable rate tax-exempt debt to hedge changes in interest rates for the period February 2008 through February 2010. The weighted average fixed payment rate on these hedges is 2.49% and Alabama Power now has a total of $576 million of such hedges in place, with an overall weighted average fixed payment rate of 2.69%. See Note (F) to the Condensed Financial Statements herein for further details.

In February 2008, Alabama Power issued 3,750,000 shares of common stock to Southern Company at $40 a share ($150 million aggregate purchase price). The proceeds were used for general corporate purposes.

In March 2008, Alabama Power converted its $246.5 million obligations related to auction rate tax-exempt securities from an auction rate mode to fixed rate interest modes. With the completion of this conversion, none of the outstanding securities or obligations of Alabama Power are currently subject to an auction rate mode.

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
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 1,575,007**	$ 1,412,329
Wholesale revenues		
Non-affiliates	**152,692**	143,767
Affiliates	**73,910**	41,788
Other revenues	**63,238**	59,286
Total operating revenues	**1,864,847**	1,657,170
Operating Expenses:		
Fuel	**637,923**	593,894
Purchased power		
Non-affiliates	**58,031**	46,093
Affiliates	**252,935**	184,542
Other operations	**241,092**	230,748
Maintenance	**127,723**	124,442
Depreciation and amortization	**150,608**	126,149
Taxes other than income taxes	**71,286**	72,341
Total operating expenses	**1,539,598**	1,378,209
Operating Income	**325,249**	278,961
Other Income and (Expense):		
Allowance for equity funds used during construction	**27,757**	13,179
Interest income	**787**	475
Interest expense, net of amounts capitalized	**(86,337)**	(85,465)
Other income (expense), net	**(3,294)**	(4,216)
Total other income and (expense)	**(61,087)**	(76,027)
Earnings Before Income Taxes	**264,162**	202,934
Income taxes	**83,801**	70,980
Net Income	**180,361**	131,954
Dividends on Preferred and Preference Stock	**4,345**	689
Net Income After Dividends on Preferred and Preference Stock	**$ 176,016**	$ 131,265

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Net Income After Dividends on Preferred and Preference Stock	**$ 176,016**	$ 131,265
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(6,043) and $(1,082), respectively	**(9,580)**	(1,714)
Reclassification adjustment for amounts included in net income, net of tax of $206 and $(29), respectively	**327**	(46)
Marketable securities:		
Change in fair value, net of tax of $- and $42, respectively		65
Total other comprehensive income (loss)	**(9,253)**	(1,695)
COMPREHENSIVE INCOME	**$ 166,763**	$ 129,570

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 Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Operating Activities:		
Net income	**$ 180,361**	$ 131,954
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	**178,735**	149,339
Deferred income taxes and investment tax credits	**(5,709)**	12,709
Deferred revenues	**35,057**	(240)
Deferred expenses affiliates	**21,209**	21,524
Allowance for equity funds used during construction	**(27,757)**	(13,179)
Pension, postretirement, and other employee benefits	**9,863**	5,289
Hedge settlements	**(15,816)**	(3,923)
Other, net	**(18,819)**	(3,980)
Changes in certain current assets and liabilities		
Receivables	**77,075**	81,442
Fossil fuel stock	**1,293**	(14,009)
Prepaid income taxes	**22,380**	19,084
Other current assets	**(4,041)**	(8,047)
Accounts payable	**(44,570)**	(86,459)
Accrued taxes	**(79,097)**	(124,431)
Accrued compensation	**(72,174)**	(111,026)
Other current liabilities	**22,630**	35,473
Net cash provided from operating activities	**280,620**	91,520
Investing Activities:		
Property additions	**(517,606)**	(352,475)
Distribution of restricted cash from pollution control bonds	**16,094**	
Nuclear decommissioning trust fund purchases	**(113,811)**	(94,131)
Nuclear decommissioning trust fund sales	**106,931**	87,251
Cost of removal, net of salvage	**(11,346)**	(8,937)
Change in construction payables, net of joint owner portion	**8,608**	379
Other	**(11,239)**	(11,714)
Net cash used for investing activities	**(522,369)**	(379,627)
Financing Activities:		
Decrease in notes payable, net	**(359,113)**	(58,951)
Proceeds		
Senior notes	**250,000**	250,000
Capital contributions from parent company	**241,800**	269,949
Other long-term debt	**300,000**	
Redemptions		
Capital leases	**(683)**	(1,841)

Senior notes	**(417)**	
Payment of preferred and preference stock dividends	**(3,947)**	(832)
Payment of common stock dividends	**(180,300)**	(172,475)
Other	**(2,630)**	(1,560)
Net cash provided from financing activities	**244,710**	284,290
Net Change in Cash and Cash Equivalents	**2,961**	(3,817)
Cash and Cash Equivalents at Beginning of Period	**15,392**	16,850
Cash and Cash Equivalents at End of Period	**$ 18,353**	$ 13,033
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $11,837 and $5,251 capitalized for 2008 and 2007, respectively)	**$ 70,452**	$ 64,595
Income taxes (net of refunds)	**$ 450**	$ 6,585

