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Gulf Power Co.

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160186-OPC-POD-71-1

Gulf Power Co.

Corporate Credit Rating	
	A/Stable/--

Business risk profile

1 2 3 **[4]** 5 6 7 8 9 10

Financial risk profile:

Moderate

Debt maturities:

2006 $433 mil. (none at Gulf Power Co)
2007 $1.36 bil. (none)
2008 $455 mil. (none)
2009 $565 mil. ($37 million)

Collateralization:

As of Dec. 31, 2005, consolidated liquidity was ample, with $202 million in cash and equivalents, $3.3 billion in available credit facilities with banks, and $438 million capacity in extendible commercial notes. Gulf Power Co. had $121 million in available facilities.

Total rated debt:

The company had $13.7 billion of adjusted consolidated debt as of Dec. 31, 2005, which includes $1.88 billion in trust-preferred securities.

Outstanding Rating(s)	
Gulf Power Co.	
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A+
Sub debt	
Local currency	A-
Pfd stk	
Local currency	BBB+
Preference Stock	
Local currency	BBB+
Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A-
CP	
Local currency	A-1
Pfd stk	
Local currency	BBB+
Alabama Power Co.	

Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A
CP	
Local currency	A-1
Pfd stk	
Local currency	BBB+
Georgia Power Co.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
Pfd stk	
Local currency	BBB+
Mississippi Power Co.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A+
Pfd stk	
Local currency	BBB+
Savannah Electric & Power Co.	
Corporate Credit Rating	A/Stable/--
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A+
Pfd stk	
Local currency	BBB+
Southern Co. Services Inc.	
Corporate Credit Rating	A/Stable/--
Southern Company Funding Corp.	
Corporate Credit Rating	--/--/A-1
CP	
Local currency	A-1
Southern Electric Generating Co.	
Corporate Credit Rating	A/Stable/NR
Southern Power Company	
Corporate Credit Rating	BBB+/Stable/A-2
Sr unsecd debt	
Local currency	BBB+
CP	
Local currency	A-2

Corporate Credit Rating History	
Mar. 24, 1995	A+
Dec. 21, 2000	A

Major Rating Factors

Strengths:
- Stable cash flows generated by growing regulated utility operations,
- Positive regulatory relations and the lack of major rate cases planned through 2007,
- A diverse customer base with growth above the national average,
- A measure of geographic diversity within the southeast region, and
- Strong plant operations, supported by the Southern pool.

Weaknesses:
- Heavy reliance on coal that will result in higher environmental capital expenditures to meet environmental emissions restrictions,
- The lack of automatic fuel recovery clauses at subsidiaries Georgia Power Co. and Savannah Electric & Power Co., and
- Company consolidated leverage is modest on an adjusted basis.

Rationale

The ratings on Southern Co. and its subsidiaries Alabama Power Co. (36% of 2005 net operating cash flow), Georgia Power Co. (41%), Gulf Power Co. (6%), Mississippi Power Co. (1.6%), and Savannah Electric & Power Co. (1.3%) reflect stable and strong profitability generated from favorable regulation and good markets, along with adequate financial metrics. The Atlanta, Ga.-based corporation serves about 4.2 million customers in the southeast U.S. and had $13.7 billion of adjusted consolidated debt as of Dec. 31, 2005.

Southern's consolidated business-risk profile score of '4' (business profiles are categorized from '1' (excellent) to '10' (vulnerable)) reflects regulated operations providing about 90% of consolidated cash flow. Each regulated subsidiary has generally positive regulatory relations and rate structures, little threat of deregulation, growing service areas, and revenue diversity. Utility prices and costs are competitive regionally--though recent high fuel costs have led to significant price increases and the Georgia Public Service Commission's (PSC) examination of Georgia Power's and Savannah's fuel practices. Operations are strong, with stable availability factors on fossil-fuel units and good performance at nuclear units. The expected merger between Georgia Power and Savannah by July 2006 has no credit effect.

These strengths are offset by full recovery risk for rapidly growing costs to meet environmental emissions compliance and adjusted leverage that is modestly higher than similarly rated utilities. Southern expects to fully recover emissions-related costs, and favorable provisions and a track record of full recovery support this conclusion.

In 2005, Gulf Power began collecting Hurricane Ivan-related repair costs through a two-year rate surcharge under an agreement between the company, the Office of Public Counsel, and the Florida Industrial Power Users Group, which was subsequently approved by the Florida PSC. Although favorable for credit quality, the surcharge is offset by the company's inability to raise base rates through early 2007, though this restriction does not apply for increases necessary to deal with storm-related damage. The cost to repair damage from Hurricanes Dennis and Katrina totaled about $63 million net of insurance. In 2005, the Florida legislature approved the securitization of storm repair costs, and in February 2006, Gulf Power filed with the Florida PSC a request for approval to issue about $87 million in securities to cover deferred costs and replenish the storm reserve, with repayment expected through an eight-year surcharge to rates.

Consolidated cash flow protection is strong, due to regulated operations and a growing customer base. During 2005, non-fuel retail revenues grew 4.6% and retail sales rose 1.2%. Standard & Poor's treats Southern's trust-preferred stock as quasi-equity, and adjusts financial ratios to alternately include and exclude dividends. Adjusted funds from operations (FFO) interest coverage was 5.3x in 2005 and should be around 5.0x through 2008. If trust preferreds are treated as 100% equity, the FFO interest coverage was 6.1x in 2005 and would average around 5.5x through 2008. This wide ratio spread is due to trust-preferred securities making up about 8% of unadjusted consolidated capitalization.

Short-term credit factors

The short-term rating on Southern is 'A-1' and is supported by the corporate credit rating, the stable cash flow from regulated operations, and the lack of liquidity needs at the unregulated Southern Power wholesale subsidiary. Southern and each of its regulated subsidiaries have their own liquidity provisions. Liquidity is enhanced through Southern's services to subsidiaries for managing cash flow and provision for short-term liquidity, including commercial paper and other items. Consolidated maturities are manageable through 2009. Southern and its regulated units enjoy favorable access to debt and equity markets and should be able to refinance upcoming debt maturities and renew credit facilities on favorable terms.

As of Dec. 31, 2005, consolidated liquidity was ample, with $202 million in cash (and equivalents), $3.3 billion in available credit facilities with banks, and $438 million capacity in extendible commercial notes. Southern had access to $750 million in credit facilities for commercial paper backup, of which $500 million is due in 2007 and $250 million due in 2010. Alabama Power had $878 million in available facilities, Georgia Power $778 million, Gulf Power $121 million (all due in 2006), Mississippi Power $276 million (the company borrowed another $100 million in February 2006 as additional liquidity), and Savannah Electric $80 million as of Dec. 31, 2005. The $3.3 billion in consolidated credit facilities has spread out maturities from one to five years, and favorable term amounts provisions on about $1.1 billion.

No facilities have rating triggers, and only $40 million contains a material adverse change clause. Most facilities include a 65% debt (excluding trust preferred securities) to total capitalization ratio, for which Southern and its subsidiaries are well in compliance.

Liquidity is enhanced by strong regulated utility operating cash flow, about $2.5 billion in 2005. However, additional borrowings were required to fully fund capital expenditures of $2.3 billion and dividends of $1 billion--a trend Standard & Poor's expects will continue. Underrecovered fuel costs also reduced liquidity in 2005, especially at Georgia Power and Savannah, but Standard & Poor's does not presently view underrecovered fuel cost as a liquidity problem.

Outlook

Ratings stability reflects the company's stable cash flow from regulated operations, a positive regulatory environment, and the lack of pending rate cases, growing regional economies, and solid operations. The consolidated rating could come under pressure if Southern cannot achieve its forecast financial performance or if the regulated utilities cannot recover the large and growing costs of capital expenditures for environmental emissions control. An improvement in the rating would require Southern to demonstrate stronger financial performance and additional comfort that growing environmental emissions costs are fully recoverable.

Accounting

Southern generates its financial statements using U.S. GAAP. Deloitte & Touche has audited Southern's financial statements since 2002 and issued unqualified opinions in 2006 on Southern's financial statements and internal controls for 2005.

Southern's units record regulatory assets and liabilities according to FASB 71 (accounting for the effects of certain types of regulation). In 2005, regulatory liabilities totaled $2 billion, or about 7% of total liabilities. The share was 7.7% in 2004.

On Dec 31, 2005, Southern adopted FIN 47 (conditional asset retirement obligations), which led to an increase in asset retirement obligations (and assets) by $153 million and has no credit effect. In the first quarter of 2005, Southern adopted FASB 109-1 (accounting for income taxes), which had no material effect on financials. On Jan. 1, 2006, Southern adopted FASB 123R (share-based payment) on a modified prospective basis. This adoption had no effect on 2005 financials.

Standard & Poor's treats Southern trust-preferred securities as quasi-equity instruments and analyzes Southern's financial performance with trust-preferred-related debt wholly as debt and wholly as equity. Given that trust-preferred securities make up about 8% of capitalization, the resulting financial ratios vary considerably between the two treatments.

Standard & Poor's also imputes debt onto Southern's balance sheet to account for non-railcar operating leases ($344 million for 2005) and purchase power agreements ($681 million in 2005). These figures represent about 7.5% of the $13.7 billion consolidated debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Table 1

Southern Co. Peer Comparison

	--Three-year average--		
	Southern Co.	**FPL Group Inc.**	**Virginia Electric & Power Co.***
Rating	A/Stable/A-1	A/Watch Neg/A-1	BBB/Stable/A-2
(Mil. $)			
Sales	11,379	10,373	5,869
Net income from continuing operations	1,534	872	300
Funds from operations (FFO)	3,140	1,806	1,127
Capital expenditures	2,068	1,452	839

Table 1

Southern Co. Peer Comparison (cont.)			
Cash and equivalents	275	295	23
Total debt	12,887	8,173	5,647
Preferred stock	527	2	257
Common equity	10,205	8,557	4,589
Total capital	23,619	16,732	10,418
Ratios			
Adj. EBIT interest coverage (x)	3.6	2.9	2.3
Adj. FFO interest coverage (x)	5.1	4.2	4.2
Adj. FFO/avg. total debt (%)	23.7	19.1	18
Net cash flow/capital expenditures (%)	104.4	99.5	70.3
Adj. total debt/total cap (%)	56.4	52.8	57
Return on common equity (%)	14.5	9.8	2.9
Common dividend payout (%)	68.4	55	-67.6

*Three-year average includes 2003, 2004, and 12 months ended September 2005.

Table 2

Southern Co. Financial Summary

	--Fiscal year ended Dec. 31--				
	2005	**2004**	**2003**	**2002**	**2001**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Sales	12,773	11,027	10,504	10,215	10,155
Net income from cont. oper.	1,591	1,529	1,474	1,318	1,119
Funds from oper. (FFO)	3,386	3,059	2,974	2,213	2,184
Capital expenditures	2,108	1,887	1,670	1,903	2,538
Cash and equivalents	174	343	308	254	354
Total debt	13,794	12,758	12,206	12,669	12,611
Preferred stock	596	561	423	298	2,644
Common equity	10,689	10,278	9,648	8,710	7,984
Total capital	25,079	23,597	22,287	21,728	23,239
Ratios*					
Adj. EBIT interest coverage (x)	3.5	3.7	3.6	3.3	2.9
Adj. FFO interest coverage (x)	5.3	5.1	4.8	3.7	3.4
Adj. FFO/avg. total debt (%)	24.1	23.4	22.7	17.1	17.2
Net cash flow/capital expenditures (%)	108.5	107	118	65.9	49.7
Adj. total debt/capital (%)	56.8	5.8	56.3	60.1	55.4
Return on common equity (%)	14.2	14.2	15.6	15.2	11.1
Common dividend payout (%)	69	68.2	68.1	72.7	82.4

*Trust preferred securities are treated fully as debt.

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June 28, 2006

Southern Co.

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Southern Co.

Corporate Credit Rating	
	A/Stable/A-1

Business risk profile

1 2 3 $\boxed{4}$ 5 6 7 8 9 10

Financial risk profile:

Moderate

Debt maturities:

2006 $375 mil
2007 $1.37 bil
2008 $462 mil
2009 $609 mil

Collateralization:

As of March 31, 2006, consolidated liquidity was ample, with $301 million in cash and equivalents, $3.3 billion in available credit facilities with banks, and $438 million capacity in extendible commercial notes.

Outstanding Rating(s)

Southern Co.	
Sr unsecd debt	
Local currency	A-
CP	
Local currency	A-1
Pfd stk	
Local currency	BBB+
Alabama Power Co.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A
CP	
Local currency	A-1
Pfd stk	
Local currency	BBB+
Georgia Power Co.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
Pfd stk	
Local currency	BBB+

Gulf Power Co.	
Corporate Credit Rating	A/Stable/--
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A+
Sub debt	
Local currency	A-
Pfd stk	
Local currency	BBB+
Preference Stock	
Local currency	BBB+
Mississippi Power Co.	
Corporate Credit Rating	A/Stable/A-1
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A+
Pfd stk	
Local currency	BBB+
Savannah Electric & Power Co.	
Corporate Credit Rating	A/Stable/--
Sr unsecd debt	
Local currency	A
Sr secd debt	
Local currency	A+
Pfd stk	
Local currency	BBB+
Southern Power Company	
Corporate Credit Rating	BBB+/Stable/A-2
Sr unsecd debt	
Local currency	BBB+
CP	
Local currency	A-2

Corporate Credit Rating History	
Sept. 27, 1995	A-1
Jan. 24, 1997	A/A-1

Major Rating Factors

Strengths:

- Stable cash flows from growing, regulated utility operations;
- Positive regulatory relations and the lack of major rate cases planned through 2007;
- A diverse customer base with growth above the national average;
- A measure of geographic diversity in the southeast region; and

- Strong plant operations, supported by the Southern pool.

Weaknesses:
- Heavy reliance on coal that will result in higher environmental capital expenditures to meet environmental emissions restrictions;
- The lack of automatic fuel recovery clauses at subsidiaries Georgia Power Co. and Savannah Electric & Power Co.; and
- Company consolidated leverage is modest on an adjusted basis.

Rationale

Southern Co. (Southern) is a public utility holding company with ownership of regulated and unregulated electric power companies operating in the U.S. Southeast. The Atlanta-based company had $14.6 billion of adjusted consolidated debt as of March 31, 2006.

Southern's consolidated business-risk position score of '4' ('1' equals low risk; '10' equals high risk) reflects regulated operations serving 4.3 million customers in the southern U.S. that collectively provide about 90% of consolidated cash flow. Each utility subsidiary has generally positive regulatory relations and rate structures, little threat of deregulation, growing service areas, and revenue diversity. Overall, utility prices and costs are well below national averages and competitive regionally. Operations are strong, with stable availability factors on fossil-fuel units and good performance at nuclear units.

These strengths are offset by full recovery risk for rapidly growing costs to meet environmental emissions compliance and adjusted leverage, which is modestly higher than similarly rated utilities. Southern expects to recover these costs in rates, and favorable provisions and a track record for recovery support this conclusion.

Southern continues to have good profitability, with a return on capital in 2005 of about 9.3% (adjusted) and an ROE of 15.18% (unadjusted). Cash flow protection is also good, due to regulated operations and a growing customer base. For year-ended Dec. 31, 2005, nonfuel retail revenues grew 4.6% and retail sales rose 1.2%. Standard & Poor's treats Southern's trust-preferred stock as a quasi-equity, and adjusts financial ratios to include and exclude dividends. Funds from operations (FFO) to interest coverage (adjusted) was 5.3x in 2005 and is forecast to be around 4.7x through 2008. If trust-preferreds are treated as 100% equity, the FFO interest coverage was 6.1x in 2005 and would average around 5.1x through 2008. This wide ratio spread is due to trust-preferred securities making up about 8% (unadjusted) of consolidated capitalization.

Short-term credit factors

The short-term rating on Southern is 'A-1' and is supported by the corporate credit rating, the stable cash flow from regulated operations, and the lack of liquidity needs at the unregulated Southern Power Co. (Southern Power) wholesale subsidiary. Southern and each of its regulated subsidiaries have their own liquidity provisions. Liquidity is enhanced through Southern services to subsidiaries for managing cash flow and provisions for short-term liquidity, including commercial paper and other items. Consolidated maturities are manageable through 2009. Southern and its regulated units enjoy favorable access to debt and equity markets, and should be able to refinance upcoming debt maturities and renew credit facilities on favorable terms.

As of March 31, 2006, consolidated liquidity was ample, with $301 million in cash and equivalents, $3.3 billion in available credit facilities with banks, and $438 million capacity in extendible commercial notes. Southern had access to $750 million in credit facilities for commercial paper backup, of which $500 million is due in 2007 and $250 million is due in 2010. Alabama Power had $878 million in available facilities, Georgia Power $778 million, Gulf Power $121 million, Mississippi Power $276 million, and Savannah Electric $80 million as of March 31, 2006. The $3.3 billion in consolidated credit facilities have spread out maturities from one to five years, and favorable term-out provisions on about $560 million. No facilities have rating triggers, and only $10 million contains a material adverse change clause. Most facilities include a 65% debt (excluding trust-preferred securities) to total capitalization ratio, for which Southern and its subsidiaries are well in compliance.

Liquidity is enhanced by strong regulated utility operating cash flow, about $2.4 billion for year-ended March 31, 2006. However, additional borrowings were required to fully fund capital expenditures of $2.3 billion and dividends of $1 billion, a trend we expect to continue.

Outlook

Stable cash flow from regulated operations, a positive regulatory environment, and the lack of pending rate cases, growing regional economies, and solid operations support the stable outlook. The consolidated rating could come under pressure if Southern cannot achieve its forecast financial performance or the regulated utilities cannot recover the large and growing costs of capital expenditures for environmental emissions control. An improvement in the rating would require Southern to demonstrate stronger financial performance and additional comfort that growing environmental emissions costs are fully recoverable.

Business Description

Southern is a public utility holding company. It owns five regulated, vertically integrated electric utilities that serve about 4.3 million customers in Southeastern U.S. These utilities are Alabama Power Co. (36% of 2005 net operating cash flow), Georgia Power Co. (41%), Gulf Power Co. (6%), Mississippi Power Co. (1.6%), and Savannah Electric & Power Co. (1.3%). It also owns Southern Power Co. (BBB/Stable/A-2), an unregulated wholesale power developer.

Rating Methodology

Standard & Poor's rates Southern and its five regulated utility subsidiaries using a consolidated credit-assessment method, resulting in the same corporate credit rating for Southern and its utility subsidiaries. We rate the senior unsecured debt at Southern one notch lower than the corporate credit rating due to structural subordination and to certain senior secured debt at the operating utilities being rated one notch above the corporate credit rating. Standard & Poor's views Southern's wholesale power generation subsidiary, Southern Power, as a noncore entity, rates it on a stand-alone basis, and includes it as an equity investment for Southern's financial analysis.

Standard & Poor's adjusts ratios to account for its quasi-equity treatment of Southern's trust-preferred securities, to impute debt from certain leases, and to impute debt from a risk-based share of certain power-purchase agreement (PPA) costs (with a 30% risk factor). The PPAs include those that Southern units have with Southern Power, as Southern Power is not included in Southern's consolidated financial analysis.

Business Risk Profile

Southern's business profile is strong, rating a '4' on Standard & Poor's business risk score ('1' equals low risk; '10' equals high risk).

Profitability

Southern and its units remain quite profitable, with a consolidated ROE of 15.18% in 2005. The ROE is down slightly due to more normal weather than in 2004, but also due to the effects of Hurricanes Dennis and Katrina. ROEs for each subsidiary are also healthy. The stable operations of Southern and regulated units and the lack of large rate cases suggest that the companies will be able to sustain recent profitability performance.

Regulation

The company and its operating units are subject to regulation by the FERC for certain activities, and by respective state public service commissions. The regulatory environment for each unit is positive, given constructive relations with regulators, few problems with cost recovery, favorable cost-recovery clauses, and little risk of deregulation. Overall, the companies have posted strong ROEs for the past several years. Near-term challenges focus on fuel cost recovery and recovering storm repair costs at Mississippi Power and Gulf Power.

Alabama Power

The company began in 2005 to recover environmental costs through its certified new plant recovery clause. This provision will help with recovery of emissions control costs that are rising rapidly, from $256 million in 2005 to $426 million by 2007. However, this benefit was offset by a rate freeze through 2006 on the Rate Stabilization and Equalization plan (RSE). Favorably, in October 2005, the Alabama Public Service Commission (PSC) allowed the company to use forward-looking information in its RSE from January 2007, but offset the gain partially with increase limits of 5% a year or 4% average over any two years. The retail ROE is set between 13% and 14.5% and was 13.7% in 2005. In December 2005, the Alabama PSC allowed an increase in the energy cost-recovery clause to mitigate unrecovered fuel costs of $189 million and help with recovery of rising fuel costs. In December 2005, the Alabama PSC enabled the company to recover deferred Hurricane Dennis and Katrina costs over a two-year period and collect funds over a five-year period to replenish storm reserves.

Georgia Power

In June 2006, the Georgia PSC approved the merger between Georgia Power and Savannah Electric, and also approved a 7% increase in rates to help Georgia Power recover its large unrecovered fuel balance, which was about $784 million as of March 31, 2006. The increase, which is effective for 35 months for Georgia Power, will also help the company pay for future fuel costs. The Georgia PSC has initiated investigations to fuel practices at Georgia Power and Savannah in 2005. Earnings are evaluated against a retail return on common equity range of 10.25% to 12.25%. The retail ROE was 12.2% in 2005. As a part of its current rate stipulation, Georgia must file a rate case in mid-2007 that will take effect in January 2008.

Gulf Power

In 2005, Gulf Power began collecting Hurricane Ivan-related repair costs through a two-year rate surcharge through March 2007 under an agreement between the company, the Florida PSC, and consumer groups. While positive for credit, the surcharge is offset by the inability to raise base rates through early 2007, although this restriction does not apply for increases necessary to deal with storm-related damage. The cost to repair damage from Hurricanes Dennis and Katrina totaled about $64 million net of insurance.

Favorably, in May 2006, Gulf Power reached a settlement with certain consumer groups and the Florida Public Counsel to recover the restoration costs related to Hurricanes Dennis and Katrina. Under the agreement, which was approved by the Florida PSC in June 2006, Gulf Power will recover these amounts through the extension of the existing surcharge used to recover repair costs related to Hurricanes Ivan. This surcharge was set to end in March 2007, but will now be extended through June 2009 under the settlement. In addition, the settlement provides for the implementation of an interim surcharge to recover 80% of future incurred storm costs in a timely manner, subject to refund if these costs exceed $10 million in one calendar year.

Mississippi Power

Standard & Poor's considers Mississippi Power to have the most favorable regulatory situation of the Southern operating units. In December 2005, the company filed for a 5% increase in rates under its performance-evaluation plan. This increase exceeds the 4% annual increase in performance evaluation plan (PEP), but reflects issues related to Hurricane Katrina.

The company continues to evaluate several options to recover the costs to repair system damage caused by Hurricane Katrina, and federal grants could form part of the funding package. Total recoverable storm costs are estimated at $302 million, net of insurance proceeds. We favorably view a new law in Mississippi that allows the state to issue bonds for Mississippi Power, with debt service paid by long-term surcharges to customer bills. Also, the state may provide a share of federal grant money to Mississippi Power, to mitigate the increase in rates required to mitigate Hurricane Katrina effects and pay for higher fuel costs.

The Mississippi PSC approved a 12% increase in rates to help the company collect unrecovered fuel costs and pay for higher costs going forward.

Savannah Electric

Savannah Electric operates under a rate plan to June 2008 based on a 10.75% ROE with a band of 9.75% to 11.75%. However, on June 15, 2006, the Georgia PSC approved the Savannah merger with Georgia Power. The Georgia PSC also ruled on the request of Savannah and Georgia Power to increase rates to manage large underrecovered fuel balances and to address merger-related issues. As of March 31, Savannah's underrecovered fuel balance was about $81 million. The ruling will enable recovery of Savannah's underrecovered balance over 41 months, and results in no change to Savannah's total current rates.

Federal

Favorably, Southern and its affiliates, including Southern Power, have reached an agreement in May 2005 with Calpine Corp. and Coral Energy to settle the FERC investigation in the potential for affiliate abuse within Southern. Under the settlement, which FERC has yet to approve, Southern Power will retain membership in the Southern power pool, which helps to reduce operational risk. Importantly, Southern Power will remain eligible to bid on affiliate requests-for–proposals for energy and capacity, provided that all parties maintain certain independent oversight into the selection process.

Favorably, in February 2006, FERC suspended its investigation under section 203 of the Federal Power Act to determine if Southern has market power as defined under two market power tests that the FERC introduced in April

2004. FERC made the suspension to allow the parties to conduct settlement talks. The credit effect of an unfavorable ruling is limited to the potential loss of currently expected earnings from wholesale operations, because Southern estimates refunds back to February 2005 would be only about $16 million. There is a possibility that given a strong focus on wholesale growth, Southern and its units could adopt more risky strategies to expand this business segment, if the FERC restricts market-based activity in the service territory.

Markets

The five regulated operating units serve 4.3 million customers in the service area covering nearly all of Georgia and Alabama, southern Mississippi, and the Florida Panhandle. The southeastern U.S. has generally demonstrated growth above national averages, a trend that Southern expects will continue. Retail rates of Southern's units are well below the national average and competitive regionally.

For the year-ended Dec. 31, 2005, growth was materially affected by storms but still good, with a 1.2% increase in customers, a 1.2% rise in retail sales (megawatt-hours (MWh), and a 4.6% growth% increase in nonfuel retail revenues (see table 1). Through 2006, customer growth is reasonably forecast at 1.5% and sales growth at about 2%. In 2005, total revenues were diversified among residential (32%), commercial (29%), industrial (21%), wholesale (12%), and other (6%) customers (Table 2). Industrial revenues have shown significant volatility in the past five years and are somewhat exposed to concentration risk. Five sectors provided nearly one-half of industrial revenues in 2005: chemicals (12%), paper (10%), textiles (10%), primary metals (9%), and stone/clay/glass (8%) -- virtually unchanged from 2004.

Alabama Power's retail sales in 2005 grew by 2.7% due to a broad mix of increased demand across all customer classes, especially residential. Customer growth was the main source of increased demand, although storm effects reduced growth especially in industrials. Retail sales growth is forecast at 1.7% per year on average through 2008. At Georgia Power, retail sales (kilowatt-hours) in 2005 grew by 1.4%, largely due to customer growth of about 1.7% and favorable weather. Retail sales growth is reasonably forecast at 1.8% per year on average through 2008.

At Gulf Power, retail sales grew 1.70% in 2005, mostly due to customer growth. Growth was above 2004 levels, which were affected by Hurricane Ivan and two industrial customers that sustained partial plant shutdowns. Through 2008, sales are reasonably forecast to increase 2.1% per year. At Mississippi Power, retail sales in 2005 declined 8.4% due mainly to Hurricane Katrina. The company lost 19,000 customers, but benefited from favorable demand thereafter due to repair efforts. The company expects demand growth to be about 4.6% through 2010. Exposure to wholesale market risk is large, given its 40% contribution to total sales in 2005. Finally, at Savannah Electric in 2005, retail sales grew only 0.2%, largely due to a large decline in industrial sales. The company forecasts sales growth of 2.2% per year through 2008.

Table 1

Southern Co. -- Sales Growth and Revenue

	2005	2004	2003	2002	2001
Annual sales growth (%)					
Retail					
Residential	2.8	3.9	(1.9)	9.5	(3.6)
Commercial	3.6	3.4	0.3	2.8	1.5
Industrial	(2.2)	3.6	1.0	1.8	(6.8)

Table 1

Southern Co. -- Sales Growth and Revenue (cont.)					
Other	(0.9)	0.8	(0.2)	2.3	0.7
Total retail	1.2	3.6	(0.2)	4.5	(3.2)
Wholesale	7.3	(13)	24.5	5.8	20.2
Total sales growth	2.3	0.1	4.2	4.7	(0.5)
Retail customer growth	1.2	1.5	1.7	1.7	1.4
Revenue					
Retail (mil. $)	11,165	9,732	8,875	8,728	8,440
Residential (% of retail)	39.2	39.5	40.2	40.7	38.0
Commercial (% of retail)	35.0	34.4	34.6	34.5	35.0
Industrial (% of retail)	24.9	25.1	24.2	23.8	25.0
Other (% of retail)	0.9	0.9	1.0	1.0	1.0
Wholesale (mil. $)	1,667	1,341	1,358	1,168	1,174
Other (mil $)	722	656	785	551	541
Total revenue (mil. $)	13,554	11,729	11,018	10,447	10,155
Share of total revenue					
Retail	82.4	83.0	80.6	83.5	83.1
Wholesale	12.3	11.4	12.3	11.2	11.6

Table 2

Southern Co. -- 2005 Revenue Diversity					
	Alabama Power Co.	**Georgia Power Co.**	**Gulf Power Co.**	**Mississippi Power Co.**	**Savannah Electric & Power Co.**
Total customers ($ thou.)	1,403	2,114	408	174	147
Retail					
Residential	32.0	31.0	43.0	22.0	46.0
Commercial	23.0	33.0	25.0	22.0	34.0
Industrial	23.0	20.0	11.0	20.0	12.0
Other	0.0	1.0	0.0	1.0	3.0
Total retail	78.0	85.0	80.0	64.0	95.0
Wholesale					
Non-affiliates	12.0	8.0	8.0	29.0	1.0
Affiliates	6.0	4.0	8.0	5.0	2.0
Total wholesale	18.0	12.0	16.0	34.0	4.0
Total electricity revenues	96.0	97.0	96.0	98.0	98.0
Other revenues	4.0	3.0	4.0	2.0	2.0
Total	100.0	100.0	100.0	100.0	100.0

Wholesale

Wholesale activities at Southern Power and at the regulated subsidiaries remain a key growth area for Southern. Wholesale activities (including Southern Power) provided 12% of consolidated revenues in 2005, and are expected to provide about the same share of total annual cash flows through 2008. About three-quarters of revenues are earned through long-term contractual arrangements. Southern Power contributes about half of wholesale revenues.

Operations

Operations are stable in terms of plant performance, reserve margins, and fuel mix. Operational risk is mitigated by good operating performance of owned units, participation in the Southern power pool, and third-party arrangements that involve either counterparties with good creditworthiness or strong collateral backing of service obligations. Southern's operating units serve customers with 40,508 MW of owned capacity, contract purchases from third parties, and Southern Power, and from market purchases.

Operation risk is present in coal and nuclear fuels concentration. On a consolidated basis in 2005, coal units provided 67% of energy generation, nuclear provided 13.9%, oil and gas provided 10.9%, and hydro provided 3.1%. Purchased power made up the remainder. These shares are likely to remain stable. The heavy reliance on coal exposes the companies to large and increasing capital expenditures to meet emissions limits. Environmental capital spending through 2008 is about $3.1 billion. The operating units plan to meet emissions restrictions with new equipment as well as market purchase of nitrogen-oxide allowances and sulfur-dioxide credits. While the utilities report no problems with recovering these environmental costs, a key credit issue over the medium term is whether the respective regulators will continue to allow full recovery of these costs.

Table 3

Southern Co. -- Consolidated Operations

	2005	2004	2003	2002	2001
Generating capacity (MW)	40,508	38,622	38,679	36,353	34,579
Peak load (MW) (Summer)	35,050	34,414	32,949	32,355	29,700
Reserve margin (%)	14.4	20.2	21.4	13.3	19.3
Plant availability					
Fossil-steam	89	88.5	87.7	84.8	88.1
Nuclear¶	90.5	92.8	94.4	90.3	90.8
Fuel mix (%) of sales					
Coal	67	64.6	66.4	65.7	67.5
Nuclear	13.9	14.4	14.8	14.7	15.2
Oil and gas	3.1	10.9	8.8	11.4	8.4
Hydro	10.9	2.9	3.8	2.6	2.6
Purchase power	5.1	7.2	6.2	5.6	6.3

***Includes Southern Power. ¶Three-year rolling average.**

Environmental capital costs

Total costs of capital expenditures for controlling emissions are forecast at roughly $3.1 billion through 2008. Most of these expenditures occur at Alabama Power ($1.1 billion) and Georgia Power ($1.6 billion).

Southern pool

The Southern pool continues to mitigate operations risk and is an important support for the '4' business position score. Although owned by the individual operating units, all of Southern's generation capacity is collectively managed and economically dispatched by Southern Company Generation as the Southern pool. This unique system meets the delivery obligations of Southern's operating units, including Southern Power, at the lowest possible cost. If any operating unit is short of generation, due to a plant outage or excess demand, it can obtain replacement power from the pool at the lowest marginal cost.

Nuclear issues

Exposure to concentration on nuclear generation at three Georgia Power and Alabama Power facilities is mitigated by good operational performance, including a three-year rolling availability factor of 90.5%. Overall production costs are below the national average. In May 2005, the NRC extended by 20 years the license to operate the two Farley units. Southern is actively seeking to establish new nuclear generation capacity, and while the credit effects of these plans cannot yet be determined, we do not expect Southern units to make investment in the area without solid regulatory support for full cost recovery.

Financial Risk Profile

Accounting

Southern generates its financial statements using U.S. GAAP. Deloitte & Touche LLP has audited Southern's financial statements since 2002 and issued unqualified opinions in 2006 on Southern's financial statements and internal controls for 2005.

Southern's units record regulatory assets and liabilities according to FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation". In 2005, regulatory liabilities totaled $1.8 billion, or about 6.5% of total liabilities. The share was 7.4% in 2004.

On Dec. 31, 2005, Southern adopted FASB Interpretation No. 47, Conditional Asset Retirement Obligations (FIN 47), which requires the recording of an asset retirement obligation even though the timing and method of settlement are conditional on future events. This adoption led to increases in asset retirement obligations and assets by $153 million and has no credit affect.

In first-quarter 2005, Southern adopted FASB Staff Position 109-1, Application of FASB statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004 (FSP 109-1), which requires that the company account for the generation deduction as a special tax deduction, rather than as a tax rate reduction. The adoption has no material effect on financials.

On Jan. 1, 2006, Southern adopted FASB Statement No. 123R, Share-Based Payment, on a modified prospective basis. This statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The effect of this adoption in 2005 would have reduced net income by $17 million, which is immaterial.

Standard & Poor's treats Southern trust-preferred securities as quasi-equity instruments, and analyzes Southern's financial performance with trust-preferred-related debt wholly as debt and wholly as equity. Given that trust-preferred securities make up about 8% of Southern's total capitalization for 2004, the resulting financial ratios vary considerably between the two treatments.

Standard & Poor's also imputes debt onto Southern's balance sheet to account for non-railcar operating leases ($396 million for 2005) and PPAs ($633 million in 2005). These figures represent about 7.5% of the $13.7 billion consolidated debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Corporate governance/Risk tolerance/Financial policies

Southern has stable, capable management and operates the business based on conservative assumptions and limited risk toleration. Financial structures are simple and the company does not use material amounts of off-balance sheet financial tools. The company uses limited amounts of derivative instruments to hedge fuel cost and interest rates. Forecasts are also based on conservative estimates, and the company almost always performs above their forecast.

Cash flow adequacy

Cash flows are stable due to regulated operations that provided about 90% of cash flow and to modest risk in cash flow from unregulated operations. Southern had a dividend payout rate of 69% in 2005 and plans to maintain a payout ratio of about 70% to 75% through 2008. This payout is on the high end compared with peers. Southern Power provided 7% of consolidated cash flow in 2005 when compared with 9% in 2004.

Southern's consolidated and adjusted financial ratios support the 'A' rating based on industry benchmarks. On average through 2008, FFO to interest is expected to be about 5x (adjusted), FFO to average total debt will be about 25%, and debt to total capitalization will be about 54% (adjusted). The net cash flow to capital expenditures ratio will be about 90%, below peer norms. These ratios are reported as if trust-preferred securities are treated fully as debt. If the trust-preferred securities are treated fully as equity, the ratios above become 5.5x, about 28%, and about 48%, respectively. The consolidated, near-term debt maturities are manageable. They are $901 million due in 2006, $1,370 million due in 2007, $462 billion due in 2008, and $609 million due in 2009.

Southern expects to fund about 82% of requirements from cash flow and the rest through borrowings. Capital expenditures are rising rapidly due to installation of environmental emissions controls. Regulated utility capital expenditures are forecast at $8.5 billion for 2006 to 2008.

Capital structure/Asset protection

Southern has a generally stable capital structure with modest leverage, low variable rate debt exposure, and the use of hybrid securities for about 8% of total capitalization.

The company's debt leverage is moderate, at about 55% of total capital (adjusted). (The debt leverage is 49% if trust-preferreds are considered as 100% equity.) The company expects debt leverage to decline to about 51% by year-end 2008. Interest exposure to variable-rate debt is not a major concern for Southern. As of Dec. 31, 2005, the company's variable rate debt as a percent to total capitalization (non-adjusted) was about 6% (excluding temporary cash investments).

Items of interest in the capital structure include $1.89 billion of debt payable to affiliated trusts, items previously listed as mandatorily convertible trust-preferreds before adoption of FASB 46R, which caused Southern to deconsolidate the trust from the balance sheet and realize a long-term debt payable. Standard & Poor's views trust-preferred securities as quasi-equity, and examines financial ratios assuming a certain equity component to the trust-preferred obligations. The forecast shows a 25% decline in trust-preferreds by the end of 2008.

Table 4

Southern Co. -- Competitors

	--Average of past three fiscal years--		
	Southern Co.	FPL Group Inc.	Virginia Electric & Power Co.*
Rating	A/Stable/A-1	A/Watch Neg/A-1	BBB/Stable/A-2

Table 4

Southern Co. -- Competitors (cont.)			
(Mil. $)			
Sales	11,379	10,373	5,869
Net income from continuing operations	1,534	872	300
Funds from oper. (FFO)	3,140	1,806	1,127
Capital expenditures	2,068	1,452	839
Cash and equivalents	275	295	23
Total debt	12,887	8,173	5,647
Preferred stock	527	2	257
Common equity	10,205	8,557	4,589
Total capital	23,619	16,732	10,418
Adj. EBIT interest coverage (x)	3.6	2.9	2.3
Adj. FFO interest coverage (x)	5.1	4.2	4.2
Adj. FFO/avg. total debt (%)	23.7	19.1	18
Net cash flow/Capital expenditure (%)	104.4	99.5	70.3
Adj. total debt/total cap (%)	56.4	52.8	57
Return on common equity (%)	14.5	9.8	2.9
Common dividend payout (%)	68.4	55	(67.6)

*Three-year average includes year-ended 2003, year-ended 2004, and last 12-months ended September 2005.

Table 5

Southern Co. -- Financial Summary					
	--Fiscal year ended Dec. 31--				
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
	2005	**2004**	**2003**	**2002**	**2001**
(Mil. $)					
Sales	12,773.0	11,027.0	10,504.3	10,215.3	10,155.0
Net income from cont. oper.	1,591.0	1,529.0	1,474.0	1,318.0	1,119.0
Funds from oper. (FFO)	3,386.0	3,059.0	2,974.3	2,212.8	2,184.0
Capital expenditures	2,108.0	1,887.0	1,669.6	1,903.3	2,538.0
Cash and equivalents	174.0	343.0	308.2	253.5	354.0
Total debt	13,794.0	12,758.4	12,205.5	12,669.0	12,611.0
Preferred stock	596.0	561.0	423.0	298.0	2,644.0
Common equity	10,689.0	10,278.0	9,648.0	8,710.0	7,984.0
Total capital	25,079.0	23,597.4	22,287.0	21,728.0	23,239.0
Ratios*					
Adj. EBIT interest coverage (x)	3.5	3.7	3.6	3.3	2.9
Adj. FFO interest coverage (x)	5.3	5.1	4.8	3.7	3.4
Adj. FFO/avg. total debt (%)	24.1	23.4	22.7	17.1	17.2
Net cash flow/capital expenditures (%)	108.5	107.0	118.0	65.9	49.7
Adj. total debt/capital (%)	56.8	5.8	56.3	60.1	55.4
Return on common equity (%)	14.2	14.2	15.6	15.2	11.1
Common dividend payout (%)	69.0	68.2	68.1	72.7	82.4

Table 5

Southern Co. -- Financial Summary (cont.)
*Assumes trust-preferreds are treated fully as debt.

