February 16, 2011

Ms. Rebecca J. Marsh
Southern Company Services, Inc.
BIN 10115
241 Ralph McGill Boulevard, NE
Atlanta, GA 30308-3374

Dear Becky,

Subject: Retiree Benefit Costs—Formal Reporting of 2011 ASC 715-30/60 Costs

This letter provides and briefly discusses the total ASC 715-30/60 retiree benefit costs for fiscal 2011. The final 2011 costs by company appear in an attachment.

Summary
This table summarizes Southern's 2011 retirement benefit costs and compares them to 2010 costs and prior projections of 2011 costs.

	ASC 715-30 (Income)/Costs		**ASC 715-60 (Income)/Costs**		
	Qualified	**Nonqualified**	**Retiree Medical**	**Retiree Life**	**Total Costs**
Ongoing Annual Period Costs *($ millions)*					
▪ **2010** — Actual	$ 5.36	$49.05	$ 74.23	$ 7.97	$ 136.61
▪ **2011**					
– Projected[1]	*$ 37.12*	*$49.14*	*$ 77.20*	*$ 8.44*	*$ 171.90*
– Actual	$ (32.28)	$51.22	$ 62.39	$ 6.43	$ 87.76

[1] *From projections sent to Larry Sitton on March 15, 2010.*

About the 2011 Costs

The final 2011 costs are based on the same benefit obligations, assets and unamortized obligations reflected in accumulated other comprehensive income that were reported to Southern for use in its 2010 financial statement footnotes. The communications related to that information fully describe the basis for these figures. (See letter to Becky Marsh dated January 31, 2011.) Even so, here are the key assumptions used to compute 2011 costs:

- Discount rate — 5.05% to 5.65%; varies by benefit plan
- Annual rate of base pay increases —3.84% average over a typical employee's career; varies by age/service
- Return on investments — 8.75% for pension trust and ranging from 4.50% to 7.00% for VEBAs

The attachments with the by-company and by-plan costs are similar to those provided in prior years. When reviewing them, please keep the following in mind:

- Results labeled "SoCo" are for former SEI (Mirant) retirees for whom Southern assumed benefit obligations as a result of the SEI spin-off.
- A schedule of retiree medical costs ignoring the tax-advantaged Medicare-related retiree drug subsidy (RDS) is included. The amounts shown are only for Southern's tax accounting related to the actual ASC 715-60 costs that have been provided. These figures are smaller than those provided in prior years. This is because the 2010 health care reform legislation eliminates the tax advantaged status of RDS receipts received after 2012. The cost calculation essentially spreads the value of the remaining tax-advantaged RDS receipts over the next two years consistent with the methodology prescribed by Southern. (See email sent to Becky Marsh on September 30, 2010.)

To avoid any possible confusion, please note that no costs related to the Employee Savings Plan and ESOP are included; the Company independently accounts for these benefits.

Actual versus Projected 2011 Costs

The actual total 2011 retirement benefit costs are lower than had been projected due to many factors. The key drivers were the tax-qualified pension contribution and gains/losses resulting from new data, assumption changes, and favorable asset experience during 2010.

- Census data — The actual 2011 costs are based on updated data. Overall, the new data was only modestly different than what had been anticipated leading to gains and losses that differed by company and benefit plan.