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 March 31, 2008	At December 31, 2007
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 18,353	$ 15,392
Restricted cash	32,185	48,279
Receivables		
Customer accounts receivable	502,523	491,389
Unbilled revenues	143,269	137,046
Under recovered regulatory clause revenues	379,394	384,538
Other accounts and notes receivable	89,343	147,498
Affiliated companies	19,717	21,699
Accumulated provision for uncollectible accounts	(7,686)	(7,636)
Fossil fuel stock, at average cost	391,929	393,222
Materials and supplies, at average cost	338,008	337,652
Vacation pay	68,397	69,394
Prepaid income taxes	28,722	51,101
Other	109,211	55,169
Total current assets	2,113,365	2,144,743
Property, Plant, and Equipment:		
In service	22,157,064	22,011,215
Less accumulated provision for depreciation	8,823,496	8,696,668
	13,333,568	13,314,547
Nuclear fuel, at amortized cost	247,562	198,983
Construction work in progress	2,105,094	1,797,642
Total property, plant, and equipment	15,686,224	15,311,172
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	55,349	53,813
Nuclear decommissioning trusts, at fair value	555,163	588,952
Other	49,098	47,914
Total other property and investments	659,610	690,679
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	544,686	532,539
Prepaid pension costs	1,046,140	1,026,985
Deferred under recovered regulatory clause revenues	284,629	307,294
Other regulatory assets	606,326	541,014
Other	266,461	268,335

Total deferred charges and other assets	**2,748,242**		2,676,167
Total Assets	**$ 21,207,441**	$	20,822,761

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 March 31, 2008	At December 31, 2007
	(in thousands)	
Current Liabilities:		
Securities due within one year	$ 348,310	$ 198,576
Notes payable	356,478	715,591
Accounts payable		
Affiliated	202,150	236,332
Other	478,125	463,945
Customer deposits	177,700	171,553
Accrued taxes		
Income taxes	134,205	68,782
Other	87,737	219,585
Accrued interest	84,438	74,674
Accrued vacation pay	55,064	56,303
Accrued compensation	44,550	114,974
Other	167,698	103,225
Total current liabilities	2,136,455	2,423,540
Long-term Debt	6,338,121	5,937,792
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,827,668	2,850,655
Deferred credits related to income taxes	144,335	146,886
Accumulated deferred investment tax credits	265,898	269,125
Employee benefit obligations	697,404	678,826
Asset retirement obligations	653,275	663,503
Other cost of removal obligations	412,896	414,745
Other regulatory liabilities	628,981	577,642
Other	167,982	158,670
Total deferred credits and other liabilities	5,798,439	5,760,052
Total Liabilities	14,273,015	14,121,384
Preferred and Preference Stock	265,957	265,957
Common Stockholder s Equity:		
Common stock, without par value		
Authorized - 20,000,000 shares		
Outstanding - 9,261,500 shares	398,473	398,473
Paid-in capital	3,621,364	3,374,777
Retained earnings	2,671,778	2,676,063
Accumulated other comprehensive loss	(23,146)	(13,893)

Total common stockholder s equity	**6,668,469**		6,435,420
Total Liabilities and Stockholder s Equity	**$ 21,207,441**	$	20,822,761

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

GEORGIA POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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FIRST QUARTER 2008 vs. FIRST QUARTER 2007

OVERVIEW

Georgia Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the State of Georgia and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Georgia Power s business of selling electricity. These factors include the ability to maintain a stable regulatory environment, to achieve energy sales growth, and to effectively manage and secure timely recovery of rising costs. These costs include those related to growing demand, increasingly stringent environmental standards, and fuel prices. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future. In December 2007, the 2007 Retail Rate Plan, which should provide earnings stability over its three-year term, was approved. This regulatory action enables the recovery of substantial capital investments to facilitate the continued reliability of the transmission and distribution networks, continued generation and other investments as well as the recovery of increased operating costs. The 2007 Retail Rate Plan also includes a tariff specifically for the recovery of costs related to environmental controls mandated by state and federal regulations. Georgia Power filed a fuel cost recovery case with the Georgia PSC on February 29, 2008 and a final order is expected on May 20, 2008. The results of this fuel rate filing are expected to be effective June 1, 2008.

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

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$44.7	34.1

Georgia Power s net income after dividends on preferred and preference stock for the first quarter 2008 was $176.0 million compared to $131.3 million for the corresponding period in 2007. The increase was primarily attributed to higher base retail revenues resulting from the retail rate increase effective January 1, 2008.

Retail Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$162.7	11.5

In the first quarter 2008, retail revenues were $1.6 billion compared to $1.4 billion in the corresponding period in 2007.

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Details of retail revenues are as follows:

	First Quarter 2008	
	(in millions)	*% change*
Retail prior year	$ 1,412.3	
Estimated change in		
Rates and pricing	77.8	5.5
Sales growth	(0.6)	
Weather	8.0	0.6
Fuel and other cost recovery	77.5	5.4
Retail current year	$ 1,575.0	11.5%

Revenues associated with changes in rates and pricing increased in the first quarter 2008 when compared to the corresponding period in 2007 due to the application of new rates established in January 2008 and higher market-response rates for sales to large commercial and industrial customers.