Corporate Finance

Global Power/North America
Credit Analysis

Gulf Power Company
A Subsidiary of Southern Company

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Long-Term IDR	A–	NR	12/6/05
Secured First-Mtge. Bonds	A+	AA–	1/22/01
Sr. Unsecured	A	NR	7/16/03
Trust Preferred	A–	NR	11/16/01
Pref. Securities	A–	NR	11/16/01

IDR – Issuer default rating. NR – Not rated.

Rating Watch .... None
Rating Outlook .... Stable

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Profile
Gulf is a vertically integrated utility that provides service to 400,000 customers in the northwest Florida panhandle region. Gulf is one of four public utilities owned by Southern and provided 8% of Southern's $13.5 billion in consolidated revenue in 2005. Gulf owns 2,792 mw of coal and natural gas-fired generation capacity.

Related Research
- Southern Company, Credit Analysis, Aug. 31, 2006.

Key Credit Strengths
- Historically supportive regulatory environment with several adjustment mechanisms in place.
- Stable financial condition.
- Benefits of affiliation with Southern.

Key Credit Concerns
- Elevated working capital needs.
- Regulatory uncertainty following appointment of new commissioners.
- Generation unit concentration and tight reserve margin (offset by participation in SPP).

■ Rating Rationale
Fitch Ratings affirmed the ratings of Gulf Power Company (Gulf) on Aug. 10, 2006. The ratings reflect a financial profile consistent with the rating category, historically supportive state regulation in Florida, a healthy service territory economy and the benefits gained from Gulf's association with Southern Company (Southern, senior unsecured rated 'A', Stable Rating Outlook by Fitch). The rating also recognizes the elevated working capital needs associated with the under-recovery storm and fuel costs and the location of the territory on the hurricane-prone Florida coast. Gulf's recent settlement with the Florida Public Service Commission (FPSC) and intervenors to recover the $53.3 million of costs of repair and restoration relating to Hurricanes Dennis and Katrina and replenish the storm reserve eliminated the risks of delays or disallowances relating to the recovery of these costs and limits working capital needs associated with future storms. The ratio of funds from operations-to-interest expense was 5.8 times (x) for the 12-month period ended June 30, 2006. Cash flow is stabilized through annually adjusted, forward-looking cost-recovery mechanisms for fuel, purchased power, environmental and energy conservation costs.

While Gulf has generation-unit concentration and a tight 7.4% reserve margin, the strong operating record of the mostly coal-fired fleet and membership in the Southern power pool (SPP) offset these risks. The Stable Rating Outlook encompasses Fitch's expectation that Gulf will maintain a conservative capitalization and sound record of operations, as will its parent and larger affiliate companies. Although Fitch has historically considered Florida to be a relatively constructive regulatory environment, the appointment of three out of five new commissioners to the FPSC creates some regulatory uncertainty. Positively, the recent storm recovery settlement suggests that supportive regulation will continue.

■ Recent Developments

Storm Cost Recovery
In July 2006, the FPSC issued its order approving a stipulation and settlement reached among Gulf and intervenors to recover the costs of repair and restoration-related to Hurricanes Dennis and Katrina and replenish the storm reserve. The mechanism for recovery is an extension of the monthly billing surcharge that was implemented to recover costs relating to Hurricane Ivan ($19 million remaining as of June 30, 2006) for an additional 27 months through June 2009. The additional funds resulting from the extension of the current surcharge will first be credited to the unrecovered balance of storm-recovery costs associated with Hurricane Ivan until these costs have been fully recovered. Thereafter, the funds will be credited to the reserve for

Corporate Finance

Global Power/North America
Credit Analysis

Southern Company and Southern Company Funding Corp.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Southern Company			
IDR	A	NR	12/6/05
Sr. Unsecured	A	NR	3/20/02
Short Term	F1	NR	3/18/99
Southern Company Funding Corp.			
Short Term	F1	NR	8/10/01

IDR – Issuer default rating. NR – Not rated.

Rating Watch........ None
Rating Outlook........ Stable

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Profile

Southern is a holding company that owns four electric utilities that provide service in portions of Georgia, Alabama, Mississippi and Florida and a wholesale generation company that constructs, owns and operates gas-fired generation in the Southeast. Southern Company Funding Corp. is a CP funding conduit for the Southern-regulated retail operating companies group.

Related Research

- Alabama Power Company, Credit Analysis, Aug. 31, 2006.
- Georgia Power Company, Credit Analysis, Aug. 31, 2006.
- Gulf Power Company, Credit Analysis, Aug. 31, 2006.
- Mississippi Power Company, Credit Analysis, Aug. 31, 2006.
- Southern Power Co., Credit Analysis, Aug. 31, 2006.

Key Credit Strengths

- Generally constructive regulation.
- Solid operating track record of mostly coal and nuclear utility fleet.
- Strong FFO coverage ratios.

Key Credit Concerns

- Under-recovered fuel and storm costs.
- Growth of capital spending.
- Rising unit costs.

August 31, 2006

■ Rating Rationale

Fitch Ratings affirmed the ratings of Southern Company (Southern) and Southern Company Funding Corp. on Aug. 10, 2006. The ratings of Southern are supported by strong consolidated cash flow coverage ratios, steady dividend payments from subsidiaries with solid operating performance in supportive state regulatory environments, modest double leverage at the holding company level and skillful execution of the relatively low-risk business strategy. The consolidated funds from operations (FFO) interest coverage ratio was 5.2 times (x) for the 12 months ended June 30, 2006 (including Plant Daniel lease adjustments). Holding company long-term debt and trust preferred securities (including Southern Company Capital Funding Inc. issues with parent guarantees) total approximately $1.2 billion, which represent 8.1% of Southern's consolidated long-term debt and trust preferred securities as of June 30, 2006. Fitch expects that dividends from subsidiaries will be the primary source of funding for shareholder dividends and equity investments in subsidiaries in 2006 and 2007. Southern has a satisfactory liquidity position and good access to the capital markets.

Fitch's rating concerns include increasing working capital needs resulting from under-recovered fuel, storm and other costs, growing capital spending for environmental compliance mandates, the risks associated with any adverse decisions in regulatory proceedings or litigation, and vulnerability to disruptions and damage in the hurricane-prone Gulf Coast region. While Southern's utilities benefit from constructive rate-adjustment mechanisms, including fuel, environmental, storm and purchased power costs, unrecovered fuel costs continue to grow because fuel prices are increasing at rates that are higher than those in fuel factor rate resets. In addition, there are substantial deferred repair and restoration costs related to the hurricanes of 2005. Storm cost settlements were reached in Florida and Alabama, and Southern anticipates resolution of the storm costs in Mississippi prior to year-end 2006, which will reduce deferrals. The relatively higher growth planned for Southern Power Co. (SPC) or potential cost over-runs on construction projects will require additional capital funding to maintain the current credit ratings.

■ Recent Developments

Storm Costs Recovery

Portions of Southern's service territory were struck by Hurricanes Dennis and Katrina in 2005 as well as Hurricane Ivan in 2004, and Southern incurred significant storm repair and restoration costs as a result. The public service commissions of Alabama, Florida and Mississippi have each permitted the utilities to defer the storm costs for future recovery in excess of the storm reserve accounts. The aggregate deficit balance of the utilities' storm reserve accounts was $374 million as of June 30, 2006. Fitch's Stable Rating Outlook for Mississippi Power Company (MPC) includes Fitch's expectation that prior to year-end 2006, MPC will receive its pro rata share of Community Development Block Grant (CDBG) funds from the Mississippi Development Authority (MDA) allocated to utilities in the state for Hurricane Katrina repair and restoration costs ($270 million of the total MDA grants of $360 million) and use the proceeds to reduce related borrowings. Gulf Power Company (Gulf) will recover its storm costs through a monthly billing surcharge through 2009, and Alabama Power Company (APC) will recover its deferred storm costs through its annual natural disaster reserve adjustment. More description on the status and mechanics of storm cost recovery for each affected utility subsidiary is available in Fitch's credit analyses for MPC, APC and Gulf, dated Aug 31, 2006. The service territory of Georgia Power Company (GPC) was not materially affected by the storms.

Fuel Cost Recovery

The repeated under-recovery of fuel costs at the regulated utilities is one of Fitch's primary rating concerns, particularly at GPC. Southern had actual coal and gas costs higher than the costs projected in fuel cost-recovery settlements during the first half of 2006 as well as the years 2005 and 2004. There were $1.3 billion of under-recovered fuel costs on the consolidated balance sheet as of June 30, 2006, of which $850 million was related to GPC (5% of GPC assets), and $278 million were related to APC (2% of APC assets). Further information on the status and mechanics of fuel cost recovery by utility subsidiary is included in Fitch's credit analyses for GPC, APC, MPC and Gulf, dated Aug. 31, 2006.

SPC Expansion Activities

SPC, Southern's wholesale generation subsidiary, has three power plant construction projects to build capacity in support of new long-term power contracts. Cost over-runs, delays in the scheduled commercial operation dates or other construction-related issues could result in higher than forecasted capital spending and funding requirements.

Orlando Gasifier

The Orlando gasifier is a 285-megawatt (mw) integrated coal-gasification project located near Orlando, Fla. The gasifier is 65% owned by SPC and 35% owned by the Orlando Utilities Commission (issuer default rating [IDR] of 'AA' by Fitch), which will purchase the synthetic gas output under a 20-year capacity power purchase agreement (CPA). Of the overall construction costs, $235 million will be funded by a U.S. Department of Energy research grant because the technology is new for base-load scale power plant applications. SPC estimates that its share of the gasifier construction will cost $121 million. Completion is planned for 2010. However, there are no liquidated damages or SPC requirements to provide replacement power if the in-service date is delayed, a contract feature which helps limit the associated risks.

Oleander 5 Combustion Turbine

SPC signed a 15-year power purchase agreement (PPA) with Florida Municipal Power Agency (IDR of 'A+' by Fitch) in February 2006 and will construct and own a fifth combustion turbine unit at the existing Oleander site in Florida. The new unit will provide 160 mw.

Franklin 3 Combined-Cycle Gas Turbine

SPC will resume construction of the Franklin 3 unit in Georgia, which was suspended in May 2003 following the termination of contracts with Dynegy Inc. The construction is approximately 50% complete, and the cost of completion is estimated by SPC to be $172 million. SPC is restarting construction as a result of a new PPA with Progress Ventures Inc. (guaranteed by Progress Energy Inc., IDR of 'BBB' by Fitch) for the capacity, which has an initial term from Jan. 1, 2009, to Dec. 31, 2015.

In addition to the construction activities, SPC signed agreements to acquire two facilities from a subsidiary of Progress Energy Inc. in May 2006. The Rowan plant will cost $325 million consists of a 480-mw combined-cycle gas turbine and a 465-mw combustion turbine and is located in Salisbury, N.C. SPC has PPAs with strong investment-grade public power entities for the Rowan facility. The acquisition of the 320-mw combustion turbine DeSoto plant cost $79.2 million and closed on May 31, 2006. The plant is located in Arcadia, Fla. The capacity is hedged with a Florida Power & Light Co. (FP&L) contract through May 2007. Recontracting risk is considered minimal given the growing needs of Florida load-serving entities.

The construction and acquisition activities at SPC are consistent with Southern's strategy to accelerate consolidated earnings growth through the generation of higher earnings at SPC, while limiting business risk through long-term capacity contracts. While the retail-regulated electric operations are anticipated to continue to be the foundation of Southern's operations for the foreseeable future, over time, SPC is expected to provide a larger portion of Southern's cash flow. In 2005, SPC generated approximately 7% of consolidated net income. SPC's strategy of entering PPAs with investment-grade counterparties under contracts that assign fuel risk to the buyers and its strong operating track record for gas-fired plants that utilize proven technologies result in a business risk profile at SPC only slightly higher than utility affiliates. However, SPC is capitalized with more leverage than utility affiliates.

Utility Operations

Fitch views the state regulatory environments of Georgia, Alabama, Mississippi and Florida as balanced or constructive. Key state regulatory events over the next 12 months include GPC's 2007 base rate adjustment, upcoming fuel proceedings and the aforementioned storm cost recovery at MPC. There are no plans to introduce retail electric competition in any of Southern's four states of operations.

At the federal level, Southern is subject to Federal Energy Regulatory Commission (FERC) proceedings related to market-based rate authority and the provisions of the intercompany interchange contract (IIC). Specifically, the FERC is investigating whether it is appropriate for SPC to continue to be a member of the Southern power pool. A proposed settlement has been reached among Southern, Calpine Corp. and Coral Power LLC in the IIC proceeding that would permit SPC to remain a member of the pool. However, the final outcome of the proceedings cannot be determined at this time.

Southern benefits from the strong performance of a large, mostly coal and nuclear regulated utility fleet. Plant availability was 90.5% for nuclear and 89% for fossil-steam plants in 2005. The energy supply for the system was 67% coal, 14% nuclear, 11% oil and gas, 5% purchase power and 3% hydro. Southern owned and/or operated 40,509 mw of generation capacity (including SPC) as of Dec. 31, 2005. The capacity reserve margin at the time of summer peak demand was 14.4% in 2005, which exceeded the system target minimum of 13.5%. However, additional capacity will become necessary within the next several years. GPC issued a request for proposals for approximately 2,100 mw in 2010 and 1,400 mw in 2011 to meet supply needs and will also consider self-build. Gulf issued a request for proposals to provide 400–500 mw to meet needs beginning in 2009. Over the long term, electricity demand in the utility service areas has grown approximately 2% per annum.

■ Liquidity and Cash Flow

Fitch considers Southern to have more than sufficient liquidity. Southern had consolidated cash and cash equivalents of $262.9 million and $3.3 billion of unused credit facility commitments as of June 30, 2006. The parent holding company had $750 million of unused bank credit facilities, of which $250 million terminates in 2010 and $500 million is due in 2011. The credit facilities were used to support $1.4 billion of outstanding commercial paper (CP) as of June 30, 2006. CP is issued on behalf of the issuers in the group through four CP programs at Southern, Southern Company Funding Corp (benefits the regulated retail operating companies), APC and SPC. In addition, the group had $375 million of bank notes and $74 million of extendible notes as of June 30, 2006.

Each subsidiary issues its own debt and preferred securities, which are nonrecourse to Southern. There are no cross-default provisions. Of the $3.3 billion credit facilities, $3.1 billion contain a maintenance covenant to limit debt to no more than 65% of capitalization.

Over the past three years, cash flow from operations has been reduced by unrecovered storm and fuel costs. However, the ratio of cash flow coverage of interest expense remained within or above rating category targets despite the working capital needs. Consolidated cash from operations was $2.530 billion in 2005 compared with $2.695 billion and $3.071 billion, respectively, in 2004 and 2003.

Going forward, Fitch expects Southern to fund most of its capital needs through internal cash flow, which will be supplemented by debt issuance and equity issued through employee benefit and stock option plans. The Stable Rating Outlook assumes timely recovery of storm costs in Mississippi, timely recovery of fuel and other operating costs and reductions of unrecovered fuel cost deferrals at GPC and APC.

The parent company plans equity contributions to electric utility subsidiaries over the next two years to maintain the equity ratios. SPC will also require

Long-Term Debt Maturity Schedule*
($ Mil., As of Dec. 31, 2005)

	2006	2007	2008	2009	2010
Alabama Power Company	546.6	668.7	410.2	250.1	100.0
Georgia Power Company	167.3	302.9	3.2	278.5	3.7
Gulf Power Company	37.1	0.0	0.0	0.0	0.0
Mississippi Power Company	0.0	0.0	0.0	40.0	0.0
Southern Power Co.	0.2	1.3	0.0	0.0	0.0
Parent and Other	149.5	506.9	72.8	22.70	139.0

*Including capital leases, trust preferred and preferred securities.
Source: Company data.

parent equity support to partially fund the DeSoto and Rowan acquisitions as well as the resumption of Franklin 3 construction. Southern's smaller nonregulated businesses, including SouthernLINC Wireless, SE Finance Company, Inc. and Southern Telecom, Inc., are anticipated to be cash flow positive and self-funding. While these smaller nonutility operations have higher business risk than the power operations, they are relatively small. Synthetic fuel operations were discontinued due to high oil prices.

The weighted-average life of Southern's long-term debt is relatively long at approximately 14 years, with a relatively low average cost of approximately 5.2%. APC has the most active forward refinancing calendar. The 2007 parent maturities include $493.1 million of debt due at Southern Holdings LLC (Southern Holdings), which primarily represents a maturity at Southern Capital Funding Corp. (Southern Capital Funding), a subsidiary of Southern Holdings. Southern Capital Funding is the financing entity that issues debt to fund the parent company, guaranteed by the parent. Fitch assumes that this note will be refinanced in 2007.

Southern is engaged in continuous construction programs for customer growth and system maintenance. Environmental compliance upgrades are a major component of the capital spending budget. A number of scrubbers and selective catalytic

Consolidated Capital Structure
($ Mil., As of June 30, 2006)

Securities due Within One Year	993.30
Notes Payable	1,852.00
Long-Term Debt	11,297.00
Trust Preferred Securities	1,893.20
Common Equity	10,846.30
Total Capitalization	26,881.80

Source: Company data.

Investment Plans
($ Bil.)

2006	3.10
2007	3.60
2008	3.40

Source: Company data.

reduction equipment are planned for the next eight years. Georgia is the only state in Southern's footprint that lacks an environmental cost-recovery rate-adjustment mechanism, which increases the risk of delays in the recovery of such costs.

Southern is considering the addition of a new nuclear facility at the existing Plant Vogtle site in Georgia. The Georgia Public Service Commission agreed to allow the recovery of permitting and certain other costs, whether or not the new plant is built. The plant is unlikely to begin construction before 2010 or to enter service before 2015.

■ Litigation

Southern and/or its operating subsidiaries are subject to various lawsuits and regulatory proceedings, including but not limited to the following general categories:

Environmental

The emissions of various individual coal-fired power plants owned by the utility subsidiaries are subject to challenges regarding alleged violation of New Source Review regulations or other air quality standards. APC received a favorable judgment from the Northern District Court of Alabama in its New Source Review litigation on Aug. 14, 2006.

Mirant Divestiture

Various parties charge that Southern's divestiture of Mirant Corp. (Mirant) in 2001 and loan repayments and dividends from Mirant to Southern resulted in Mirant's subsequent insolvency.

Market Power and Affiliate Relationships

The FERC has ongoing proceedings relating to generation market power and the operating policies and procedures of the Southern power pool.

Fitch does not ordinarily estimate the potential event risk of adverse results of litigation. Material adverse results of litigation or regulatory proceedings are not fully incorporated in the current ratings.

Rating Outlook Rationale

The Stable Rating Outlook includes Fitch's expectations of stable cash flow coverage and leverage ratios, strong operations and timely recovery of costs.

What Could Lead to Positive Rating Action?

- None expected in the normal course of business.

What Could Lead to Negative Rating Action?

- Adverse regulatory or legal decisions, including environmental judgments or changes in policy that reduce or delay the recovery of costs of fuel, purchased power, capital expenditures or other costs of service.
- Construction cost over-runs that result in higher debt-to-cash flow.
- Evidence of a more aggressive business strategy.

Financial Summary — Southern Company

($ Mil., Fiscal Years Ended Dec. 31)

	LTM 6/30/06	2005	2004	2003
Fundamental Ratios (x)				
Funds from Operations/Interest Expense	5.2	5.5	5.6	5.2
Cash from Operations/Interest Expense	3.9	4.2	4.8	5.2
Debt/Funds from Operations	4.5	4.3	4.3	3.8
Operating EBIT/Interest Expense	3.7	3.8	4.0	3.8
Operating EBITDA/Interest Expense	5.1	5.3	5.3	5.2
Debt/Operating EBITDA	3.8	3.7	3.7	3.0
Common Dividend Payout (%)	73.2	69.0	68.2	68.1
Internal Cash/Capital Expenditures (%)	56.7	60.4	81.6	105.2
Capital Expenditures/Depreciation (%)	200.5	201.5	213.1	192.2
Profitability				
Revenues	14,302	13,554	11,729	11,018
Net Revenues	8,556	8,328	7,687	7,546
O&M Expense	3,562	3,497	3,277	3,101
Operating EBITDA	4,286	4,151	3,783	3,859
Depreciation and Amortization Expense	1,195	1,176	949	1,022
Operating EBIT	3,091	2,975	2,834	2,837
Interest Expense	842	781	716	740
Net Income for Common	1,528	1,591	1,532	1,474
O&M % of Net Revenues	41.6	42.0	42.6	41.1
Operating EBIT % of Net Revenues	36.1	35.7	36.9	37.6
Cash Flow				
Cash Flow from Operations	2,477	2,530	2,695	3,071
Change in Working Capital	(1,091)	(1,003)	(571)	(25)
Funds from Operations	3,568	3,533	3,266	3,096
Dividends	(1,119)	(1,098)	(1,045)	(1,004)
Capital Expenditures	(2,396)	(2,370)	(2,022)	(1,964)
Free Cash Flow	(1,037)	(938)	(372)	103
Net Other Investment Cash Flow	(94)	(249)	(207)	(201)
Net Change in Debt	1,273	1,154	434	(361)
Net Change in Equity	(169)	(88)	271	595
Capital Structure				
Short-Term Debt	2,845	2,159	1,409	1,309
Long-Term Debt	13,356	13,012	12,615	10,330
Total Debt	16,201	15,171	14,024	11,639
Preferred and Minority Equity	596	596	561	2,323
Common Equity	10,846	10,689	10,278	9,648
Total Capital	27,643	26,456	24,863	23,610
Total Debt/Total Capital (%)	58.6	57.3	56.4	49.3
Preferred and Minority Equity/Total Capital (%)	2.2	2.3	2.3	9.8
Common Equity/Total Capital (%)	39.2	40.4	41.3	40.9

*Includes $166 million of operating lease adjustments to debt for Plant Daniel. LTM – Latest 12 months. Operating EBIT – Operating income before nonrecurring items. Operating EBITDA – Operating income before nonrecurring items plus depreciation and amortization expense. O&M – Operations and maintenance. Note: Numbers may not add due to rounding and are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va.

Analysis

UNITED STATES
Americas

December 2006

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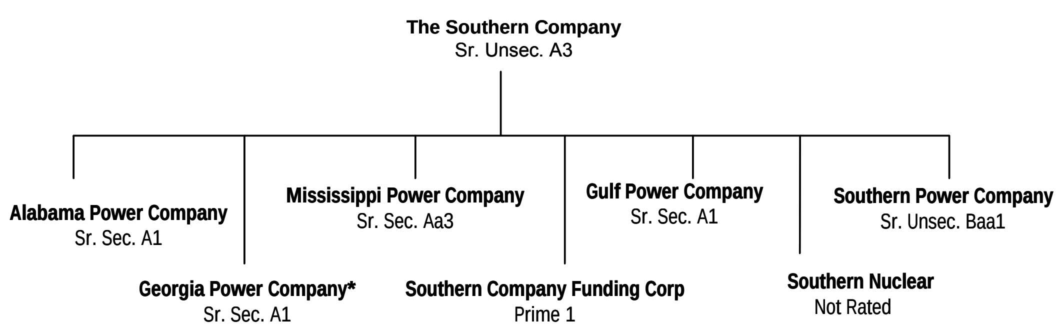
The Southern Company

Company Profile

Based in Atlanta, GA, Southern Company (Southern, A3 senior unsecured, stable outlook) is a utility holding company which owns four vertically integrated regulated utilities: Georgia Power Company (GPC, A2 senior unsecured), Alabama Power Company (APC, A2 senior unsecured), Mississippi Power Company (MPC, A1 senior unsecured) and Gulf Power Company (A2 senior unsecured) with an operating footprint across the Southeast. Effective July 2006, Savannah Electric Power Company (SEP) merged with Georgia Power Company. The company also engages in competitive electricity generation through Southern Power Company (SPC, Baa1 senior unsecured), with its interstate wholesale energy business subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act.

The Southern Company system is one of the largest producers of electricity in the United States, with more than 41,000 megawatts of electric generating capacity, serving approximately 4.3 million customers and a population of approximately 11 million. For 2005, the company reported consolidated revenues in excess of $13.5 billion with net earnings of $1.59 billion and total assets of $39.9 billion. Southern's four vertically integrated regulated electric utility subsidiaries represent approximately 97.1% of consolidated revenues, 91.1% of consolidated assets and around 85% of the total electricity generation capacity.



** Savannah Electric merged with Georgia Power effective July 1, 2006.*

Moody's Investors Service
Global Credit Research

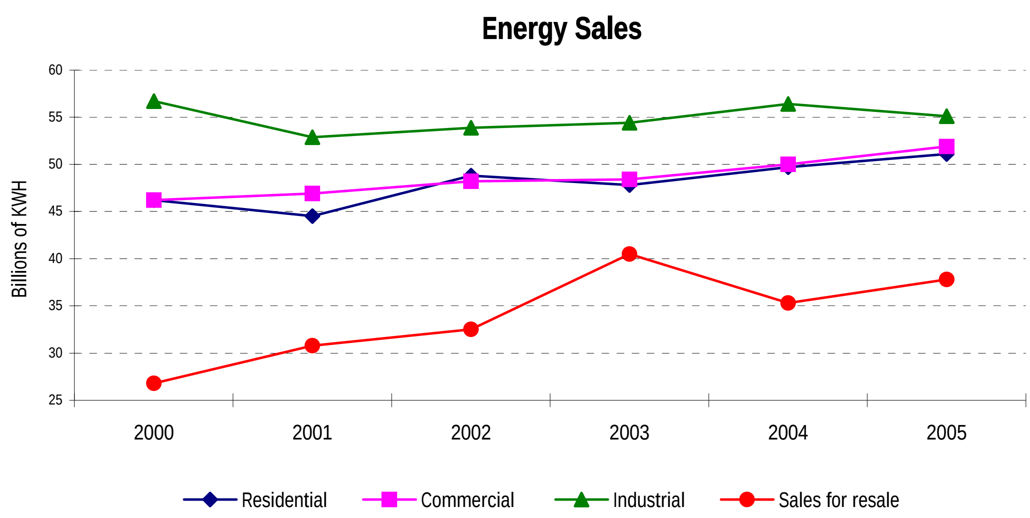
In addition to the above, Southern also has investments in synthetic fuels and leveraged lease projects (represented by Southern Company Holdings); and through wholly-owned subsidiaries, provides digital wireless communications services catering to both the retail operating companies and non-affiliates (SouthernLINC Wireless) and fiber optics services in the Southeast (Southern Telecom). The non-electric operating revenues contributed 2% and approximately 5% of the 2005 revenues and net income respectively.

Rating Drivers

SOUTHERN'S BUSINESS RISK PROFILE REFLECTS A SERVICE TERRITORY THAT CONTINUES TO DEMONSTRATE FAVORABLE DEMOGRAPHIC TRENDS SUPPORTED BY LOWER COST GENERATION SOURCES AND BENEFITS FROM OPERATIONS AS A SINGLE POWER SYSTEM

Moody's assessment of Southern's business risk position reflects the company's strong market position in the Southeast, a service territory characterized by high sustainable demand and customer growth rates, a relatively lower cost generation portfolio that adequately meets native load requirements and reserve margins on a system wide basis, and a wholesale generation business model characterized by long-term, fixed price contractual arrangements that pass through fuel costs to its customers.

Southern's service territory is characterized by high sustainable demand and customer growth rates. In aggregate, the company's service territory covers over 4.3 million customers and has typically experienced annual average long-term demand growth of 2% and average long-term customer growth of approximately 1.8%. Consequently, summer peak load demand for 2005 reached 35,050 MW (up from 29,700 MW in 2001), with a system reserve margin of 14.4% (down from 19.3% in 2001), which is expected to increase resource planning needs for the company over the medium term.

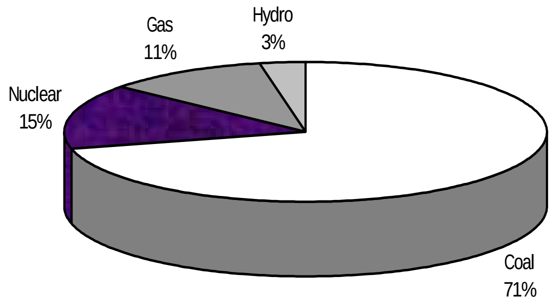


Source: Company reports

Southern Company's subsidiaries operate as a single power system based on the Intercompany Interchange Contract (IIC), which governs the dispatch of the company's generation fleet, including Southern Power Company, in its retail service territory and is subject to FERC jurisdiction. Moody's views the power pool arrangement as providing greater flexibility and mitigating supply risks of individual subsidiaries. The FERC initiated a review in 2005 of Southern Power's (SPC) inclusion as a system company within the IIC. In October 2006, the FERC approved a proposed settlement by SPC, which provides for SPC to continue to be integrated into the Southern pool, and party to the IIC, subject to certain organizational changes. The mandated organizational changes include a greater separation of generation planning and wholesale marketing personnel between Southern's regulated utilities wholesale business and SPC.

Energy supply sources for the Southern system in 2005 included 67% coal, 14% nuclear, approximately 3% from hydro and approximately 11% from oil and gas units, the remaining 5% were purchased. These supply sources have provided relatively lower cost electricity to Southern's customers in the past. However, cost pressures are increasing for the company with recent increases in coal and transportation costs.

2005 Sources of Generation (%)



Source: Company reports

SOUTHERN'S CONSOLIDATED CREDIT METRICS ARE SUSTAINABLE AT CURRENT LEVELS DESPITE PRESSURE ON BALANCE SHEET FROM ENVIRONMENT RELATED AND GROWTH INDUCED CAPEX PROGRAMS AT THE SUBSIDIARIES

Southern continues to demonstrate strong cash flow credit metrics consistent with single A rated U.S. integrated electric utilities. These include the most recent three year fiscal average ratios of 5.3x for funds from operation (FFO) to interest coverage, 22.4% FFO to debt, and 15.4% Retained Cash Flow (RCF) to debt. Using the guidelines in Moody's rating methodology for electric utility holding companies, Southern's consolidated FFO to debt ratio maps to the low end of the A rating category and the FFO to interest ratio maps to a mid A rating level due primarily to the low cost of debt on the company's balance sheet.

The rating reflects the balance sheet impact of near-term funding required for plant upgrades to meet environmental compliance costs. Given the regulated electric utilities' reliance on coal-fired generation, they have exposure to potentially significant environmental compliance expenditures. As of 2005 year-end, the company had spent approximately $1.6 billion on emissions reduction and monitoring programs under the Clean Air Act. The enforcement of increasingly stringent environment standards in Southern's service territory is expected to increase the company's capital expenditure program in the years ahead. Moody's expects environmental compliance costs to exceed an additional $7.5 billion over the next decade. The A3 senior unsecured rating incorporates Moody's view that the company will fund its capital spending in a manner largely consistent with the credit metrics of its rating category.

While Moody's anticipates the timely recovery of environmental costs through rate adjustments, the funding of environmental remediation measures at the operating utilities and investment needs at the competitive generation business to pressure the company's balance sheet in the near to medium term. Consequently, due to the combination of increased near-term funding needs and the net cash flow impact of fuel cost deferrals at GPC, the largest subsidiary, Moody's expects the company's financial metrics to weaken slightly from 2005 levels over the next two to three years with FFO to interest coverage around 4.4x on average and FFO to debt expected to be in the 19% to 22% range. However, given the recovery of capital costs in rate base and deferred fuel costs through fuel cost recovery mechanisms, Moody's anticipates the consolidated credit metrics to be sustainable at current levels or better in the longer term.

MAJORITY OF CONSOLIDATED CASH FROM OPERATIONS GENERATED FROM REGULATED UTILITY SUBSIDIARIES WITH STRONG CREDIT METRICS

Southern's regulated subsidiaries contributed approximately 93% of consolidated earnings and about 86% of consolidated cash flow from operations in 2005. Historically, all four utilities have demonstrated stronger financial metrics relative to their A rating category. Based on financials for the three-year period ended December 31, 2005, the average ratios for the operating utility subsidiaries stood at 6.6x FFO to interest coverage, 27.2% FFO to debt, and 17.2% RCF to debt.

2005 KEY CREDIT METRICS

	Alabama Power	Georgia Power	Gulf Power	Mississippi Power
(CFO Pre-Working Capital + Interest) / Interest	6.0x	6.1x	6.5x	12.8x
(CFO Pre-Working Capital) / Debt	22.7%	26.0%	29.7%	42.3%
(CFO Pre-Working Capital - Dividends) / Debt	13.9%	16.4%	20.7%	32.5%
Debt / Book Capitalization	43.6%	42.2%	45.5%	43.4%

Source: Moody's Investors Service
Note: All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

VERTICALLY INTEGRATED UTILITIES BENEFIT FROM CONSTRUCTIVE REGULATORY RELATIONSHIPS

The above average regulatory risk assessment incorporates a history of favorable regulatory treatment for the operating utilities with established cost recovery mechanisms in place. Moody's considers Alabama, Mississippi and Florida to have above average regulatory supportiveness that underpins the company's cash flow generation. The Georgia regulatory environment, while somewhat weaker than the regulatory jurisdictions of other subsidiaries, continues to provide constructive regulation as evidenced by the recent rate activity to address rising fuel costs. Additionally, Moody's views the risk of deregulation activities in these states to be limited in the near term.

All four of the company's retail regulated utility subsidiaries are operating under established base rate plans with authorized return on equity (ROE) levels which are considered above average for U.S. electric utilities. Given the geographic footprint of Southern's regulated utilities across coastal areas and their vulnerability to hurricane activity, responsive regulatory treatment to address storm cost damage is also an important factor for the cash flows of the company and consideration in the ratings process.

Alabama Power

Since 1982, APC has operated under the Alabama Public Service Commission (APSC) approved Rate Stabilization and Equalization (RSE) plan, under which APC is allowed to earn an ROE level within a dead band of 13% and 14.5% with rates adjusting to maintain an ROE of 13.75% if projected earnings are outside of the authorized range.

While there is a rate moratorium until January 2007 on any base rate increase under the RSE plan, there are several adjustment mechanisms in place to address rising costs impacting the company. The Alabama commission has allowed Alabama Power a rate adjustment mechanism to recover the costs of placing new generating facilities into retail service under the Certificated New Plant (CNP) rate and has further established an adjustment mechanism to recover ongoing environmental capital and operating expenses.

Given rising fuel costs, the APSC allowed an increase in the fuel cost recovery factor (Rate ECR) under which the company is authorized to recover ongoing fuel costs. This increase was designed to recover existing under recovered energy costs (including carrying charges) by the end of 2007. Additionally, in response to hurricane damage to APC's service territory in recent years, in December 2005, the commission also authorized APC to charge a separate natural disaster reserve (NDR) rate to recover deferred storm damage costs over a 2 year period and to establish and maintain a $75 million reserve for future storm activity. Collectively, Moody's views the authorized rate adjustments clauses to provide a high degree of protection and stability for APC's cash flow.

Georgia Power

Recent regulatory decisions of the Georgia Public Service Commission (GPSC) have been supportive. In December 2004, the GPSC approved a three year rate order for GPC, permitting a $194 million (4.2%) annual increase in retail revenues, based on an 11.25% return on equity. GPC can earn within a dead band of 10.25% and up to 12.25% return on equity prior to sharing earnings with its retail customers. On the other hand, Savannah Electric's previous base rate increase of $9.6 million (2.8%) was based on a 10.75% ROE. The combined Georgia Power Company is required to file a general rate case by July 2007. GPSC has also approved an accounting order to defer for future recovery of GPC's share of $51 million of estimated licensing and preconstruction costs related to nuclear units at the Vogtle plant in Augusta, GA.

The Georgia commission addressed GPC's recent fuel cost increases with the approval of fuel cost recovery rate changes in June 2006 (effective July 2006). As of September 30, 2006, the under recovered fuel balance for Georgia Power (including Savannah) stood at $952 million, of which $762 million is currently being recovered through the fuel cost recovery rate. The commission has addressed the under recovered fuel costs granting recovery over 35 months from GPC customers and over 41 months from Savannah customers. The June 2006 decision by the GPSC provided an increase in Georgia Power's total annual fuel billings of approximately $400 million. Additionally, the combined company is now required to file fuel cost recovery rates (true-up) on a semi-annual basis, with the under or over recovery levels in excess of $50 million requiring GPC to file for a temporary fuel rate change. Moody's views this as a favorable mechanism that could reduce recovery lag in a rising fuel cost environment. However, Moody's views the relatively high fuel cost deferrals and the 35 month recovery period for these costs to be a relative weakness for GPC's near term cash flows.

Gulf Power

Gulf Power's geographic footprint in Florida's panhandle Gulf coast makes this subsidiary vulnerable to hurricane activity, and as such, ongoing regulatory treatment to address storm cost damage is an important factor for the cash flows of the company. The Florida Public Service Commission (FPSC) continues to provide constructive regulatory support to the utility, which underpins its strong cash flow generation. Gulf Power operates under base rates that were established in 2002 and are based on a 12% return on equity. The utility also benefits from a separately established and FPSC approved fuel cost recovery mechanism that allows for periodic rate adjustments if the fuel under- or over-recovery exceeds 10% of the projected fuel costs for any period. As a result of rising fuel costs, the FPSC approved, in November 2006, a 10% increase in retail rates beginning January 2007.

In July 2006, due to the storm damage caused by Hurricanes Ivan, Dennis and Katrina, the FPSC approved a stipulation between Gulf Power, the Office of Public Counsel, and other consumer groups, for storm cost recovery through a storm surcharge that extends through June 2009. The recent FPSC order also provides Gulf Power with a streamlined mechanism to recover future storm costs above a $10 million threshold. Additionally, the Florida legislature authorized securitized financing for hurricane costs in June 2005, which provides Gulf Power with the option of pursuing securitized financing if storm damage costs become large enough.

Mississippi Power

MPC operates under Performance Evaluation Plan (PEP), a rate structure filed annually utilizing a forward-looking test year, with annual rate increases limited to 4%, based on an allowed ROI range. However, in response to impacts in connection with Hurricane Katrina, the Mississippi Public Service Commission (MPSC) granted a temporary change in the annual cap and approved a 5.1% retail base rate increase effective April 2006. The MPSC recently certified $302 million of storm costs related to Hurricane Katrina as requested by the company. In October 2006, MPC received federal government Community Development Block Grants (CDBG) of approximately $276 million for Hurricane Katrina storm restoration costs. Additionally, the state legislature passed a securitization bill during the first quarter of 2006, which allows MPC to pursue state-issued financing to recover storm damage costs which would otherwise not be reimbursed through the CDBG program. On October 27, 2006, the Mississippi PSC issued a financing order authorizing the issuance of $121.2 million of system restoration bonds to cover the remaining storm restorations costs, replenish the property damage reserve and construct a storm operations facility.

STRONG LIQUIDITY POSITION

Southern's A3 rating incorporates the company's conservative management approach, which emphasizes financial flexibility and liquidity at the individual subsidiary levels. Southern's strong liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries. The parent level liquidity is supported by cash dividends from its subsidiaries and availability under its $750 million revolving credit facility. Moody's anticipates continued dividend contributions from the subsidiaries to be in the range of $1.3 billion to $1.5 billion annually over the next three years. Additionally, Southern Company's consolidated liquidity profile reflects approximately $418 million of cash and cash equivalents on hand and availability of approximately $3.4 billion of additional bank credit facilities at the subsidiaries as of September 30, 2006.

The parent level $750 million of credit facilities are comprised of a $500 million facility which was extended in 2006 and matures in June 2011 and a $250 million facility which matures in June 2010. The credit agreements exclude material adverse change representations for ongoing borrowings and letters of credit. However, there is a 65% consolidated debt to total capitalization covenant test in the credit agreements. Trust Preferred securities are excluded from debt but included in capitalization for the covenant. At September 30, 2006, Southern was in compliance with this financial covenant and Moody's expects that the company will have sufficient headroom under this covenant requirement going forward.