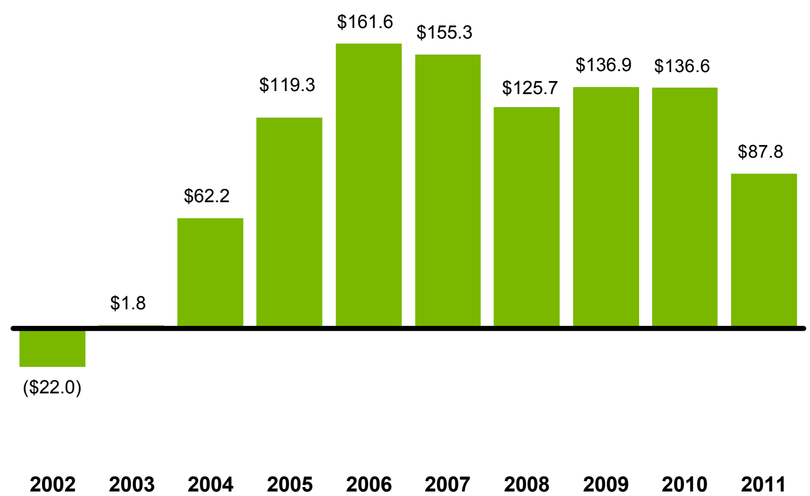
- Assumption changes — Overall, the impact of changes in demographic and other interest rate sensitive assumptions mitigated much of the impact of lower discount rates.
  - Discount rates — Lower interest rates forced the company to adopt discount rates that are generally 35–55 basis points lower than anticipated in the projections which increased benefit obligations.
  - Other interest rate sensitive assumptions — Some of the factors leading to lower interest rates caused the company to revise other assumptions (primarily assumed rate of salary increases); these changes mitigated some of the increase in tax-qualified obligations due to discount rates.
  - Demographic assumptions — Emerging data has led to further refinement of two demographic assumptions – retirement age and retiree medical participation.
    - Retirement rates — The revised assumptions anticipate that employees who will not be eligible for grandfathered retiree medical benefits will retire about one year later than those who are. Anticipating later retirements for these employees decreased obligations in the tax-qualified pension and retiree medical plans.
    - Retiree medical participation rates — The participation rates for capped employees and spouses were lowered 5 basis points to reflect continued experience showing that retired capped employees participate at lower levels than previously anticipated. This revised assumption further reduced retiree medical obligations.
- Asset experience — Asset returns during 2010 were generally higher than anticipated leading to significant gains. This is especially true for the pension trust which had a dollar-weighted average return of about 15.6% versus the 8.75% anticipated.
- Pension contribution — The $620 million contribution to the tax-qualified pension trust in December 2010 was not anticipated when the projections were done last spring. It basically erased the plan's deficit which had been projected to grow.

The exact impact of these factors on costs varies by plan and company. For example, the investment gains had no impact on the unfunded nonqualified pension. The returns impacted the tax-qualified pension most, and relatively speaking, APC benefited somewhat more than the other companies since its segment of the plan has the highest funded ratio. Another example, the pension contribution benefited companies differently. The Southern adopted method for allocating pension contributions resulted in GPC, SNC and SCS contributing the largest amounts, and as a result, they received the largest dollar benefit in 2011 cost.

Southern's accounting methodologies also influence how this experience impacts each plan's costs by company. For example, only 20% of investment gains will be reflected in the cost calculations since Southern has elected to smooth out this experience over five years. Other methodologies impacting how costs changed include the use of a 10% gain/loss corridor and varying amortization periods for gains/losses. The corridor generally limits the impact of gains/losses when they do not exceed 10% of a company's obligations. If gains/losses for a company do exceed that threshold, then only a fraction of the excess is included in costs based on the average remaining service of the company's employees.

Historical Cost Perspective

The chart below provides perspective on Southern's total ASC 715-30/60 cost/(income) in recent years.



The cost changes over the last ten years are best explained by focusing on three periods.

- 2002 through 2005
  - Costs increased due to lower discount rates and 2000 – 2002 asset losses, which were recognized over a 5-year period due to smoothing rules.
- 2006 through 2008
  - Modest cost decreases were attributable to higher discount rates and better than expected asset returns.
- 2009 through 2011
  - Despite the 2008 asset loss and decreasing discount rates, costs were relatively stable in 2009 and 2010 due to favorable asset experience and multiple assumption changes.
  - The significant decrease in 2011 cost is due to the large contribution to tax-qualified pension in 2010 and assumption changes related to retirement age and medical plan participation.

If you have any questions, please let us know.