Revenues attributable to changes in sales growth decreased in the first quarter 2008 when compared to the corresponding period for 2007. This decrease was primarily due to a slowing economy partially offset by an increase of 1.2% in retail customers. Total retail KWH sales increased 0.6% from the corresponding period in 2007. Residential KWH sales increased 1.3% and commercial KWH sales increased 2.3% but were partially offset by lower industrial KWH sales which decreased 1.9% from the corresponding period in 2007.

Revenues attributable to changes in weather increased in the first quarter 2008 when compared to the corresponding period for 2007 due to more favorable weather.

Fuel and other cost recovery revenues increased by $77.5 million in the first quarter 2008 when compared to the corresponding period for 2007 as a result of higher fuel and purchased power expenses. Georgia Power electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the fuel component of purchased power costs, and do not affect net income.

Wholesale Revenues Non-Affiliates

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$8.9	6.2

Wholesale revenues from non-affiliates will vary depending on the market cost of available energy compared to the cost of Georgia Power and Southern Company system owned generation, demand for energy within the Southern Company service territory, and availability of Southern Company system generation. In the first quarter 2008, wholesale revenues from non-affiliates were $152.7 million compared to $143.8 million in the corresponding period in 2007. This increase was primarily the result of higher energy prices due to increased fuel costs. This was partially offset by a 1.0% decrease in KWH energy sales.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Wholesale Revenues Affiliates

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$32.1	76.9

Wholesale revenues from affiliated companies will vary depending on demand and the availability and cost of generating resources at each company within the Southern Company system. These sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings as the energy is generally sold at marginal cost. In the first quarter 2008, wholesale revenues from affiliates were $73.9 million compared to $41.8 million for the corresponding period in 2007. The increase was a result of higher prices primarily due to higher fuel costs and a 27.3% increase in KWH sales due to the availability of lower cost Georgia Power generating resources to meet affiliate demands at various times during the first quarter 2008.

Fuel and Purchased Power Expenses

	First Quarter 2008 vs. First Quarter 2007	
	(change in millions)	*% change*
Fuel	$ 44.0	7.4
Purchased power non-affiliates	11.9	25.9
Purchased power affiliates	68.4	37.1
Total fuel and purchased power expenses	$124.3	

In the first quarter 2008, total fuel and purchased power expenses were $948.8 million compared to $824.5 million for the corresponding period in 2007. The increase in fuel and purchased power expenses was due to an $82.4 million increase in the average cost of fuel and purchased power and a $41.9 million increase in total KWH generated or purchased.

Fuel and purchased power transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Georgia Power s energy cost recovery clause.

Details of Georgia Power s cost of generation and purchased power are as follows:

Average Cost	First Quarter 2008	First Quarter 2007	Percent Change
	(cents per net KWH)		
Fuel	2.84	2.62	8.4
Purchased power	7.32	6.60	10.9

In the first quarter 2008, fuel expense was $637.9 million compared to $593.9 million for the corresponding period in 2007. The increase was the result of an 8.4% increase in the average cost of fuel per KWH generated which was primarily due to an increase in fuel commodity prices resulting from global demand pressures and increased transportation costs. The average cost of coal per KWH generated increased 12.1% as a result of increases in commodity costs and transportation costs. The average cost of oil and natural gas per KWH generated increased

11.0% primarily as a result of increases in commodity prices. See FUTURE EARNINGS POTENTIAL FERC and Georgia PSC Matters - Retail Fuel Cost Recovery herein for additional information.

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Non-affiliates

In the first quarter 2008, purchased power expense non-affiliates was $58.0 million compared to $46.1 million for the corresponding period in 2007. This increase was primarily the result of a 23.3% volume increase in KWH purchased from available lower priced market energy alternatives as well as an increase in the average cost per KWH purchased. Energy purchases from non-affiliates will vary depending on the market cost of available energy being lower than Southern Company system-generated energy, demand for energy within the Southern Company system service territory, and availability of Southern Company system generation.

Affiliates

In the first quarter 2008, purchased power from affiliates was $252.9 million compared with $184.5 million for the corresponding period in 2007. The increase was the result of a 14.1% volume increase in KWHs purchased from available lower cost resources within the Power Pool as well as an increase in the average cost of KWHs purchased. Energy purchases from affiliated companies 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, as approved by the FERC.

Other Operations and Maintenance Expenses

	First Quarter 2008 vs. First Quarter 2007	
	(change in millions)	*% change*
Other operations	$10.3	4.5
Maintenance	3.3	2.6
Total other operations and maintenance expenses	$13.6	

In the first quarter 2008, other operations and maintenance expenses were $368.8 million compared to $355.2 million in the corresponding period in 2007. This increase was primarily the result of timing of maintenance activities, the regulatory amortization of nuclear outages, and an increase in customer account expenses related to meter reading and records and collections activities.

Depreciation and Amortization

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$24.5	19.4

In the first quarter 2008, depreciation and amortization was $150.6 million compared to $126.1 million in the corresponding period in 2007. The increase was primarily the result of an increase in plant in service due to transmission, distribution, and environmental projects.

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Allowance for Equity Funds Used During Construction

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$14.6	110.6

In the first quarter 2008, the allowance for equity funds used during construction was $27.8 million compared with $13.2 million for the corresponding period in 2007. This increase was primarily related to increases in construction work in progress balances related to Georgia Power s ongoing construction program, including three combined cycle units at Plant McDonough and ongoing environmental projects.