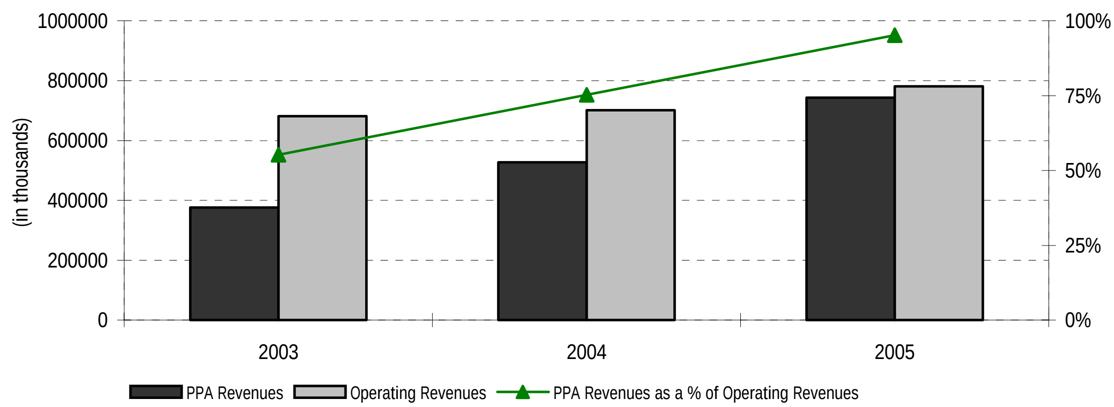
The parent company commercial paper program is backed by $750 million in syndicated bank credit facilities. Southern Company can issue commercial paper up to the availability level of its back-up revolving credit facility. At September 30, 2006, the parent company had approximately $589 million outstanding under its commercial paper program with short term borrowings increasing recently in order to fund subsidiary capital expenses. The company also maintains an extendible commercial note (ECN) program up to $150 million, under which the company had $25 million ECN's outstanding at September 30, 2006.

In terms of near term cash outlay, the holding company has a $400 million debt maturity in 2007, which Moody's expects the company to refinance in the long term debt markets. Cash equity investments in subsidiaries are expected to increase to the $300 million to $400 million range in order to fund increased capital funding needs primarily at Georgia Power and Alabama Power and in view of maintaining adequate equity ratios for rate making purposes at the subsidiaries. Capital expenditures at the subsidiaries are expected to remain in the $3.1 billion to $3.2 billion range on a consolidated basis over the next several years, of which nearly a third relates to incremental environmental spending. With increased annual investments in subsidiaries and common dividend payout obligations of around $1.2 billion, Moody's expects a mix of incremental parent level debt and equity issuances to finance negative free cash flow. Moody's also notes that Southern continues to face ongoing litigation related to the bankruptcy of Mirant Corporation, a formerly owned subsidiary of Southern. Southern's liquidity could come under pressure if there were to be a material ruling against the company resulting from these proceedings.

GROWTH STRATEGY AT SOUTHERN POWER MITIGATES EXPOSURE TO MARKET RISK

The risk assessment for Southern further incorporates the company's overall strategy of maintaining a high proportion of regulated retail mix relative to the overall business and growing the competitive generation business at a measured pace based on an established, conservative business model within the confines of FERC regulated wholesale activities.

Operating Revenues vs. PPA Revenues



Source: Company reports

Southern Power's revenues were more than $781 million in 2005, or approximately 6% of the company's consolidated revenues, and represented $201 million or 8% of consolidated cash flow from operations. Southern Power's competitive generation business bears a relatively higher level of risk than Southern's core retail regulated utility operations. However, these risks are somewhat mitigated by the company's strategy to enter into long-term, fixed-price contracts, approved by the state regulators and the FERC, for the majority of its competitive generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. Southern Power's revenues are contracted at more than 80% through 2015, and partially contracted through 2023. In addition, the market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation to the wholesale energy purchasers, thereby reducing Southern Power's financial and operating risk. These long-term contractual arrangements provide revenue stability and predictability and lower the company's overall business risk profile, which offsets the relatively lower credit metrics in comparison to other wholesale generating companies that are rated in the high Baa rating category such as Exelon Generation Company (Sr. Unsec. Baa1) and PSEG Power (Sr. Unsec. Baa1). Credit metrics in 2005 include FFO to debt ratio of 17.4% and FFO to interest ratio of 3.7x, based on Moody's global standard adjustments.

SPC operates within the Southern Company power generation pool and is party to the Intercompany Interchange Contract (IIC) with other Southern Company affiliates. In addition to FERC's review and approval of SPC's inclusion as a system company within the IIC, the FERC initiated an investigation in December 2004 into Southern Company's generation dominance within its retail service territory, and SPC's continued ability to charge market-based rates for

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wholesale customers within Southern Company's retail service territory. The ratings incorporate the expectation that the final outcome of these proceeding will not have a significant impact on SPC's cash flows and credit metrics.

Moody's expects that SPC will spend approximately $950 million over the three-year period ending 2008 for potential plant acquisitions and new construction, inclusive of the investment in the Rowan and DeSoto plants. Moody's expects this growth in capital expenditures to be financed with a combination of debt and equity investment from Southern Company. However, SPC's Baa1 senior unsecured rating incorporates the view that the company will fund its capital spending in a manner largely consistent with the current credit metrics.

Related Research

Industry Outlook:

U.S. Electric Utilities, December 2006 (101304)

Rating Methodology:

Global Regulated Electric Utilities, March 2005 (91730)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Report Number: 101504

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September 4, 2007

Gulf Power Co.

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160186-OPC-POD-71-39

Gulf Power Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/--

Strengths:

- A generally constructive regulatory environment in Florida;
- Customer growth is above average and demographics are attractive;
- Strong operating performance for owned generation assets supported by the Southern Power Pool;
- Moderately competitive rate structure;
- Stable consolidated cash flows generated by growing regulated utility operations; and
- Operating and regulatory diversity on a consolidated basis.

Weaknesses:

- Heavy reliance on coal on a companywide basis necessitates large capital expenditures to comply with environmental standards;
- Deferred fuel costs have increased and must be recovered in a timely basis; and
- Adjusted consolidated debt leverage is relatively high.

Rationale

The ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. The ratings on Southern reflect the company's focus on regulated utility operations that provide for stable and predictable cash flow. Material capital-spending needs and fuel cost deferrals offset those positive attributes. Southern Co. has a strong business risk profile ('4') and its financial profile risk is considered moderate.

Southern had $16.9 billion of adjusted debt as of June 30, 2007, excluding $1.44 billion of debt of Southern Power Co.

Gulf Power is Southern's third-largest subsidiary, serving 418,892 customers primarily in the Florida panhandle and providing about 5% of operating income and cash flow during 2006. The moderately sized service territory has attractive demographics and above-average customer growth of about 2.5% in 2006. Residential and commercial customers provide 67% of revenues and 56% of sales, with industrial customers providing 11% of revenues and 13% of sales. There is no meaningful customer concentration. Sales for resale are material at 17% of revenues and 31% of sales and are generally accomplished through longer-term contracts and with little meaningful fuel exposure. Total generating capacity is 2,659 MW, with coal-fired generation providing 82.5% of energy needs, gas 12.4%, and purchases providing 5%. Plant availability continued to be consistently high during 2006, with 91.3% for the coal-fired plants. Retail rates are moderately competitive at about 93% of the national average and could come under pressure as the company recovers deferred fuel and storm restoration costs along with invested capital.

We view the regulatory environment for Gulf Power as generally constructive and supportive of credit quality. This allows the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for regular true-ups. Environmental projects not in rates are recovered through an environmental-recovery clause. Gulf Power is recovering about $66 million in fuel cost deferrals. The Florida Public Service Commission (FPSC) requires the company to file for updated fuel cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to recover $52.6 million related to storm damages through 2009 and has included in base rates recovery of $3.5 million annually to fund a storm reserve fund.

Southern's cash flow protection has been consistent and strong, benefiting from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2007, adjusted FFO was $3.2 billion, while total adjusted debt was $16.9 billion, leading to adjusted FFO interest coverage of 4.5x, adjusted FFO to debt of 19.1%, and adjusted total debt to total capital of 57.4%. These ratios account for about $866 million of trust preferred securities and $744 million of preferred and preference shares as having intermediate equity credit; $548 million in off-balance sheet obligations related to capitalization of operating leases; and just under $1 billion in off-balance sheet obligations related to capitalization of capacity payments for purchased power agreements. Of Southern's credit protection measures, FFO interest coverage is adequate for the rating, while FFO to debt and debt to capital are relatively weak for the rating despite the company's strong business risk profile. The company's plans to spend about $11.4 billion for capital programs over the next three years could pressure the financial profile if it can't recover such expenses (along with deferred fuel costs that totaled about $1.3 billion) on a timely basis. Gulf Power's stand-alone financial profile for the year ended Dec. 31, 2006 is weak for the current ratings, with adjusted FFO interest coverage of 3.8x, adjusted FFO to debt of 16.5% and debt leverage of 55.1%.

Short-term credit factors

The 'A-1' short-term rating reflects Southern's corporate credit rating, but also accounts for stable cash flow and sufficient liquidity to meet upcoming debt maturities and capital-spending needs.

Southern's consolidated maturities are manageable through 2009, with $1.4 billion in 2007, $499 million in 2008, and $604 million in 2009. Capital-spending needs are significant to address maintenance and growth projects, as well as to meet increasingly stringent environmental requirements. Of the company's forecast $11 billion capital-spending program over the next three years, about 40% will be targeted for environmental-compliance projects and 33% will accommodate the company's growing customer base.

As of June 30, 2007, consolidated liquidity was ample, with $167 million of cash on hand, and about $1.7 billion unused capacity under $3.6 billion in available credit facilities with banks. The balance of about $1.9 billion was used to backstop about $1.2 billion in outstanding commercial paper and $717 million in tax-exempt floating-rate notes. Of the total available credit facilities, Southern has a $1 billion available for short-term needs and commercial paper backup, all of which expires after 2008; Alabama Power has $965 million in available facilities; Georgia Power $910 million; Gulf Power $120 million; and Mississippi Power $206 million. The bulk of the credit facilities mature after 2008. Most facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Only about $10 million of the total availability is subject to a material adverse change clause. In addition, Southern had about $340 million unused capacity in available extendible commercial notes from a total availability of $445 million.

Southern's liquidity could come under pressure if the company continues to accumulate deferred fuel costs. These totaled about $1.3 billion as of June 30, 2007, and the company has permission to recover most of these deferrals by 2009, enhancing cash flow and liquidity.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent, which accounts for Southern's stable, regulated electric utility operations that benefit from constructive regulatory decisions, strong operations, and service territories with attractive demographics. An outlook revision to positive is currently not contemplated, but such a change would largely depend on a consistently stronger financial profile. However, we could revise the outlook to negative if the company's financial profile weakens over the next few years as a result of the substantial capital spending budget of about $11.4 billion, the inability to recover such expenses in rates in a timely manner, or the inability to recover the large deferred fuel cost balance.

Accounting

Southern's financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2006.

Asset-retirement obligations totaled about $1.137 billion at Dec. 31, 2006. Of that amount, about $1 billion relates to nuclear decommissioning costs that Standard & Poor's does not view as an off-balance-sheet obligation given the existence of a matching nuclear decommissioning trust fund and the ability to collect decommissioning costs in rates. About $153 million relates to asbestos removal and disposal of polychlorinated biphenyls in certain transformers, and for which Standard & Poor's ascribes about $99 million of off-balance-sheet debt, which is not material to overall capitalization.

Standard & Poor's views Southern's $1.56 billion of trust-preferred securities and $744 million of preferred and preference shares as of Dec. 31, 2006, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. However, Standard & Poor's also reviews coverage and capitalization ratios that alternatively view these securities as all debt and as all equity. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 8.7% of total capital as of Dec. 31, 2006, which is not an unduly large amount.

Capitalization of operating leases adds about $446 million of off-balance-sheet obligations as of Dec. 31, 2006, while debt imputed for purchased power agreements adds about $1 billion. These figures represent about 9.6% of total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Table 1

Southern Co - Deconsolidated--Peer Comparison*

Industry Sector: Electric Utilities

	--Average of past three fiscal years--				
	Southern Co - Deconsolidated	**Duke Energy Corp.**	**FPL Group Inc.**	**Entergy Corp.**	**American Electric Power Co. Inc.**
Rating as of Aug. 24, 2007	A/Stable/A-1	A-/Stable/NR	A/Stable/--	BBB/Stable/--	BBB/Stable/A-2
(Mil. $)					
Revenues	12,459.9	18,006.6	12,257.2	12,890.3	10,387.4

Table 1

Southern Co - Deconsolidated--Peer Comparison* (cont.)					
Net income from cont. oper.	1,447.7	1,958.0	967.9	1,049.3	1,011.6
Funds from oper. (FFO)	3,380.8	3,805.2	2,295.8	2,632.1	2,555.8
Capital expenditures (capex)	2,269.0	2,804.4	1,569.0	2,623.3	1,591.4
Cash and investments	218.1	1,799.9	458.3	616.3	802.2
Debt	14,932.8	19,186.2	10,297.3	14,914.1	10,654.2
Preferred stock	985.2	44.7	168.2	61.0	385.4
Common equity	9,473.0	19,193.3	9,410.8	8,282.2	7,770.7
Total capital	26,292.1	39,403.3	19,876.2	23,257.3	18,810.3
Adjusted ratios					
EBIT interest coverage (x)	3.8	3.2	2.7	2.3	3.5
FFO interest coverage (x)	5.5	3.9	4.6	3.4	5.0
FFO/debt (%)	22.6	19.8	22.3	17.6	24.0
Discretionary cash flow/debt (%)	(4.2)	(1.7)	(1.2)	(2.9)	5.0
Net cash flow/capex (%)	99.4	90.7	112.2	78.7	131.1
Debt/total capital (%)	56.8	48.7	51.8	64.1	56.6
Return on common equity (%)	14.0	10.7	10.2	11.2	11.2
Common dividend payout ratio (unadjusted) (%)	68.9	64.4	55.2	54.0	45.0

*Fully adjusted (including postretirement obligations).

Table 2

Southern Co - Deconsolidated--Financial Summary*					
Industry Sector: Electric Utilities					
	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	13,579.0	12,773.0	11,027.7	10,336.2	10,215.2
Net income from cont. oper.	1,449.5	1,476.2	1,417.5	1,328.2	1,263.7
Funds from oper. (FFO)	3,322.3	3,590.2	3,229.9	3,159.6	2,622.8
Capital expenditures (capex)	2,602.0	2,215.4	1,989.6	1,705.2	1,709.2
Cash and investments	137.1	174.4	342.8	308.2	253.5
Debt	15,644.9	14,927.4	14,226.0	13,430.1	13,474.7
Preferred stock	1,152.5	1,242.0	561.0	423.0	298.0
Common equity	10,345.5	9,258.5	8,815.1	7,950.1	7,342.6
Total capital	28,168.4	26,294.2	24,413.7	22,814.7	21,862.0
Adjusted ratios					
EBIT interest coverage (x)	3.6	3.9	3.8	3.5	3.2
FFO interest coverage (x)	4.9	6.1	5.7	5.3	4.5
FFO/debt (%)	21.2	24.1	22.7	23.5	19.5
Discretionary cash flow/debt (%)	(5.4)	(5.3)	(1.7)	2.8	1.7
Net cash flow/capex (%)	82.2	110.3	109.8	126.4	97.4

Table 2

Southern Co - Deconsolidated--Financial Summary* (cont.)					
Debt/total capital (%)	55.5	56.8	58.3	58.9	61.6
Return on common equity (%)	13.3	14.2	14.6	15.3	15.5
Common dividend payout ratio (unadjusted) (%)	75.0	70.9	60.4	76.8	76.8

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Southern Co - Deconsolidated Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2006--

Southern Co - Deconsolidated reported amounts	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	14,440.2	11,089.5	4,073.8	4,073.8	2,939.8	785.8	2,655.7	2,655.7	1,140.0	2,493.3
Standard & Poor's adjustments										
Operating leases	446.4	--	128.4	24.8	24.8	24.8	103.6	103.6	--	130.0
Intermediate hybrids reported as debt	(780.5)	780.5	--	--	--	(61.0)	61.0	61.0	61.0	--
Intermediate hybrids reported as equity	372.0	(372.0)	--	--	--	17.0	(17.0)	(17.0)	(17.0)	--
Postretirement benefit obligations	--	--	(22.0)	(22.0)	(22.0)	--	24.7	24.7	--	--
Capitalized interest	--	--	--	--	--	21.4	(21.4)	(21.4)	--	(21.4)
Share-based compensation expense	--	--	--	28.0	--	--	--	--	--	--
Power purchase agreements	1,067.3	--	61.1	61.1	61.1	61.1	--	--	--	--
Asset retirement obligations	99.5	--	--	--	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	10.8	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	383.8	--	--
Minority Interest	--	1,025.5	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(8.0)	(8.0)	--	--
Other	--	--	--	--	--	--	139.9	139.9	--	--
Total adjustments	1,204.7	1,434.0	167.4	91.8	74.7	63.2	282.8	666.6	44.0	108.7

Table 3

Reconciliation Of Southern Co - Deconsolidated Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	15,644.9	12,523.5	4,241.2	4,165.6	3,014.4	849.0	2,938.5	3,322.3	1,184.0	2,602.0

*Southern Co - Deconsolidated reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Table 4

Gulf Power Co.--Financial Summary*

Industry Sector: Electric Utilities

	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. $)					
Revenues	1,203.9	1,083.6	960.1	877.7	820.5
Net income from cont. oper.	79.3	76.0	68.4	69.2	67.3
Funds from oper. (FFO)	137.8	172.1	148.5	165.2	154.0
Capital expenditures (capex)	152.8	149.3	149.0	98.9	104.1
Cash and investments	7.5	3.8	64.8	2.5	13.3
Debt	836.2	754.5	753.3	689.9	554.7
Preferred stock	47.6	60.0	38.1	4.2	119.2
Common equity	634.0	633.0	613.9	588.0	574.4
Total capital	1,517.8	1,447.5	1,405.4	1,282.2	1,248.4
Adjusted ratios					
EBIT interest coverage (x)	3.6	4.1	3.9	3.6	3.3
FFO interest coverage (x)	3.8	5.2	4.9	5.2	4.8
FFO/debt (%)	16.5	22.8	19.7	23.9	27.8
Discretionary cash flow/debt (%)	(9.6)	(7.3)	(9.7)	3.4	(7.0)
Net cash flow/capex (%)	41.6	67.6	51.1	95.8	84.8
Debt/total capital (%)	55.1	52.1	53.6	53.8	44.4
Return on common equity (%)	12.0	12.6	11.5	12.2	11.6
Common dividend payout ratio (unadjusted) (%)	92.5	90.9	102.6	101.7	97.7

*Fully adjusted (including postretirement obligations).

Table 5

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*										
	--Fiscal year ended Dec. 31, 2006--									
Gulf Power Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	816.5	687.9	255.8	255.8	166.7	44.1	143.4	143.4	73.6	154.4
Standard & Poor's adjustments										
Operating leases	13.4	--	4.6	0.9	0.9	0.9	3.7	3.7	--	--
Intermediate hybrids reported as debt	(20.6)	20.6	--	--	--	(2.3)	2.3	2.3	2.3	--
Intermediate hybrids reported as equity	26.9	(26.9)	--	--	--	1.7	(1.7)	(1.7)	(1.7)	--
Postretirement benefit obligations	--	--	(2.1)	(2.1)	(2.1)	--	0.4	0.4	--	--
Capitalized interest	--	--	--	--	--	1.6	(1.6)	(1.6)	--	(1.6)
Share-based compensation expense	--	--	--	1.0	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	2.0	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(8.7)	--	--
Total adjustments	19.7	(6.3)	2.6	(0.1)	0.9	1.9	3.1	(5.6)	0.6	(1.6)
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	836.2	681.6	258.4	255.7	167.6	46.0	146.5	137.8	74.2	152.8

*Gulf Power Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of September 4, 2007)*	
Gulf Power Co.	
Corporate Credit Rating	A/Stable/--

Ratings Detail (As Of September 4, 2007)*(cont.)	
Preference Stock	
Local Currency	BBB+
Preferred Stock	
Local Currency	BBB+
Senior Secured	
Local Currency	A+
Senior Unsecured	
Local Currency	A
Subordinated	
Local Currency	A-
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/--
30-Nov-1998	A+/Watch Neg/--
24-Mar-1995	A+/Stable/--
Business Risk Profile	1 2 3 $\boxed{4}$ 5 6 7 8 9 10
Financial Risk Profile	Moderate
Debt Maturities	
2007 $1.4 bil 2008 $499 mil 2009 $604 mil 2010 $286 mil 2011 $329 mil	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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November 27, 2007

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Southern Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:
- Stable cash flows from expanding, regulated utility operations;
- Regulated utility operations are in constructive regulatory environments;
- Large and diverse customer base with attractive demographics and above-average customer growth;
- Geographic diversity with operations in four states in the Southeast; and
- Strong plant operations, supported by the Southern Power Pool.

Weaknesses:
- Significant capital spending for new generation, transmission and distribution to address customer and load growth and compliance with evolving environmental standards given the company's heavy reliance on coal; and
- Lack of automatic fuel recovery clause at largest subsidiary Georgia Power Co. can cause fuel cost deferrals unless recovered in a timely manner.

Rationale

The ratings on Southern Co. and its subsidiaries Alabama Power Co. (APC), Georgia Power Co.(GPC), Gulf Power Co. (5%), and Mississippi Power Co. (MPC) reflect a strong business risk profile ('4') that incorporates the following factors:

- Generally constructive regulatory frameworks in all jurisdictions;
- Very strong operations with high availability and capacity utilization factors for owned generation;
- Regulatory and operating diversity with a presence in four states;
- Competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures;
- No meaningful unregulated operations; and
- Prudent and reasonably conservative management practices.

These strengths are offset by significant capital spending during the next three years of about $11.4 billion to meet environmental-compliance requirements, system maintenance, and system growth needs that will have to be recovered in rates in a timely manner, potentially eliminating the current favorable rate structure. The current capital spending figure excludes plans for building two new nuclear facilities at existing sites, construction of which could start by about 2010 and could increase the capital spending budget materially. Southern has also incurred about $1.2 billion in deferred fuel costs that are currently being recovered, placing further pressure on the company's rate structure. Although the regulatory environment has historically been generally constructive, the large capital spending program, combined with the deferred fuel-cost recovery, may pressure the company's regulatory relationships.

Cash flow protection has been consistent and strong, benefiting from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended Sept. 30, 2007, adjusted funds from operations

(FFO) was about $3.3 billion, while total adjusted debt was $16.8 billion, leading to adjusted FFO interest coverage of 4.3x, adjusted FFO to debt of 19.4%, and adjusted total debt to total capital of 56.2%. These ratios account for about $721.6 million of trust preferred securities and $766.3 million of preferred and preference shares as having intermediate equity content. Of Southern's credit protection measures, FFO interest is adequate for the rating, while FFO to debt and debt to capital are relatively weak for the rating despite the company's strong business risk profile. The company's plans to spend about $11.4 billion for capital programs could pressure the financial profile if Southern Co. can't recover such expenses, along with any deferred fuel costs on a timely basis.

Short-term credit factors

The 'A-1' short-term rating reflects Southern's corporate credit rating but also accounts for stable cash flow and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Significant capital spending needs are due to maintenance and growth projects, and to address increasingly stringent environmental requirements. Of the $11.4 billion capital spending program, about 40% will be targeted for environmental compliance projects and 33% will accommodate the company's expanding customer base.

As of Sept. 30, 2007, consolidated liquidity was ample, with $534 million of cash on hand, and $3.6 billion in total credit facilities of which $1.2 billion supported outstanding commercial paper, leaving $2.4 billion available. There were no extendible commercial notes outstanding. Of the total available credit facilities, Southern has a $1 billion available for short-term needs and commercial paper backup; Alabama Power has $978 million in available facilities; Georgia Power $902 million; Gulf Power $125 million; and Mississippi Power $181 million. The bulk of the credit facilities mature after 2008. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Only about $10 million of the total is subject to a material adverse change clause. In addition, Southern had about $445 million in extendible commercial notes all of which was available.

Southern's liquidity could come under some pressure if the company continues to accumulate deferred fuel costs. These totaled about $1.2 billion as of Sept. 30, 2007, and the company has permission to recover most of these deferrals by 2009, providing support to cash flow and liquidity.

Outlook

The stable outlook reflects Southern's solid, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but such a change would largely depend on a consistently stronger financial profile. However, the outlook would be revised to negative if the company's financial profile weakens over the next few years as a result of the substantial capital spending budget, the inability to recover such expenses in rates in a timely manner, or the inability to recover the large deferred fuel cost balance.

Business Description

Southern owns four regulated, vertically integrated electric utilities that serve about 4.3 million customers in southeastern U.S. These utilities are Alabama Power Co. (35% of 2006 operating cash flow), Georgia Power Co. (45%), Gulf Power Co. (5%), Mississippi Power Co. (7%). Southern also owns Southern Power Co. (BBB/Stable/A-2), an unregulated wholesale power developer which provides about 10% of consolidated cash flow.

Rating Methodology

The ratings on Southern Co. and its subsidiaries are determined based on Standard & Poor's consolidated ratings methodology based on significant operational and financial inter-relationships, but exclude the impact of Southern Power. The corporate credit rating is the same on Southern and all its subsidiaries indicating the same likelihood of default. Southern Power is viewed as a non-core entity, is excluded when determining the credit profile of Southern, and is included as an equity investment in analyzing Southern's financial statements.

Southern's senior unsecured debt is rated one notch below its corporate credit rating due to structural subordination and to the existence of significant priority debt at the operating subsidiaries which encumbers more than 20% of total assets and disadvantages Southern's senior unsecured bondholders.

The ratings on Southern Power are determined on a standalone basis, exclude any parental support from Southern but benefit through Southern Power's participation in the Southern Power Pool and the related contracts with the regulated utilities of Southern.

Business Risk Profile

Profitability

Southern's return on equity (ROE) is consistently strong, reaching 14.2% for the 12 months ended Sept. 30, 2007, and benefiting from the preponderance of regulated utility operations, supportive regulatory frameworks that allow recovery of operating costs, strong operations, and solid customer growth.

Regulation

All of Southern's regulated utilities operate under generally constructive regulatory environments that provide for adequate allowed ROE, ensure recovery of capacity and fuel costs and invested capital.

The Alabama Public Service Commission regulates APC and provides for a framework that employs a Rate Stabilization and Equalization (RSE) arrangement that allows for forward-looking annual periodic adjustments based on an allowed ROE of 13% to 14.5%. Earnings above 14.5% are refunded to ratepayers. Rate adjustments for any two-year period, when averaged together, cannot exceed 4%, and any annual adjustment is limited to 5%. In January 2007, the RSE rate was increased by $193 million (4.76%) to recover new plant costs and invested capital. In addition, APC uses a Certificated New Plant rate to recover various environmental costs and capacity costs associated with PPAs. Fuel costs are recovered through the Energy Cost Recovery (ECR) rate, which adjusts periodically. In June 2007 the ECR rate was raised to 3.1 cents per kilowatt-hour (kWh) from 2.4 cents per kWh through December 2009 to recover deferred fuel costs which totaled $307 million as of Sept. 30, 2007. APC is allowed to include a carrying charge on the fuel cost deferrals.

GPC is regulated by the Georgia Public Service Commission and filed for a new rate increase in June 2007 for $406 million (5.98%) corresponding to an allowed ROE of 12.5% to recover new investment for environmental compliance, customer growth, new generation, and transmission and distribution system expansion. The new rate structure, if approved, would replace the current three-year rate plan that expires in December 2007 and which provides for an allowed ROE that ranges from 10.25% to 12.25%, with earnings above 12.25% shared 66%/33% with ratepayers. GPC also filed information for a three-year plan that includes additional increases of $189 million (2.62%) in 2009 and $41 million (0.56%) in 2010. In February 2007, GPC was allowed to increase the fuel factor to recover $383 million in deferred fuel costs through mid-2009 and must file by March 2008 to consider any subsequent over/under-recovery. GPC's total deferred fuel costs were $811.6 million as of Sept. 30, 2007, a modest decline from $898.1 million at Dec. 31, 2006. For PPAs, the energy portion is recovered through a fuel clause adjustment, while the capacity payments are recovered in base rates.

For Gulf Power, which is regulated by the Florida Public Service Commission (FPSC), the allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize the company's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for regular true-ups. Environmental projects not in rates are recovered through an environmental-recovery clause. The FPSC requires the company to file for updated fuel cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period and to request the necessary recovery/refund. As of Sept. 30, 2007, fuel cost under-recoveries totaled $64.2 million. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to recover $52.6 million related to storm damages through 2009 and has included in base rates recovery of $3.5 million annually to fund a storm reserve fund. In addition, the FPSC allowed for the implementation of an interim surcharge to recover 80% of future incurred storm costs in a timely manner, subject to refund if these costs exceed $10 million in one calendar year.

Standard & Poor's views Mississippi Power Co. (MPC) as having the most favorable regulatory framework of the Southern operating units. MPC operates under a performance-evaluation plan that provided for a base rate increase of $32 million (5%) in March 2006, but no rate increase in 2007. The Mississippi Public Service Commission (MPSC) also provides for regular recovery and periodic true-up of fuel and capacity costs for purchased power. Total certified costs relating to Hurricane Katrina were $302 million, which have been recovered through proceeds from federal community development block grants (CDBG) and from state-issued system-restoration bonds. The state proceeds also included an incremental $60 million to fund a property reserve, and $42.8 million for storm restoration and the construction of a storm operations center. Finally, in January 2007, the MPSC approved a 4.6% rate increase to allow MPC to recover deferred fuel costs that totaled $45.9 million as of Sept. 30, 2007. MPC will update its fuel cost filing in November 2007.

Federal

On April 19, 2007, the FERC approved, with some modifications, a compliance filing submitted by Southern on Nov. 6, 2006, that addressed FERC's concerns regarding the provisions of the Intercompany Interchange Contract among Southern's regulated utilities and in particular the inclusion of Southern Power in the Southern Power Pool. The compliance filing largely involves functional separation and information restrictions related to marketing activities conducted on behalf of Southern Power. Southern Power's cost of implementing the compliance plan, including the modifications, is expected to average approximately $9 million annually. Under the settlement Southern Power will retain membership in the Southern Power Pool, which helps to reduce operational risk. Importantly, Southern Power will remain eligible to bid on affiliate requests-for–proposals for energy and capacity, provided that all parties maintain certain independent oversight into the selection process.

In a separate proceeding, a FERC administrative law judge provided a preliminary ruling in November 2007 while examining the issue of generation dominance following complaints by other market participants. An unfavorable final ruling require Southern to refund about $20 million plus interest as of Sept. 30, 2007 and could require that Southern make all future off-system sales within its foot print at cost-based rates instead of market based rates. The FERC is expected to provide a final response by sometime in 2008. Although Southern's sales for resale to non-affiliates contributed about 17.4% of sales and 10.7% of revenues in 2006, and are a meaningful part of total sales, not all such sales would be subject to the final ruling or the potential refund. The bulk of off-system sales are under long-term contracts, mitigating any short- to intermediate-term risk.

Markets

Southern's four regulated operating units serve 4.3 million customers in a service area covering nearly all of Georgia and Alabama, southern Mississippi, and the Florida Panhandle. The southeastern U.S. has generally demonstrated growth above national averages, a trend that Southern expects will continue. The large, economically diverse and attractive service territory provides meaningful customer and operating diversity to Southern. The service territory benefits from retail rates that are well below the national average, providing an incentive for economic growth.

For the year ended Dec. 31, 2006, customer growth was satisfactory at 1.7%, rebounding after the storms of 2005. Energy sales growth was 2.3% for the year. Residential and commercial customers provide about 66% of total revenues and 52% of total sales, ensuring a measure of revenue and sale stability. Industrial customers provide 20% of total revenues and 27% of total sales. The Southern subsidiaries are exposed to some volatile and cyclical sectors such as pulp and paper, textiles, chemicals primary metals and automotive. Importantly, sales for resale provide about 13% of total revenues and 20% of total sales, the bulk of which are under long-term contracts reducing the need for frequent re-contracting and providing a measure of revenue stability.

Table 1

Annual Sales Growth

	2006	2005	2004	2003
(%)				
Residential	2.5	2.8	3.9	(1.9)
Commercial	2.2	3.6	3.4	0.3
Industrial	(0.2)	(2.2)	3.6	1.0
Other	(7.6)	(0.9)	0.7	(0.2)
Total retail	1.4	1.2	3.6	(0.2)
Wholesale	6.1	7.3	(13.0)	24.5
Total sales growth	2.3	2.3	0.1	4.2
Retail customer growth	1.7	1.2	1.5	1.7

Table 1

Annual Sales Growth(cont.)				
Retail revenue ($ mil.)	11,801.0	11,165.0	9,732.0	8,875.0
Residential (% of total)	40.0	39.2	39.5	40.2
Commercial (% of total)	34.9	35.0	34.4	34.6
Industrial (% of total)	24.3	24.9	25.1	24.2
Other (% of total)	0.9	0.9	0.9	1.0
Wholesale revenue ($ mil.)	1,822.0	1,667.0	1,341.0	1,358.0
Other revenue ($ mil.)	733.0	722.0	656.0	785.0
Total revenue ($ mil.)	14,356.0	13,554.0	11,729.0	11,018.0
Retail (% of total)	82.2	82.4	83.0	80.6
Wholesale (% of total)	12.7	12.3	11.4	12.3

Table 2

2006 Revenue Diversity

	Alabama Power Co.	Georgia Power Co.	Gulf Power Co.	Mississippi Power Co.
Total customers	$5,014,728	$7,245,644	$1,203,914	$1,009,237
(%)				
Residential	33.2	32.1	42.4	21.3
Commercial	23.4	33.4	25.3	21.3
Industrial	22.7	19.1	11.0	21.0
Other	0.4	1.0	0.3	0.6
Total retail customers	79.7	85.6	79.1	64.1
Wholesale				
Non-affiliates	12.7	7.6	7.2	26.6
Affiliates	4.3	3.5	9.8	7.6
Total wholesale	17.0	11.1	17.0	34.2
Other	3.4	3.3	3.9	1.7

Operations

The operating companies of Southern have demonstrated a very good operating track record especially for their coal and nuclear plants with good availability and capacity use, sufficient reserve margins of about 16.4% in 2006, and a fuel mix that provides for competitive rates in the region. Operational risk is mitigated by good operating performance of owned units, participation in the Southern Power Pool which allows for procurement of power at the pool's marginal cost, and third-party arrangements that involve either counterparties with good creditworthiness or strong collateral backing of service obligations. Southern's operating units serve customers with 41,785 MW of owned capacity, contract purchases from third parties, and Southern Power, and from market purchases.

Operation risk is present in coal and nuclear fuels concentration. On a consolidated basis in 2006, coal units provided 60.2% of energy, nuclear 17.4%, oil and gas 12.7%, and hydro 1.9%. Purchased power contributed the remaining 4.8%. These shares are likely to remain stable over the intermediate term. However, the heavy reliance on coal exposes the operating companies to large and increasing capital expenditures to meet emissions requirements that will total about $4.6 billion through 2009 and raise some concern about cost recovery on a timely basis. The bulk of these expenditures is targeted for APC and GPC.

Table 3

Southern Co. -- Consolidated Operations

	2006	2005	2004	2003
Generating capacity (MW)	41,785.0	40,509.0	38,622.0	38,679.0
Peak load (MW) (summer)	35,890.0	35,050.0	34,414.0	32,949.0
Reserve margin (%)	16.4	15.6	12.2	17.4
Plant availability (%)				
Fossil steam	89.3	89.0	88.5	87.7
Nuclear	91.5	90.5	92.8	94.4
Fuel mix of sales (%)				
Coal	66.7	67.1	64.6	66.4
Nuclear	13.9	14.0	14.4	14.8
Oil & gas	12.7	10.7	10.9	8.8
Hydro	1.9	3.1	2.9	3.8
Purchased power	4.8	5.1	7.2	6.2

Southern Power Pool

The Southern Power Pool continues to mitigate operations risk and provides material support to the company's strong business risk profile. Although owned by the individual operating units, all of Southern's generation capacity is collectively managed and economically dispatched by Southern Company Generation as the Southern pool. This unique system meets the delivery obligations of Southern's operating units, including Southern Power, at the lowest possible cost. If any operating unit is short of generation, due to a plant outage or excess demand, it can obtain replacement power from the pool at the lowest marginal cost.

Nuclear generation

GPC and APC own six nuclear units at three sites totaling 3,680MW. Southern has demonstrated a very good operational performance, including a three-year rolling availability factor of 91.5%. Overall production costs are below the national average. In May 2005, the NRC extended by 20 years the license to operate the two Farley units. Southern is actively seeking to establish new nuclear generation capacity, and although the credit effects of these plans cannot yet be determined, Standard & Poor's does not expect Southern to pursue any such investments in the absence of a solid regulatory framework that provides for full cost recovery.

Financial Risk Profile

Accounting

Southern's financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2006.

Asset-retirement obligations totaled about $1.137 billion at Dec. 31, 2006. Of that amount, about $1 billion relates to nuclear decommissioning costs that Standard & Poor's does not view as an off-balance-sheet obligation given the existence of a matching nuclear decommissioning trust fund and the ability to collect decommissioning costs in rates. About $153 million relates to asbestos removal and disposal of polychlorinated biphenyls in certain transformers, and for which Standard & Poor's ascribes about $99 million of off-balance-sheet debt, which is not material to overall capitalization.

Standard & Poor's views Southern's $1.56 billion of trust-preferred securities and $744 million of preferred and preference shares as of Dec. 31, 2006, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. However, Standard & Poor's also reviews coverage and capitalization ratios that alternatively view these securities as all debt and as all equity. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 8.7% of total capital as of Dec. 31, 2006, which is not an unduly large amount.

Capitalization of non-rail car operating leases adds about $350.3 million of off-balance-sheet obligations as of Dec. 31, 2006, while debt imputed for PPAs adds about $921 million. These figures represent about 8.3% of adjusted total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

In assessing the financial risk profile of Southern Standard & Poor's views Southern Power as an equity investment and its dividend distribution to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Table 4

Reconciliation Of Southern Co - Deconsolidated Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2006--									
Southern Co - Deconsolidated reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	14,440.2	11,089.5	4,073.8	4,073.8	2,939.8	785.8	2,655.7	2,655.7	1,140.0	2,493.3
Standard & Poor's adjustments										
Operating leases	350.3	--	81.2	21.3	21.3	21.3	59.9	59.9	--	14.3
Intermediate hybrids reported as debt	(780.5)	780.5	--	--	--	(61.0)	61.0	61.0	61.0	--
Intermediate hybrids reported as equity	372.0	(372.0)	--	--	--	17.0	(17.0)	(17.0)	(17.0)	--
Postretirement benefit obligations	--	--	(22.0)	(22.0)	(22.0)	--	24.7	24.7	--	--
Capitalized interest	--	--	--	--	--	21.4	(21.4)	(21.4)	--	(21.4)
Share-based compensation expense	--	--	--	28.0	--	--	--	--	--	--
Power purchase agreements	921.6	--	194.2	194.2	52.7	52.7	141.4	141.4	--	--
Asset retirement obligations	99.5	--	--	--	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	10.8	--	--	--	--	--

Table 4

Reconciliation Of Southern Co - Deconsolidated Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*(cont.)

Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	383.8	--	--
Minority interests	--	1,025.5	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(8.0)	(8.0)	--	--
Total adjustments	962.9	1,434.0	253.4	221.5	62.9	51.4	240.6	624.4	44.0	(7.0)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	15,403.1	12,523.5	4,327.1	4,295.3	3,002.6	837.3	2,896.3	3,280.1	1,184.0	2,486.3

*Southern Co - Deconsolidated reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Corporate governance/Risk tolerance/Financial policies

Southern has stable, capable management and operates the business based on conservative assumptions and limited risk tolerance. Financial structures are simple and the company does not use material amounts of off-balance-sheet financial tools. The company uses limited amounts of derivative instruments to hedge fuel cost and interest rates.

Cash flow adequacy

More than 90% of Southern's cash flow is from regulated utility operations largely mitigating the potential for significant revenue and cash flow variability.

For the 12 months ended Sept. 30, 2007 Southern generated about $3.3 billion in FFO leading to adjusted FFO to interest coverage of 4.3x which was adequate for the rating. Adjusted FFO to total debt was just under 20%, in part reflecting the effect of the issuance of $1.5 billion of new debt in the first nine months of 2007. Standard & Poor's expects that Southern's financial profile will remain strong over the intermediate term, given the regulated nature of the company's operations, combined with timely cost recovery and attractive demographics in its service territories that provide for stable cash flow. Net cash flow to capital expenditures was reasonable at about 66.3% for the same period given the company's proposed large capital spending program which is expected to total about $11.4 billion during the next three years for its regulated utility operations. About $4.6 billion of the proposed capital spending program will be to address environmental needs, while $3.8 billion will be for system growth, including transmission and distribution needs. Of the total capital expenditures, $3.9 billion will be at APC and $5.6 billion will be at GPC.