Sincerely,

Hewitt Associates LLC, operating as Aon Hewitt

Joy L Ferguson

Joy L. Ferguson

JLF:cm 01909L001
Attachments
cc: Mr. W. Ron Hinson, Southern Company Services, Inc.
Mr. Jeffrey O. Horne, Southern Company Services, Inc.
Mr. Gregory F. Marshall, Southern Company Services, Inc.
Mr. Larry E. Sitton, Southern Company Services, Inc.
Mr. Steven W. Wilkinson, Southern Company Services, Inc.
Ms. Ellen Chow, Aon Hewitt
Mr. H. John Elliot, Aon Hewitt
Mr. Colby C. Park, Aon Hewitt
Mr. Scott C. Twery, Aon Hewitt

Southern Company—2011 ASC 715 Period Costs
Actual vs. Projected[1]

Company	Pension: Qualified Pension	Pension: Nonqualified Pension: SERP	COSB	Total	Retiree Medical and Life: Retiree Medical	Retiree Life	Total ASC 715 (Income)/Cost	Retiree Medical Tax Accounting
Alabama								
• Projected	*($22,870,000)*	*$9,470,000*	*$950,000*	*$10,420,000*	*$14,480,000*	*$990,000*	*$3,020,000*	*$22,520,000*
• Actual	($31,867,588)	$9,910,773	$1,128,202	$11,038,975	$9,994,818	$545,464	($10,288,331)	$13,179,260
Georgia								
• Projected	*($9,930,000)*	*$13,020,000*	*$1,250,000*	*$14,270,000*	*$31,830,000*	*$2,270,000*	*$38,440,000*	*$46,160,000*
• Actual	($29,213,558)	$13,035,364	$1,475,965	$14,511,329	$27,065,150	$1,492,709	$13,855,630	$28,233,520
- Sav SERP		$517,387						
- SO SERP		$12,517,977						
Gulf								
• Projected	*$1,870,000*	*$1,680,000*	n/a	*$1,680,000*	*$3,610,000*	*$920,000*	*$8,080,000*	*$4,680,000*
• Actual	($1,611,013)	$1,657,931	n/a	$1,657,931	$2,888,688	$851,976	$3,787,582	$3,113,098
Mississippi								
• Projected	*$5,940,000*	*$2,120,000*	*$220,000*	*$2,340,000*	*$4,280,000*	*$790,000*	*$13,350,000*	*$5,790,000*
• Actual	$1,403,318	$2,246,802	$271,795	$2,518,597	$3,399,443	$415,638	$7,736,996	$3,841,909
- ERIP I			$61,840					
- ERIP II			$47,826					
- ERIP III			$162,129					
Services								
• Projected	*$24,720,000*	*$16,320,000*	*$610,000*	*$16,930,000*	*$10,170,000*	*$1,930,000*	*$53,750,000*	*$13,410,000*
• Actual	$8,819,537	$17,296,535	$741,347	$18,037,882	$8,626,453	$1,743,810	$37,227,682	$9,104,451
Nuclear								
• Projected	*$34,650,000*	*$3,020,000*	n/a	*$3,020,000*	*$12,170,000*	*$1,480,000*	*$51,320,000*	*$14,530,000*
• Actual	$18,368,650	$2,969,360	n/a	$2,969,360	$9,986,460	$1,348,438	$32,672,908	$9,930,237
COM								
• Projected	*$3,320,000*	*$330,000*	n/a	*$330,000*	*$650,000*	*$40,000*	*$4,340,000*	*$680,000*
• Actual	$2,531,110	$334,765	n/a	$334,765	$430,956	$25,748	$3,322,579	$435,084
- STI	$76,440	$64,007	n/a	$64,007	$9,826	$587	$150,860	$9,920
- LINC	$2,454,670	$270,758	n/a	$270,758	$421,130	$25,161	$3,171,719	$425,164
SoCo								
• Projected	*($580,000)*	*$150,000*	n/a	*$150,000*	*$10,000*	*$20,000*	*($400,000)*	*$40,000*
• Actual	($711,364)	$146,331	n/a	$146,331	($1,124)	$10,536	($555,621)	($1,472)
Total								
• Projected	*$37,120,000*	*$46,110,000*	*$3,030,000*	*$49,140,000*	*$77,200,000*	*$8,440,000*	*$171,900,000*	*$107,810,000*
• Actual	($32,280,908)	$47,597,861	$3,617,309	$51,215,170	$62,390,844	$6,434,319	$87,759,425	$67,836,087

[1] From the projections sent to Larry Sitton on March 15, 2010