Income Taxes

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$12.8	18.1

In the first quarter 2008, income taxes were $83.8 million compared with $71.0 million for the corresponding period in 2007. This was primarily the result of increased pre-tax income, partially offset by an increase in non-taxable items, particularly the allowance for equity funds used during construction, as well as state tax credits and the federal production activities deduction. See Note (H) to the Condensed Financial Statements herein for additional information on Georgia Power s effective tax rate.

Dividends on Preferred and Preference Stock

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$3.6	530.6

In the first quarter 2008, dividends on preferred and preference stock were $4.3 million compared with $0.7 million for the corresponding period in 2007. This was primarily the result of the issuance of $225 million of preference stock in the fourth quarter 2007.

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 stable regulatory environment that continues to allow for the recovery of all prudently incurred costs during a time of increasing costs. Future earnings in the near term will depend, in part, upon growth in energy sales which is subject to a number of factors. These factors include weather, competition, new energy contracts with neighboring utilities, energy conservation practiced by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth in Georgia Power s service area. 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.

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Environmental Matters

Compliance costs related to the Clean Air Act and other environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. 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.

Eight-Hour Ozone Regulations

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 regarding revisions to the eight-hour ozone air quality standard. In March 2008, the EPA finalized its revisions to the eight-hour ozone standard, increasing its stringency. The EPA plans to designate nonattainment areas based on the new standard by 2010, and new nonattainment areas within Georgia Power s service territory are expected. The ultimate outcome of this matter cannot be determined at this time and will depend on subsequent legal action and/or future nonattainment designations and regulatory plans.

Carbon Dioxide Litigation

On February 26, 2008, the Native Village of Kivalina and the City of Kivalina filed a suit in the U.S. District Court for the Northern District of California against several electric utilities (including Southern Company), several oil companies, and a coal company. The plaintiffs are the governing bodies of an Inupiat village in Alaska. The plaintiffs contend that the village is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for public and private nuisance and contend that the defendants have acted in concert and are therefore jointly and severally liable for the plaintiffs damages. The suit seeks damages for lost property values and for the cost of relocating the village, which cost is alleged to be $95 million to $400 million. Southern Company believes that these claims are without merit and notes that the complaint cites no statutory or regulatory basis for the claims. The ultimate outcome of this matter cannot be determined at this time.

FERC and Georgia PSC Matters

Retail Fuel Cost Recovery

On February 6, 2007, the Georgia PSC approved an increase in Georgia Power s total annual billings of approximately $383 million related to fuel cost recovery effective March 1, 2007. The order also required Georgia Power to file for a new fuel cost recovery rate no later than March 1, 2008. On February 29, 2008, Georgia Power filed a request with the Georgia PSC to change the fuel cost recovery rate effective June 1, 2008. If approved as filed, total annual fuel billings will increase by $222 million. The Georgia PSC is scheduled to rule on the request May 20, 2008. The ultimate outcome of this matter cannot be determined at this time. As of March 31, 2008, Georgia Power had an under recovered fuel balance of approximately $664.0 million as compared to $691.8 million at December 31, 2007. 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. Fuel cost recovery revenues as recorded on the financial statements are adjusted for differences in actual recoverable costs and amounts billed in current

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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.

Nuclear

Nuclear Projects

See MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL Nuclear Nuclear Projects of Georgia Power in Item 7 of the Form 10-K for information regarding the potential expansion of Plant Vogtle.

In August 2006, Southern Nuclear, on behalf of Georgia Power, OPC, MEAG Power, and Dalton Utilities (collectively, Owners), filed an application with the NRC for an early site permit approving two additional nuclear units on the site of Plant Vogtle. In March 2008, Southern Nuclear filed an application with the NRC for a combined construction and operating license (COL) for the new units.

On April 8, 2008, Georgia Power, acting for itself and as agent for the Owners, and a consortium consisting of Westinghouse and Stone & Webster (collectively, Consortium) entered into an engineering, procurement, and construction agreement to design, engineer, procure, construct, and test two AP1000 nuclear units with electric generating capacity of approximately 1,100 MWs each and related facilities, structures, and improvements at Plant Vogtle (Vogtle 3 and 4 Agreement).

The Vogtle 3 and 4 Agreement is an arrangement whereby the Consortium supplies and constructs the entire facility with the exception of certain items provided by the Owners. Under the terms of the Vogtle 3 and 4 Agreement, the Owners will pay a purchase price that will be subject to certain price escalation and adjustments, adjustments for change orders, and performance bonuses. Each Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Consortium under the Vogtle 3 and 4 Agreement. Georgia Power s proportionate share, based on its current ownership interest, is 45.7%. Under the terms of a separate joint development agreement, the Owners must finalize their ownership percentages by July 2, 2008, except for allowed changes, under certain limited circumstances, during the Georgia PSC certification process.

Georgia Power submitted its self-build nuclear proposal to the Georgia PSC on May 1, 2008 in connection with its 2016-2017 baseload capacity request for proposals (RFP). No other responses to the RFP were received. Georgia Power will work with the Georgia PSC s Independent Evaluator to finalize information required for certification, including updated fossil fuel and generation technology costs, before submitting a final recommendation on August 1, 2008 for the Georgia PSC s approval. A final certification decision is expected in March 2009.