Consolidated near-term debt maturities are manageable with $1.4 billion due in 2007, $499 million due in 2008, $604 million due in 2009, and $286 million due in 2010. The common dividend payout ratio was 72% for the 12 months ended Sept. 30, 2007, which is consistent with the company's strategy, and which is slightly above the industry average.

Capital structure/Asset protection

Southern's adjusted debt as of Sept. 30, 2007 was $16.8 billion, including $15.4 billion of total on balance sheet debt, $350.3 million of capitalized operating leases and about $921 million of debt related to the capitalization of PPAs, leading to debt leverage of about 56.2%. In light of the company's large capital spending program, debt leverage is not expected to improve materially over the intermediate term. Exposure to variable-rate debt, excluding any commercial paper outstanding, is modest at about 8.4% of total capital and a portion of that exposure is hedged.

Table 5

Southern Co - Deconsolidated -- Peer Comparison*

Industry Sector: Utilities

	--Average of past three fiscal years--				
	Southern Co - Deconsolidated	**Duke Energy Corp.**	**FPL Group Inc.**	**Entergy Corp.**	**American Electric Power Co. Inc.**
Rating as of Nov. 21, 2007	--/--/--	A-/Stable/NR	A/Stable/--	BBB/Watch Dev/--	BBB/Stable/A-2
(Mil. $)					
Revenues	12,459.9	18,006.6	12,257.2	10,387.4	12,890.3
Net income from cont. oper.	1,447.7	1,958.0	967.9	1,011.6	1,049.3
Funds from oper. (FFO)	3,394.4	3,805.2	2,295.8	2,555.8	2,632.1
Capital expenditures	2,203.5	2,804.4	1,569.0	1,482.7	2,623.3
Cash and investments	218.1	1,799.9	458.3	802.2	616.3
Debt	15,098.4	19,186.2	10,297.3	10,555.4	14,937.3
Preferred stock	985.2	44.7	168.2	385.4	61.0
Equity	11,359.3	20,217.1	9,578.9	8,156.1	8,343.2
Debt and equity	26,457.7	39,403.3	19,876.2	18,711.5	23,280.5
Adjusted ratios					
EBIT interest coverage (x)	3.7	3.2	2.7	3.5	2.3
FFO interest coverage (x)	5.5	3.9	4.6	5.0	3.4
FFO/debt (%)	22.5	19.8	22.3	24.2	17.6
Discretionary cash flow/debt (%)	(3.6)	(1.7)	(1.2)	6.1	(2.9)
Net cash flow/capex (%)	103.0	90.7	112.2	140.7	78.7
Debt/total capital (%)	57.1	48.7	51.8	56.4	64.2
Return on common equity (%)	14.0	10.7	10.2	11.2	11.2
Common dividend payout ratio (un-adj.) (%)	68.9	64.4	55.2	45.0	54.0

*Fully adjusted (including postretirement obligations).

Table 6

Southern Co - Deconsolidated -- Financial Summary*					
Industry Sector: Utilities					
	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	--/--/--	--/--/--	--/--/--	--/--/--	--/--/--
(Mil. $)					
Revenues	13,579.0	12,773.0	11,027.7	10,336.2	10,215.2
Net income from cont. oper.	1,449.5	1,476.2	1,417.5	1,328.2	1,263.7
Funds from oper. (FFO)	3,280.1	3,691.7	3,211.5	3,159.6	2,622.8
Capital expenditures	2,486.3	2,168.4	1,955.7	1,705.2	1,709.2
Cash and investments	137.1	174.4	342.8	308.2	253.5
Debt	15,403.1	15,681.6	14,210.5	13,430.1	13,474.7
Preferred stock	1,152.5	1,242.0	561.0	423.0	298.0
Equity	12,523.5	11,366.8	10,187.7	9,384.6	8,387.3
Debt and equity	27,926.6	27,048.4	24,398.2	22,814.7	21,862.0
Adjusted ratios					
EBIT interest coverage (x)	3.6	3.8	3.8	3.5	3.2
FFO interest coverage (x)	4.9	6.0	5.7	5.3	4.5
FFO/debt (%)	21.3	23.5	22.6	23.5	19.5
Discretionary cash flow/debt (%)	(5.0)	(4.1)	(1.6)	2.8	1.7
Net cash flow/capex (%)	84.3	117.4	110.8	126.4	97.4
Debt/debt and equity (%)	55.2	58.0	58.2	58.9	61.6
Return on common equity (%)	13.3	14.2	14.6	15.3	15.5
Common dividend payout ratio (un-adj.) (%)	75.0	70.9	60.4	76.8	76.8

*Fully adjusted (including postretirement obligations).

Ratings Detail (As Of November 27, 2007)*	
Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock	
Local Currency	BBB+
Senior Unsecured	
Local Currency	A-
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/A-1
30-Nov-1998	A/Watch Neg/A-1
24-Jan-1997	A/Stable/A-1
Business Risk Profile	1 2 3 $\boxed{4}$ 5 6 7 8 9 10
Financial Risk Profile	Moderate

Ratings Detail (As Of November 27, 2007)***(cont.)**
Debt Maturities
2007 $1.4 bil 2008 $499 mil 2009 $604 mil 2010 $286 mil 2011 $329 mil
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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May 8, 2009

Summary:
Gulf Power Co.

Primary Credit Analyst:
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Summary:

Gulf Power Co.

Credit Rating: A/Stable/--

Rationale

The ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. The parent company has an excellent business risk profile characterized by stable electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. Southern Co.'s business risk profile benefits from: operations in jurisdictions with generally constructive regulatory frameworks, strong regulated utility operations, competitive rates and prudent and reasonably conservative management and financial policies. These strengths are offset by significant capital spending needs during the next three years of about $14.4 billion and significant fuel cost deferrals. Timely recovery of capital expenditures and deferred fuel costs is important to provide support to the consolidated credit profile.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 427,929 customers primarily in the Florida panhandle area and providing about 5% to 6% of operating income and cash flows. The moderately sized service territory has attractive demographics but experienced no customer growth during 2008 as a result of the overall weakness in the local economy. Residential and commercial customers account for 69% of revenues and 61% of sales, while industrial customers account for 12% of revenues and 15% of sales. There is no meaningful customer concentration. Sales for resale are material at 15% of revenues and 24% of sales and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,659 MW, with coal-fired assets contributing 77.3% of energy, gas 15.6%, and purchases 7.4%. Plant availability continued to be consistently high during 2008, with 88.6% for the fossil-fired units. Retail rates are moderately competitive and could come under pressure as the company recovers deferred fuel and storm restoration costs along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for regular true-ups. Environmental projects not in rates are recovered through an environmental-recovery clause. As of Dec. 31, 2008, Gulf Power had about $97 million in deferred fuel costs and in July 2008, the Florida Public Service Commission (FPSC) approved an increase in the fuel factor of 28.3% to recover $38.2 million in deferred fuel costs from September to December 2008. The fuel cost recovery factor was reviewed again in November 2008 and increased by 12.9% to ensure recovery of current fuel costs as well as recovery of deferred fuel costs during 2009. The FPSC requires the company to file for updated fuel cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to recover $52.6 million related to storm damages through 2009 and has included in base rates recovery of $3.5 million annually to fund a storm reserve fund.

Southern Co.'s cash flow generation has been consistent and strong, benefiting from the preponderance of regulated utility operations and a growing customer base. For 2008, adjusted funds from operations (FFO) was about $3.5 billion, while total adjusted debt was $20.1 billion, leading to adjusted FFO interest coverage of 4.2x, adjusted FFO to debt of 17.2%, and adjusted total debt to total capital of 59%. These credit protection measures should benefit in the next 12 to 18 months from incremental recovery of fuel costs, which could moderate the need for debt financings. The ratios account for about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content and pension funding shortfall that adds $1.2 billion as an off-balance sheet debt obligation. Of Southern Co.'s credit protection measures, FFO interest coverage is adequate for the rating, while FFO to debt and total debt to total capital are aggressive, placing some pressure on the ratings despite the company's excellent business risk profile.

Short-term credit factors

The 'A-1' short-term rating reflects Gulf Power's corporate credit rating and accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital-spending needs.

Gulf Power's liquidity is viewed on a consolidated basis with that of Southern Co. As of Dec. 31, 2008, consolidated liquidity was ample, with $417 million of cash on hand, and $3.8 billion in total credit facilities (excluding credit facility availability of Southern Power) of which $794 million supported outstanding commercial paper, and $1.3 billion supported tax-exempt floating rate securities, leaving $1.74 billion available for other needs. Of the total available credit facilities, Southern Co. has $950 million available for short-term needs and commercial paper backup; Alabama Power has $1.256 billion in available facilities; Georgia Power $1.345 billion; Gulf Power $120 million; and Mississippi Power $99 million. About $970 million of the available credit facilities mature in 2009, $25 million mature in 2011 and the balance in 2012. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern Co. and its subsidiaries are well in compliance.

Southern Co.'s liquidity could come under some pressure if the company continues to accumulate deferred fuel costs, which totaled about $1.2 billion as of Dec. 31, 2008. The company estimates that the combination of revised fuel cost adjustments and the recent moderation in fuel prices, should allow for recovery by 2010, providing support to cash flow and liquidity.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent, Southern Co. The stable outlook reflects Southern Co.'s consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but would largely depend on a consistently stronger financial profile. The outlook would be revised to negative if the company's financial profile weakens as a result of the substantial capital spending budget and the inability to recover such expenses in rates in a timely manner, or the inability to recover the current deferred fuel cost balance.

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RATINGSDIRECT®

May 8, 2009

Summary:
Southern Co.

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160186-OPC-POD-71-67

Summary:
Southern Co.

Credit Rating: A/Stable/A-1

Rationale

The ratings on Southern Co. reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co. (APC), Georgia Power Co.(GPC), Gulf Power Co., and Mississippi Power Co. (MPC). Southern Power Company, Southern Co.'s other major subsidiary, is viewed as an equity investment and is not incorporated in the assessment of the credit quality of Southern Co.

Southern Co. has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks; strong operating performance and high availability and capacity utilization factors for owned generation assets; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset by significant capital spending needs during the next three years of about $14.4 billion (excluding Southern Power capital expenditures) to address environmental-compliance requirements, and system maintenance and growth needs, including new generation. Timely recovery of these expenditures will provide support to the consolidated credit profile. The planned capital spending program includes preliminary costs for building two new nuclear facilities at existing sites with major construction starting in mid-2011 once the combined construction and operating license is approved by the Nuclear Regulatory Commission. Georgia Power will own 45.7% of each of the two 1,117 MW units. The in-service cost for Georgia Power's share of the project (including escalation and financing costs) is expected to be about $6.4 billion with the first unit entering commercial operation in April 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new generation assets through the combination of the Integrated Resource Plan approach and a plant certification process that ensures recovery of prudently incurred investment in base rates upon completion. The Georgia PSC certified construction of the proposed nuclear units in April 2009.In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in process during the construction period, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in rate base upon commercial operation. Nevertheless, construction of the new units will increase business risk until the plants are successfully completed, placing pressure on the consolidated business risk profile. Southern Co. had about $1.2 billion in deferred fuel costs as of Dec. 31, 2008, an increase of about $100 million from 2007, reflecting the challenge of recovering fuel costs in a timely manner under a rapidly rising commodity price environment. Recent increases in the operating companies' fuel factors combined with a moderation in fuel prices should permit recovery of these costs in the near to intermediate term. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery, may pressure the company's competitive rates and regulatory relationships.

Southern Co.'s cash flow generation has been consistent and strong, benefiting from the preponderance of regulated utility operations and a growing customer base. For 2008, adjusted funds from operations (FFO) was about $3.5 billion, while total adjusted debt was $20.1 billion, leading to adjusted FFO interest coverage of 4.2x, adjusted FFO to debt of 17.2%, and adjusted total debt to total capital of 59%. These credit protection measures should benefit in the next 12 to 18 months from incremental recovery of fuel costs, which could moderate the need for debt financings. The ratios account for about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content and also pension funding shortfall that adds $1.2 billion as an off-balance sheet debt obligation. Of Southern Co.'s credit protection measures, FFO interest coverage is adequate for the rating, while FFO to debt and total debt to total capital are aggressive, placing some pressure on the ratings despite the company's excellent business risk profile.

Short-term credit factors

The 'A-1' short-term rating on Southern Co. reflects the company's corporate credit rating and accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

As of Dec. 31, 2008, consolidated liquidity was ample, with $417 million of cash on hand, and $3.8 billion in total credit facilities (excluding credit facility availability of Southern Power) of which $794 million supported outstanding commercial paper, and $1.3 billion supported tax-exempt floating rate securities, leaving $1.74 billion available for other needs. Of the total available credit facilities, Southern Co. has $950 million available for short-term needs and commercial paper backup; Alabama Power has $1.256 billion in available facilities; Georgia Power $1.345 billion; Gulf Power $120 million; and Mississippi Power $99 million. About $970 million of the available credit facilities mature in 2009, $25 million mature in 2011 and the balance in 2012. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern Co. and its subsidiaries are well in compliance.

Southern Co.'s liquidity could come under some pressure if the company continues to accumulate deferred fuel costs, which totaled about $1.2 billion as of Dec. 31, 2008. The company estimates that the combination of revised fuel cost adjustments and the recent moderation in fuel prices, should allow for recovery by 2010, providing support to cash flow and liquidity.

Outlook

The stable outlook reflects Southern Co.'s consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but would largely depend on a consistently stronger financial profile. The outlook would be revised to negative if the company's financial profile weakens as a result of the substantial capital spending budget and the inability to recover such expenses in rates in a timely manner, or the inability to recover the current deferred fuel cost balance.

Credit Analysis

Moody's Global
Corporate Finance

January 2008

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Southern Company (The)

Atlanta, Georgia, United States

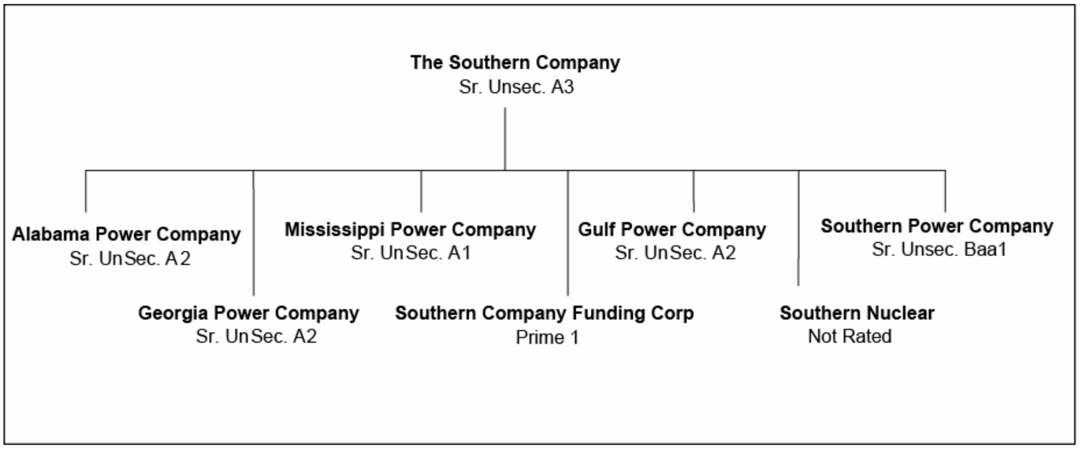
Business Profile

Based in Atlanta, GA, The Southern Company (Southern, A3 senior unsecured, stable outlook) is a utility holding company which owns four vertically integrated regulated utilities: Georgia Power Company (GPC, A2 senior unsecured, stable outlook), Alabama Power Company (APC, A2 senior unsecured, stable outlook), Mississippi Power Company (MPC, A1 senior unsecured, stable outlook) and Gulf Power Company (Gulf, A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company also engages in competitive electricity generation through Southern Power Company (SPC, Baa1 senior unsecured, stable outlook), with its interstate wholesale energy business subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Federal Power Act. Southern owns approximately 41,800 MW's of capacity with approximately half coal-fired generation. Southern sold much of its remaining non-regulated, non-generation assets in 2006 and discontinued its synfuel operations at the end of 2007. Southern LINC Wireless is Southern's remaining non-power subsidiary and provides wireless telecommunications in the southeast United States.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Southern Company (The) and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Moody's Investors Service

Southern Company (The)



Rating Drivers

The key rating drivers for Southern's A3 senior unsecured rating include:

- Declining consolidated cash flow coverage credit metrics that remain adequate for a low single A rating, in accordance with Moody's rating methodology for electric utilities
- Highly rated utility subsidiaries with stable rating outlooks located in a demographically favorable region of the country
- Supportive regulatory treatment in all four of its jurisdictions
- Non-utility business is limited to contracted unregulated generation
- Significant environmental spending is manageable given adequate regulatory support
- A conservative management approach, which emphasizes financial flexibility and liquidity at the individual subsidiary levels

Rating Rationale

Declining consolidated cash flow coverage credit metrics that remain adequate for a low single A rating, in accordance with Moody's rating methodology for electric utilities

Southern's consolidated cash flow coverage metrics have declined over the past four years, reflecting higher operations and maintenance expenses, higher financing costs and increasing capital expenditures related to environmental compliance, and rising fuel deferrals. These metrics include cash from operations before working capital (CFO pre-WC) interest coverage of 4.8x and CFO pre-WC to debt 20.6% for 2006, down from 5.5x and 22.5%, respectively, for the prior year. For the twelve months ended September 30, 2007, CFO pre-WC interest coverage fell to 4.5x and CFO pre-WC to debt fell below 20% to 19.2%. Using the guidelines in Moody's rating methodology for electric utility holding companies, these metrics map to the low end of the A rating category or the high end of the Baa rating category. Metrics may continue to decline over the near term as the company's utilities are in the midst of substantial capital expenditure programs. Longer term, given continued constructive regulatory treatment, credit metrics should stabilize and improve modestly closer to historical levels.

Southern Company (The)

Highly rated utility subsidiaries with stable rating outlooks located in a demographically favorable region of the country

Southern's regulated subsidiaries contributed approximately 94% of consolidated earnings and about 88% of consolidated cash flow from operations in 2006. Historically, all four utilities have demonstrated financial metrics that have been strong relative to their A rating category. However, like Southern's consolidated financials, some of the utilities have experienced declining financial metrics over the past four years due to fuel deferrals and rising capital expenditures, although they remain adequate for their current rating categories.

Key Credit Metrics

	CFO pre-WC Interest Coverage			CFO pre-WC to Debt			Debt to Capitalization		
	2005	2006	LTM 3Q07	2005	2006	LTM 3Q07	2005	2006	LTM 3Q07
Southern	5.5 x	4.8 x	4.5 x	23%	21%	19%	48%	49%	49%
Alabama Power	6.0 x	4.8 x	4.7 x	23%	20%	19%	44%	44%	46%
Georgia Power	6.2 x	5.2 x	5.3 x	26%	22%	22%	42%	43%	43%
Gulf Power	6.5 x	5.5 x	5.0 x	30%	24%	23%	45%	48%	45%
Mississippi Power	12.8 x	3.9 x	5.6 x	42%	17%	27%	43%	37%	36%
Southern Power	3.6 x	3.8 x	4.6 x	17%	17%	22%	57%	56%	53%

Source: Moody's FM

Southern's subsidiaries operate as a single power system based on the Intercompany Interchange Contract (IIC), which governs the dispatch of the company's generation fleet, including SPC, in its retail service territory and is subject to FERC jurisdiction. Moody's views the power pool arrangement as providing greater flexibility while mitigating supply risk of the individual subsidiaries. Energy supply sources for the Southern system in 2006 included approximately 67% coal, 15% nuclear, 3% hydro, 14% oil and gas with the remaining 1% purchased. These supply sources have traditionally provided relatively low cost electricity to Southern's customers; however, coal cost pressures are increasing for the company due to higher commodity, transportation and environmental costs and drought conditions in the Southeast have affected hydro availability.

Supportive regulatory treatment in all four of its jurisdictions

Risks associated with declining credit metrics are largely offset by the supportive regulatory treatment the companies receive from their respective state commissions. Moody's considers Alabama, Mississippi and Florida to have above-average regulatory supportiveness that underpins the company's cash flow generation. The Georgia regulatory environment, while somewhat less supportive than the regulatory jurisdictions of the other subsidiaries, continues to provide constructive regulation as evidenced by the recent general rate case settlement that includes an environmental cost recovery tariff. Additionally, Moody's views the risk of deregulation activities in these states to be limited in the near term.

All four of the company's retail regulated utility subsidiaries are operating under established base rate plans with authorized return on equity (ROE) levels which are considered above average for U.S. electric utilities. The utilities have several adjustment mechanisms in place to address rising costs. All of Southern's utility jurisdictions allow the utilities to adjust rates prospectively based on expected fuel and purchased power costs. Due to drought conditions in the southeast, APC and GPC have had to replace low-cost hydro generation with higher cost gas generation and purchased power and as a result have experienced higher fuel cost deferrals. Moody's expects regulators in Alabama and Georgia to allow recovery of these higher energy costs.

Southern Company (The)

Alabama

Since 1982, APC has operated under the Alabama Public Service Commission (APSC) approved Rate Stabilization and Equalization (RSE) plan, under which APC is allowed to earn an ROE level within a dead band of 13% and 14.5% with rates adjusting to maintain an ROE of 13.75% if projected earnings are outside of the authorized range.

The Alabama commission has allowed Alabama Power a rate adjustment mechanism to recover the costs of placing new generating facilities into retail service under the rate Certificated New Plant (CNP) and has further established an adjustment mechanism to recover ongoing environmental capital and operating expenses as well as certified purchased power costs. In addition, fuel rates are adjusted on a forward looking basis. Collectively, Moody's views these authorized rate adjustments clauses as a credit positive as they provide a high degree of protection and stability for APC's cash flow.

Georgia

GPC's regulatory environment in Georgia is generally constructive and recent regulatory decisions of the Georgia Public Service Commission (GPSC) have been generally supportive. On December 18, 2007, the Georgia Public Service Commission approved a new three-year rate plan from January 1, 2008 through December 31, 2010. The settlement includes a base rate increase of $99.7 million, an environmental compliance cost recovery or ECCR tariff of $222 million for recovery of environmental costs; a rate of return of 11.25%; and sharing provisions on an ROE range of 10.25% to 12.25%. GPC had requested a $406.7 million (6%) rate increase based on a 12.5% ROE and 52.75% equity ratio. The settlement appears sufficient to maintain GPC's credit metrics at historical levels with an ROE that is reasonable relative to other integrated utilities.

GPC has built up a significant unrecovered fuel balance of $812 million as of September 30, 2007. In February 2007, the GPSC approved a fuel cost related rate increase of $383 million and GPC is required to file another fuel cost rate plan by March 2008. As part of its fuel recovery filings, GPC is allowed to include forecasted expected fuel and purchased power costs in its fuel rate filings. Although GPC's fuel recovery plans appear to be a reasonable recovery mechanism, Moody's views the relatively high fuel cost deferrals to be a relative weakness for GPC's near term cash flows.

While no electric restructuring legislation has been introduced in Georgia to effect retail competition, the Georgia Territorial Act of 1973 gives large retail customers the one-time option of choosing their energy supplier. With its relative lower cost generation sources, GPC has maintained a 60% to 80% market share among these large customers in Georgia.

Florida

Florida has traditionally had an above average regulatory environment, with a history of timely rate actions and supportive measures for cost recovery. Gulf Power's geographic footprint in Florida's panhandle Gulf coast makes this subsidiary vulnerable to hurricane activity, and as such, regulatory treatment to address storm cost damage has been an important factor supporting the cash flows of the company. The Florida Public Service Commission (FPSC) continues to provide constructive regulatory support to the utility, which underpins its strong cash flow generation. Gulf Power operates under base rates that were established in 2002 and are based on a 12% return on equity.

The utility also benefits from a separately established and FPSC approved fuel cost recovery mechanism. Annually, Gulf Power petitions the FPSC for recovery of projected fuel and purchased power costs including any true-up amount from prior periods, and approved rates are implemented each January. On November 6, 2007, the FPSC approved Gulf Power's proposed fuel cost recovery clause factor for 2008, which includes a true-up to recover a portion of the 2007 under-recovered balance. For any period between annual filings, the utility is required to notify the FPSC if the projected fuel over- or under-recovery exceeds 10% of the projected fuel revenue applicable for the period, at which time the utility can petition the FPSC for an adjustment to rates.

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As of September 30, 2007, total un-recovered fuel costs were $64 million. Moody's expects Gulf Power to file for a rate adjustment should credit metrics come under further pressure due to under-recoveries. As a result of the 2005 storm damage, Gulf Power also received approval in 2006 to file a streamlined approval for an interim surcharge of up to 80% of the cost of the storm-recovery when recovery costs exceed $10 million. Gulf Power would then be able to petition for full and permanent recovery of the costs.

Mississippi

Mississippi's regulatory environment has a history of supportive and timely rate actions that provide the basis for continued strong cash flows and credit metrics. This includes environmental spending and fuel cost recovery using a future test year, limiting regulatory lag. MPC operates under a Performance Evaluation Plan (PEP), a rate structure filed annually utilizing a forward-looking test year, with annual rate increases limited to 4%, based on an allowed ROI range.

The Mississippi PSC (MPSC) allowed MPC to raise rates 12.1% effective January 2006 for un-recovered prior period and higher projected fuel costs. In November 2006, MPC filed to increase rates 4.6% in 2007 based on un-recovered 2006 fuel costs and projected higher 2007 fuel costs. MPC had $46 million of deferred fuel balances on its balance sheet as of September 30, 2007, which declined modestly from its YE 2006 balance of $51 million.

Non-utility business is limited to contracted unregulated generation

SPCs competitive generation business bears a relatively higher level of risk than Southern's core retail regulated utility operations, although it entails a lower business risk profile in comparison to other competitive wholesale generators. Risks are somewhat mitigated by the company's strategy to enter into long-term, fixed price contracts, approved by the state regulators and the FERC, for the majority of its competitive generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. SPC's revenues are contracted at more than 80% through 2015, and partially contracted through 2023. In addition, the market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing SPC's financial and operating risk.

In November 2007, SPC announced that the planned 285 MW IGCC plant to be constructed by SPC and Orlando Utilities Commission (OUC) had been cancelled. The companies cited continuing uncertainty surrounding potential Florida regulations relating to greenhouse gas emissions. The original plan had OUC building a combined-cycle plant and SPC providing the gasification technology, although now only the combined cycle plant is expected to be built. Moody's views the cancellation of the IGCC project as modestly credit positive to Southern's SPC subsidiary due to the significant operational and cost uncertainties surrounding the IGCC technology.

Significant environmental spending is manageable given adequate regulatory support

The rating reflects the balance sheet impact of near-term funding required for plant upgrades to meet environmental compliance costs. Given the utilities' high reliance on coal-fired generation, they each have exposure to potentially significant environmental compliance expenditures. Southern is expected to spend over $1.7 billion in 2008 and $1.3 billion in 2009 on environmental expenditures and Moody's expects environmental compliance costs to exceed an additional $7.5 billion over the next decade. While Moody's anticipates the timely recovery of environmental costs through rate adjustments, the funding of environmental remediation measures is expected to put pressure on the company's balance sheet in the medium term. The A3 senior unsecured rating incorporates Moody's view that the company will fund its capital spending conservatively with a balanced mix of debt and equity.

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Southern Company (The)

A conservative management approach, which emphasizes financial flexibility and liquidity at the individual subsidiary levels

Southern maintains a strong liquidity profile supported by the underlying cash flows of its four regulated electric operating subsidiaries; large, mostly unused, bank credit facilities; and a strong cash position at September 30, 2007. Southern's parent level liquidity is supported by cash dividends from its subsidiaries and availability under two $500 million revolving credit facilities and $200 million of extendible commercial notes. Moody's anticipates continued dividend contributions from the subsidiaries to be in the range of $1.3 billion to $1.5 billion annually in 2008 and 2009.

Southern had parent company cash on hand of $39 million and $526 million of commercial paper outstanding as of September 30, 2007. Southern generated $3.4 billion of cash from operations for the twelve months ended September 30, 2007, compared to $2.9 billion for fiscal year 2006 on a Moody's adjusted basis. The significant increase is primarily due to improved working capital cash flows and hurricane-related grants.

In July 2007, Southern replaced its existing $250 million facility with a $500 million facility expiring in 2012 and the other $500 million facility expires was also extended to 2012. The credit facilities provide liquidity support for Southern's commercial paper program and other short-term financing needs. Each facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and does not include a material adverse change representation for new borrowings. As of September 30, 2007, Southern was in compliance with its financial covenant and Moody's expects that the company will have sufficient headroom under this covenant requirement going forward.

Southern's utility subsidiaries and SPC each have their own bank facilities to support their short-term liquidity needs. Consolidated credit facilities are approximately $4.1 billion along with $445 million of extendible commercial lines. Southern had consolidated cash on hand of $535 million and $1.28 billion of short-term notes outstanding as of September 30, 2007.

Liquidity

As of September 30, 2007; ($ millions)

	Total Credit Facilities	ECN *	Cash	CP Outstanding	Securities Due Within 1 Year
Southern Parent	$ 1,000	$ 150	$ 39	$ 526	$ 175
Alabama Power **	$ 978	$ 80	$ 308	$ 0	$ 978
Georgia Power ***	$ 902	$ 158	$ 15	$ 566	$ 432
Gulf Power	$ 125	$ 23	$ 5	$ 26	$ 41
Mississippi Power	$ 181	$ 33	$ 9	$ 60	$ 1
Southern Power ****	$ 400	$ 0	$ 24	$ 120	$ 0

** ECN: Extendible Commercial Facilities*

*** Bank facility size subsequently increased to $1,235 million*

**** Bank facilities size subsequently increased to $1,160 million, and a $100 million bank note issued*

***** CP Outstanding includes $90 million of notes payable and $30 million of CP*

Source: Moody's FM

Southern has parent level debt maturities of $225 million and the subsidiaries have approximately $1.5 billion of debt maturities over the 12 month period ending September 30, 2008. The subsidiaries will refinance the maturities as well as issue additional debt to meet their growing capital expenditure needs. Moody's expects Southern to make equity investments above $500 million annually for the near term in order to balance the debt expected to be issued for the increased capital funding needs. Capital expenditures are expected to increase significantly over the next several years, from $3.9 billion in 2007 to $4.5 billion in 2008 and $4.8 billion in 2009. With increased annual investments in subsidiaries and common dividend payout obligations of around $1.2 billion, Moody's expects a mix of incremental parent level debt and equity issuances to finance negative free cash flow.

Moody's Related Research

Industry Outlook

- U.S. Electric Utility Sector, January 2008 (107004)

Rating Methodology

- Global Regulated Electric Utilities, March 2005 (91730)

Special Comments:

- New Nuclear Generation in the United States: Keeping Options Open vs Addressing An Inevitable Necessity, October 2007 (104977)
- Storm Clouds Gathering on the Horizon for the North American Electric Utility Sector, August 2007 (103941)
- Regulatory Pressures Increase For U.S. Electric Utilities, March 2007 (102322)

Corporate Government Assessment:

- Southern Company (The), November 2007 (105879)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Southern Company (The)

Report Number: 107248

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Moody's Investors Service

FitchRatings
KNOW YOUR RISK

Corporates

Global Power
U.S. and Canada
Credit Update

Gulf Power Company

A Subsidiary of Southern Company

Ratings

Security Class	Current Rating
IDR	A–
Senior Secured	A+
Senior Unsecured	A
Subordinated Notes	A–
Short Term	F1
Preferred Stock	A–

Outlook

Stable

Financial Data

Gulf Power Company
($ Mil.)

	LTM 9/30/07	2006
Revenues	1,246	1,204
Gross Margin	617	595
Cash From Operations	191	143
Operating EBITDA	259	256
Total Capitalization	1,598	1,504
ROE (%)	11.81	12.29
Capex/Depreciation (%)	243.3	173.1

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Related Research

- *Credit Analysis, Southern Company, dated Feb. 19, 2008.*

Rating Rationale

- Fitch affirmed the ratings of Gulf Power Company (Gulf) on Jan. 22, 2008. The Rating Outlook is Stable.
- Gulf's ratings are supported by constructive regulation, a stable credit profile, above-average territory growth and affiliation with the Southern group. While demand growth has recently slowed, Fitch anticipates northwestern Florida will continue to grow faster than the U.S. average for the next several years.
- Rating concerns include growing opposition to coal-fired generation and stricter emissions controls in Florida, generation-unit concentration, potential carbon law compliance costs that would erode cost advantages, and the location of the service territory along a hurricane-prone coast. Gulf has significant scrubber investment plans for 2008 and 2009.

Key Rating Drivers

Events that could lead to a positive rating action:

- None expected in the normal course of business.

Events that could lead to a negative rating action:

- Rising environmental compliance and operating costs result in higher customer rates, which could lead to regulatory fatigue.

Recent Events

Governor Charlie Crist signed three executive orders addressing reduction of greenhouse gases within the state in 2007, including statewide reduction targets beginning in 2017. The orders require the Secretary of Environmental Protection to develop rules on greenhouse gas emissions by utilities and request the PSC to initiate a 20% renewable portfolio standard. Opposition to coal-fired generation has grown since Governor Crist took office in 2006.

A new Georgia multi-pollutant rule for certain coal-fired facilities was approved by the state of Georgia on June 27, 2007. As a result of these rules, modifications must be made to Plant Scherer, which is owned jointly by Gulf and its affiliate, Georgia Power Co. and others.

Florida has an environmental cost-recovery mechanism in place. Fitch expects Gulf to continue to recover required environmental spending in a timely manner, but notes it is more dependent on coal-fired generation than other utilities in the state, and emissions control-related spending will reduce Gulf's generation cost advantages over more gas-dominated generators on the peninsula.

Liquidity and Debt Structure

Gulf's liquidity position is strong. As of Sept. 30, 2007, the company had $5.9 million of cash and a $125 million of credit facilities that supported $25.6 million of outstanding commercial paper. There are no long-term debt maturities for the next five years.

Gulf's capital expenditure plans are high compared with prior years, as a result of environmental compliance spending. Fitch's ratings and Outlook assume that a balanced mix of debt and equity will be used to supplement internal cash flow to fund these investments.

FitchRatings
KNOW YOUR RISK

Corporates

Financial Summary — Gulf Power Company
($ Mil., Years Ended Dec. 31)

	LTM 9/30/07	2006	2005	2004	2003	2002
Fundamental Ratios (x)						
Funds from Operations (FFO)/Interest Expense	4.6	5.1	6.2	7.0	5.3	4.9
Cash Flow from Operations (CFO)/Interest Expense	5.2	4.3	4.8	5.0	6.0	4.4
Debt/FFO	5.0	4.4	3.4	3.3	3.8	3.6
Operating EBIT/Interest Expense	3.8	3.8	3.9	4.0	4.0	3.6
Operating EBITDA/Interest Expense	5.7	5.8	6.0	6.3	6.1	5.6
Debt/Operating EBITDA	3.2	3.1	2.9	3.2	2.7	2.6
Common Dividend Payout (%)	90.0	92.5	90.9	102.6	101.7	97.7
Internal Cash/Capital Expenditures (%)	54.3	45.2	58.3	49.9	122.6	65.8
Capital Expenditures/Depreciation (%)	243.3	173.1	168.4	179.7	119.7	138.4
Profitability						
Revenues	1,246	1,204	1,084	960	878	820
Net Revenues	617	595	569	527	511	484
Operating and Maintenance Expense	274	260	250	230	211	200
Operating EBITDA	259	256	243	228	234	223
Depreciation and Amortization Expense	86	89	85	83	82	77
Operating EBIT	173	167	158	145	152	145
Gross Interest Expense	46	44	40	36	38	40
Net Income for Common	81	76	75	68	69	67
Operating Maintenance Expense % of Net Revenues	44.5	43.6	43.9	43.6	41.2	41.4
Operating EBIT % of Net Revenues	28.0	28.0	27.8	27.5	29.7	30.1
Cash Flow						
Cash Flow from Operations	191	143	153	145	191	136
Change in Working Capital	26	(38)	(55)	(73)	27	(22)
Funds from Operations	164	181	208	217	164	158
Dividends	(76)	(74)	(69)	(70)	(70)	(66)
Capital Expenditures	(210)	(154)	(143)	(149)	(99)	(107)
Free Cash Flow	**(96)**	**(85)**	**(60)**	**(74)**	**22**	**(36)**
Net Other Investment Cash Flow	(7)	(10)	(18)	12	(13)	(18)
Net Change in Debt	18	73	(31)	97	(23)	(14)
Net Change in Equity	85	26	51	29	13	83
Capital Structure						
Short-Term Debt	26	120	89	50	38	28
Long-Term Debt	794	679	613	670	584	542
Total Debt	**820**	**799**	**702**	**720**	**622**	**570**
Preferred and Minority Equity	40	71	95	57	56	89
Common Equity	737	634	602	592	561	550
Total Capital	**1,598**	**1,504**	**1,399**	**1,369**	**1,239**	**1,209**
Total Debt/Total Capital (%)	51.3	53.1	50.2	52.6	50.2	47.2
Preferred and Minority Equity/Total Capital (%)	2.5	4.7	6.8	4.2	4.5	7.4
Common Equity/Total Capital (%)	46.2	42.1	43.0	43.2	45.3	45.4

Note: Numbers may not add due to rounding. Numbers are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes trust preferred securities. LTM – Latest 12 months. Operating EBIT – Operating income plus total reported state and federal income tax expense.
Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense.
Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, VA.

FitchRatings
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Corporates

Global Power
U.S. and Canada
Credit Analysis

Southern Company

Southern Company Capital Funding Inc.

Ratings

Security Class	Current Rating
IDR	A
Unsecured Notes[a]	A
Short-Term IDR/ Commercial Paper	F1

[a]Issued through Southern Company Capital Funding Inc.

Outlook

Stable

Financial Data

Southern Company
($ Mil.)

	LTM 9/30/07	2006
Revenues	15,164	14,356
Gross Margin	8,975	8,661
Cash From Operations	3,307	2,820
Operating EBITDA	4,631	4,437
Total Capitalization	30,102	28,142
ROE (%)	14.54	14.26
Capex/Depreciation (%)	272.6	250.2
Revenues	15,164	14,356

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Related Research

- *Credit Update, Alabama Power Company, dated Feb .19, 2008.*
- *Credit Update, Georgia Power Company, dated Feb. 19, 2008.*
- *Credit Update, Gulf Power Company, dated Feb. 19, 2008.*
- *Credit Update, Mississippi Power Company, dated Feb. 19, 2008.*
- *Credit Update, Southern Power Company, dated Feb. 19, 2008.*

Rating Rationale

- Fitch affirmed the ratings of Southern Company (Southern) and its subsidiaries on Jan. 18, 2008. The Rating Outlook of Southern is Stable.
- Southern's primary rating strengths include: constructive state regulation, low business risk, above-average growth of economically vibrant territories and strong performance of the mainly coal and nuclear-based capacity. In addition, Southern and its subsidiaries have strong liquidity and long-dated debt maturities.
- The stability of cash flows and timeliness of cost recovery at the utility subsidiaries are supported by numerous annual tariff adjustment mechanisms. No base rate filings for any of the four utilities are expected to be necessary for several years, which limits regulatory risk. (APC and MPC have annual base rate adjustment mechanisms that are formula-based.)
- Rating concerns for the Southern group include: weakening of consolidated ratio trends as a result of relatively high capital spending and cost recovery lags; risks of delays in recovery or under-recovery of operating costs or capital projects; emissions-related risks, such as stricter laws or adverse legal outcomes; and the location of service territories in hurricane-prone regions.
- While coal is a relatively low-cost fuel compared to natural gas, and currently helps keep the Southern operating companies' rates low relative to the national average, the effect of any carbon legislation cannot be predicted. More stringent rules could result in significant capital spending requirements and have the potential to adversely affect regulatory relations.
- Credit metrics at the subsidiaries are currently reasonable relative to Fitch guidelines and their business risk, but the parent financial ratios are somewhat weak relative to Fitch's targets for companies of low business risk.