If certified by the Georgia PSC and licensed by the NRC, Vogtle Units 3 and 4 are scheduled to be placed in service in 2016 and 2017, respectively. The total plant value to be placed in service will also include financing costs for each of the Owners, the impacts of inflation on costs, and transmission and other costs that are the responsibility of the Owners. Georgia Power s proportionate share of the estimated in-service costs, based on its current ownership interest, is approximately $6.4 billion, subject to adjustments and performance bonuses under the Vogtle 3 and 4 Agreement.

The Owners and the Consortium have agreed to certain liquidated damages upon the Consortium s failure to comply with the schedule and performance guarantees. The Owners and the Consortium also have agreed to certain bonuses payable to the Consortium for early completion and unit performance. The Consortium s liability to the Owners for schedule and performance liquidated damages and warranty claims is subject to a cap.

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The obligations of Westinghouse and Stone & Webster under the Vogtle 3 and 4 Agreement are guaranteed by Toshiba Corporation and The Shaw Group, Inc., respectively. In the event of certain credit rating downgrades of any Owner, such Owner will be required to provide a letter of credit or other credit enhancement.

The Vogtle 3 and 4 Agreement is subject to certification by the Georgia PSC. In addition, the Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Owners will be required to pay certain termination costs and, at certain stages of the work, cancellation fees to the Consortium. The Consortium may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including delays in receipt of the COL or delivery of full notice to proceed, certain Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Owners, Owner insolvency, and certain other events.

Income Tax Matters

Bonus Depreciation

On February 13, 2008, President Bush signed the Economic Stimulus Act of 2008 (Stimulus Act) into law. The Stimulus Act includes a provision that allows 50% bonus depreciation for certain property acquired in 2008 and placed in service in 2008 or, in certain limited cases, 2009. Georgia Power is currently assessing the financial implications of the Stimulus Act and estimates the cash flow reduction to tax payments for 2008 to be between $50 million and $90 million.

Other Matters

Georgia Power is involved in various other matters being litigated, regulatory matters, and certain tax-related issues 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. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as opacity and air and water quality standards, has increased generally throughout the United States. In particular, personal injury claims for damages caused by alleged exposure to hazardous materials 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 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 liabilities, if any, arising from such current proceedings would have a material adverse effect on Georgia Power s financial statements. See the Notes to the Condensed Financial Statements herein for 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

Georgia Power prepares its financial statements in accordance with accounting principles generally accepted in the United States. Significant accounting policies are described in Note 1 to the financial statements 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

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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, and Unbilled Revenues.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Georgia Power s financial condition remained stable at March 31, 2008. Net cash provided from operating activities totaled $280.6 million for the first quarter 2008, compared to $91.5 million for the first quarter 2007. The $189.1 million increase in cash provided from operating activities in the first quarter 2008 is primarily due to higher retail operating revenues. Net cash used for investing activities totaled $522.4 million for the first quarter 2008 primarily due to gross property additions to utility plant of $538.3 million. Net cash provided from financing activities totaled $244.7 million for the first quarter 2008 compared to $284.3 million for the first quarter 2007. The decrease was primarily due to lower capital contributions from Southern Company as well as dividend payments for new preference stock issued in the fourth quarter 2007.

Significant balance sheet changes for the first three months of 2008 include a $307.5 million increase in construction work in progress and the refinancing of notes payable to other short-term and long-term forms of financing.

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, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately $348 million will be required through March 31, 2009 to fund maturities of long-term debt. In addition, in connection with entering into the Vogtle 3 and 4 Agreement, as described under FUTURE EARNINGS POTENTIAL Nuclear- Nuclear Projects herein, the Georgia Power Board of Directors approved revisions to Georgia Power s capital budget of $600 million in 2009 and $700 million in 2010, for a revised estimated total construction program of $2.0 billion in 2008, $2.6 billion in 2009, and $2.5 billion in 2010. Actual construction costs may vary from these estimates because of changes in such factors as: business conditions; environmental statutes and regulations; nuclear plant regulations; FERC rules and regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

Georgia Power plans to obtain the funds required for construction and other purposes from sources similar to those utilized in the past. Recently, Georgia Power has primarily utilized funds from operating cash flows, short-term debt, external security offerings, 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.

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

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fluctuate significantly due to the seasonality of the business. To meet short-term cash needs and contingencies, Georgia Power had at March 31, 2008 approximately $18.4 million of cash and cash equivalents and approximately $1.3 billion of unused credit arrangements with banks. Of the unused credit arrangements, $40 million expire in 2008, $185 million expire in 2009, and $1.1 billion expire in 2012.

Of the facilities that expire in 2008, all contain provisions allowing two-year term loans executable at expiration. Georgia Power expects to renew its credit facilities, as needed, prior to expiration. See Note 6 to the financial statements of Georgia Power under Bank Credit Arrangements in Item 8 of the Form 10-K for additional information. These unused credit arrangements provide liquidity support to Georgia Power s obligations with respect to variable rate pollution control bonds and commercial paper. Georgia Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper and extendible commercial notes at the request and for the benefit of Georgia Power and other Southern Company subsidiaries. At March 31, 2008, Georgia Power had approximately $256 million of commercial paper and $100 million of short-term bank loans outstanding. Management believes that the need for working capital can be adequately met by utilizing commercial paper programs and lines of credit without maintaining large cash balances.

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- or Baa3 or below. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. These contracts are primarily for physical electricity purchases and sales. At March 31, 2008, the maximum potential collateral requirements at a BBB- or Baa3 rating were approximately $8 million. The maximum potential collateral requirements at a rating below BBB- or Baa3 were approximately $514 million.

Georgia Power is also party to certain agreements that could require collateral and/or accelerated payment in the event of a credit rating change to below investment grade for Georgia Power and/or Alabama Power. These agreements are primarily for natural gas and power price risk management activities. At March 31, 2008, Georgia Power s total exposure related to these types of agreements was approximately $47 million.

Market Price Risk

Georgia Power s market risk exposures relative to interest rate changes have not changed materially compared with the December 31, 2007 reporting period. In addition, Georgia Power is not aware of any facts or circumstances that would significantly affect such exposures in the near term.

Due to cost-based rate regulation, Georgia Power has 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. Georgia Power continues to manage a fuel-hedging program at the instruction of the Georgia PSC.

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The change in fair value of energy-related derivative contracts and valuations at March 31, 2008 were as follows:

	First Quarter 2008 Changes Fair Value *(in millions)*
Contracts outstanding at the beginning of the period, assets (liabilities), net	$ (0.4)
Contracts realized or settled	5.9
Current period changes[(a)]	78.1
Contracts outstanding at the end of the period, assets (liabilities), net	$ 83.6

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

Gains and losses on energy-related derivative contracts related to Georgia Power s fuel hedging program are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the fuel cost recovery mechanism. Certain other gains and losses on energy-related derivatives, designated as hedges, are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated as hedges are recognized in the statements of income as incurred.

The fair value gain/(loss) of energy-related derivative contracts outstanding at March 31, 2008 was reflected in the financial statements as follows:

	Amounts *(in millions)*
Regulatory liabilities, net	$ 83.8
Accumulated other comprehensive income	
Net income	(0.2)
Total fair value gain/(loss)	$ 83.6

Unrealized pre-tax gains and losses recognized in income for the three months ended March 31, 2008 and 2007 for energy-related derivative contracts that are not hedges were not material.

The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at March 31, 2008 are as follows:

	March 31, 2008 Fair Value Measurements		
	Total Fair Value	Maturity	
		Year 1	1-3 Years
		(in millions)	
Level 1	$	$	$
Level 2	83.6	65.5	18.1
Level 3			
Fair value of contracts outstanding at end of period	$ 83.6	$ 65.5	$ 18.1

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As part of the adoption of SFAS No. 157 to increase consistency and comparability in fair value measurements and related disclosures, the table above now uses the three-tier fair value hierarchy, as discussed in Note (C) to the Condensed Financial Statements herein, as opposed to the previously used descriptions actively quoted, external sources, and models and other methods. The three-tier fair value hierarchy focuses on the fair value of the contract itself, whereas the previous descriptions focused on the source of the inputs. Because Georgia Power uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are actively quoted, the valuations of those contracts now appear in Level 2; previously they were shown as actively quoted.

For additional information, see MANAGEMENT S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND LIQUIDITY Market Price Risk of Georgia Power in Item 7 and Notes 1 and 6 to the financial statements of Georgia Power under Financial Instruments in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements herein.

Financing Activities

In the first quarter 2008, Georgia Power issued $250 million of Series 2008A Floating Rate Senior Notes due March 17, 2010. The proceeds were used to repay a portion of its outstanding short-term indebtedness. In addition, Georgia Power entered into a $300 million long-term floating rate bank loan that bears interest based on one-month LIBOR. Proceeds were used to repay a portion of Georgia Power s short-term indebtedness and for other corporate purposes, including Georgia Power s continuous construction activities. Also in the first three months of 2008, Georgia Power entered into derivative transactions designed to mitigate interest rate risk related to taxable floating rate obligations. The total notional amount of these derivatives was $600 million. See Note (F) to the Condensed Financial Statements herein for further details.

Also in the first four months of 2008, Georgia Power converted its entire $819 million of obligations related to auction rate tax-exempt securities from auction rate modes to other interest rate modes. Approximately $332 million of the auction rate tax-exempt securities were converted to fixed interest rate modes and approximately $487 million were converted to daily floating rate modes. Georgia Power also entered into hedges totaling $301 million to hedge interest rate risk on tax-exempt variable rate demand notes. See Note (F) to the Condensed Financial Statements herein for further details.