Key Rating Drivers

What could lead to a positive rating action?

- No upgrades anticipated in the ordinary course of business.

- What could lead to a negative rating action?
  - Continued weakening of credit ratios.
  - Environmental-related risks, including potential future carbon costs.
  - Unexpected adverse state regulatory outcomes.

Business Summary

Southern is a holding company that owns four electric utilities: Alabama Power Co. (APC); Georgia Power Co. (GPC); Gulf Power Co. (Gulf); and Mississippi Power Co. (MPC). The utilities collectively provide service to more than 4.3 million retail customers. GPC is the largest of the utilities with 2.3 million customers (54%). Each utility has traditional cost-of-service state regulation with numerous cost trackers designed to minimize recovery lag. Relations with regulators are considered among the most constructive in the industry, particularly in Alabama, Mississippi and Florida.

Southern Company Fuel Supply for 2006
(%)

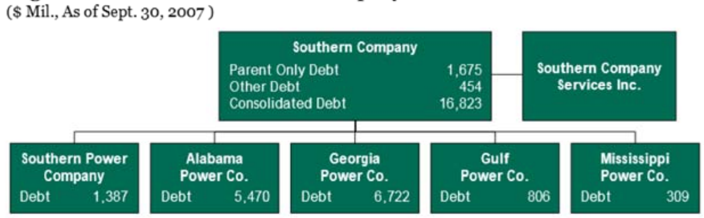
Company	Coal	Nuclear	Hydro	Gas	Oil
APC	68	19	4	9	0
GPC	75	18	1	6	0
Gulf	87	0	0	13	0
MPC	71	0	0	29	0
SEGCO (owned by GPC and APC)	100	0	0	0	0
Southern Power	0	0	0	100	0
Southern Co. System — Weighted Average	70	15	2	13	0

Source: 2006 10-K.

Southern also owns a competitive wholesale generation company, Southern Power Co., (SPC) that generates and sells gas-fired power throughout the Southeast under long-term contracts to investment-grade buyers. SPC's portfolio is more than 90% contracted through the middle of the next decade.

Southern indirectly owns more than 42,000 megawatts (MW) of generating capacity, of which 6,659 MW is owned by SPC. In 2006, the fossil fuel and nuclear unit availability exceeded industry averages at 89.3% and 91.5%, respectively, and there is a strong long-term record in terms of plant availability. The 1.6% peak season-equivalent forced outage minutes (EFOR) in 2007 compares well to the industry. Southern's subsidiaries participate in a system power pool: the subsidiaries, including SPC, share generation resources and operate as a single system that dispatches in order of unit cost. The coal-heavy energy mix results in significant emissions, and any legislated carbon limits would likely result in significant compliance spending. (For more information, refer to the Southern Company Fuel Supply table above.)

Organizational Chart — Southern Company
($ Mil., As of Sept. 30, 2007)



Source: 10-Q for the period ended Sept. 30, 2007.

Recent Events

Georgia Base Rate Settlement

GPC reached a settlement with the Georgia Public Service Commission (GPSC) on base rates in December 2007. The terms of GPC's settlement are considered supportive. The three-year accounting order became effective in January 2008 and permits a Return on Equity (ROE) range of 10.25%–12.25%. Importantly, the settlement enables recovery of forecasted costs of environmental capital projects scheduled to enter service during the three-year settlement period. However, GPC has to carry the construction costs of scrubbers that are under construction and enter service after the end of the settlement period (no construction work in progress), which could pressure credit ratios.

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Southern expects to be able to earn adequate returns at GPC and each of its other utilities with no base rate filings through 2010. (APC and MPC have annual base rate adjustment mechanisms that are formula-based.)

MPC Storm Cost Recovery

$121 million of storm restoration securitization bonds were authorized by the Mississippi Public Service Commission and issued by the Mississippi Development Bank on behalf of the people of Mississippi on June 1, 2007. On that day, MPC received an $85.2 million grant from the state of Mississippi for $25.2 million for Katrina storm cost recovery and $60 million of storm reserve replenishment. MPC received an additional $17.6 million grant to construct a storm operations center on Oct. 9, 2007, and will receive up to another $18.4 million in grants as the center is constructed. The storm bonds will be repaid through an irrevocable surcharge on customer electric bills. The regulatory commitment and follow-through to maintain the credit quality of utilities in the state after the devastating storm reinforced Fitch's view that Mississippi's regulatory environment is constructive. The securitization debt is reported as a liability by the state of Mississippi (and not by MPC).

Previously, MPC received a Community Development Block Grant of $276.4 million and insurance proceeds. The costs of restoration and repair have been fully recovered through these various means. While casino demand has been restored to pre-Katrina levels, overall customer demand in Mississippi continues to recover, with 3% annual growth expected for MPC's territory through 2009.

SPC Contracting Activities

SPC continued to sign long-term contracts with strong investment-grade counterparties in 2007, which lends stability to cash flow. Namely, SPC signed an agreement with Progress Energy Carolinas (rated 'A–') to provide 150 MW from January 2010 to December 2019 from the Rowan plant in February 2007. SPC acquired Rowan Desoto from an affiliate of Progress Energy in 2006. In addition, SPC won a portion of the GPC request for proposal (RFP) in April 2007 and will supply 292 MW from June 2010–2025 from Plant Dahlberg, and 561 MW from June 2010–May 2017 from Plant Wansley.

Environmental Developments

Florida Governor Charlie Crist signed three executive orders addressing reduction of greenhouse gases within the state, including statewide reduction targets beginning in 2017. The orders require the Secretary of Environmental Protection to develop rules on greenhouse gas emissions by utilities and request the Public Service Commission (PSC) to initiate a 20% renewable portfolio standard (RPS).

A new Georgia multi-pollutant rule for certain coal-fired facilities was approved by the state of Georgia on June 27, 2007. As a result of these rules, modifications must be made to Plant Scherer, which is owned jointly by Gulf and GPC. GPC's three-year settlement will enable it to recover the costs of environmental projects placed in service through December 2010. However, GPC does not have a permanent rate adjustment mechanism in place for environmental projects placed in service after 2010, and will have to apply for recovery in its next three-year rate filing.

Gulf has an environmental cost recovery mechanism in place. Fitch expects Gulf to continue to recover required environmental spending in a timely manner.

Uncertainty over carbon regulation and political opposition to coal-fired generation in Florida led to SPC's decision to cancel the integrated gas combined cycle (IGCC) project in Orlando in November 2007.

FERC Update

The Federal Energy Regulatory Commission (FERC) approved SPC's plan for functional separation of SPC from the Southern utilities on April 29, 2007. The plan involves physical separation and information restrictions. SPC can remain a member of the Southern power pool (the Intercompany Interchange Contract), which is an important competitive and operational advantage.

Market Power

FERC has ongoing proceedings to assess Southern's dominance of the market within its retail service territories. FERC has a market power test that determines whether a company can retain market-based rate authority. (The four prongs of this test include transmission market power, barriers to entry, affiliate abuse/reciprocal dealing and generation dominance.) The ultimate outcome of the generation-dominance proceeding currently cannot be determined, but an adverse decision by the FERC in a final order could result in refunds of approximately $19.7 million, plus interest.

Liquidity and Capital Resources

The consolidated liquidity position of the Southern group is considered strong. The utilities had continuous commercial paper (CP) market access during broad CP market disruptions and can readily issue longer-term debt in today's generally tighter credit market conditions. Internal liquidity consisted of consolidated cash and equivalents; the balance was $534.5 million on Sept. 30, 2007.

Working capital balances continue to be somewhat elevated as a result of under-collected fuel costs. While each of the utilities has forward-looking fuel adjustment mechanisms in place, coal costs have increased faster than projected by Southern and approved by the four state commissions. In addition, some of the recent increase can be attributed to the drought in the Southeast region, which has led to greater reliance on gas-fired generation rather than hydro capacity. GPC and APC had under-collected fuel costs in the amounts of $811 million and $307 million, respectively, as of Sept. 30, 2007. Southern expects to fully recover under-collected fuel by 2009, which should lead to lower short-term debt balances.

Southern has no money pool, and each issuer funds itself separately and maintains its own credit facilities (please see to the Credit Facilities table above). Each of the credit facilities has one financial covenant, which is the maintenance of a maximum debt-to-capital ratio of 65%. There are no material adverse clause provisions or rating triggers that would result in termination in the facilities. There were no revolving credit borrowings at Sept. 30, 2007, except for a $60 million borrowing by SPC, which was subsequently repaid. Portions of the facilities were used for CP backup and variable rate note remarketing as of Sept. 30, 2007, and there was approximately $1.6 billion available

Capital Structure
($ Mil., As of Sept. 30, 2007)

	APC	GPC	Gulf	MPC[a]	SPC	Southern Co. Consolidated
Debt	5,470	6,722	806	309	1,387	16,823
Preferred and Minority Equity	635	45	54	33	0	766
Total Equity	4,340	6,447	737	621	1,087	12,347
Total Capital	**10,445**	**13,214**	**1,598**	**963**	**2,474**	**29,936**
Debt to Capitalization (%)	52	51	50	32	56	56

[a]MPC capital structure excludes Plant Daniel lease adjustment, which increases MPC's adjusted debt/capitalization ratio to 43%.
Source: 10-Q for the period ended Sept. 30, 2007, and Fitch.

Credit Facilities
($ Mil., As of Sept. 30, 2007)

	Amount	Amount Available	Expiration	Commercial Paper	Cash and Cash Equivalents
APC	978	415	$378 in 2008 and $600 in 2012	0	307.715
GPC[a]	910	234	$40 in 2008 and $862 in 2012	566	15.32
Gulf	125	99	$60 in 2007 and $65 in 2008	25.6	4.919
MPC	181	121	$13.5 in 2007 and $167.5 in 2008	60.3	9.189
Southern Company	1,000	422	2011	518	173.359
APC	400	310	2012	29.9	24.005
Other	30	30	$30 in 2008		
Total	**3,624**	**1,631**		**1199.8**	**534.507**

[a]On Dec 3, 2007, GPC increased its credit facility to $1.12 billion.
Source: 10-Q for the period ended Sept. 30, 2007.

for drawing on that date.

Capital Spending

Southern will have ongoing needs for external financing to partially fund capital investments and common dividends. Southern's subsidiaries are entering a period of relatively substantial emissions control and system growth and reliability investment. Fitch expects Southern and its subsidiaries to continue to access the public debt and preference stock markets on a regular basis over the next several years. In addition, Southern intends to issue approximately $500 million of common equity through the dividend reinvestment program, 401(k)-related issuance and stock option exercises. Southern is targeting a 70% dividend payout ratio. No underwritten common equity offerings are planned at this time.

Southern intends to make significant capital investments during the next three years. (Please see the Projected Capital Investments table below). Transmission and distribution and environmental controls are the largest part of the budget, with each accounting for approximately 30% of the consolidated plan. Delays in recovery of the capital spending or project cost over-runs could pressure credit ratios and ratings. The Stable Rating Outlook on Southern and subsidiaries assumes that coverage ratios will remain within guidelines throughout the period of significant capital spending.

Beyond the three-year time horizon, Fitch expects Southern to begin significant spending on construction of new baseload capacity. As a result of continuing migration of the U.S. population into the Southeast region, Southern estimates it will need significant capacity additions to its 42,000 MW of existing capacity to meet forecasted annual demand growth of 2%. Purchased power and self-build will be considered. Southern has a target system capacity reserve margin of 15% and expects demand growth to reach equilibrium with this level in

Projected Capital Investments
($ Mil.)

Issuer	2008	2009	2010
Alabama Power	1,600	1,600	1,000
Georgia Power	2,100	2,200	2,000
Gulf Power	400	400	300
Mississippi Power	200	200	200
Other	100	100	100
Southern Power	100	300	800
Consolidated Capital Budget	**4,500**	**4,800**	**4,400**

Source: Company 2007 earnings presentation.

approximately 2010. Ongoing regulatory support will be needed to maintain credit ratings during the construction period.

Following an RFP, in 2007, GPC signed power purchase agreements (PPA) totaling 1,795 MW for 2010 needs. Much of the 2010 need related to the expiration of the Franklin PPA with affiliate SPC. The winning bids were from Exelon, which will provide 942 MW of capacity and affiliate SPC (as mentioned above).

GPC forecasts a need for 1,600 MW of new baseload capacity in the 2016–2017 timeframe. Bids under the RFP for this capacity are due no later than May 1, 2008, which should include a low-fuel volatility self-build capacity option. GPC is considering the addition of a new nuclear unit at the existing Plant Vogtle site for the baseload needs, but no commitment to proceed has been made. The Westinghouse/Toshiba design has been chosen by GPC (and other non-affiliate utilities throughout the Southeast, in a plan to share best practices and economies) and GPC expects to receive a contractor bid price on the Vogtle project in the near term. GPC can recover the costs of permitting the nuclear plant in tariffs, whether or not it is ultimately built.

In addition to the contemplated nuclear plant in Georgia, new gas-fired and clean coal projects are also being considered by Southern's utilities. Southern continues to consider construction of a plant utilizing its proprietary IGCC technology in Mississippi, and the project is one of 16 finalists in the Department of Energy loan guarantee program for advanced clean energy projects.

Long-Term Debt Maturities

Long-term debt maturities are considered manageable. Southern and its subsidiaries have good capital market access. APC completed a $300 million issuance of 4.85% notes in January 2008.

Long-Term Debt Maturity Schedule

Year	APC	GPC	Gulf	MPC	SPC	HoldCo	Total
2008	410	195	0	0	0	400	1,005
2009	450	275	0	40	0	0	765
2010	100	0	0	0	0	0	100
2011	200	110	0	69	0	0	380
2012	200	200	0	0	575	500	1,475

Source: Company reports.

Financial Summary — Southern Company
($ Mil., Years Ended Dec. 31)

	LTM 9/30/07	2006	2005	2004	2003	2002
Fundamental Ratios (x)						
Funds from Operations (FFO)/Interest Expense	4.3	4.5	5.4	5.4	5.0	4.5
Cash Flow from Operations (CFO)/Interest Expense	4.4	4.0	4.1	4.6	5.0	4.8
Debt/FFO	5.1	4.6	3.9	3.9	4.0	4.6
Operating EBIT/Interest Expense	3.5	3.4	3.7	3.8	3.7	3.4
Operating EBITDA/Interest Expense	4.7	4.7	5.1	5.1	5.1	4.8
Debt/Operating EBITDA	3.6	3.4	3.3	3.4	3.2	3.3
Common Dividend Payout (%)	69.1	72.5	69.0	68.2	68.1	72.7
Internal Cash/Capital Expenditures (%)	63.1	56.0	60.2	80.4	102.6	69.5
Capital Expenditures/Depreciation (%)	272.6	250.2	202.4	216.1	196.1	260.6
Profitability						
Revenues	15,164	14,356	13,554	11,729	11,186	10,514
Net Revenues	8,975	8,661	8,328	7,687	7,592	7,234
Operating and Maintenance Expense	3,606	3,519	3,510	3,290	3,174	3,048
Operating EBITDA	4,631	4,437	4,151	3,783	3,845	3,642
Depreciation and Amortization Expense	1,232	1,200	1,176	949	1,027	1,047
Operating EBIT	3,399	3,237	2,975	2,834	2,818	2,595
Gross Interest Expense	984	940	811	746	761	756
Net Income for Common	1,718	1,573	1,591	1,532	1,474	1,318
Operating Maintenance Expense % of Net Revenues	40.2	40.6	42.1	42.8	41.8	42.1
Operating EBIT % of Net Revenues	37.9	37.4	35.7	36.9	37.1	35.9
Cash Flow						
Cash Flow from Operations	3,307	2,820	2,530	2,695	3,071	2,853
Change in Working Capital	71	(483)	(1,003)	(571)	(7)	224
Funds from Operations	3,236	3,303	3,533	3,266	3,078	2,629
Dividends	(1,187)	(1,140)	(1,098)	(1,045)	(1,004)	(958)
Capital Expenditures	(3,358)	(3,002)	(2,380)	(2,051)	(2,014)	(2,728)
Free Cash Flow	**(1238)**	**(1,322)**	**(948)**	**(401)**	**53**	**(833)**
Net Other Investment Cash Flow	80	18	(259)	(213)	(181)	(240)
Net Change in Debt	460	881	1,154	434	(361)	576
Net Change in Equity	820	272	(88)	271	595	502
Capital Structure						
Short-Term Debt	1,284	1,941	1,257	426	568	972
Long-Term Debt	15,355	13,101	12,646	12,268	11,652	11,189
Total Debt	**16,639**	**15,042**	**13,903**	**12,694**	**12,220**	**12,161**
Preferred and Minority Equity	1,116	1,729	1,863	1,892	1,742	2,009
Common Equity	12,347	11,371	10,689	10,278	9,648	8,710
Total Capital	**30,102**	**28,142**	**26,455**	**24,863**	**23,610**	**22,879**
Total Debt/Total Capital (%)	55.3	53.5	52.6	51.1	51.8	53.2
Preferred and Minority Equity/Total Capital (%)	3.7	6.1	7.0	7.6	7.4	8.8
Common Equity/Total Capital (%)	41.0	40.4	40.4	41.3	40.9	38.1

Note: Numbers may not add due to rounding. Numbers are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes trust preferred securities. LTM – Latest 12 months. Operating EBIT – Operating income plus total reported state and federal income tax expense.
Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense.
Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, VA.

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October 31, 2008

Gulf Power Co.

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Gulf Power Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/--

Strengths:

- A generally constructive regulatory environment in Florida;
- Above-average customer growth with attractive demographics;
- Strong operating performance;
- Moderately competitive rate structure;
- Stable consolidated cash flows; and
- Operating and regulatory diversity on a consolidated basis.

Weaknesses:

- Large environmental compliance costs due to heavy reliance on coal;
- Higher deferred fuel costs; and
- Aggressive adjusted consolidated debt leverage.

Rationale

The ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. The parent company has an excellent business risk profile that is characterized by stable electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. Southern Co.'s business risk profile benefits from: operations in jurisdictions with generally constructive regulatory frameworks, strong operations, competitive rates and prudent and reasonably conservative management and financial policies. These strengths are offset by significant capital spending needs during the next three years of about $13.2 billion and significant fuel cost deferrals that will necessitate timely recovery.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 427,663 customers primarily in the Florida panhandle area and providing about 5% to 6% of operating income and cash flows. The moderately sized service territory has attractive demographics and had above-average customer growth of about 2.1% in 2007, although that growth could moderate somewhat as a result of the overall weakness in the economy. Residential and commercial customers account for 69% of revenues and 57% of sales, while industrial customers account for 11% of revenues and 12% of sales. There is no meaningful customer concentration. Sales for resale are material at 16% of revenues and 30% of sales and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,711 MW, with coal-fired assets contributing 81.8% of energy, gas 13.6%, and purchases 4.6%. Plant availability continued to be consistently high during 2007, with 93.4% for the fossil-fired units. Retail rates are moderately competitive at about 95% of the national average and could come under pressure as the company recovers deferred fuel and storm restoration costs along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for regular true-ups. Environmental projects not in rates are recovered through an environmental-recovery clause. As of June 30, 2008, Gulf Power had about $77.7 million in deferred fuel costs and in July 2008, the Florida Public Service Commission (FPSC) approved an increase in the fuel factor of 28.3% to recover $38.2 million in deferred fuel costs from September to December 2008. The fuel cost recovery factor will be reviewed again in November 2008. The remaining portion of the deferred fuel costs is to be recovered in 2009. The FPSC requires the company to file for updated fuel cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to recover $52.6 million related to storm damages through 2009 and has included in base rates recovery of $3.5 million annually to fund a storm reserve fund.

Southern Co.'s cash flow generation has been consistent and strong, benefiting from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2008, adjusted funds from operations (FFO) was about $3.23 billion, while total adjusted debt was $17.9 billion, leading to adjusted FFO interest coverage of 4.2x, adjusted FFO to debt of 18%, and adjusted total debt to total capital of 57.1%. These credit protection measures should benefit in the next 12 to 18 months from incremental recovery of fuel costs, which could moderate the need for debt financings. The ratios account for about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content. Of Southern Co.'s credit protection measures, FFO interest coverage is adequate for the rating, while FFO to debt and total debt to total capital are aggressive, placing some pressure on the ratings despite the company's excellent business risk profile.

Gulf Power's stand-alone financial profile for the year ended Dec. 31, 2007 is adequate for the current ratings, with adjusted FFO interest coverage of 4.6x, adjusted FFO to debt of 22.2% and debt leverage of 52.4%.

Short-term credit factors

The 'A-1' short-term rating reflects Gulf Power's corporate credit rating, but also accounts for stable cash flow and sufficient liquidity to meet upcoming debt maturities and capital-spending needs.

Gulf Power's liquidity is viewed on a consolidated basis with that of Southern Co. As of Sept. 30, 2008, consolidated liquidity was ample, with $800 million of cash on hand, and $3.9 billion in total credit facilities (excluding credit facility availability of Southern Power) of which $1.2 billion supported outstanding commercial paper, and $1.4 billion supported tax-exempt floating rate securities, leaving $1.3 billion available under the revolving credit facilities for other needs. Of the total available credit facilities, Southern Co. has $1 billion available for short-term needs and commercial paper backup; Alabama Power has $1.3 billion in available facilities; Georgia Power $1.3 billion; Gulf Power $130 million; and Mississippi Power $181 million. About $653 million of the available credit facilities mature in 2008, $438 million mature in 2009 and the balance in 2012. About $79 million of the credit facilities maturing in 2008 and 2009 provide for the execution of term loans for an additional two-year period, while $594 million provide for one-year term loans. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern Co. and its subsidiaries are well in compliance.

Southern Co.'s liquidity could come under some pressure if the company continues to accumulate deferred fuel costs, which totaled about $1.0 billion as of June 30, 2008. The company estimates that the combination of revised fuel cost adjustments and the recent moderation in fuel prices, should allow for recovery by 2010, providing support to cash flow and liquidity.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent, Southern Co. The stable outlook on Southern Co. reflects the company's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but such a change would largely depend on a consistently stronger financial profile. The outlook would be revised to negative if the company's financial profile weakens over the next few years as a result of the substantial capital spending budget and the inability to recover such expenses in rates in a timely manner, or the inability to recover the current deferred fuel cost balance.

Accounting

Southern Co.'s financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2007.

In assessing the financial risk profile of Southern Standard & Poor's views Southern Power as an equity investment and its dividend distribution to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Southern Co. reports changes in under recovered fuel balances as part of changes in working capital. However, Standard & Poor's, while analyzing the company's cash flows, re-classifies these changes as part of changes in funds from operations (FFO). This adjustment reflects the long term nature of recovery of fuel costs which is more a standard measure of FFO rather than working capital.

Asset-retirement obligations totaled about $1.2 billion at Dec. 31, 2007. Of that amount, about $1.1 billion relates to nuclear decommissioning costs that Standard & Poor's does not view as an off-balance-sheet obligation given the existence of a matching nuclear decommissioning trust fund and the ability to collect decommissioning costs in rates. About $153 million relates to asbestos removal and disposal of polychlorinated biphenyls in certain transformers, and for which Standard & Poor's ascribes about $99.5 million of off-balance-sheet debt, which is not material to overall capitalization.

Standard & Poor's views Southern Co.'s $412 million of trust-preferred securities and $1,080 million of preferred and preference shares as of Dec. 31, 2007, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. However, Standard & Poor's also reviews coverage and capitalization ratios that alternatively view these securities as all debt and as all equity. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 5.2% of total capital as of Dec. 31, 2007, which is not an unduly large amount.

Capitalization of non-rail car operating leases adds about $300.8 million of off-balance-sheet obligations as of Dec. 31, 2007, while debt imputed for PPAs adds about $774.5 million. These figures represent about 6.4% of adjusted total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Table 1

Southern Co. -- Peer Comparison*

Industry Sector: Electric

	--Average of past three fiscal years--				
	Southern Co.	**Duke Energy Corp.**	**FPL Group Inc.**	**Entergy Corp.**	**American Electric Power Co. Inc.**
Rating as of Oct. 22, 2008	A/Stable/A-1	A-/Positive/A-2	A/Stable/--	BBB/Negative/--	BBB/Stable/A-2
(Mil. $)					
Revenues	13,577.6	15,396.9	13,822.7	10,837.8	12,624.5
Net income from cont. oper.	1,509.4	2,048.0	1,099.2	1,078.8	1,055.0
Funds from operations (FFO)	3,418.2	3,841.4	2,844.3	2,679.3	2,486.0
Capital expenditures	2,659.6	3,142.3	1,733.7	1,681.1	3,257.0
Cash and short-term investments	170.8	1,554.3	480.0	957.3	599.0
Debt	15,946.5	17,245.7	10,818.4	11,539.9	15,293.4
Preferred stock	1,046.8	0.0	503.0	187.7	61.0
Equity	12,340.4	21,515.0	10,524.1	7,967.8	9,185.2
Debt and equity	28,287.0	38,760.6	21,342.5	19,507.7	24,478.6
Adjusted ratios					
EBIT interest coverage (x)	3.6	3.5	2.9	3.4	2.4
FFO int. cov. (X)	5.1	4.4	5.2	4.9	3.2
FFO/debt (%)	21.4	22.3	26.3	23.2	16.3
Discretionary cash flow/debt (%)	(5.5)	(5.3)	0.7	2.7	(8.2)
Net cash flow / capex (%)	84.3	81.8	128.7	130.6	58.2
Total debt/debt plus equity (%)	56.4	44.5	50.7	59.2	62.5
Return on common equity (%)	13.5	9.5	10.9	12.3	10.4
Common dividend payout ratio (un-adj.) (%)	74.6	61.9	54.3	44.6	56.1

*Fully adjusted (including postretirement obligations).

Table 2

Gulf Power Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2007	**2006**	**2005**	**2004**	**2003**
Rating history	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. $)					
Revenues	1,259.8	1,203.9	1,083.6	960.1	877.7
Net income from continuing operations	88.0	79.3	76.0	68.4	69.2
Funds from operations (FFO)	190.3	138.2	165.2	147.9	165.7
Capital expenditures	240.5	152.8	149.3	149.0	98.9
Cash and short-term investments	5.3	7.5	3.8	64.8	2.5
Debt	858.7	836.2	754.5	753.3	689.9
Preferred stock	49.0	47.6	60.0	38.1	4.2

Table 2

Gulf Power Co. -- Financial Summary*(cont.)					
Equity	780.3	681.6	693.0	652.0	592.2
Debt and equity	1,638.9	1,517.8	1,447.5	1,405.4	1,282.2
Adjusted ratios					
EBIT interest coverage (x)	3.7	3.6	4.1	3.9	3.6
FFO int. cov. (x)	4.6	3.8	5.1	4.9	5.2
FFO/debt (%)	22.2	16.5	21.9	19.6	24.0
Discretionary cash flow/debt (%)	(11.5)	(9.6)	(7.3)	(9.7)	3.4
Net Cash Flow / Capex (%)	47.6	41.9	63.0	50.7	96.4
Debt/debt and equity (%)	52.4	55.1	52.1	53.6	53.8
Return on common equity (%)	12.3	12.0	12.6	11.5	12.2
Common dividend payout ratio (un-adj.) (%)	87.5	92.5	90.9	102.6	101.7

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2007--									
Gulf Power Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	784.7	829.3	261.5	261.5	175.9	44.7	217.0	217.0	77.4	241.5
Standard & Poor's adjustments										
Operating leases	9.5	--	3.9	0.7	0.7	0.7	3.2	3.2	--	--
Intermediate hybrids reported as equity	49.0	(49.0)	--	--	--	1.7	(1.7)	(1.7)	(1.7)	--
Postretirement benefit obligations	--	--	(1.9)	(1.9)	(1.9)	--	(0.3)	(0.3)	--	--
Accrued interest not included in reported debt	7.7	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	1.0	(1.0)	(1.0)	--	(1.0)
Share-based compensation expense	--	--	--	1.1	--	--	--	--	--	--
Asset retirement obligations	7.8	--	0.6	0.6	0.6	0.6	0.5	0.5	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	3.8	--	--	--	--	--

Table 3

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*(cont.)										
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(27.1)	--	--
Other	--	--	--	--	--	--	(0.3)	(0.3)	--	--
Total adjustments	74.0	(49.0)	2.7	0.6	3.3	4.0	0.4	(26.7)	(1.7)	(1.0)
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	858.7	780.3	264.2	262.1	179.2	48.7	217.4	190.3	75.8	240.5

*Gulf Power Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 31, 2008)*	
Gulf Power Co.	
Corporate Credit Rating	A/Stable/--
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (10 Issues)	A
Senior Unsecured (2 Issues)	A/A-1
Senior Unsecured (1 Issue)	AA/Negative
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/--
30-Nov-1998	A+/Watch Neg/--
24-Mar-1995	A+/Stable/--
Debt Maturities	
2008 $1.2 bil. 2009 $609 mil. 2010 $291 mil. 2011 $332 mil. 2012 $1.6 bil	
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1

Ratings Detail (As Of October 31, 2008)***(cont.)**	
Senior Unsecured (22 Issues)	A
Senior Unsecured (17 Issues)	A/A-1
Senior Unsecured (2 Issues)	AA/Negative
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (36 Issues)	A
Senior Unsecured (25 Issues)	A/A-1
Senior Unsecured (9 Issues)	A/NR
Senior Unsecured (8 Issues)	AA/Negative
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (4 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Southern Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (2 Issues)	A-
Senior Unsecured (1 Issue)	A-1
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured (1 Issue)	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	AA/Negative
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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October 31, 2008

Southern Co.

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Southern Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- Stable cash flows;
- Constructive regulatory environments;
- Large and diverse customer base;
- Geographic diversity; and
- Strong operating performance.

Weaknesses:

- Significant capital spending; and
- Significant deferred fuel costs.

Rationale

The ratings on Southern Co. reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co. (APC), Georgia Power Co.(GPC), Gulf Power Co., and Mississippi Power Co. (MPC). Southern Power Company, Southern Co.'s other major subsidiary, is viewed as an equity investment and is not incorporated in the assessment of the credit quality of Southern Co.

Southern Co. has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset by significant capital spending needs during the next three years of about $13.2 billion (excluding Southern Power capital expenditures) to address environmental-compliance requirements, and system maintenance and growth needs, including new generation. Timely recovery of these expenditures will be necessary to provide ongoing support to the consolidated credit profile. The planned capital spending program includes preliminary costs for building two new nuclear facilities at existing sites with major construction starting in mid-2011 once the combined operating and construction license is approved by the Nuclear Regulatory Commission. Southern Company will own 45.7% of each of the two 1,117MW units. The in-service cost for Southern Co.'s share of the project (including escalation and financing costs) is expected to be about $6.4 billion with the first unit entering commercial operation in April 2016 and the second in 2017. While the regulatory framework in Georgia supports construction of new generation through the combination of the Integrated Resource Plan approach and a plant certification process that ensures recovery of prudently incurred investment in base rates upon completion, it does not currently allow for recovery of financing costs during construction, which could provide incremental credit support for large capital spending projects. Construction of the new units would increase business risk until the plants are successfully completed. Southern Co. had about $1.0 billion in deferred fuel costs as of June 30, 2008 reflecting the challenge of recovering fuel costs in a timely manner under a rapidly rising commodity price environment. Recent increases in the operating companies' fuel factors combined with a moderation in fuel costs should permit recovery of these costs in the near to intermediate term. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery, may pressure the company's competitive rates and regulatory relationships.

Southern Co.'s cash flow generation has been consistent and strong, benefiting from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2008, adjusted funds from operations (FFO) was about $3.23 billion, while total adjusted debt was $17.9 billion, leading to adjusted FFO interest coverage of 4.2x, adjusted FFO to debt of 18%, and adjusted total debt to total capital of 57.1%. These credit protection measures should benefit in the next 12 to 18 months from incremental recovery of fuel costs, which could moderate the need for debt financings. The ratios account for about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content. Of Southern Co.'s credit protection measures, FFO interest coverage is adequate for the rating, while FFO to debt and total debt to total capital are aggressive, placing some pressure on the ratings despite the company's excellent business risk profile.

Short-term credit factors

The 'A-1' short-term rating on Southern Co. reflects the company's corporate credit rating but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

As of Sept. 30, 2008, consolidated liquidity was ample, with $800 million of cash on hand, and $3.9 billion in total credit facilities (excluding credit facility availability of Southern Power) of which $1.2 billion supported outstanding commercial paper, and $1.4 billion supported tax-exempt floating rate securities, leaving $1.3 billion available under the revolving credit facilities for other needs. Of the total available credit facilities, Southern Co. has $1 billion available for short-term needs and commercial paper backup; Alabama Power has $1.3 billion in available facilities; Georgia Power $1.3 billion; Gulf Power $130 million; and Mississippi Power $181 million. About $653 million of the available credit facilities mature in 2008, $438 million mature in 2009 and the balance in 2012. About $79 million of the credit facilities maturing in 2008 and 2009 provide for the execution of term loans for an additional two-year period, while $594 million provide for one-year term loans. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern Co. and its subsidiaries are well in compliance.

Southern Co.'s liquidity could come under some pressure if the company continues to accumulate deferred fuel costs, which totaled about $1.0 billion as of June 30, 2008. The company estimates that the combination of revised fuel cost adjustments and the recent moderation in fuel prices, should allow for recovery by 2010, providing support to cash flow and liquidity.

Outlook

The stable outlook reflects Southern Co.'s consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but such a change would largely depend on a consistently stronger financial profile. The outlook would be revised to negative if the company's financial profile weakens over the next few years as a result of the substantial capital spending budget and the inability to recover such expenses in rates in a timely manner, or the inability to recover the current deferred fuel cost balance.

Accounting

Southern Co.'s financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2007.

In assessing the financial risk profile of Southern Standard & Poor's views Southern Power as an equity investment and its dividend distribution to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Southern reports changes in under recovered fuel balances as part of changes in working capital. However, Standard & Poor's, while analyzing company's cash flows, re-classifies these changes as part of changes in funds from operations (FFO). This adjustment reflects the long term nature of recovery of fuel costs which is more a standard measure of FFO rather than working capital.

Asset-retirement obligations totaled about $1.2 billion at Dec. 31, 2007. Of that amount, about $1.1 billion relates to nuclear decommissioning costs that Standard & Poor's does not view as an off-balance-sheet obligation given the existence of a matching nuclear decommissioning trust fund and the ability to collect decommissioning costs in rates. About $153 million relates to asbestos removal and disposal of polychlorinated biphenyls in certain transformers, and for which Standard & Poor's ascribes about $99.5 million of off-balance-sheet debt, which is not material to overall capitalization.

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Table 1

Southern Co. -- Peer Comparison*

Industry Sector: Electric

	--Average of past three fiscal years--				
	Southern Co.	**Duke Energy Corp.**	**FPL Group Inc.**	**Entergy Corp.**	**American Electric Power Co. Inc.**
Rating as of Oct. 22, 2008	A/Stable/A-1	A-/Positive/A-2	A/Stable/--	BBB/Negative/--	BBB/Stable/A-2
(Mil. $)					
Revenues	13,577.6	15,396.9	13,822.7	10,837.8	12,624.5
Net income from cont. oper.	1,509.4	2,048.0	1,099.2	1,078.8	1,055.0
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Capital expenditures	2,659.6	3,142.3	1,733.7	1,681.1	3,257.0
Cash and short-term investments	170.8	1,554.3	480.0	957.3	599.0
Debt	15,946.5	17,245.7	10,818.4	11,539.9	15,293.4

Table 1

Southern Co. -- Peer Comparison*(cont.)					
Preferred stock	1,046.8	0.0	503.0	187.7	61.0
Equity	12,340.4	21,515.0	10,524.1	7,967.8	9,185.2
Debt and equity	28,287.0	38,760.6	21,342.5	19,507.7	24,478.6
Adjusted ratios					
EBIT interest coverage (x)	3.6	3.5	2.9	3.4	2.4
FFO int. cov. (X)	5.1	4.4	5.2	4.9	3.2
FFO/debt (%)	21.4	22.3	26.3	23.2	16.3
Discretionary cash flow/debt (%)	(5.5)	(5.3)	0.7	2.7	(8.2)
Net cash flow / capex (%)	84.3	81.8	128.7	130.6	58.2
Total debt/debt plus equity (%)	56.4	44.5	50.7	59.2	62.5
Return on common equity (%)	13.5	9.5	10.9	12.3	10.4
Common dividend payout ratio (un-adj.) (%)	74.6	61.9	54.3	44.6	56.1

*Fully adjusted (including postretirement obligations).

Table 2

Southern Co. -- Financial Summary*					
Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2007	**2006**	**2005**	**2004**	**2003**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	14,381.0	13,579.0	12,773.0	11,027.7	10,336.2
Net income from continuing operations	1,602.4	1,449.5	1,476.2	1,417.5	1,328.2
Funds from operations (FFO)	3,210.4	3,374.6	3,669.5	3,352.8	3,133.6
Capital expenditures	3,324.1	2,486.3	2,168.4	1,955.7	1,705.2
Cash and short-term investments	201.0	137.1	174.4	342.8	308.2
Debt	16,754.9	15,403.1	15,681.6	14,210.5	13,430.1
Preferred stock	746.0	1,152.5	1,242.0	561.0	423.0
Equity	13,131.0	12,523.5	11,366.8	10,187.7	9,384.6
Debt and equity	29,885.9	27,926.6	27,048.4	24,398.2	22,814.7
Adjusted ratios					
EBIT interest coverage (x)	3.4	3.6	3.8	3.8	3.5
FFO int. cov. (x)	4.3	5.0	6.0	5.9	5.2
FFO/debt (%)	19.2	21.9	23.4	23.6	23.3
Discretionary cash flow/debt (%)	(7.2)	(5.0)	(4.1)	(1.6)	2.8
Net Cash Flow / Capex (%)	60.6	88.1	116.3	118.0	124.9
Debt/debt and equity (%)	56.1	55.2	58.0	58.2	58.9
Return on common equity (%)	12.9	13.3	14.2	14.6	15.3
Common dividend payout ratio (un-adj.) (%)	77.5	75.0	70.9	60.4	76.8

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2007--									
Southern Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	15,246.2	12,387.1	4,188.3	4,188.3	3,017.3	806.8	3,169.4	3,169.4	1,205.0	3,361.3
Standard & Poor's adjustments										
Operating leases	300.8	--	78.5	18.7	18.7	18.7	59.7	59.7	--	10.2
Intermediate hybrids reported as debt	(206.0)	206.0	--	--	--	(16.1)	16.1	16.1	16.1	--
Intermediate hybrids reported as equity	540.0	(540.0)	--	--	--	24.0	(24.0)	(24.0)	(24.0)	--
Postretirement benefit obligations	--	--	(19.0)	(19.0)	(19.0)	--	5.2	5.2	--	--
Capitalized interest	--	--	--	--	--	47.5	(47.5)	(47.5)	--	(47.5)
Share-based compensation expense	--	--	--	28.0	--	--	--	--	--	--
Power purchase agreements	774.5	--	196.4	196.4	44.6	44.6	151.8	151.8	--	--
Asset retirement obligations	99.5	--	--	--	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	125.7	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(112.4)	--	--
Minority interests	--	1,077.9	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(8.0)	(8.0)	--	--
Total adjustments	1,508.8	743.9	255.8	224.1	170.0	118.7	153.4	41.0	(7.9)	(37.3)
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	16,754.9	13,131.0	4,444.2	4,412.4	3,187.3	925.5	3,322.7	3,210.4	1,197.1	3,324.1

Table 3

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*(cont.)
*Southern Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 31, 2008)*	
Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (2 Issues)	A-
Senior Unsecured (1 Issue)	A-1
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/A-1
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Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (22 Issues)	A
Senior Unsecured (17 Issues)	A/A-1
Senior Unsecured (2 Issues)	AA/Negative
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (36 Issues)	A
Senior Unsecured (25 Issues)	A/A-1
Senior Unsecured (9 Issues)	A/NR
Senior Unsecured (8 Issues)	AA/Negative

Ratings Detail (As Of October 31, 2008)***(cont.)**	
Gulf Power Co.	
Issuer Credit Rating	A/Stable/--
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (10 Issues)	A
Senior Unsecured (2 Issues)	A/A-1
Senior Unsecured (1 Issue)	AA/Negative
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (4 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured (1 Issue)	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	AA/Negative
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Credit Opinion: Gulf Power Company

Gulf Power Company

Florida, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Issuer Rating	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)A3
Preferred Stock	Baa1
Parent: Southern Company (The)	
Outlook	Negative
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Commercial Paper	P-1
Gulf Power Capital Trust V	
Outlook	Negative
Bkd Preferred Shelf	(P)A3
Gulf Power Capital Trust VI	
Outlook	Negative
Bkd Preferred Shelf	(P)A3

Contacts

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Key Indicators

[1]
Gulf Power Company

ACTUALS	LTM 2Q09	2008	2007	2006
(CFO Pre-W/C + Interest) / Interest Expense	5.5x	5.5x	5.2x	5.5x
(CFO Pre-W/C) / Debt	17.7%	21.7%	23.9%	24.4%
(CFO Pre-W/C - Dividends) / Debt	10.4%	13.4%	14.5%	15.8%
Debt / Book Capitalization	48.3%	47.5%	43.6%	48.1%

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

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

Opinion

Rating Drivers

- Strong though declining cash flow coverage metrics

- Substantially higher capital expenditures for environmental compliance

- Supportive Florida regulatory environment

- Exposure to environmental mandates, including carbon, and national renewable portfolio standards

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves 428,000 customers in a 7,400 square mile region. Gulf Power owns 2,710 megawatts of nameplate capacity, 78% of which are coal-fired baseload units, and operates within the Southern Company power pool.