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
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Operating Revenues:		
Retail revenues	**$ 227,964**	$ 219,584
Wholesale revenues		
Non-affiliates	**25,656**	23,400
Affiliates	**42,940**	40,080
Other revenues	**14,975**	13,169
Total operating revenues	**311,535**	296,233
Operating Expenses:		
Fuel	**150,127**	146,474
Purchased power		
Non-affiliates	**3,126**	1,388
Affiliates	**8,743**	7,041
Other operations	**47,856**	46,050
Maintenance	**18,575**	13,202
Depreciation and amortization	**21,704**	21,097
Taxes other than income taxes	**20,696**	20,206
Total operating expenses	**270,827**	255,458
Operating Income	**40,708**	40,775
Other Income and (Expense):		
Allowance for equity funds used during construction	**1,483**	379
Interest income	**709**	1,608
Interest expense, net of amounts capitalized	**(10,996)**	(11,153)
Other income (expense), net	**(666)**	(550)
Total other income and (expense)	**(9,470)**	(9,716)
Earnings Before Income Taxes	**31,238**	31,059
Income taxes	**10,157**	11,371
Net Income	**21,081**	19,688
Dividends on Preference Stock	**1,551**	825
Net Income After Dividends on Preference Stock	**$ 19,530**	$ 18,863

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the Three Months
Ended March 31,

	2008	2007
	(in thousands)	
Net Income After Dividends on Preference Stock	**$ 19,530**	$ 18,863
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of $(1,481) and $559, respectively	**(2,358)**	890
Reclassification adjustment for amounts included in net income, net of tax of $54 and $84, respectively	**87**	133
Total other comprehensive income (loss)	**(2,271)**	1,023
COMPREHENSIVE INCOME	**$ 17,259**	$ 19,886

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

GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Operating Activities:		
Net income	**$ 21,081**	$ 19,688
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation and amortization	**22,982**	22,384
Deferred income taxes	**569**	(3,997)
Allowance for equity funds used during construction	**(1,483)**	(379)
Pension, postretirement, and other employee benefits	**1,319**	388
Stock option expense	**408**	721
Tax benefit of stock options	**85**	105
Other, net	**428**	(780)
Changes in certain current assets and liabilities		
Receivables	**11,189**	1,208
Fossil fuel stock	**(13,622)**	(17,154)
Materials and supplies	**(1,005)**	(105)
Prepaid income taxes		7,306
Property damage cost recovery	**5,742**	5,325
Other current assets	**1,063**	945
Accounts payable	**(1,437)**	2,078
Accrued taxes	**6,094**	6,885
Accrued compensation	**(9,847)**	(12,345)
Other current liabilities	**6,230**	1,089
Net cash provided from operating activities	**49,796**	33,362
Investing Activities:		
Property additions	**(76,305)**	(43,526)
Cost of removal, net of salvage	**(3,583)**	(2,755)
Construction payables	**1,014**	(7,287)
Other	**(54)**	(80)
Net cash used for investing activities	**(78,928)**	(53,648)
Financing Activities:		
Decrease in notes payable, net	**(21,413)**	(42,232)
Proceeds		
Common stock issued to parent		80,000
Gross excess tax benefit of stock options	**194**	218
Capital contributions from parent company	**72,106**	
Payment of preference stock dividends	**(1,406)**	(825)
Payment of common stock dividends	**(20,425)**	(18,525)
Other	**(271)**	(122)

Net cash provided from financing activities	**28,785**	18,514
Net Change in Cash and Cash Equivalents	**(347)**	(1,772)
Cash and Cash Equivalents at Beginning of Period	**5,348**	7,526
Cash and Cash Equivalents at End of Period	**$ 5,001**	$ 5,754
Supplemental Cash Flow Information:		
Cash paid during the period for		
Interest (net of $654 and $167 capitalized for 2008 and 2007, respectively)	**$ 8,241**	$ 8,826
Income taxes (net of refunds)	**$ 1,200**	$ 264

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

GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	**At March 31, 2008**	At December 31, 2007
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 5,001**	$ 5,348
Receivables		
Customer accounts receivable	**55,601**	63,227
Unbilled revenues	**37,151**	39,000
Under recovered regulatory clause revenues	**57,673**	58,435
Other accounts and notes receivable	**5,494**	7,162
Affiliated companies	**28,264**	19,377
Accumulated provision for uncollectible accounts	**(1,584)**	(1,711)
Fossil fuel stock, at average cost	**84,633**	71,012
Materials and supplies, at average cost	**39,592**	45,763
Property damage cost recovery	**11,968**	18,585
Other regulatory assets	**8,229**	10,220
Other	**24,218**	14,878
Total current assets	**356,240**	351,296
Property, Plant, and Equipment:		
In service	**2,701,587**	2,678,952
Less accumulated provision for depreciation	**948,345**	931,968
	1,753,242	1,746,984
Construction work in progress	**197,338**	150,870
Total property, plant, and equipment	**1,950,580**	1,897,854
Other Property and Investments	**4,618**	4,563
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**19,405**	17,847
Prepaid pension costs	**108,450**	107,151
Other regulatory assets	**96,429**	97,492
Other	**34,775**	22,784
Total deferred charges and other assets	**259,059**	245,274
Total Assets	**$ 2,570,497**	$ 2,498,987

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 March 31, 2008	At December 31, 2007
	(in thousands)	
Current Liabilities:		
Notes payable	**$ 23,212**	$ 44,625
Accounts payable		
Affiliated	**44,834**	39,375
Other	**59,389**	56,823
Customer deposits	**25,824**	24,885
Accrued taxes		
Income taxes	**35,741**	30,026
Other	**9,851**	10,577
Accrued interest	**10,115**	7,698
Accrued compensation	**5,249**	15,096
Other regulatory liabilities	**20,106**	6,027
Other	**30,705**	32,023
Total current liabilities	**265,026**	267,155
Long-term Debt	**740,159**	740,050
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**240,921**	240,101
Accumulated deferred investment tax credits	**12,555**	12,988
Employee benefit obligations	**75,971**	74,021
Other cost of removal obligations	**172,975**	172,876
Other regulatory liabilities	**85,292**	82,741
Other	**80,047**	79,802
Total deferred credits and other liabilities	**667,761**	662,529
Total Liabilities	**1,672,946**	1,669,734
Preference Stock	**97,998**	97,998
Common Stockholder s Equity:		
Common stock, without par value		
Authorized 20,000,000 shares		
Outstanding 1,792,717 shares	**118,060**	118,060
Paid-in capital	**507,787**	435,008
Retained earnings	**179,776**	181,986
Accumulated other comprehensive loss	**(6,070)**	(3,799)
Total common stockholder s equity	**799,553**	731,255

Total Liabilities and Stockholder s Equity	**$ 2,570,497**	$ 2,498,987

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

GULF POWER COMPANY
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FIRST QUARTER 2008 vs. FIRST QUARTER 2007

OVERVIEW

Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located in northwest Florida and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Gulf Power s business of selling electricity. These factors include the ability to maintain a stable regulatory environment, to achieve energy sales growth, and to effectively manage and secure timely recovery of rising costs. These costs include those related to growing demand, increasingly stringent environmental standards, fuel prices, and storm restoration costs. Appropriately balancing required costs and capital environmental expenditures with customer prices will continue to challenge Gulf Power for the foreseeable future.

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

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$0.6	3.5

Gulf Power s net income after dividends on preference stock for the first quarter 2008 was $19.5 million compared to $18.9 million for the corresponding period in 2007. The increase in the first quarter 2008 over the corresponding period in 2007 was primarily due to improved sales growth, more favorable weather, and increased allowance for equity funds used during construction, partially offset by higher operations and maintenance expenses due to scheduled maintenance at generation facilities.

Retail Revenues

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$8.4	3.8

In the first quarter 2008, retail revenues were $228.0 million compared to $219.6 million in the corresponding period in 2007.

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

Details of retail revenues are as follows:

	First Quarter 2008	
	(in millions)	*% change*
Retail prior year	$ 219.6	
Estimated change in		
Rates and pricing	1.4	0.6
Sales growth	2.3	1.1
Weather	1.2	0.5
Fuel and other cost recovery	3.5	1.6
Retail current year	$ 228.0	3.8%

Revenues associated with changes in rates and pricing increased in the first quarter 2008 when compared to the same period of 2007 primarily due to cost recovery provisions for energy conservation costs and environmental compliance costs. Annually, Gulf Power petitions the Florida PSC for recovery of projected costs including any true-up amount from prior periods, and approved rates are implemented each January. These recovery provisions include related expenses and a return on average net investment. See Note 1 to the financial statements of Gulf Power under Revenues and Note 3 to the financial statements of Gulf Power under Environmental Remediation and Retail Regulatory Matters Environmental Cost Recovery in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales growth increased in the first quarter 2008 when compared to the same period in 2007. KWH energy sales to residential and commercial customers increased 1.5% and 2.4% respectively, due to customer growth. KWH energy sales to industrial customers increased 4.6% as a result of decreased customer cogeneration due to higher cost of natural gas.

Revenues attributable to changes in weather increased in the first quarter 2008 when compared to the corresponding period for 2007 due to more favorable weather.

Fuel and other cost recovery revenues increased in the first quarter 2008 when compared to the corresponding period for 2007 primarily due to higher fuel and purchased power expenses. Fuel and other cost recovery revenues include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and revenues related to the recovery of storm damage restoration costs. Annually, Gulf Power petitions the Florida PSC for recovery of projected fuel and purchased power costs including any true-up amount from prior periods, and approved rates are implemented each January. The recovery provisions generally equal the related expenses and have no material effect on net income. See FUTURE EARNINGS POTENTIAL FERC and Florida PSC Matters Retail Fuel Cost Recovery herein and MANAGEMENT S DISCUSSION AND ANALYSIS FUTURE EARNINGS POTENTIAL PSC Matters Fuel Cost Recovery of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under Revenues and Property Damage Reserve and Note 3 to the financial statements of Gulf Power under Retail Regulatory Matters Storm Damage Cost Recovery in Item 8 of the Form 10-K for additional information.

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

Wholesale Revenues Non-Affiliates

First Quarter 2008 vs. First Quarter 2007	
(change in millions)	*% change*
$2.3	9.6

Wholesale revenues from non-affiliates are predominantly unit power sales under long-term contracts to other Florida utilities. 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 first quarter 2008, wholesale revenues from non-affiliates were $25.7 million compared to $23.4 million in the corresponding period in 2007. The increase was primarily a result of higher revenues associated with new and existing territorial wholesale contracts and higher energy revenues from unit power sales contracts caused by increased Southern Company system fuel costs.

Wholesale Revenues Affiliates