SUMMARY RATING RATIONALE

Gulf Power's A2 senior unsecured debt rating reflects strong though declining credit metrics that are weak for its rating, substantially higher capital expenditures for environmental compliance, and a supportive regulatory environment in Florida with timely fuel, environmental and storm cost recovery mechanisms. The rating also considers Gulf Power's position as part of the Southern Company corporate family, with the support that the parent provides and its access to a widespread, integrated generation and transmission network; the utility's relatively small size and concentrated service territory exposed to storm related event risk; and its significant exposure to more stringent environmental mandates, including carbon, and national renewable portfolio standards.

DETAILED RATING CONSIDERATIONS

- Strong, though declining financial metrics that are weak for its current A2 rating

Gulf Power's cash flow coverage metrics have exhibited a declining trend in recent years with cash flow from operations pre-working capital (CFO pre-W/C) to debt falling from the 25% range historically to 21.7% in 2008 and 17.7% for the twelve month period ending 6/30/09. Similarly, CFO pre-W/C interest coverage has fallen from 6.5x or higher in 2004 and 2005 to the 5.5x range over the last three years and for the twelve months ending 6/30/09. These lower metrics have been caused by higher operating costs and additional debt incurred to finance rising capital expenditure requirements, particularly for environmental compliance. Moody's expects Gulf Power's credit metrics to remain pressured going forward as capital expenditures stay elevated, which could negatively affect ratings.

- Substantial environmental capital expenditures have required additional debt financing

Gulf Power is expected to spend approximately $1.2 billion from 2009 - 2011 on capital expenditures, of which $478 million is being incurred in 2009 alone. This represents a substantial increase over the $154 million of capital expenditures spent by the company as recently as 2006. Most of these higher capital expenditures are for environmental compliance and are being financed with a combination of debt issuances at the utility and capital contributions from the Southern Company parent company. Gulf Power projects capital expenditures to remain elevated over the next several years. The Florida Public Service Commission (FPSC) has approved recovery of prudently incurred environmental compliance costs through an environmental cost recovery clause that is adjusted annually subject to certain limits.

- Above average regulatory environment in Florida is supportive of credit quality

The rating considers the above average regulatory environment for investor owned utilities in Florida, which has a history of timely rate actions and supportive measures for cost recovery. The FPSC continues to provide constructive regulatory support to the utility despite some recent changes on the Commission, which is an important credit positive which mitigates to some degree the declining credit metrics exhibited by the utility recently.

Gulf Power operates under base rates that were established in 2002 and are based on a 12% return on equity. The utility also benefits from a FPSC approved fuel cost recovery mechanism that includes a true-up of actual costs, a projection of future costs, and interest on the over/(under) recovery balance. The mechanism also allows for interim rate adjustments if the end of period under- or over-recovery balance exceeds 10% of the projected annual fuel revenues for that period. As of June 30, 2009, the under-recovery fuel balance was $53 million compared to $97 million as of December 31, 2008. Gulf Power was granted a 5.8% rate increase in November 2008 for fuel recovery.

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

Exposure to more stringent environmental mandates, including carbon, and national renewable portfolio standards

Gulf Power generated approximately 84% of its power from coal in 2008 with the remainder from natural gas. Due to the carbon intensity of its fuel mix, the company has significant exposure to additional costs related to potential carbon legislation. In addition, the southeast region of the country is particularly vulnerable in the event a national renewable portfolio standard is passed as there are very limited renewable energy sources in the southeast. The combination of carbon regulation and renewable portfolio standards has the potential to materially increase costs for the utility over the long term.

Liquidity

Gulf Power maintains a satisfactory liquidity profile with $220 million of unused bank credit facilities supporting a $150 million commercial paper program, under which $66 million of commercial paper was outstanding as of June 30, 2009, with $69 million of the facilities dedicated to funding purchase obligations related to pollution control bonds. All of the bank credit facilities have 364 day tenors; with $90 million expiring in 2009 and $130 million expiring in 2010. Of the $220 million total, $70 million have a one-year term loan options that could be executed at the company's option at expiration, mitigating refinancing risk to some degree. There is no material adverse change clause in any of Gulf Power's credit agreements and most facilities include a 65% debt to capital covenant. As of June 30, 2009, the company was in compliance with this covenant. Gulf Power can also meet short-term cash needs through commercial paper issued by Southern Company Funding Corporation (SCFC), which issues and sells commercial paper on behalf of Southern Company's regulated subsidiaries. SCFC's commercial paper program is authorized at $2.98 billion.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of a downgrade to Baa3, Gulf Power has potential collateral requirements of $62 million as of June 30, 2009. If Gulf Power's credit rating is downgraded to below investment grade, the utility's potential collateral requirement rises to $246 million.

On June 30, 2009, Gulf Power had $59 million of cash on hand, up from $3.4 million at December 31, 2008. The company generated $126 million of cash from operations for the twelve months ended June 30, 2009, compared to $148 million for 2008. The decline in cash flow is primarily due to an increase in fuel inventory working capital. Gulf Power has $140 million of floating rate senior notes it issued due on June 28, 2010, which the company expects to refinance, and no other long-term debt due through 2010.

Rating Outlook

The negative rating outlook reflects declining cash flow coverage metrics that are weak for its current rating, high capital expenditures that are expected to remain elevated, and long-term challenges facing the company from more stringent environmental mandates, including carbon, and renewable portfolio standards.

What Could Change the Rating - Up

The negative outlook precludes a near-term upgrade of Gulf Power's ratings.

What Could Change the Rating - Down

Additional, unanticipated capital expenditure requirements; additional debt leverage, an adverse change in the regulatory environment in Florida; the imposition of new environmental mandates or renewable portfolio standards, or if CFO pre-working capital interest coverage falls below 5.0x or CFO pre-working capital debt remains below 25% for an extended period.

Rating Factors

Gulf Power Company

Regulated Electric and Gas Utilities	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
Factor 1: Regulatory Framework (25%)			X			
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)					X	
b) Generation and Fuel Diversity (5%)						X

Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)			X			
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating			**A2**			

Global Credit Research
Credit Opinion
2 SEP 2009

Credit Opinion: Southern Company (The)

Southern Company (The)

Atlanta, Georgia, United States

Ratings

Category	**Moody's Rating**
Outlook	Negative
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Commercial Paper	P-1
Alabama Power Company	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)A3
Preferred Stock	Baa1
Commercial Paper	P-1
Georgia Power Company	
Outlook	Negative
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)A3
Preferred Stock	Baa1

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Key Indicators

[1]
Southern Company (The)

ACTUALS	**LTM 2Q09**	**2008**	**2007**	**2006**
(CFO Pre-W/C + Interest) / Interest Expense	**4.2x**	**4.5x**	**4.2x**	**4.8x**
(CFO Pre-W/C) / Debt	**15.7%**	**18.3%**	**18.5%**	**20.6%**
(CFO Pre-W/C - Dividends) / Debt	**9.7%**	**12.0%**	**11.8%**	**13.9%**
Debt / Book Capitalization	**51.2%**	**49.9%**	**48.5%**	**48.6%**

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

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

Opinion

Rating Drivers

- Consolidated cash flow coverage metrics that are weak for its rating

- Increasing business and operating risk profile at several of its regulated utility subsidiaries

- Supportive regulatory environments in all four of its jurisdictions in the face of challenging economic conditions

- Exposure to potential carbon regulation and national renewable portfolio standards

- Nonutility business limited to contracted wholesale generation in the Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (GPC, A2 senior unsecured, negative outlook), Alabama Power Company (APC, A2 senior unsecured, stable outlook), Mississippi Power Company (MPC, A1 senior unsecured, negative outlook) and Gulf Power Company (Gulf, A2 senior unsecured, negative outlook) with an operating footprint across the Southeast. The company also engages in competitive electricity generation through Southern Power Company (SPC, Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's A3 senior unsecured rating reflects its position as the parent company of four single A rated regulated utility subsidiaries operating in supportive regulatory environments and a highly contracted wholesale generating company. The company's negative rating outlook is due to consolidated cash flow coverage metrics that are weak for its rating and the higher business and operating risk profile of some of its utility subsidiaries that are undertaking large capital expenditure programs. The negative outlook also considers slowing economic growth in its service territory, long-term challenges from potential carbon regulation and national renewable portfolio standards, and the likely need for capital infusions at the utility subsidiaries.

DETAILED RATING CONSIDERATIONS

- Consolidated cash flow coverage metrics that are weak for its A3 rating

Southern's consolidated cash flow coverage metrics have declined in recent years due in part to higher capital spending at the utilities, increased debt levels necessary to finance these capital expenditures, and slowing economic growth in its service territory. Cash flow from operations before working capital (CFO pre-W/C) interest coverage has fallen from the 5.5x range historically to 4.5x in 2008 and 4.2x for the twelve months ended June 30, 2009. Similarly, CFO pre-W/C to debt has fallen from the 22% range historically to 18% in 2008 and 15.7% for the twelve months ended June 30, 2009. Ratios for 2008 and 2009 were negatively affected by one-time items related to settlements on its leveraged lease transactions and with regard to MC Asset Recovery (Mirant related) litigation. These more recent metrics which map closer to the high Baa rating category in accordance with Moody's Regulated Electric and Gas Utilities Methodology, one rationale for the negative outlook currently assigned to its rating. Metrics are likely to remain at these lower levels going forward and may come under additional pressure should deferrals or capital expenditures increase due to new environmental, carbon, or renewable energy costs, or there is continued low demand growth or electricity usage in its service territory.

- Increasing business and operating risk profile at several of its regulated utility subsidiaries

Southern's largest utility subsidiary, Georgia Power Company, is embarking on an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. GPC will own 45.7% of the new units, with the remainder to be owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%). GPC's in-service cost of the project is expected to be $4.5 billion. GPC is expected to spend about $560 million on the new Vogtle units in 2009 and $700 or more million annually for several years thereafter. This is in addition to significant spending required for new conventional and biomass generation, transmission, distribution, and environmental compliance, resulting in total capex at a high $2.5 billion range annually for at least the next three years.

While Moody's views nuclear power as a viable long-term strategy for the utility industry to meet new baseload capacity and reduce reliance on coal, building a new nuclear plant is a complex and risky endeavor during construction, although the two new Vogtle plants appear to be a relatively manageable investment for a utility the size of Georgia Power. Southern is also considering new nuclear construction at a second site, although the company has not yet identified which site.

Similarly, Mississippi Power Company has filed for approval to construct a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. The plant's current cost estimate is $2.2 billion, which is slightly more than the $2.0 billion of total asset size of Mississippi Power as of June 30, 2009. Because of this project, MPC's capital expenditures are expected to increase dramatically, rising from a manageable $150 million in 2009 to about $1 billion in 2011 with IGCC spending representing the bulk of the increase. This will represent a substantial capital investment for a utility of MPC's size and will likely pressure the utility's credit metrics going forward. Although IGCC technology has been utilized at other plants on a limited basis, the size, scope, and complexity of the project will increase the business and operating risk profile of Mississippi Power.

- Supportive regulatory treatment in all four of its jurisdictions in the face of challenging economic conditions

Southern's rating considers the utilities' generally constructive regulatory treatments in their jurisdictions. Moody's considers each of the four states that Southern operates in, Alabama, Florida, Georgia, and Mississippi, to have above average regulatory environments that provide adequate rates of return and generally strong cost recovery provisions. All four of the company's retail regulated utility subsidiaries operate under established base rate plans with authorized return on equity (ROE) levels that are considered above average for U.S. electric utilities. The utilities have several adjustment mechanisms in place to address rising costs and each of the respective regulatory jurisdictions allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs. All the utilities have under-recovered fuel and purchased power balances as of June 30, 2009, though rate adjustments and moderating fuel prices could reduce these balances over the near-term.

Nevertheless, challenging economic conditions throughout the company's service territory are testing these historically strong regulatory relationships. In Georgia, for example, economic conditions have led to lower than projected revenues and decreased customer usage since the company's last rate order was approved in 2007 and, as a result, the company's retail return on equity is likely to fall below the bottom of its allowed range in both 2009 and 2010. Rather than file a base rate case under these economic conditions, GPC proposed and the GPSC approved a plan to amortize up to $324 million of a regulatory liability instead. The company will not file its next base rate case until July 1, 2010, unless economic conditions continue to reduce its ROE below 9.25%.

In Mississippi, a traditionally supportive regulatory environment, there has been turnover at the Mississippi Public Service Commission in recent years with the departure of several long serving commissioners. In addition, various concerns about the company's pending IGCC construction project have been raised by the Attorney General, several independent power producers and other intervenors, which has increased political and regulatory uncertainty in the state.

- Exposure to potential environmental mandates, including carbon, and national renewable portfolio standards

Southern generates approximately 84% of its electricity from coal and natural gas and, as one of the largest coal-fired utility systems in the U.S., it is vulnerable to increasingly stringent environmental mandates, including potential controls on carbon. The company has spent approximately $6.3 billion on environmental expenditures through 2008 to comply with federal and state mandates thus far and has budgeted approximately $3 billion of spending for its existing environmental expenditure program for 2009 - 2011. These expenditures have been a key reason for the weakened credit metrics at Southern and its utility subsidiaries. While Moody's anticipates the continued timely recovery of environmental costs through rate adjustments, the funding requirements are expected to continue to put pressure on the company's financial metrics and balance sheet. In addition, the southeast region of the country is vulnerable in the event a national renewable portfolio standard is passed as there are very limited renewable energy sources in the region.

- Non-utility business limited to contracted unregulated generation in the Southeast

SPC, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, SPC exhibits a lower business risk profile than most other competitive wholesale generators due to a strategy of entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. In addition, the market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing SPC's financial and operating risk. SPC's capacity is almost fully contracted through 2017 although Moody's notes as of December 31, 2008, SPC has a moderately lower percentage of capacity hedged after 2010 compared to prior year disclosures.

Liquidity

Southern maintains a solid liquidity profile that is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; large, mostly unused bank credit facilities; and a sufficient cash position at June 30, 2009. Southern's parent level liquidity is supported by cash dividends from its subsidiaries and availability under two revolving credit facilities totaling $950 million that expire in 2012. The credit facilities provide liquidity support for Southern's commercial paper program and other short-term financing needs. Each credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of June 30, 2009, Southern was in compliance with its financial covenant.

Southern had parent company cash on hand of $2 million and commercial paper outstandings of $458 million as of June 30, 2009. Southern generated $2.7 billion of consolidated cash from operations for the twelve months ended June 30, 2009, compared to $3.4 billion for fiscal year 2008 on a Moody's adjusted basis, driven by lower earnings due to the economic recession, significantly higher fuel inventory costs, and accrued tax payments and other working capital items. Moody's anticipates dividend contributions from the subsidiaries to be in the range of $1.4

billion to $1.6 billion annually through 2010. Southern's utilities with large planned capital expenditures are expected to require significant equity infusions over the next several years.

Southern's utility subsidiaries and SPC each maintain their own bank facilities to support short-term liquidity needs. Consolidated credit facilities are approximately $4.7 billion as of June 30, 2009 (including $1.5 billion providing liquidity support to the utilities' pollution control revenue bonds). Of this, $484 million expire in the second half of 2009, $965 million expire in 2010, $25 million expire in 2011, and $3.2 billion expire in 2012. Moody's expects Southern to renew most of these expiring facilities as they mature, although constrained bank credit market conditions could lower the sizes of the facilities upon renewal. Southern had consolidated cash on hand of $782 million and $1.1 billion of short-term notes outstanding as of June 30, 2009.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $413 million as of June 30, 2009. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.0 billion. Generally, collateral could be provided by a Southern Company guaranty, letter of credit, or cash. As of June 30, 2009, Southern has no parent level maturities and its subsidiaries have approximately $1.096 billion of debt maturities over the next four quarters. Southern's next parent company long-term debt maturity is for $600 million of floating rate notes due August 2010.

Rating Outlook

The rating outlook is negative, reflecting the negative outlook of three of its four utility subsidiaries and higher overall business and operating risks caused by expected nuclear and IGCC construction. It also reflects longer term risks associated with increasingly stringent environmental mandates, including carbon, and national renewable portfolio standards.

What Could Change the Rating - Up

The negative outlook precludes a near term upgrade of Southern Company's rating.

What Could Change the Rating - Down

The rating could be downgraded if Georgia Power's rating is lowered; if carbon control legislation or national renewable portfolio standards are put in place, if there is a continued reduction in sales volumes and/or system revenues due to extended weakness in the economy, if there is a significant increase in parent company debt, or if consolidated credit metrics do not show sustained improvement, including CFO pre-WC interest coverage above 4.5x and the CFO pre-WC to debt ratio above 20%.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)			X			
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)			X			
b) Generation and Fuel Diversity (5%)					X	
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			

b) Actual Senior Unsecured Rating			**A3**			

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Global Power
U.S. and Canada
Credit Analysis

Gulf Power Company

A Subsidiary of Southern Company

Ratings

Security Class	Current Rating
Issuer Default Rating	A–
Short-Term Issuer Default Rating	F1
First Mortgage Bonds	A+
Senior Unsecured Notes	A
Preferred Stock	A–

Outlook

Stable

Financial Data

Gulf Power Company
($ Mil.)

	LTM 6/30/09	2008
Net Revenues	646	642
Operating EBITDA	272	277
Funds from Operations	185	205
Debt	1,185	997
Total Capital	2,247	1,917
Debt/FFO (x)	6.4	4.9

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Related Research

- *Alabama Power Company, Oct. 19, 2009*
- *Georgia Power Company, Oct. 19, 2009*
- *Mississippi Power Company, Oct. 19, 2009*
- *Southern Power Company, Oct. 19, 2009*
- *Southern Company, Oct. 19, 2009*

Rating Rationale

- Fitch Ratings affirmed the ratings of Gulf Power Company (Gulf) on Sept. 3, 2009. The Rating Outlook is Stable.
- The ratings are supported by a stable credit profile, constructive regulation, and the operational and financial benefits of its affiliation with Southern Company.
- The ratings and Stable Ratings Outlook also reflect steady cash flows and ample liquidity. Cash flow stability is enhanced by cost recovery clauses for fuel and purchased power energy and capacity, energy conservation, and environmental costs.
- Ratings concerns include the sensitivity of the company's largely coal-fired generating resources to any future greenhouse gas and other existing environmental regulations, and a slowdown in growth of electricity demand in Gulf's service territory. Customer growth in 2009 is expected to be substantially lower than recent years as a result of the recession.

Key Rating Drivers

- Continuation of strong regulatory support is important for Gulf to maintain its credit quality and current ratings.
- Operational and financial efficiency gained from an association with Southern Company.
- The effect of electricity consumption trends on cash flow and credit quality.

Recent Events

- Gulf issued common stock to Southern Company and realized proceeds of $135 million in January 2009. Gulf also issued $130 million of pollution control revenue bonds due 2039 in March 2009. Proceeds of the debt and equity issues will be used for capital spending, including the new scrubber at Plant Crist.
- In March 2009, Gulf entered into a power purchase agreement (PPA) with Shell Energy North America that entitles the company to all of the energy and capacity from an 885 MW combined cycle plant owned by Tenaska Alabama II Partners, L.P. The PPA expires May 24, 2023. The costs have been approved by the Florida Public Service Commission (PSC) and will be recoverable through the fuel and capacity adjustment clauses. The agreement becomes effective after the PSC approval becomes a final non-appealable order, which is no earlier than Nov. 1, 2009.

Liquidity and Capital

As of June 30, 2009, Gulf had approximately $59.2 million of cash and cash equivalents and $220 million in committed lines of credit with banks. The credit facilities provide liquidity support to Gulf's commercial paper borrowings and variable-rate pollution control revenue bonds aggregating $69 million. Of the total credit facilities, $90 million will expire in 2009 and $130 million in 2010. $70 million of these facilities contain provisions allowing for conversion to one-year term loans on the expiration dates. Gulf may also meet short-term cash needs through borrowings from a Southern Company subsidiary, Southern Company Funding, Inc., organized to issue and sell commercial paper at the request and for the benefit of Gulf and other Southern Company subsidiaries. At June 30, 2009, Gulf had $66 million of commercial paper outstanding.

Company Profile

Gulf, a subsidiary of Southern Company, is a vertically integrated electric utility providing electricity generation, transmission, and distribution service to retail customers in Northwest Florida. The company also sells power to wholesale customers. Gulf owns approximately 2,659 MW of generation capacity, of which 77% is coal and the remaining 23% is natural gas.

Debt Maturities

($ Mil.)

	2009	2010	2011
Maturities	0	140	110

Source: Company reports.

Capital Expenditures

($ Mil.)

	2009	2010	2011
General Plant	143	173	167
Environmental Compliance	335	164	233
Total	**478**	**337**	**400**

Source: Company reports.

Capital Structure

($Mil.)

Debt Due within One Year	140
Short-Term Debt	66
Long-Term Debt	979
Total Debt	1,185
Hybrid Equity	98
Common Equity	964
Total Capital	2,247
Total Debt/Total Capital (%)	53
Hybrid and Minority Equity/Total Capital (%)	4
Common Equity/Total Capital (%)	43

Source: Company reports.

160186-OPC-POD-71-118

Financial Summary — Gulf Power Company

($ in Mil., Years Ended Dec. 31)

	LTM 6/30/09	2008	2007	2006	2005	2004	2003
Fundamental Ratios (x)							
FFO/Interest Expense	4.9	5.4	4.7	5.1	6.2	7.0	5.3
CFFO/Interest Expense	3.6	4.2	5.7	4.3	4.8	5.0	6.0
Debt/FFO	6.4	4.9	4.7	4.6	3.6	3.6	3.7
Operating EBIT/Interest Expense	3.9	4.1	3.8	3.8	4.0	4.0	4.0
Operating EBITDA/Interest Expense	5.7	5.9	5.7	5.8	6.1	6.3	6.1
Debt/Operating EBITDA	4.4	3.6	3.0	3.3	3.1	3.4	2.6
Common Dividend Payout (%)	87.0	83.7	88.1	92.1	90.7	102.9	101.4
Internal Cash/Capex (%)	7.3	16.1	57.9	44.8	58.7	45.3	122.2
Capex/Depreciation (%)	537.9	444.7	281.4	173.0	168.2	194.0	120.7
Profitability							
Adjusted Revenues	1,351	1,387	1,260	1,204	1,084	960	877
Net Revenues	646	642	616	595	570	527	510
Operating and Maintenance Expense	284	278	270	260	251	230	211
Operating EBITDA	272	277	263	255	243	227	233
Depreciation and Amortization Expense	87	85	86	89	85	83	82
Operating EBIT	**185**	**192**	**177**	**166**	**158**	**144**	**151**
Gross Interest Expense	48	47	46	44	40	36	38
Net Income for Common	100	98	84	76	75	68	69
Operating Maintenance Expense % of Net Revenues	44.0	43.3	43.8	43.7	44.0	43.6	41.4
Operating EBIT % of Net Revenues	28.6	29.9	28.7	27.9	27.7	27.3	29.6
Cash Flow							
Cash Flow from Operations	126	149	217	143	153	143	191
Change in Working Capital	(59)	(56)	48	(38)	(55)	(73)	27
Funds from Operations	185	205	169	181	208	216	164
Dividends	(92)	(88)	(77)	(74)	(69)	(70)	(70)
Capital Expenditures	(468)	(378)	(242)	(154)	(143)	(161)	(99)
Free Cash Flow	**(434)**	**(317)**	**(102)**	**(85)**	**(59)**	**(88)**	**22**
Net Other Investment Cash Flow	(6)	29	3	(9)	(18)	26	(12)
Net Change in Debt	344	216	(32)	73	(31)	97	62
Net Change in Equity	139	75	129	26	51	29	(72)
Capital Structure							
Short-Term Debt	66	148	45	120	89	50	38
Long-Term Debt	1,119	849	754	710	654	723	566
Total Debt	**1,185**	**997**	**799**	**830**	**743**	**773**	**604**
Total Hybrid Equity and Minority Interest	98	98	85	41	—	—	—
Common Equity	964	822	731	634	602	592	561
Total Capital	**2,247**	**1,917**	**1,615**	**1,505**	**1,345**	**1,365**	**1,165**
Total Debt/Total Capital (%)	52.7	52.0	49.5	55.1	55.2	56.6	51.8
Total Hybrid Equity and Minority Interest/Total Capital (%)	4.4	5.1	5.3	2.7	—	—	—
Common Equity/Total Capital (%)	42.9	42.9	45.3	42.1	44.8	43.4	48.2

Note: Numbers may not add due to rounding.
Source: Company reports and Fitch Ratings.

Global Power
U.S. and Canada
Credit Analysis

Southern Company

Southern Company Funding, Inc.

Ratings

Security Class	Current Rating
IDR	A
Short-Term IDR/Commercial Paper	F1
Senior Unsecured Notes	A

IDR – Issuer default rating.

Outlook

Stable

Financial Data

Southern Company
($ Mil.)

	LTM 6/30/09	2008
Net Revenues	9,416	9,494
Operating EBITDA	4,972	4,962
Funds from Operations	3,466	3,726
Total Debt	20,370	18,646
Total Capital	35,142	32,910
Internal Cash/Capital Expenditures (%)	30.6	53.4

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Related Research

- *Alabama Power Company, Oct. 19, 2009*
- *Georgia Power Company, Oct. 19, 2009*
- *Gulf Power Company, Oct. 19, 2009*
- *Mississippi Power Company, Oct. 19, 2009*
- *Southern Power Company, Oct. 19, 2009*

Rating Rationale

- Fitch Ratings affirmed the ratings of Southern Company (SO) on Sept. 3, 2009. The Rating Outlook is Stable.
- SO's ratings reflect the financial strength and consistency of cash flows generated mainly by its four regulated electric utilities as well as Southern Power's wholesale power business, strong liquidity, constructive regulation in each of the state jurisdictions, limited commodity price risk, and manageable parent-level debt.
- Cash flow stability is supported by numerous annual tariff adjustments for its utility businesses and by the hedging strategy of Southern Power, which sells power under long-term contracts largely to investment grade counterparties.
- The primary credit concerns are the potential financial stress associated with the large capital expenditure programs of its subsidiaries, exposure to future greenhouse gas emission regulations, and the impact of a weak economy on electricity demand.
- Driving the large capital expenditure program are new capacity additions, including a proposal to build Kemper, an integrated gasification combined cycle (IGCC) plant at Mississippi Power Company (MPC) and plans for two new nuclear units at Plant Vogtle at Georgia Power Company (GPC) as well as environmental upgrades. GPC's construction and regulatory risks for Plant Vogtle are mitigated, in part by a Georgia state law that permits cash return on construction work in progress (CWIP) for approved nuclear projects. Mississippi also has a supportive baseload generation law.

Key Rating Drivers

- Funding strategy for cash needs in excess of subsidiary cash flows.
- Continued timely rate support of capital investments including a reasonable return on invested capital.
- The ultimate cost and rate treatment of expected environmental compliance costs.
- Management's adherence to its conservative financial strategy, including maintenance of a balanced capital structure at its utility subsidiaries and long-term hedges at Southern Power.

Recent Events

- On March 17, 2009, the Georgia Public Service Commission (PSC) certified GPC's nuclear plant construction plan for Plant Vogtle. On April 21, 2009, the state of Georgia enacted legislation that will allow recovery of nuclear plant related CWIP. The GPC's estimated in-service cost for the dual unit nuclear plant is approximately $4.5 billion.
- On Oct. 7, 2008, the Alabama Public Service Commission (PSC) approved a corrective rate package, providing adjustments to selected rate structures effective Jan. 1, 2009, that is expected to increase annual revenue by approximately $168 million. As part of the rate package, Alabama Power Company agreed to a

moratorium on any increase in 2009 base rates under its Rate Stabilization Equalization plan.

- On Jan. 21, 2009, SO accepted a FERC-issued "market-base rate" (MBR) tariff order. The MBR provides for a "must offer" energy auction whereby SO will offer all of its available energy for sale in a day-ahead auction and an hour-ahead auction with a reserve price — not to exceed the "cost-based rate" (CBR) — after considering native load requirements, reliability obligations, and sales commitments to third parties. SO commenced the auction under MBR rules on April 23, 2009. Fitch believes there is no credit implication to the SO group from the settlement, and it resolves long standing uncertainty regarding market power.
- On Jan. 30, 2009, SO accepted a FERC-issued CBR tariff order. The CBR tariff order provides for a cost-based price for wholesale electricity sales contracts for a term of less than a year.
- In the first quarter of 2009, SO entered into a litigation settlement agreement with Mirant resulting in payment and a charge of $202 million against its 2009 income. The one time payment is a cash outflow but eliminates the litigation risk.

Liquidity

SO has strong liquidity. To meet short-term cash needs SO and its subsidiaries rely on internal cash generation and commercial paper borrowings supported by the bank credit facilities. At June 30, 2009, SO and its subsidiaries had cash and cash equivalents of approximately $782 million, commercial paper borrowings of $1.1 billion, and aggregate bank credit facilities of $4.7 billion. Approximately $1.3 billion of the total credit facilities are dedicated to providing liquidity support to its subsidiaries' variable rate pollution control revenue bonds.

As shown in the table below, $484 million of credit facilities expire in 2009, $965 million in 2010, $25 million in 2011, and $3.2 billion in 2012. Approximately $44 million of the credit facilities expiring in 2009 and 2010 allow for the execution of term loans for an additional two-year period, and $501 million contain provisions allowing one-year term loans.

The utility subsidiaries have access to additional liquidity through commercial paper issued by Southern Company Funding Inc., a SO subsidiary organized to issue and sell commercial paper at the request and for the benefit of each of the utility operating companies.

SO and its subsidiaries have manageable debt maturities through 2011 as listed in the table below:

Debt Maturities

($ Mil., As of June, 30 2009)

	2009	2010	2011
APC	250	100	200
GPC	125	250	408
Gulf	0	140	110
MPC	0	0	80
SO	253	600	0
Total	**628**	**1,090**	**798**

Source: Company reports.

Credit Facilities

($ Mil.)

	Amount Available	Expiration	Commercial Paper Outstanding	Cash and Cash Equivalents
Alabama Power Company	1,260	325 in 2009; 145 in 2010; 25 in 2011; and 765 in 2012	0	197
Georgia Power Company	1,675	555 in 2010; 1,120 in 2012	471	38
Gulf Power Company	220	90 in 2009; 130 in 2010	66	59
Mississippi Power Company	149	59 in 2009; 90 in 2010	45	5
Southern Power Company	400	400 in 2012	0	29
Southern Company	950	950 in 2012	458	453
Others	55	10 in 2009; 45 in 2010	51	1
Total	**4,709**	—	**1,091**	**782**

Source: Company reports.

Capital Spending

Consolidated capital expenditures will aggregate approximately $16.6 billion over the three-year period between 2009 and 2011 compared to $13.6 billion in the prior three-year period. Approximately $2.9 billion or 17% of expenditures will be spent on environmental compliance related projects and approximately $5.3 billion (32%) on the construction of new generating facilities. The remaining expenditures are for maintenance of existing power plants, transmission and distribution systems. The breakdown of capital expenditures by company is shown below. Expenditures are likely to accelerate beyond 2011 if construction of the Kemper IGCC and Vogtle nuclear units moves forward. The IGCC plant is expected to enter commercial operation in November of 2013 if the MPSC rules favorably on need and cost recovery of the project and the nuclear units are expected to begin commercial operation in April of 2016 and 2017, respectively. The capital spending forecast includes projected costs of approximately $2.1 billion for the IGCC and $4.5 billion for the nuclear plants.

Capital Expenditures

($ Mil.)

	2009	2010	2011
Alabama Power Company	1,414	973	974
Georgia Power Company	2,719	2,609	2,552
Gulf Power Company	478	337	400
Mississippi Power Company	155	480	1,018
Southern Power Company	749	659	769
Southern Company	96	97	105
Total Capital Expenditure	5,611	5,155	5,818

Source: Company reports.

Capital Structure

($ Mil.)

	6/30/09	12/31/08
Total Debt	20,370	18,646
Hybrid Equity	988	988
Common Equity	13,784	13,276
Total Capital	**35,142**	**32,910**
Total Debt/Total Capital (%)	58	56.7
Total Hybrid Equity/Total Capital (%)	2.8	3.0
Common Equity	39.2	40.3

Source: Company reports.

Financial Review and Fitch Expectations

Consolidated financial metrics for the latest twelve months (LTM) ending June 30, 2009, were marginally weaker than 2008 credit measures, but still consistent with rating category guidelines. Results were adversely affected by lower kWh volumes due to the recessionary economic conditions and recovery lags of rising operating costs. Total energy kWh sales, including wholesale sales for the consolidated group declined 8.4% in terms of volume during the six month year over year period ending June 30, 2009. The kWh sales reduction was driven by weak industrial demand.

SO had good access to debt markets during the credit crisis as it benefited from an investor flight to quality. Parent debt is expected to remain low and anticipated to be approximately 10% of total debt in 2010.

Fitch expects the ratios of FFO coverage and EBITDA/interest will be in the range of 4.0x to 5.0x in 2010 and 2011. The outcome of Georgia Power's 2010 base rate filing is an important credit driver as the three-year base rate settlement will expire at the end of 2010. Baseload construction projects at GPC and MPC may pressure consolidated credit ratios during the construction period. Fitch's Stable Outlook assumes SO will maintain a balanced capital structure to fund the upcoming capital spending cycle. SO issues equity through a dividend reinvestment, employee savings/options and a continuous offering program.

Company Profile

SO is a utility holding company that owns four regulated and vertically integrated electric utilities and a wholesale generation business in the Southeast U.S. A non-core subsidiary, SouthernLinc Wireless, provides digital wireless communications to SO's subsidiaries and provides fibre optic solutions to telecommunication providers. The utility subsidiaries operate under "cost-of-service' regulation and long-term franchise agreements granted by the state regulatory commissions. SO owns approximately 42,000 MW of generation capacity through its subsidiaries. Of the total generation owned, 50% is coal, 35% is natural gas, 9% is nuclear, and 6% is hydroelectric.

Financial Summary — Southern Company

($ Mil., Years Ended Dec. 31)

	LTM 6/30/09	2008	2007	2006	2005	2004	2003
Fundamental Ratios (x)							
FFO/Interest Expense	4.6	4.9	4.4	4.7	5.6	5.6	5.2
CFFO/Interest Expense	3.8	4.6	4.6	4.2	4.3	4.8	5.2
Debt/FFO	5.9	5.0	5.1	4.8	4.3	4.3	3.8
Operating EBIT/Interest Expense	3.6	3.7	3.5	3.6	3.8	4.0	3.9
Operating EBITDA/Interest Expense	5.1	5.2	4.8	4.9	5.3	5.3	5.3
Debt/Operating EBITDA	4.1	3.8	3.7	3.6	3.7	3.7	3.0
Common Dividend Payout (%)	83.9	73.5	69.5	72.5	69.0	68.2	68.1
Internal Cash/Capex (%)	30.6	53.4	61.6	56.0	60.2	78.1	103.0
Capex/Depreciation (%)	279.2	275.1	285.4	250.2	202.4	220.9	194.9
Profitability							
Adjusted Revenues	16,781	17,127	15,353	14,356	13,554	11,902	11,251
Net Revenues	9,416	9,494	8,982	8,661	8,328	7,738	7,747
Operating and Maintenance Expense	3,639	3,748	3,670	3,519	3,510	3,329	3,239
Operating EBITDA	4,972	4,962	4,584	4,437	4,151	3,795	3,935
Depreciation and Amortization Expense	1,507	1,443	1,245	1,200	1,176	955	1,027
Operating EBIT	**3,465**	**3,519**	**3,339**	**3,237**	**2,975**	**2,840**	**2,908**
Gross Interest Expense	968	950	963	906	781	716	740
Net Income for Common	1,572	1,742	1,734	1,573	1,591	1,532	1,474
Operating Maintenance Expense % of Net Revenues	38.6	39.5	40.9	40.6	42.1	43.0	41.8
Operating EBIT % of Net Revenues	36.8	37.1	37.2	37.4	35.7	36.7	37.5
Cash Flow							
Cash Flow from Operations	2,672	3,463	3,443	2,854	2,560	2,722	3,087
Change in Working Capital	(794)	(263)	125	(483)	(1,003)	(538)	(1)
Funds from Operations	3,466	3,726	3,318	3,337	3,563	3,260	3,088
Dividends	(1,385)	(1,345)	(1,253)	(1,174)	(1,128)	(1,075)	(1,025)
Capital Expenditures	(4,207)	(3,969)	(3,553)	(3,002)	(2,380)	(2,110)	(2,002)
Free Cash Flow	**(2,920)**	**(1,851)**	**(1,363)**	**(1,322)**	**(948)**	**(463)**	**60**
Net Other Investment Cash Flow	(69)	(191)	(189)	18	(249)	(142)	(192)
Net Change in Debt	2,465	1,903	591	881	1,154	475	119
Net Change in Equity	778	349	1,008	272	(88)	231	115
Capital Structure							
Short-Term Debt	1,093	953	1,272	1,941	1,258	426	568
Long-Term Debt	19,277	17,693	15,581	14,087	13,913	13,598	11,071
Total Debt	**20,370**	**18,646**	**16,853**	**16,028**	**15,171**	**14,024**	**11,639**
Total Hybrid Equity and Minority Interest	988	988	986	744	596	561	2,323
Common Equity	13,784	13,276	12,385	11,371	10,689	10,278	9,648
Total Capital	**35,142**	**32,910**	**30,224**	**28,143**	**26,456**	**24,863**	**23,610**
Total Debt/Total Capital (%)	58.0	56.7	55.8	57.0	57.3	56.4	49.3
Total Hybrid Equity and Minority Interest/Total Capital (%)	2.8	3.0	3.3	2.6	2.3	2.3	9.8
Common Equity/Total Capital (%)	39.2	40.3	41.0	40.4	40.4	41.3	40.9

Note: Numbers may not add due to rounding.
Source: Company reports and Fitch Ratings.

160186-OPC-POD-71-125

MOODY'S INVESTORS SERVICE

Credit Opinion: Gulf Power Company

Global Credit Research - 13 Aug 2010

Florida, United States

Ratings

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

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Key Indicators

[1]**Gulf Power Company**

ACTUALS	LTM 2Q10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	5.4x	6.2x	4.7x	5.6x
(CFO Pre-W/C) / Debt	19.0%	21.0%	17.9%	26.2%
(CFO Pre-W/C - Dividends) / Debt	11.4%	13.8%	9.6%	16.8%
Debt / Book Capitalization	48.3%	48.6%	47.5%	43.6%

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

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

Opinion

Rating Drivers

- Recently perceived decline in Florida political and regulatory environment

- Cash flow coverage metrics that are weak for an A credit rating

- Substantially higher capital expenditures for environmental compliance

- Potential exposure to carbon regulations and national renewable portfolio standards

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves 428,000 customers in a 7,400 square mile region. Gulf Power owns 2,703 megawatts of nameplate capacity, 78% of which are coal-fired baseload units, and operates within the Southern Company power pool.

SUMMARY RATING RATIONALE

Gulf Power's A3 senior unsecured debt rating reflects cash flow coverage metrics that are weak for its rating, higher capital expenditures for environmental compliance, and a decline in the historically supportive Florida regulatory environment. The rating also considers Gulf Power's position as part of the Southern Company corporate family, with the support that the parent provides and its access to a widespread, integrated generation and transmission network; the utility's relatively small size and concentrated service territory exposed to storm related event risk; and its significant exposure to more stringent environmental mandates, including carbon, and national renewable portfolio standards.

DETAILED RATING CONSIDERATIONS

- Recently perceived decline in utility's political and regulatory environment

Although the state of Florida has historically fostered a supportive regulatory environment for investor owned utilities, highly politicized rate proceedings for two other utilities in the state last year has resulted in a decline in that environment. The rate cases were plagued by controversy and political intervention, with the Governor vocally opposing rate increase requests and interfering with the independence of the regulatory process. The Florida Public Service Commission is entering a period of substantial uncertainty with four new commissioners being put in place over the next year. Although Gulf Power is somewhat insulated from this regulatory environment as it has no plans to file a base rate case over the near term, Moody's now views the overall regulatory framework in Florida as substantially less supportive of credit quality than it had been previously and now is more characteristic of an average regulatory environment in the U.S. As a result, in Moody's Rating Methodology for Regulated Electric and Gas Utilities, this has resulted in a lowering of Gulf Power's score on Factor 1 of our rating grid, Regulatory Framework, to the "Baa" category from the "A" category.

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

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

- Declining cash flow coverage metrics that are weak for its A3 rating

Gulf Power's cash flow coverage metrics have been weak for an A rating in recent years, using parameters outlined in Moody's Regulated Electric and Gas Utilities Ratings Methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt of 17.9% in 2008 and 21 % in 2009, on a Moody's adjusted basis, compares to a minimum of 22% for an A rating under the rating methodology. The company has experienced higher operating costs and additional debt incurred to finance rising capital expenditure requirements, particularly for environmental compliance. Moody's expects Gulf Power's credit metrics to remain stable at close to current levels going forward, with CFO pre-working capital to debt approaching the 20% range and CFO pre-working capital to interest in the 5.0x range, which should be sufficient to support the current rating barring additional adverse regulatory events in Florida.

- Substantial environmental capital expenditures have required additional debt financing

Gulf Power is expected to spend approximately $1 billion from 2010 - 2012 on capital expenditures, with the 2010 projected amount of $271.4 million significantly lower than the 2009 level of $478 million, the latter which reflected environmental control projects at two power plants. Most of these higher capital expenditures are for environmental compliance and the company has no need for new generation over the near term. These expenditures are being financed with a combination of debt issuances at the utility and capital contributions from the parent company. The Florida Public Service Commission (FPSC) has approved recovery of prudently incurred environmental compliance costs through an environmental cost recovery clause that is adjusted annually subject to certain limits.

- Potential exposure to carbon regulation and national renewable portfolio standards

Gulf Power generates a significant portion of its power from coal with the remainder from natural gas. Due to the carbon intensity of its fuel mix, the company has significant exposure to additional costs related to potential carbon legislation. In addition, the southeast region of the country is particularly vulnerable in the event a national renewable portfolio standard is passed as there are very limited renewable energy sources in the southeast. The combination of carbon regulation and renewable portfolio standards has the potential to materially increase costs for the utility over the long term.

Liquidity

Gulf Power maintains $220 million of unused bank credit facilities as of June 30, 2010 supporting a $150 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of June 30, 2010, the company had $86 million of commercial paper outstanding and $69 million of variable rate pollution control bonds backed by the facilities, leaving the company with $65 million of available credit facility capacity. All of the bank facilities have 364 day tenors, with $190 million having one-year term-out provisions, mitigating refinancing risk to some degree. As of June 30, 2010, of the $220 million of credit facilities, $80 million expire in 2010 and $140 million in 2011. Subsequent to June 30, 2010, Gulf Power increased its existing facilities by $15 million with an expiration of 2011. There is no material adverse change clause in any of Gulf Power's credit agreements and facilities totaling $175 million include a 65% debt to capital covenant. As of June 30, 2010, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of a downgrade to Baa3, Gulf Power has potential collateral requirements of $127 million as of June 30, 2010. If Gulf Power's credit rating is downgraded to below investment grade, the utility's potential collateral requirement rises to $566 million. On June 30, 2010, Gulf Power had $20 million of cash on hand, up from $8.7 million at December 31, 2009. The company generated $265 million of cash from operations for the twelve months ended June 30, 2010, compared to $191 million for 2009. The company has $110 million of debt due over the next 12 months.

Rating Outlook

The stable rating outlook reflects Moody's expectation that Gulf Power's cash flow coverage metrics will stabilize; that the Florida regulatory environment will not deteriorate further and could perhaps improve once four new commissioners are in place; and that economic conditions in the Florida panhandle will gradually improve.

What Could Change the Rating - Up

An upgrade could be considered if there is an improvement in the Florida political and regulatory environment; if capital expenditures moderate from currently high levels; if cash flow coverage metrics show sustained improvement, including CFO pre-W/C interest coverage of at least 5.0x and CFO pre-W/C to debt in the 25% range.

What Could Change the Rating - Down

Ratings could be downgraded if there are additional, unanticipated capital expenditure requirements; additional debt leverage; a further deterioration of the political and regulatory environment in Florida; the imposition of new carbon controls or regulations or renewable portfolio standards, or if CFO pre-working capital interest coverage is below 4.5x or CFO pre-working capital debt remains below 22% for an extended period.

Rating Factors

Gulf Power Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)					X	
b) Generation and Fuel Diversity (5%)						X
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating			**Baa1**			
b) Actual Senior Unsecured Rating			**A3**			

MOODY'S INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 13 Aug 2010

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preferred Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)A3
Preferred Stock	Baa1
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

ACTUALS	LTM 2Q10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	4.6x	4.7x	4.5x	4.5x
(CFO Pre-W/C) / Debt	18.5%	18.8%	17.9%	19.9%
(CFO Pre-W/C - Dividends) / Debt	11.9%	12.3%	11.2%	13.2%
Debt / Book Capitalization	49.5%	49.8%	49.9%	48.5%

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

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

Opinion

Rating Drivers

- Supportive regulatory environments in three of its four regulatory jurisdictions

- Higher business and operating risk profile at several of its regulated utility subsidiaries

- Long-term term exposure to potential carbon controls and renewable portfolio standards

- Potentially growing renewable energy business outside of the Southeast region

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (GPC, A3 senior unsecured, stable outlook), Alabama Power Company (APC, A2 senior unsecured, stable outlook), Mississippi Power Company (MPC, A2 senior unsecured, stable outlook) and Gulf Power Company (Gulf, A3 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company also engages in competitive electricity generation through Southern Power Company (SPC, Baa1 senior unsecured, stable outlook) and renewable energy through the recently created Southern Renewable Energy, Inc. (unrated).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utility subsidiaries rated at low to mid-A rating levels and a highly contracted wholesale generating company. Three of its four regulated utilities operate in supportive regulatory environments, with the Florida regulatory environment becoming significantly less supportive over the last year. Southern's traditionally low risk profile has increased in recent years as a result of new nuclear and IGCC construction, weak economic conditions in the Southeast, regulatory risk with a large rate case pending in Georgia, and a thus far limited expansion into unregulated generation outside of its Southeast region, including biomass generation in Texas and solar generation in New Mexico. The company has embarked on a renewable energy partnership with Ted Turner, the largest landowner in the U.S., to develop solar power.

DETAILED RATING CONSIDERATIONS

- Supportive regulatory environments in three of its four regulatory jurisdictions, although the company faces regulatory risk in Georgia with a large rate pending

Southern's rating considers the utilities' generally supportive regulatory treatments in their jurisdictions. Moody's considers three of the four states that Southern operates in, including Alabama, Georgia, and Mississippi, to have above average regulatory environments that provide adequate rates of return and generally strong cost recovery provisions. The company's retail regulated utility subsidiaries operate under established base rate plans with authorized return on equity (ROE) levels that are considered above average for U.S. electric utilities. The utilities have several adjustment mechanisms in place to address rising costs and each of the respective regulatory jurisdictions allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs. Georgia Power and Gulf Power have under-recovered fuel and purchased power balances as of June 30, 2010, though rate adjustments and moderating fuel prices could reduce these balances over the near-term.

Nevertheless, challenging economic conditions throughout the company's service territory are testing these historically strong regulatory relationships. In Georgia, for example, economic conditions have led to lower than projected revenues and decreased customer usage since the company's last rate order was approved in 2007 and, as a result, the company's retail return on equity has fallen below the bottom of its allowed range in both 2009 and 2010. Rather than file a base rate case under these economic conditions, GPC proposed and the GPSC approved a plan to amortize up to $324 million of a regulatory liability instead. On July 1, 2010, GPC filed for a $615 million rate increase for 2011 ($1 billion including estimated 2012 and 2013 rate increases), subjecting the company to regulatory risk due to the aggregate size of the request during a time of continuing recessionary economic conditions in Georgia. The GPSC has planned several public hearings on the rate case throughout the state.

Although the state of Florida has historically fostered a supportive regulatory environment for investor owned utilities, highly politicized rate proceedings for two other utilities in the state last year has led to a perceived decline in this environment. Although Gulf Power has been somewhat insulated from this regulatory environment thus far, Moody's now views the overall regulatory framework as substantially less supportive of utility credit quality than it had been previously.

- Higher business and operating risk profile at several of its regulated utility subsidiaries, including nuclear construction at Georgia Power and IGCC construction at Mississippi Power

Southern's largest utility subsidiary, Georgia Power Company, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. GPC owns 45.7% of the new units, with the remainder to be owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%). The total cost of the project is expected to be approximately $14 billion with GPC's share at $6.4 billion. GPC spent about $560 million on the new Vogtle units in 2009 and will spend approximately $700 million annually in 2010 and for the next several years. This is in addition to significant spending for new conventional and biomass generation, transmission, distribution, and environmental compliance, resulting in total capex at a high $2.5 billion range annually for at least the next three years.

In Mississippi, on May 27, 2010, Mississippi Power Company decided to move forward on the construction of a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. MPC estimates that the construction costs to be $2.4 billion, net of government construction cost incentives, and the plant is expected to be in operation by May 2014. Among the conditions imposed by the Mississippi Public Service Commission are a construction cost cap of $2.88 billion, 20% above the currently estimated capital cost; no CWIP recovery in 2010-2011 (AFUDC accrual only), with CWIP recovery thereafter; and regular, ongoing prudence reviews. The plant's current cost estimate of $2.4 billion was increased from $2.2 billion last year and is more than the $2.1 billion of total balance sheet assets of Mississippi Power. Although IGCC technology has been utilized at other plants on a limited basis, the size, scope, and complexity of the project has materially increased the business and operating risk profile of Mississippi Power.

- Long-term term exposure to potential carbon controls and renewable portfolio standards

Southern generates a significant portion of its electricity from coal and, as one of the largest coal-fired utility systems in the U.S., is vulnerable to environmental mandates, including potential controls on carbon. The company has spent approximately $7.5 billion on environmental expenditures through 2009 to comply with federal and state mandates thus far and has budgeted approximately $2.5 billion of spending for its existing environmental expenditure program for 2010 - 2012. While Moody's anticipates the continued timely recovery of environmental costs through rate adjustments, funding requirements could put pressure on the company's financial metrics and balance sheet, particularly if carbon control legislation or carbon regulations are implemented by either the U.S. Congress or the Environmental Protection Agency. In addition, the southeast region of the country is vulnerable in the event renewable portfolio standards are passed as there are very limited renewable energy sources in the region. The combination of carbon regulation and renewable portfolio standards has the potential to materially increase the company's costs over the long-term.

- Potentially growing renewable energy business outside of the Southeast

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than most other competitive wholesale generators due to a strategy of entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities, and its focus on the Southeast region. In addition, the market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing SPC's financial and operating risk. SPC's capacity is almost fully contracted through 2017.

Over the last year, Southern Power has begun to expand outside of its traditional Southeast regional focus with the acquisition of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. Construction is currently underway and the plant is expected to be on line by mid-2012. The output is fully contracted to the City of Austin for 20 years.

On January 25, 2010, Southern Company formed Southern Renewable Energy, created to acquire, own, and construct renewable generation assets. It's first project is a 30 MW solar project in New Mexico. On January 26, Southern announced a strategic alliance with Ted Turner, the largest individual landowner in the U.S., to develop and invest in large scale solar photovoltaic projects in the U.S. Southwest in addition to evaluating other solar renewable projects. While currently modest, significant additional investments in renewable energy outside of the Southeast has the potential to further increase Southern Company's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; a mostly unused bank credit facility at the parent company level; and a sufficient cash position as of June 30, 2010. Southern maintains two credit facilities totaling $950 million at the parent company level that expire on July 7, 2012. The credit facilities provide liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. Each credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of June 30, 2010, Southern was in compliance with its financial covenant.

At the parent level, Southern had $16 million of cash on hand and commercial paper outstandings of $125 million as of June 30, 2010. Southern generated $4.1 billion of consolidated cash from operations for the twelve months ended June 30, 2010, compared to $3.3 billion for fiscal year 2009 on a Moody's adjusted basis. Moody's anticipates dividend contributions from the subsidiaries to be in the range of $1.7 billion to $1.8 billion annually in 2010 and 2011. However, Southern's utilities with large planned capital expenditures are expected to require significant equity infusions over the next several years.

Southern's utility subsidiaries and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated credit facilities are approximately $4.8 billion as of June 30, 2010 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these, $559 million expire in the second half of 2010, $983 million in 2011, with the bulk by far, $3.2 billion, expiring in 2012. Moody's expects Southern to renew most of these expiring facilities as they mature, although bank credit market conditions could lower the sizes of the facilities upon renewal. Southern had consolidated cash on hand of $266 million and $879 million of commercial paper outstanding as of June 30, 2010.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $469 million as of June 30, 2010. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.6 billion. Generally, collateral could be provided by a Southern Company guaranty, letter of credit, or cash. As of June 30, 2010, Southern had approximately $1,514 million of consolidated debt maturities over the next twelve months.

Rating Outlook

The stable rating outlook reflects Moody's expectation that there will be a reasonably supportive outcome of its pending rate case in Georgia, that there will be no major delays or cost overruns on the Vogtle nuclear or Kemper County IGCC construction projects; that economic conditions in the Southeast will gradually improve; that costs resulting from carbon regulations or renewable portfolio standards will be recovered in rates without significant regulatory lag; and that growth of its renewable energy business outside of its region will remain modest and manageable.

What Could Change the Rating - Up

An upgrade is unlikely while two of its subsidiaries are engaged in major new construction programs. Ratings could be raised, however, if there is additional clarity on carbon regulation or renewable portfolio standards; if there is a reasonable outcome of its pending Georgia rate case and an improvement in the Florida regulatory environment; if financial metrics show sustained improvement, including CFO pre-W/C interest coverage above 4.5x and CFO pre-W/C to debt above 22%.

What Could Change the Rating - Down

The ratings could be downgraded if either Alabama Power or Georgia Power's ratings are lowered; if there are delays or cost overruns on either the Vogtle or Kemper County projects; if there is an adverse outcome of the pending Georgia Power rate case; if there is significant additional debt issued at the parent company level; if carbon legislation, carbon regulations or national renewable portfolio standards are put in place; if there is a major expansion of Southern's renewable energy business; if metrics show a sustained decline, including CFO pre-W/C interest coverage below 3.9x and CFO pre-W/C to debt below 19%.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)			X			
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)			X			
b) Generation and Fuel Diversity (5%)					X	
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Interest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating			**Baa1**			

STANDARD & POOR'S

RatingsDirect®

October 6, 2009

Gulf Power Co.

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Gulf Power Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- A generally constructive regulatory environment in Florida;
- Historically above-average customer growth with attractive demographics;
- Strong operating performance;
- Moderately competitive rate structure;
- Stable consolidated cash flows; and
- Operating and regulatory diversity on a consolidated basis.

Weaknesses:

- Large environmental compliance costs due to heavy reliance on coal;
- Economic slowdown in the Florida economy; and
- Aggressive adjusted consolidated debt leverage.

Rationale

The ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. Southern Co. has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $14.4 billion (excluding Southern Power capital expenditures) during the next three years. The expenditures address significant environmental-compliance requirements, transmission and distribution growth needs, new generation projects, system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the overall slowdown in the regional economy.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 427,929 customers primarily in the Florida Panhandle area and providing about 5% to 6% of operating income and cash flows. The moderately sized service territory has attractive demographics but experienced no customer growth during 2008 as a result of the overall weakness in the local economy. Residential and commercial customers account for 69% of revenues and 61% of sales, while industrial customers account for 12% of revenues and 15% of sales. There is no meaningful customer concentration. Sales for resale are somewhat material at 15% of revenues and 24% of sales and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,659 MW, with coal-fired assets contributing 77.3% of energy, gas 15.6%, and purchases 7.4%. Plant availability

160186-OPC-POD-71-137

continued to be consistently high during 2008, with 88.6% for the fossil-fired units. Retail rates are moderately competitive and could come under pressure as the company recovers deferred fuel and storm restoration costs along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for regular true-ups. Environmental projects not in base rates are recovered through an environmental-recovery clause. As of June 30, 2009, Gulf Power had reduced its fuel deferral balance significantly to about $52.7 million compared to $97 million on Dec. 31, 2008. In November 2008, the fuel cost recovery factor was increased by 12.9% to ensure recovery of deferred fuel costs during 2009. The Florida Public Services Commission (FPSC) requires the company to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern Co.'s cash flow generation has been consistent and strong, contributing to an intermediate financial risk profile, and benefiting from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2009, adjusted funds from operations (FFO) was about $3.49 billion, while total adjusted debt was $21.9 billion, leading to adjusted FFO interest coverage of 4.2x, adjusted FFO to debt of 15.9%, and adjusted total debt to total capital of 60.1%. Both adjusted FFO to total debt and total debt to total capital are aggressive for the rating category, and both measures should benefit in the next 12 to 18 months from incremental recovery of fuel costs as well as the completion of various projects currently under construction which will be included in rate base, primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $1.22 billion in off-balance sheet debt stemming from the short-fall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Gulf Power's stand-alone financial profile for 12 months ended June 30, 2009 is adequate for the current ratings, with adjusted FFO interest coverage of 5.5x, adjusted FFO to debt of 18.5% and debt leverage of 56.7%.

Short-term credit factors

The 'A-1' short-term rating reflects Gulf Power's corporate credit rating, but also accounts for stable cash flow and sufficient liquidity to meet upcoming debt maturities and capital-spending needs.

Gulf Power's liquidity is viewed on a consolidated basis with that of Southern Co. As of June 30, 2009, consolidated liquidity was adequate, with $752 million of cash on hand, and $4.3 billion in total credit facilities (excluding credit facility availability of Southern Power) of which $1.1 billion supported outstanding commercial paper, and $1.5 billion supported tax-exempt floating rate securities, leaving about $1.7 billion available under the revolving credit facilities for other needs. Of the total available credit facilities, Southern Co. has $950 million available for short-term needs and commercial paper backup; Alabama Power has $1.26 billion in available facilities; Georgia Power $1.675 billion; Gulf Power $220.0 million; and Mississippi Power $149.0 million. About $484 million of the credit facilities mature in 2009, $965 million of the credit facilities will mature in 2010 and the balance mature in 2012. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern Co. and its subsidiaries are well in compliance.

As of June 30, 2009, the deferred fuel balance was $822.0 million compared to $1.22 billion at the beginning of 2009. GPC forms about 80% of the consolidated fuel deferral balance and is expected to file an updated fuel cost recovery mechanism by mid December 2009, with new rates going into effect April 2010. Therefore, we do not expect a significant reduction in Southern Co's consolidated deferred fuel balance in the near to intermediate term. However, the liquidity position could come under pressure if the fuel deferral balances increase from current levels.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent, Southern Co. The stable outlook on Southern Co. reflects the company's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but such a change would largely depend on a consistently stronger financial profile. The outlook will be revised to negative and ratings may be lowered if the company's financial profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO/TD is consistently below 17% and adjusted FFO/Interest coverage declines to below 4.0x, as a result of the substantial capital spending budget, the inability to recover such expenses in rates or the inability to recover the current deferred fuel cost balance in a timely manner. In addition, the pursuit of the nuclear plant construction, which is expected to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost over-runs on the budget or indications of weakening regulatory support would also lead to a negative outlook revision.

Accounting

Southern Co.'s financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2008.

In assessing the financial risk profile of Southern Standard & Poor's views Southern Power as an equity investment and its dividend distributions to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Southern reports changes in under recovered fuel balances as part of changes in working capital. However, Standard & Poor's, while analyzing company's cash flows, re-classifies these changes as part of changes in funds from operations (FFO). This adjustment reflects the long term nature of recovery of fuel costs which is more a standard measure of FFO rather than working capital.

Asset-retirement obligations (ARO) totaled about $1.2 billion at Dec. 31, 2008, while the corresponding nuclear decommissioning trust fund balance totaled $864 million, leading to the imputation of $208.7 million as off-balance sheet debt. The current funding level of pension and other post-retirement obligations leads to the imputation of $1.23 billion as an off-balance sheet obligation.

Standard & Poor's views Southern Co.'s $412 million of trust-preferred securities and $1.1 billion of preferred and preference shares as of Dec. 31, 2008, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 4.8% of total capital as of Dec. 31, 2008, which is not an unduly large amount.

Capitalization of non-rail car operating leases adds about $281.5 million of off-balance-sheet obligations as of Dec.

31, 2008, while debt imputed for purchased power agreements (PPAs) adds about $850.9 million. These figures represent about 5.6% of adjusted total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Table 1.

Southern Co. -- Peer Comparison*

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	Entergy Corp.	American Electric Power Co. Inc.	FPL Group Inc.
Rating as of Oct. 1, 2009	A/Stable/A-1	A-/Positive/A-2	BBB/Stable/--	BBB/Stable/A-2	A/Stable/--
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	14,591.1	14,217.3	11,821.0	13,319.9	15,356.7
Net income from cont. oper.	1,549.8	1,630.0	1,162.8	1,168.0	1,293.7
Funds from operations (FFO)	3,352.8	4,149.1	3,093.7	2,769.0	3,490.9
Capital expenditures	3,233.1	3,878.1	2,062.9	3,794.8	1,932.2
Cash and short-term investments	239.1	1,518.9	1,403.2	669.0	481.7
Debt	17,438.6	17,312.7	12,481.8	17,208.4	12,068.6
Preferred stock	881.8	0.0	162.9	93.2	838.0
Equity	13,225.8	23,111.8	8,172.0	10,154.5	11,620.0
Debt and equity	30,664.5	40,424.5	20,653.8	27,362.9	23,688.6
Adjusted ratios					
EBIT interest coverage (x)	3.4	3.1	3.3	2.4	3.2
FFO int. cov. (X)	4.5	4.9	4.9	3.3	6.0
FFO/debt (%)	19.2	24.0	24.8	16.1	28.9
Discretionary cash flow/debt (%)	(7.1)	(9.0)	4.2	(10.2)	3.8
Net cash flow / capex (%)	66.2	73.9	124.6	56.3	145.0
Total debt/debt plus equity (%)	56.9	42.8	60.4	62.9	50.9
Return on common equity (%)	12.4	6.7	13.4	10.7	11.7
Common dividend payout ratio (un-adj.) (%)	78.8	78.7	44.8	53.7	50.8

*Fully adjusted (including postretirement obligations).

Table 2.

Gulf Power Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2008	2007	2006	2005	2004
Rating history	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. $)					
Revenues	1,387.2	1,259.8	1,203.9	1,083.6	960.1
Net income from continuing operations	104.5	88.0	79.3	76.0	68.4
Funds from operations (FFO)	202.1	190.3	138.2	165.2	147.9
Capital expenditures	384.5	240.5	152.8	149.3	149.0

Table 2.

Gulf Power Co. -- Financial Summary* (cont.)					
Cash and short-term investments	3.4	5.3	7.5	3.8	64.8
Debt	1,138.6	858.7	836.2	754.5	753.3
Preferred stock	49.0	49.0	47.6	60.0	38.1
Equity	871.1	780.3	681.6	693.0	652.0
Debt and equity	2,009.7	1,638.9	1,517.8	1,447.5	1,405.4
Adjusted ratios					
EBIT interest coverage (x)	3.9	3.7	3.6	4.1	3.9
FFO int. cov. (x)	4.7	4.6	3.8	5.1	4.9
FFO/debt (%)	17.8	22.2	16.5	21.9	19.6
Discretionary cash flow/debt (%)	(28.4)	(11.5)	(9.6)	(7.3)	(9.7)
Net Cash Flow / Capex (%)	30.5	47.6	41.9	63.0	50.7
Debt/debt and equity (%)	56.7	52.4	55.1	52.1	53.6
Return on common equity (%)	12.2	12.3	12.0	12.6	11.5
Common dividend payout ratio (un-adj.) (%)	83.1	87.5	92.5	90.9	102.6

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2008--									
Gulf Power Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	997.5	920.1	277.5	277.5	192.7	43.1	147.9	147.9	87.8	377.8
Standard & Poor's adjustments										
Operating leases	16.5	--	4.5	0.7	0.7	0.7	3.8	3.8	--	10.7
Intermediate hybrids reported as equity	49.0	(49.0)	--	--	--	3.1	(3.1)	(3.1)	(3.1)	--
Postretirement benefit obligations	58.9	--	(2.7)	(2.7)	(2.7)	--	1.3	1.3	--	--
Accrued interest not included in reported debt	9.0	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	4.0	(4.0)	(4.0)	--	(4.0)
Share-based compensation expense	--	--	--	0.8	--	--	--	--	--	--
Asset retirement obligations	7.8	--	0.6	0.6	0.6	0.6	(0.2)	(0.2)	--	--

Table 3.

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)										
Reclassification of nonoperating income (expenses)	--	--	--	--	9.1	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	56.4	--	--
Total adjustments	141.1	(49.0)	2.4	(0.6)	7.7	8.4	(2.2)	54.2	(3.1)	6.7

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	1,138.6	871.1	279.9	276.9	200.4	51.5	145.7	202.1	84.7	384.5

*Gulf Power Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 6, 2009)*	
Gulf Power Co.	
Corporate Credit Rating	A/Stable/A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (12 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Senior Unsecured (1 Issue)	A/NR
Corporate Credit Ratings History	
29-Jun-2009	A/Stable/A-1
21-Dec-2000	A/Stable/--
30-Nov-1998	A+/Watch Neg/--
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (28 Issues)	A

Ratings Detail (As Of October 6, 2009)*(cont.)	
Senior Unsecured (18 Issues)	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (45 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (31 Issues)	A/A-1
Senior Unsecured (8 Issues)	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (4 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Southern Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (3 Issues)	A-
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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October 6, 2009

Southern Co.

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Southern Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- Stable cash flows;
- Operations under generally constructive regulatory environments;
- Large and diverse customer base;
- Geographic diversity; and
- Strong operating performance.

Weaknesses:

- Higher business risk due to planned construction of new nuclear plants;
- Significant capital spending;
- Large deferred fuel costs; and
- Aggressive consolidated debt leverage.

Rationale

The ratings on Southern Co. reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co. (APC), Georgia Power Co. (GPC), Gulf Power Co., and Mississippi Power Co. (MPC). Southern Power Company, Southern Co.'s other major subsidiary, is viewed as an equity investment and is not incorporated in the assessment of the credit quality of Southern Co.

Southern Co. has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $14.4 billion (excluding Southern Power capital expenditures) during the next three years. The expenditures address significant environmental-compliance requirements, transmission and distribution growth needs, new generation projects, system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the overall slowdown in the regional economy.

The planned capital spending program includes preliminary costs for building two new nuclear facilities at existing sites with major plant specific construction starting in mid-2011 once the combined operating and construction license is approved by the Nuclear Regulatory Commission. Georgia Power will own 45.7% of each of the two 1,117MW units. The in-service cost for Georgia Power's share of the project (including escalation and financing costs) is expected to be about $6.4 billion with the first unit entering commercial operation in April 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensures recovery of prudently incurred investment in base rates upon completion. The Georgia PSC certified construction of the proposed nuclear units in April 2009. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in process during the construction period, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in rate base upon commercial operation. The ability to collect CWIP reduces the inservice cost to about $4.5 billion. Given the new technology and long construction period, the planned construction of the new nuclear units contributes to an increase business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the construction on budget and on schedule in order to mitigate adverse effects on credit quality.

Southern Co. had about $822.0 million in deferred fuel costs as of June 30, 2009, a reduction of about $300 million from year-end 2008. During the first half of 2009, all the operating companies made significant progress in recovering their respective deferred fuel balances, with the exception of GPC. GPC's deferred fuel balance of $711 million forms about 80% of the consolidated fuel cost deferrals. GPC will file an updated fuel cost recovery mechanism by mid-December 2009, with new rates expected to go into effect by April 2010. Therefore, unless fuel prices continue at current moderate levels, it is unlikely that the deferred fuel cost balance will decline materially in the interim. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery, may pressure the company's competitive rates and regulatory relationships, especially given the slowdown in the regional economy.

Southern Co.'s cash flow generation has been consistent and strong, contributing to an intermediate financial risk profile, and benefiting from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2009, adjusted funds from operations (FFO) was about $3.49 billion, while total adjusted debt was $21.9 billion, leading to adjusted FFO interest coverage of 4.2x, adjusted FFO to debt of 15.9%, and adjusted total debt to total capital of 60.1%. Both adjusted FFO to total debt and total debt to total capital are aggressive for the rating category, and both measures should benefit in the next 12 to 18 months from incremental recovery of fuel costs as well as the completion of various projects currently under construction which will be included in rate base, primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $1.22 billion in off-balance sheet debt stemming from the short-fall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Short-term credit factors

The 'A-1' short-term rating on Southern Co. reflects the company's corporate credit rating but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

As of June 30, 2009, consolidated liquidity was adequate, with $752 million of cash on hand, and $4.3 billion in total credit facilities (excluding credit facility availability of Southern Power) of which $1.1 billion supported outstanding commercial paper, and $1.5 billion supported tax-exempt floating rate securities, leaving about $1.7 billion available under the revolving credit facilities for other needs. Of the total available credit facilities, Southern Co. has $950 million available for short-term needs and commercial paper backup; Alabama Power has $1.26 billion in available facilities; Georgia Power $1.675 billion; Gulf Power $220.0 million; and Mississippi Power $149.0 million. About $484 million of the credit facilities mature in 2009, $965 million of the credit facilities will mature in 2010 and the balance mature in 2012. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern Co. and its subsidiaries are well in compliance.

As of June 30, 2009, the deferred fuel balance was $822.0 million compared to $1.22 billion at the beginning of 2009. GPC forms about 80% of the consolidated fuel deferral balance and is expected to file an updated fuel cost recovery mechanism by mid December 2009, with new rates going into effect April 2010. Therefore, we do not expect a significant reduction in Southern Co's consolidated deferred fuel balance in the near to intermediate term. However, the liquidity position could come under pressure if the fuel deferral balances increase from current levels.

Outlook

The stable outlook reflects Southern Co.'s consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. An outlook revision to positive is currently not contemplated, but such a change would largely depend on a consistently stronger financial profile. The outlook will be revised to negative and ratings may be lowered if the company's financial profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO/TD is consistently below 17% and adjusted FFO/Interest coverage declines to below 4.0x, as a result of the substantial capital spending budget, the inability to recover such expenses in rates or the inability to recover the current deferred fuel cost balance in a timely manner. In addition, the pursuit of the nuclear plant construction, which is expected to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost over-runs on the budget or indications of weakening regulatory support would also lead to a negative outlook revision.

Accounting

Southern Co.'s financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2008.

In assessing the financial risk profile of Southern Standard & Poor's views Southern Power as an equity investment and its dividend distributions to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Southern reports changes in under recovered fuel balances as part of changes in working capital. However, Standard & Poor's, while analyzing company's cash flows, re-classifies these changes as part of changes in funds from operations (FFO). This adjustment reflects the long term nature of recovery of fuel costs which is more a standard measure of FFO rather than working capital.

Asset-retirement obligations (ARO) totaled about $1.2 billion at Dec. 31, 2008, while the corresponding nuclear decommissioning trust fund balance totaled $864 million, leading to the imputation of $208.7 million as off-balance sheet debt. The current funding level of pension and other post-retirement obligations leads to the imputation of $1.23 billion as an off-balance sheet obligation.

Standard & Poor's views Southern Co.'s $412 million of trust-preferred securities and $1.1 billion of preferred and preference shares as of Dec. 31, 2008, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 4.8% of total capital as of Dec. 31, 2008, which is not an unduly large amount.

Capitalization of non-rail car operating leases adds about $281.5 million of off-balance-sheet obligations as of Dec. 31, 2008, while debt imputed for purchased power agreements (PPAs) adds about $850.9 million. These figures represent about 5.6% of adjusted total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Table 1.

Southern Co. -- Peer Comparison*

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	Entergy Corp.	American Electric Power Co. Inc.	FPL Group Inc.
Rating as of Oct. 1, 2009	A/Stable/A-1	A-/Positive/A-2	BBB/Stable/--	BBB/Stable/A-2	A/Stable/--
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	14,591.1	14,217.3	11,821.0	13,319.9	15,356.7
Net income from cont. oper.	1,549.8	1,630.0	1,162.8	1,168.0	1,293.7
Funds from operations (FFO)	3,352.8	4,149.1	3,093.7	2,769.0	3,490.9
Capital expenditures	3,233.1	3,878.1	2,062.9	3,794.8	1,932.2
Cash and short-term investments	239.1	1,518.9	1,403.2	669.0	481.7
Debt	17,438.6	17,312.7	12,481.8	17,208.4	12,068.6
Preferred stock	881.8	0.0	162.9	93.2	838.0
Equity	13,225.8	23,111.8	8,172.0	10,154.5	11,620.0
Debt and equity	30,664.5	40,424.5	20,653.8	27,362.9	23,688.6
Adjusted ratios					
EBIT interest coverage (x)	3.4	3.1	3.3	2.4	3.2
FFO int. cov. (X)	4.5	4.9	4.9	3.3	6.0
FFO/debt (%)	19.2	24.0	24.8	16.1	28.9
Discretionary cash flow/debt (%)	(7.1)	(9.0)	4.2	(10.2)	3.8
Net cash flow / capex (%)	66.2	73.9	124.6	56.3	145.0
Total debt/debt plus equity (%)	56.9	42.8	60.4	62.9	50.9
Return on common equity (%)	12.4	6.7	13.4	10.7	11.7
Common dividend payout ratio (un-adj.) (%)	78.8	78.7	44.8	53.7	50.8

*Fully adjusted (including postretirement obligations).

Table 2.

Southern Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2008	**2007**	**2006**	**2005**	**2004**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	15,813.5	14,381.0	13,579.0	12,773.0	11,027.7
Net income from continuing operations	1,597.6	1,602.4	1,449.5	1,476.2	1,417.5
Funds from operations (FFO)	3,473.6	3,210.4	3,374.6	3,669.5	3,352.8

Table 2.

Southern Co. -- Financial Summary* (cont.)					
Capital expenditures	3,888.8	3,324.1	2,486.3	2,168.4	1,955.7
Cash and short-term investments	379.1	201.0	137.1	174.4	342.8
Debt	20,158.0	16,754.9	15,403.1	15,681.6	14,210.5
Preferred stock	747.0	746.0	1,152.5	1,242.0	561.0
Equity	14,023.0	13,131.0	12,523.5	11,366.8	10,187.7
Debt and equity	34,181.0	29,885.9	27,926.6	27,048.4	24,398.2
Adjusted ratios					
EBIT interest coverage (x)	3.3	3.4	3.6	3.8	3.8
FFO int. cov. (x)	4.2	4.3	5.0	6.0	5.9
FFO/debt (%)	17.2	19.2	21.9	23.4	23.6
Discretionary cash flow/debt (%)	(8.8)	(7.2)	(5.0)	(4.1)	(1.6)
Net Cash Flow / Capex (%)	56.9	60.6	88.1	116.3	118.0
Debt/debt and equity (%)	59.0	56.1	55.2	58.0	58.2
Return on common equity (%)	11.2	12.9	13.3	14.2	14.6
Common dividend payout ratio (un-adj.) (%)	83.5	77.5	75.0	70.9	60.4

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2008--									
Southern Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	17,088.6	13,219.6	4,553.6	4,553.6	3,199.1	782.8	3,228.2	3,228.2	1,280.0	3,911.0
Standard & Poor's adjustments										
Operating leases	281.5	--	76.3	15.2	15.2	15.2	61.0	61.0	--	41.7
Intermediate hybrids reported as debt	(206.0)	206.0	--	--	--	(11.7)	11.7	11.7	11.7	--
Intermediate hybrids reported as equity	541.0	(541.0)	--	--	--	32.5	(32.5)	(32.5)	(32.5)	--
Postretirement benefit obligations	1,227.2	--	(48.0)	(48.0)	(48.0)	--	83.9	83.9	--	--
Accrued interest not included in reported debt	166.1	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	63.9	(63.9)	(63.9)	--	(63.9)
Share-based compensation expense	--	--	--	20.0	--	--	--	--	--	--
Power purchase agreements	850.9	--	196.4	196.4	44.6	44.6	151.9	151.9	--	--

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Table 3.

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

Asset retirement obligations	208.7	--	75.0	75.0	75.0	75.0	(48.8)	(48.8)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	9.4	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	90.1	--	--
Minority interests	--	1,138.4	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(8.0)	(8.0)	--	--
Total adjustments	3,069.3	803.4	299.7	258.7	96.2	219.5	155.3	245.3	(20.8)	(22.2)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	20,158.0	14,023.0	4,853.3	4,812.3	3,295.4	1,002.3	3,383.5	3,473.6	1,259.2	3,888.8

*Southern Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 6, 2009)*

Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (3 Issues)	A-
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/A-1
30-Nov-1998	A/Watch Neg/A-1
24-Jan-1997	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (As Of October 6, 2009)*(cont.)	
Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (28 Issues)	A
Senior Unsecured (18 Issues)	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (45 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (31 Issues)	A/A-1
Senior Unsecured (8 Issues)	A/NR
Gulf Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (12 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Senior Unsecured (1 Issue)	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (4 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

Ratings Detail (As Of October 6, 2009)***(cont.)**

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Global Power
U.S. and Canada
Full Rating Report

Gulf Power Company

A Subsidiary of Southern Company

Ratings

Security Class	Current Rating
IDR	A–
Short-Term IDR/Commercial Paper	F1
Senior Unsecured Notes	A
Pollution Control Revenue Bonds	A
Subordinated Notes	A–
Preferred Securities	BBB+

IDR — Issuer default rating.

Rating Outlook

Stable

Financial Data

Gulf Power Company
($ Mil.)

	LTM 6/30/10	2009
Revenue	1,436	1,302
Gross Margin	681	637
Cash flow from Oper.	268	195
Operating EBITDA	323	286
Total Debt	1,260	1,250
Total Capitalization	2,420	2,352
ROE (%)	11.75	12.16
Capex/Deprec. (%)	305.8	452.7

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Related Research

Applicable Criteria
- *Corporate Rating Methodology, Aug. 16, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*

Other Research
- *Alabama Power Company, Oct. 5, 2010*
- *Georgia Power Company, Oct. 5, 2010*
- *Mississippi Power Company, Oct. 5, 2010*
- *Southern Power Company, Oct. 5, 2010*
- *Southern Company, Oct. 5, 2010*

Rating Rationale

- Fitch affirmed the ratings of Gulf Power Company on Sept. 3, 2010. The Rating Outlook is Stable.
- The ratings and Stable Outlook for Gulf reflect Fitch's expectation that the credit metrics should improve from 2009 cyclical lows. The Stable Outlook also reflects a manageable capital-expenditure program, modest debt maturities, and historically constructive rate outcomes.
- Gulf's cash flow stability is enhanced by several annually adjusted rate riders that provide timely recovery of all prudent costs related to fuel, purchased costs, and environmental expenditures outside of base rates.
- Fitch expects the still-weak Florida economy and the uncertain utility regulatory situation in the state to gradually improve. While Gulf is heavily dependent on coal-fired generation capacity that must comply with changing emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs.
- Fitch expects Gulf to renew its $235 million of revolving credit facilities, which consist of bilateral facilities that have one-year term loan conversion options, prior to the revolving credit period maturity dates in 2010 ($50 million) and 2011 ($185 million).
- Gulf benefits from ownership by the Southern Company (issuer default rating [IDR] 'A', Outlook Negative by Fitch), a multi-utility holding company in the Southeast. For additional information on the Southern, please refer to Fitch's full rating report dated Oct. 5, 2010.

Key Rating Drivers

- Continuation of strong regulatory support is important for Gulf to maintain its credit quality and current ratings.
- Operational and financial efficiency gained from an association with Southern.
- The effect of electricity consumption trends on cash flow and credit quality.

Florida Regulatory Update

In Fitch's view, Florida historically was one of the most constructive regulatory environments in the country. However, political interference in the face of the economic slowdown led to a marked regulatory environment shift in 2010. Recent decisions for unaffiliated Florida utilities have been populist, with below-average allowed return on equity and base rate increases that were significantly lower than amounts requested. Florida has a five-member commission, in which members are appointed by the governor and confirmed by the Senate. Two of the five commissioners are yet to be confirmed by the Senate, and two others are required to vacate their seats by the end of the year.

Gulf has not filed a base rate case since 2002 and, hence, was able to avoid the recent fray over rate making in the state and the associated media scrutiny. Fitch expects the regulatory climate in Florida to slowly return to normal after this election year and as the state's economy slowly begins to recover.

Liquidity and Capital Structure

Credit Facilities
($ Mil.)

	Total	Unused	Executable Term Loans		Expires		
			One Year	Two Years	2010	2011	2012
Gulf Power Company	220	220	190	0	80	140	0

Source: Company reports.

Subsequent to June 30, 2010, Gulf increased the amount of credit facilities to $235 million, with the revolving period for $180 million of the facilities now expiring in 2011. The company may also meet short-term cash needs through borrowings from a Southern subsidiary, Southern Company Funding, Inc., organized to issue and sell commercial paper at the request and for the benefit of Gulf and other Southern subsidiaries. At June 30, 2010, Gulf had $86 million of commercial paper outstanding.

Long-Term Debt Maturities
($ Mil.)

	2010	2011	2012	2013	2014
Gulf Power Company	0	110	0	60	75

Source: Company reports.

Gulf has manageable debt maturities and ready access to the public debt markets, as was most recently demonstrated by the company's $125 million, 30-year, 5.10% unsecured note issuance in September 2010. The proceeds from the notes will be used for the proposed redemption of all or a portion of the $40 million of 5.75% notes due 2033 and/or $35 million of the company's 5.875% notes due 2044; to repay a portion of short-term debt; and for general corporate purposes, including the company's continuous construction program.

The largest shares of capital spending are geared toward environmental upgrades of generation facilities and, to a lesser extent, transmission.

Capital Spending
($Mil.)

	2010E	2011E	2012E
Gulf Power Company	271	350	419

Source: SEC Form 10-K.

Capital Structure — Gulf Power Company
($ Mil., as of June 30, 2010)

Short-Term Debt	86.0
Long-Term Debt[a]	1,173.6
Preference Stock	98.0
Total Common Stockholders' Equity	1,062.3
Total Capitalization	**2,419.9**
Total Adjusted Debt/ Total Capitalization (%)[b]	52

[a]Long-term debt includes securities due within one year. [b]Includes equity credit of hybrid securities.
Source: Company reports.

Capital Structure

In January 2010, Gulf issued to Southern 500,000 shares of its common stock without par and realized proceeds of $50 million. Fitch's ratings assume Gulf will continue to issue a mix of debt and equity to maintain a balanced capital structure.

Company Profile

Gulf, a subsidiary of Southern, is a vertically integrated electric utility providing electricity generation, transmission, and distribution service to retail customers in northwestern Florida. The company also sells power to wholesale customers. Gulf owns approximately 2,659 MW of generation capacity, of which 77% is coal and the remaining 23% is natural gas.

Financial Summary — Gulf Power Company

($ Mil., Fiscal Years Ended Dec. 31)

	LTM 6/30/10	2009	2008	2007	2006	2005	2004	2003
Fundamental Ratios								
FFO/Interest Expense (x)	5.6	4.6	5.4	4.7	5.1	6.2	7.0	5.3
CFO/Interest Expense (x)	6.5	5.1	4.2	5.7	4.3	4.8	5.0	6.0
FFO/Debt (%)	17.7	14.5	20.6	21.2	22.7	30.2	30.0	29.8
Operating EBIT/Interest Expense (x)	4.5	3.9	4.1	3.8	3.8	4.0	4.0	4.0
Operating EBITDA/Interest Expense (x)	6.7	6.0	5.9	5.7	5.8	6.1	6.3	6.1
Operating EBITDAR/(Interest Expense + Rent) (x)	6.1	5.4	5.9	5.7	5.8	6.1	6.3	6.1
Debt/Operating EBITDA (x)	3.8	4.2	3.6	3.0	3.1	2.8	3.2	2.4
Common Dividend Payout (%)	80.7	80.2	83.7	88.1	92.1	90.7	102.9	101.4
Internal Cash/Capital Expenditures (%)	51.9	23.5	16.1	57.9	44.8	58.7	45.3	122.2
Capital Expenditures/Depreciation (%)	305.8	452.7	444.7	281.4	173.0	168.2	194.0	120.7
Profitability								
Adjusted Revenues	1,436	1,302	1,387	1,260	1,204	1,084	960	877
Net Revenues	681	637	642	616	595	570	527	510
Operating and Maintenance Expense	259	261	278	270	260	251	230	211
Operating EBITDA	328	286	277	263	255	243	227	233
Depreciation and Amortization Expense	104	93	85	86	89	85	83	82
Operating EBIT	220	189	192	177	166	158	144	151
Gross Interest Expense	49	48	47	46	44	40	36	38
Net Income for Common	119	111	98	84	76	75	68	69
Operating and Maintenance Expense % of Net Revenues	38.0	41.0	43.3	43.8	43.7	44.0	43.6	41.4
Operating EBIT % of Net Revenues	32.3	29.7	29.9	28.7	27.9	27.7	27.3	29.6
Cash Flow								
Cash Flow from Operations	268	195	149	217	143	153	143	191
Change in Working Capital	45	20	(56)	48	(38)	(55)	(73)	27
Funds from Operations	223	175	205	169	181	208	216	164
Dividends	(103)	(96)	(88)	(77)	(74)	(69)	(70)	(70)
Capital Expenditures	(318)	(421)	(378)	(242)	(154)	(143)	(161)	(99)
Free Cash Flow	(153)	(322)	(317)	(102)	(85)	(59)	(88)	22
Net Other Investment Cash Flow	(33)	(47)	29	3	(9)	(18)	26	(12)
Net Change in Debt	76	219	216	(32)	73	(31)	97	62
Net Equity Proceeds	72	157	75	129	26	51	29	(72)
Capital Structure								
Short-Term Debt	86	90	148	45	120	89	50	38
Long-Term Debt	1,174	1,119	849	754	679	600	669	512
Total Debt	**1,260**	**1,209**	**997**	**799**	**799**	**689**	**719**	**550**
Total Hybrid Equity and Minority Interest	98	98	98	85	72	54	54	54
Common Equity	1,062	1,004	822	731	634	602	592	561
Total Capital	**2,420**	**2,311**	**1,917**	**1,615**	**1,505**	**1,345**	**1,365**	**1,165**
Total Debt/Total Capital (%)	52.1	52.3	52.0	49.5	53.1	51.2	52.7	47.2
Total Hybrid Equity and Minority Interest/Total Capital (%)	4.0	4.2	5.1	5.3	4.8	4.0	4.0	4.6
Common Equity/Total Capital (%)	43.9	43.4	42.9	45.3	42.1	44.8	43.4	48.2

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports and Fitch Ratings.

Global Power
U.S. and Canada
Full Rating Report

Southern Company

Southern Company Capital Funding, Inc.

Ratings

Security Class	Current Rating
IDR	A
Short-Term IDR/Commercial Paper	F1
Senior Unsecured Notes	A

IDR — Issuer default rating.

Rating Outlook

Negative

Financial Data

Southern Company
($ Mil.)

	LTM 6/30/10	2009
Revenue	16,557	15,743
Gross Margin	9,698	9,317
Cash Flow from Oper.	4,060	3,263
Operating EBITDA	5,354	5,116
Total Debt	20,625	20,426
Total Capitalization	37,146	36,292
ROE (%)	13.94	11.67
Capex/Deprec. (%)	305.0	311.1

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Related Research

Applicable Criteria
- *Corporate Rating Methodology, Aug. 16, 2010*
- *Utilities Sector Notching and Recovery Ratings, March 16, 2010*
- *U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines, Aug. 22, 2007*
- *Credit Rating Guidelines for Regulated Utility Companies, July 31, 2007*
- *Fitch's Approach to Rating Competitive Generators, July 24, 2007*

Other Research
- *Alabama Power Company, Oct. 5, 2010*
- *Georgia Power Company, Oct. 5, 2010*
- *Gulf Power Company, Oct. 5, 2010*
- *Mississippi Power Company, Oct. 5, 2010*
- *Southern Power Company, Oct. 5, 2010*

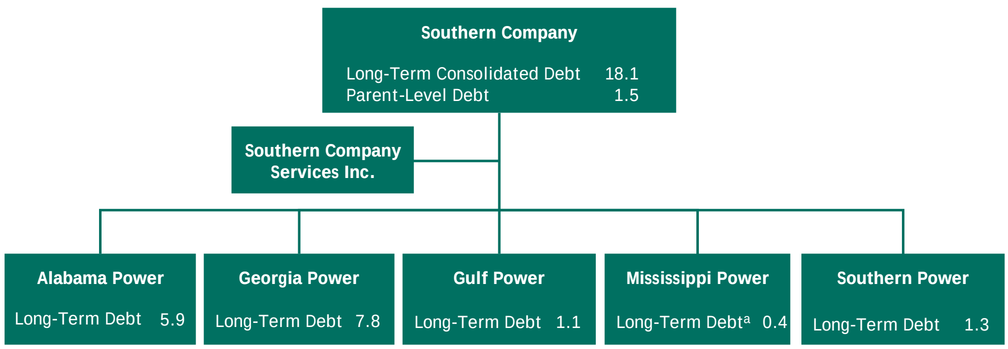
Rating Rationale

- Fitch affirmed the ratings of Southern Company on Sept. 3, 2010. The Rating Outlook was revised to Negative from Stable.
- The revision of Southern's Outlook to Negative reflects concerns around rising business risk at several of its utility subsidiaries. For Georgia Power Company (issuer default rating [IDR] 'A', Outlook Negative) and Mississippi Power Company (IDR 'A', Outlook Stable), the increase of business risk is driven by the construction of large, complex baseload projects: the Vogtle nuclear units 3 and 4 and the Kemper IGCC plant, respectively. Gulf Power Company (IDR 'A–', Outlook Stable) is facing an uncertain regulatory environment in Florida and a recovering, albeit still weak, economy.
- A high reliance on the industrial sector in a backdrop of slow economic recovery is likely to continue to affect cash flows. Finally, potential stringent environmental rules on coal-fired plants would weigh on Southern's utilities because of the predominance of coal in their capacity mixes.
- Consolidated credit metrics for Southern have moved downward in recent years. For the last 12 months (LTM) ending June 30, 2010, funds flow from operations (FFO) to total debt stood at 18%; this percentage has gradually declined from the 23% level five years ago. Similarly, total debt to EBITDA has been creeping up and stood at 3.9x for the LTM ending June 30, 2010. In Fitch's view, a number of things have to happen to restore Southern's credit metrics to their historical strength and prompt an Outlook revision back to Stable. These include robust recovery in load across the service territories of Southern's utilities, a constructive rate outcome in the pending rate case at Georgia Power, and successful execution of the large baseload construction program.
- Key rating drivers for Southern include the execution of the baseload construction program, the aforementioned outcome of the pending base rate case at Georgia Power, economic conditions across the subsidiary service territories, and regulatory support.
- Southern's ratings recognize the financial support the company gets from its operating subsidiaries in the form of dividends for the payment of corporate expenses, debt service, and other business matters. Southern provides equity funding to its subsidiaries for their long-term growth while optimizing their capital mixes. Southern's regulated utility subsidiaries derive predictable cash flows from low-risk utility businesses, enjoy favorable regulatory framework in their service territories, and exhibit limited commodity price risks due to the ability to recover fuel and purchased power through a separate cost tracker. Southern's ratings also reflect adequate liquidity, financial flexibility, and ready access to the capital markets.

What Could Trigger a Downgrade?

- Underrecovery or delays in recovery of construction costs at Vogtle or Kemper.
- Significant cost overruns in major capital projects.

Debt Structure
($ Bil.)



[a]Excludes Plant Daniel operating lease.
Source: Company reports.

- A restrictive outcome in the Georgia Power rate filing.
- Persistently weak economic conditions in the service territory.

Key Developments

Georgia Power Rate Filing

Georgia Power made a periodic rate filing with the Georgia Public Service Commission in July 2010. The filing includes a requested rate increase totalling $615 million, or 8.2% of retail revenues, to be effective Jan. 1, 2011, based on a proposed retail return on equity (ROE) of 11.95%. The requested increase will be recovered through Georgia Power's existing base rate tariffs as follows: $451 million, or 6.0%, through the traditional base rate tariffs; $115 million, or 1.5%, through the Environmental Compliance Cost Recovery (ECCR) tariff; $32 million through the Demand Side Management (DSM) tariffs; and $17 million through the Municipal Franchise Fee (MFF) tariff. A regulatory decision is expected prior to year-end 2010, and new rates will be effective in January 2011. The outcome is an important rating factor for Georgia Power and, potentially, Southern.

Baseload Construction Program

The Vogtle and Kemper construction spending is ramping up. The new capacity will reduce the overall emissions profile of Southern's generation and meet load growth.

Georgia Power plans to spend approximately $2 billion for the new Vogtle units 3 and 4 through 2012. Each unit will provide approximately 1,100 MW of new capacity. A combined construction operating license (COL) from the Nuclear Regulatory Commission is currently expected to be received by year-end 2011, and Georgia Power is doing prelicensing site excavation work under its early site permit.

The Kemper unit is a 582-megawatt IGCC plant that is expected to come online by 2014 and will use lignite, a low-cost energy source found in Mississippi. Mississippi Power is subject to a regulatory cost cap of $2.88 billion for the Kemper project, which is $480 million above the projected construction cost.

For additional information, please refer to the full rating reports for Georgia Power and Mississippi Power (see links in the Related Research section).

Liquidity and Capital Spending

Bank Credit Arrangements

($ Mil., as of June 30, 2010)

			Executable Term Loans		Expires		
	Total	Unused	One Year	Two Years	2010	2011	2012
Southern Company Parent	950	950	0	0	0	0	950
Alabama Power	1,271	1,271	372	0	333	173	765
Georgia Power	1,715	1,703	220	40	40	555	1,120
Gulf	220	220	190	0	80	140	0
Mississippi Power	161	161	65	41	56	105	0
Southern Power	400	400	0	0	0	0	400
SEGCO	60	60	60	0	10	50	0
Consolidated Southern	**4,777**	**4,765**	**907**	**81**	**519**	**1,023**	**3,235**

SEGCO – Southern Electric Generating Company.
Source: Company reports.

Liquidity is strong and Southern, and its subsidiaries have ready access to debt markets. To meet short-term cash needs and contingencies, Southern has substantial cash flow from operating activities and ready access to capital markets, including commercial paper programs (which are backed by bank credit facilities) to meet liquidity needs.

Southern and its subsidiaries had approximately $266 million of cash and cash equivalents and approximately $4.8 billion of unused committed credit arrangements with banks as of June 30, 2010. Of the unused credit arrangements, $519 million expires in 2010, $1.0 billion expires in 2011, and $3.2 billion expires in 2012. Of the credit arrangements expiring in 2010 and 2011, $81 million contains provisions allowing for two-year term loans executable at expiration and $907 million contains provisions allowing for one-year term loans executable at expiration. At June 30, 2010, approximately $1.8 billion of the credit facilities was dedicated to providing liquidity support to the traditional operating companies' variable-rate pollution control revenue bonds. Subsequent to June 30, 2010, the maturity dates of the revolving periods of certain bank facilities were extended.

Southern has no money pool. Each regulated operating subsidiary, and Southern Power Company (SPC) issues its own debt and preferred securities on a nonrecourse basis to Southern. Alabama Power, Georgia Power, Gulf Power, and Mississippi Power can access commercial paper through Southern Company Funding Corp. and provide a note to support their own borrowings. Southern, Alabama Power, and SPC have their own commercial paper programs. There are no cross-defaults among Southern and its subsidiaries.

Long-Term Debt Maturities

($ Mil.)

	2010	2011	2012	2013	2014
Alabama Power Company	100	200	500	250	0
Georgia Power Company	0	408	200	1,375	0
Gulf Power Company	0	110	0	60	75
Mississippi Power Company	0	80	0	50	0
Southern Company	0	300	500	0	350
Southern Electric Generating Company	0	0	0	50	0
Southern Power Company	0	0	575	0	0

Source: Company reports.

Southern Company Consolidated Capital Spending

($ Mil.)

	2010E	2011E	2012E
Alabama Power	1,000	1,000	1,100
Georgia Power	2,500	2,400	2,800
Gulf Power	271	350	419
Mississippi Power	472	661	1,300
Southern Power/Other	657	889	581
Southern Company Consolidated	**4,900**	**5,300**	**6,200**

Source: SEC Form 10-K.

In addition to the baseload nuclear and IGCC construction program, capital-spending plans include the addition of three gas-fired units at Georgia Power, environmental controls at all of the utility subsidiaries, and a combustion turbine and a biomass project at SPC, plus the 30-MW Cimarron I solar project. Cimarron is Southern's first foray into solar power, and Fitch considers more solar investments a possibility.

Potential incremental capital-spending requirements may stem from any new regulations on pollutants including SOx, NOx, fly ash, mercury, and carbon. Fitch expects Southern's capital spending to remain elevated for the next five years, requiring continuous access to capital markets for funding.

Consolidated Capital Structure

Southern's parent-level borrowings are low relative to utility holding company peers. Approximately 5% of consolidated debt was borrowed by the parent holding company as of Dec. 31, 2009.

Consolidated Capital Structure — Southern Company

($ Mil., as of June 30, 2010)

Short-Term Debt	882.0
Long-Term Debt[a]	19,236.5
Preferred Stock	374.5
Preference Stock	707.3
Trust Preferred	412.0
Total Common Stockholders' Equity	15,533.0
Total Capitalization	**37,145.3**
Total Adjusted Debt/Total Capitalization (%)[b]	55

[a]Includes securities due within one year. [b]Includes hybrid equity credit, excludes Plant Daniel lease

Source: Company reports.

Fitch anticipates Southern will raise common equity as needed to support subsidiaries, and the subsidiaries will supplement internal cash flow with debt and equity.

Company Profile

Southern is a utility holding company of four regulated and vertically integrated electric utilities operating in the states of Alabama, Georgia, Florida, and Mississippi and a wholesale generation subsidiary (SPC) that operates throughout the Southeast. Southern's system covers approximately 128,000 square miles in the Southeast. Other subsidiaries include Southern Nuclear, which provides nuclear plant operating services to Georgia Power and Alabama Power, and Southern Services Company, which provides system services to subsidiary companies.

Noncore businesses of Southern include SouthernLINC Wireless, which provides digital wireless communications for use by Southern and its subsidiaries and fiber-optic solutions to telecommunications providers.

Financial Summary — Southern Company

($ Mil., Fiscal Years Ended Dec. 31)

	LTM 6/30/10	2009	2008	2007	2006	2005	2004	2003
Fundamental Ratios								
FFO/Interest Expense (x)	4.8	4.2	4.9	4.4	4.7	5.6	5.6	5.2
CFO/Interest Expense (x)	5.0	4.2	4.6	4.6	4.2	4.3	4.8	5.2
FFO/Debt (%)	18.3	16.4	20.3	20.1	22.5	26.0	26.0	26.5
Operating EBIT/Interest Expense (x)	3.8	3.4	3.7	3.5	3.6	3.8	4.0	3.9
Operating EBITDA/Interest Expense (x)	5.3	5.0	5.2	4.8	4.9	5.3	5.3	5.3
Operating EBITDAR/(Interest Expense + Rent) (x)	4.7	4.4	5.2	4.7	4.8	5.2	5.2	5.2
Debt/Operating EBITDA (x)	3.9	3.9	3.7	3.6	3.3	3.3	3.3	3.0
Common Dividend Payout (%)	70.2	83.3	73.5	—	—	—	—	—
Internal Cash/Capital Expenditures (%)	58.1	39.1	53.4	61.6	56.0	60.2	78.1	103.0
Capital Expenditures/Depreciation (%)	305.0	311.1	275.1	285.4	250.2	202.4	220.9	194.9
Profitability								
Adjusted Revenues	16,557	15,743	17,127	15,353	14,356	13,554	11,902	11,251
Net Revenues	9,698	9,317	9,494	8,982	8,661	8,328	7,738	7,747
Operating and Maintenance Expense	3,649	3,526	3,748	3,670	3,519	3,510	3,329	3,239
Operating EBITDA	5,354	5,116	4,962	4,584	4,437	4,151	3,795	3,935
Depreciation and Amortization Expense	1,446	1,503	1,443	1,245	1,200	1,176	955	1,027
Operating EBIT	3,799	3,502	3,519	3,339	3,237	2,975	2,840	2,908
Gross Interest Expense	1,004	1,021	950	963	906	781	716	740
Net Income for Common	2,043	1,643	1,742	1,734	1,573	1,591	1,532	1,474
Operating and Maintenance Expense % of Net Revenues	37.6	37.8	39.5	40.9	40.6	42.1	43.0	41.8
Operating EBIT % of Net Revenues	39.2	37.6	37.1	37.2	37.4	35.7	36.7	37.5
Cash Flow								
Cash Flow from Operations	4,060	3,263	3,463	3,443	2,854	2,560	2,722	3,087
Change in Working Capital	258	(45)	(263)	125	(483)	(1,003)	(538)	(1)
Funds from Operations	3,802	3,308	3,726	3,318	3,337	3,563	3,260	3,088
Dividends	(1,498)	(1,434)	(1,345)	(1,253)	(1,174)	(1,128)	(1,075)	(1,025)
Capital Expenditures	(4,411)	(4,676)	(3,969)	(3,553)	(3,002)	(2,380)	(2,110)	(2,002)
Free Cash Flow	(1,849)	(2,847)	(1,851)	(1,363)	(1,322)	(948)	(463)	60
Net Other Investment Cash Flow	(139)	17	(191)	(189)	18	(249)	(142)	(192)
Net Change in Debt	404	1,502	1,903	591	881	1,154	475	119
Net Equity Proceeds	1,088	1,286	349	1,008	272	(88)	231	115
Capital Structure								
Short-Term Debt	882	639	953	1,272	1,941	1,258	426	568
Long-Term Debt	19,883	19,478	17,384	15,272	12,916	12,443	12,127	11,071
Total Debt	**20,765**	**20,117**	**18,337**	**16,544**	**14,857**	**13,701**	**12,553**	**11,639**
Total Hybrid Equity and Minority Interest	1,297	1,297	1,297	1,295	1,915	2,066	2,032	2,323
Common Equity	15,533	14,878	13,276	12,385	11,371	10,689	10,278	9,648
Total Capital	**37,595**	**36,292**	**32,910**	**30,224**	**28,143**	**26,456**	**24,863**	**23,610**
Total Debt/Total Capital (%)	55.2	55.4	55.7	54.7	52.8	51.8	50.5	49.3
Total Hybrid Equity and Minority Interest/Total Capital (%)	3.4	3.6	3.9	4.3	6.8	7.8	8.2	9.8
Common Equity/Total Capital (%)	41.3	41.0	40.3	41.0	40.4	40.4	41.3	40.9

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source Company reports.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

October 14, 2010

Gulf Power Co.

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160186-OPC-POD-71-166

Gulf Power Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- A generally constructive regulatory environment in Florida;
- Historically above-average customer growth with attractive demographics;
- Strong operating performance;
- Moderately competitive rate structure;
- Stable consolidated cash flows; and
- Operating and regulatory diversity on a consolidated basis.

Weaknesses:

- Large capital spending to address environmental compliance;
- Economic slowdown in the Florida economy; and
- Aggressive adjusted consolidated debt leverage.

Rationale

The ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

Significant capital spending needs of about $14.5 billion (excluding Southern Power capital expenditures) during the next three years are primary offsetting factors. The expenditures address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects including nuclear, system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still modest economic recovery in the regional and national economies.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 428,154 customers primarily in the Florida Panhandle area and providing about 5% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2009 as a result of the overall weakness in the local economy. Residential and commercial customers account for 74% of revenues and 67% of sales, while industrial customers account for 11% of revenues and 13% of sales. There is no meaningful customer concentration. Sales for resale are modest at 9% of revenues and 19% of sales and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,659 MW, with coal-fired assets contributing 61.7% of energy, gas 28%, and purchases 10.3%. Plant availability continued to be consistently high during 2009, with 89.7% for the fossil-fired units. Retail rates are moderately competitive and could come under pressure as the company recovers deferred fuel and storm restoration costs along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for annual true-ups. Environmental projects not in base rates are recovered through an environmental-recovery clause. As of June 30, 2010, Gulf Power's deferred fuel balance was $11.2 million, a modest increase from Dec. 31, 2009 of $2.4 million. The Florida Public Services Commission (FPSC) requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's cash flow generation and financial management policies are consistent and strong, support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2010, adjusted funds from operations (FFO) was about $3.97 billion, while total adjusted debt was $22.48 billion, leading to adjusted FFO interest coverage of 4.5x, adjusted FFO to debt of 17.7%, and adjusted total debt to total capital of 58%. Adjusted FFO benefits from incremental recovery of fuel costs as well as the completion of various projects which are included in rate base primarily through the use of riders. The credit metrics reflect the inclusion of about $1.395 billion in off-balance sheet debt stemming from the shortfall in funding pension and other post-retirement obligations and include about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Gulf Power's stand-alone financial profile for the 12 months ended June 30, 2010 is adequate for the current ratings, with adjusted FFO interest coverage of 5.9x, adjusted FFO to debt of 18.5% and debt leverage of 56.2%.

Liquidity

Gulf Power's short-term rating is 'A-1' and we view its liquidity on a consolidated basis with that of parent Southern's liquidity is 'adequate' under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern Co.'s 'adequate' liquidity supports its 'A' consolidated corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by about 1.2x. The 'A-1' short-term rating on Southern and Gulf Power reflects the companies' corporate credit rating but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Southern has $4.4 billion in revolving credit facilities (excluding credit facility availability of Southern Power). As of June 30, 2010, $686 million supported outstanding commercial paper, and $1.8 billion supported tax-exempt floating rate securities, leaving about $1.9 billion undrawn. Of the total available credit facilities, Southern has $950 million available for short-term needs and commercial paper backup; APC has $1.27 billion in available facilities; GPC $1.7 billion; Gulf Power $220 million; and MPC $161 million. Of the total available credit facilities, about $2.8 billion expires after September 2011. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Southern also had $266 million of cash on hand as of

June 30, 2010.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent. The stable outlook reflects Southern's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial profile. The ratings on Southern Co. and its subsidiaries will be lowered if the consolidated financial profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO to total debt is consistently below 18% and adjusted FFO to interest coverage declines to below 4.0x, due to the substantial capital spending budget, the inability to recover such expenses in rates or to recover the current deferred fuel cost balance in a timely manner. The pursuit of the nuclear plant construction, which is expected to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost overruns on the budget or indications of weakening regulatory support could lead to lower ratings. Finally, the current ratings incorporate a constructive outcome in GPC's pending rate case.

Accounting

Southern's financial statements are in accordance with U.S. GAAP and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2009.

In assessing Southern's financial risk profile Standard & Poor's views Southern Power as an equity investment and its dividend distributions to Southern as part of FFO for coverage ratio computation. Southern Power's equity is viewed as minority interest for capitalization ratios.

Southern reports changes in under recovered fuel balances as part of changes in working capital. However, Standard & Poor's, while analyzing company's cash flows, re-classifies these changes as part of changes in FFO. This adjustment reflects the long-term nature of recovery of fuel costs which is more a standard measure of FFO rather than working capital.

Asset-retirement obligations (ARO) totaled about $1.2 billion at Dec. 31, 2009, while the corresponding nuclear decommissioning trust fund balance totaled $1.07 billion, leading to the imputation of $88.4 million as off-balance sheet debt. The current funding level of pension and other post-retirement obligations leads to the imputation of $1.395 billion as an off-balance sheet obligation.

Standard & Poor's views Southern's $412 million of trust-preferred securities and $1.1 billion of preferred and preference shares as of Dec. 31, 2009, as having intermediate equity content, ascribing 50% of each amount to debt and the remaining 50% to equity for ratio computation purposes. The associated distributions are similarly treated as 50% interest and 50% dividends. Trust preferred and preferred securities accounted for about 3% of total capital as of Dec. 31, 2009.

Capitalization of non-rail car operating leases adds about $233.4 million of off-balance-sheet obligations as of Dec. 31, 2009, while debt imputed for purchased power agreements (PPAs) adds about $1.2 billion. These figures represent about 6.5% of adjusted total debt. PPAs with Southern Power are included in imputed debt because Standard & Poor's rates Southern Power on a stand-alone basis.

Related Criteria And Research

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Table 1.

Southern Co. -- Peer Comparison*

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	American Electric Power Co. Inc.	Dominion Resources Inc.	Entergy Corp.
Rating as of Sep. 20, 2010	A/Stable/A-1	A-/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	BBB/Stable/--
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	14,996.9	12,886.0	13,566.2	15,690.5	11,746.2
Net income from cont. oper.	1,562.4	1,288.0	1,291.3	1,942.7	1,202.2
Funds from operations (FFO)	3,524.5	4,105.3	3,051.8	2,278.0	3,041.9
Capital expenditures	3,892.5	4,024.6	3,609.5	3,085.4	2,361.6
Cash and short-term investments	421.0	1,231.3	711.3	132.3	1,634.3
Debt	19,610.3	16,429.5	19,403.3	17,740.2	13,344.8
Preferred stock	746.7	0.0	135.5	844.3	155.6
Equity	14,259.7	21,472.3	11,439.5	11,113.6	8,303.1
Debt and equity	33,870.0	37,901.8	30,842.8	28,853.8	21,648.0
Adjusted ratios					
EBIT interest coverage (x)	3.3	3.3	2.4	2.8	3.2
FFO int. cov. (X)	4.3	5.7	3.4	3.0	4.5
FFO/debt (%)	18.0	25.0	15.7	12.8	22.8
Discretionary cash flow/debt (%)	(9.8)	(9.8)	(9.2)	(11.0)	(0.5)
Net cash flow / capex (%)	57.4	73.1	65.4	41.0	104.9
Total debt/debt plus equity (%)	57.9	43.3	62.9	61.5	61.6
Return on common equity (%)	10.9	4.9	10.9	17.5	13.7
Common dividend payout ratio (un-adj.) (%)	85.5	89.4	52.8	49.9	46.8

*Fully adjusted (including postretirement obligations).

Table 2.

Gulf Power Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2009	2008	2007	2006	2005
Rating history	A/Stable/A-1	A/Stable/--	A/Stable/--	A/Stable/--	A/Stable/--

Table 2.

Gulf Power Co. -- Financial Summary* (cont.)					
(Mil. $)					
Revenues	1,302.2	1,387.2	1,259.8	1,203.9	1,083.6
Net income from continuing operations	117.4	104.5	88.0	79.3	76.0
Funds from operations (FFO)	264.2	202.1	190.3	138.2	165.2
Capital expenditures	411.8	384.5	240.5	152.8	149.3
Cash and short-term investments	8.7	3.4	5.3	7.5	3.8
Debt	1,372.8	1,138.6	858.7	836.2	754.5
Preferred stock	49.0	49.0	49.0	47.6	60.0
Equity	1,053.3	871.1	780.3	681.6	693.0
Debt and equity	2,426.1	2,009.7	1,638.9	1,517.8	1,447.5
Adjusted ratios					
EBIT interest coverage (x)	3.9	3.9	3.7	3.6	4.1
FFO int. cov. (x)	5.9	4.7	4.6	3.8	5.1
FFO/debt (%)	19.2	17.8	22.2	16.5	21.9
Discretionary cash flow/debt (%)	(22.9)	(28.4)	(11.5)	(9.6)	(7.3)
Net Cash Flow / Capex (%)	41.7	30.5	47.6	41.9	63.0
Debt/debt and equity (%)	56.6	56.7	52.4	55.1	52.1
Return on common equity (%)	8.5	12.2	12.3	12.0	12.6
Common dividend payout ratio (un-adj.) (%)	80.3	83.1	87.5	92.5	90.9

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*										
	--Fiscal year ended Dec. 31, 2009--									
Gulf Power Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	1,209.2	1,102.3	282.1	282.1	188.7	38.4	194.2	194.2	95.5	421.3
Standard & Poor's adjustments										
Operating leases	4.6	--	3.8	0.5	0.5	0.5	3.4	3.4	--	--
Intermediate hybrids reported as equity	49.0	(49.0)	--	--	--	3.1	(3.1)	(3.1)	(3.1)	--
Postretirement benefit obligations	66.6	--	(1.7)	(1.7)	(1.7)	--	0.0	0.0	--	--
Accrued interest not included in reported debt	10.2	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	9.5	(9.5)	(9.5)	--	(9.5)

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Table 3.

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)										
Share-based compensation expense	--	--	--	0.9	--	--	--	--	--	--
Power purchase agreements	24.9	--	6.3	6.3	1.1	1.1	5.3	5.3	--	--
Asset retirement obligations	8.2	--	0.6	0.6	0.6	0.6	(0.4)	(0.4)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	20.2	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	74.2	--	--
Total adjustments	163.5	(49.0)	9.1	6.7	20.6	14.8	(4.3)	69.9	(3.1)	(9.5)
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	1,372.8	1,053.3	291.2	288.7	209.3	53.1	189.9	264.2	92.4	411.8

*Gulf Power Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 14, 2010)*	
Gulf Power Co.	
Corporate Credit Rating	A/Stable/A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (15 Issues)	A
Senior Unsecured (2 Issues)	A/A-1
Senior Unsecured (1 Issue)	A/NR
Corporate Credit Ratings History	
29-Jun-2009	A/Stable/A-1
21-Dec-2000	A/Stable/--
30-Nov-1998	A+/Watch Neg/--
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1

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Ratings Detail (As Of October 14, 2010)*(cont.)	
Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (27 Issues)	A
Senior Unsecured (22 Issues)	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (48 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (32 Issues)	A/A-1
Senior Unsecured (7 Issues)	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (5 Issues)	A
Senior Unsecured (3 Issues)	A/A-1
Southern Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (4 Issues)	A-
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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October 14, 2010

Southern Co.

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Dimitri Nikas, New York (1) 212-438-7807; dimitri_nikas@standardandpoors.com

Secondary Contact:
Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

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Southern Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- Stable cash flows;
- Operations under generally constructive regulatory environments;
- Large and diverse customer base;
- Regulatory and geographic diversity; and
- Strong operating performance.

Weaknesses:

- Higher business risk due to planned construction of new nuclear plants;
- Significant capital spending program;
- Large deferred fuel costs; and
- Aggressive consolidated debt leverage.

Rationale

The ratings on Southern reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co. (APC), Georgia Power Co. (GPC), Gulf Power Co., and Mississippi Power Co. (MPC). Southern Power Company, Southern Co.'s other major subsidiary, is viewed as an equity investment and is not incorporated in the assessment of the credit quality of Southern.

Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $14.5 billion (excluding Southern Power capital expenditures) during the next three years. The expenditures address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects including nuclear, system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still modest economic recovery in the regional and national economies.

The planned capital spending program includes preliminary costs for building two new nuclear plants at existing sites with major plant specific construction starting in mid to late-2011 once the combined operating and construction license is approved by the Nuclear Regulatory Commission. Georgia Power will own 45.7% of each of the two 1,117MW units. The in-service certificated cost for Georgia Power's share of the project (including escalation and financing costs) is about $6.1 billion with the first unit entering commercial operation in April 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensure recovery of prudently incurred investment in base rates upon completion. The Georgia PSC certified construction of the proposed nuclear units in April 2009. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in progress during the construction period starting in 2011, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in rate base upon commercial operation. The ability to collect CWIP reduces the in-service cost to about $4.4 billion. Given the new technology and long construction period, the construction of the new nuclear units contributes to an increase business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the project on budget and on schedule in order to mitigate adverse effects on credit quality. In early 2010, GPC amended the engineering, procurement, and construction contract with Westinghouse and Stone & Webster to replace certain index-based adjustments to the purchase price with fixed escalation amounts, thereby increasing cost certainty. The Georgia PSC approved the amendment in August 2010.

Southern is also pursuing the construction of a 582MW integrated gasification combined cycle unit (Kemper IGCC) at Mississippi Power at a cost of $2.4 billion. Similar to the nuclear plant construction, the plant is being built under a generally constructive regulatory framework and a significant portion of the costs for the construction will be known or fixed early in the construction process. However, the lack of recent construction experience for similar types of plants in the U.S. increases business risk.

Southern had about $669 million in deferred fuel costs as of June 30, 2010, which was largely unchanged compared to Dec. 31, 2009. GPC's deferred fuel balance of $657.2 million contributes the bulk of the consolidated fuel cost deferrals. In April 2010, GPC received approval from the Georgia PSC to adjust fuel rates so as to recover the deferred fuel balance over 42 months. In addition, the Georgia PSC approved a mechanism that allows for fuel costs to adjust intra-year if fuel cost under-recovery exceeds the budget by more than $75 million, thereby preventing material accumulation of deferred fuel costs. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery, may pressure the company's competitive rates and regulatory relationships, especially given the slowdown in the regional economy.

Southern's cash flow generation and financial management policies are consistent and strong, support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended June 30, 2010, adjusted funds from operations (FFO) was about $3.97 billion, while total adjusted debt was $22.48 billion, leading to adjusted FFO interest coverage of 4.5x, adjusted FFO to debt of 17.7%, and adjusted total debt to total capital of 58%. Adjusted FFO benefits from incremental recovery of fuel costs as well as the completion of various projects which are included in rate base primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $1.395 billion in off-balance sheet debt stemming from the short-fall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Liquidity

Southern's liquidity is 'adequate' under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern's 'adequate' liquidity supports its 'A' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by about 1.2x. The 'A-1' short-term rating on Southern reflects its corporate credit rating, but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

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Adjusted ratios					
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FFO int. cov. (X)	4.3	5.7	3.4	3.0	4.5
FFO/debt (%)	18.0	25.0	15.7	12.8	22.8
Discretionary cash flow/debt (%)	(9.8)	(9.8)	(9.2)	(11.0)	(0.5)
Net cash flow / capex (%)	57.4	73.1	65.4	41.0	104.9
Total debt/debt plus equity (%)	57.9	43.3	62.9	61.5	61.6
Return on common equity (%)	10.9	4.9	10.9	17.5	13.7

Table 1.

Southern Co. -- Peer Comparison* (cont.)					
Common dividend payout ratio (un-adj.) (%)	85.5	89.4	52.8	49.9	46.8

*Fully adjusted (including postretirement obligations).

Table 2.

Southern Co. -- Financial Summary*

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2009	**2008**	**2007**	**2006**	**2005**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	14,796.3	15,813.5	14,381.0	13,579.0	12,773.0
Net income from continuing operations	1,487.1	1,597.6	1,602.4	1,449.5	1,476.2
Funds from operations (FFO)	3,889.6	3,473.6	3,210.4	3,374.6	3,669.5
Capital expenditures	4,464.5	3,888.8	3,324.1	2,486.3	2,168.4
Cash and short-term investments	682.8	379.1	201.0	137.1	174.4
Debt	21,918.0	20,158.0	16,754.9	15,403.1	15,681.6
Preferred stock	747.0	747.0	746.0	1,152.5	1,242.0
Equity	15,625.0	14,023.0	13,131.0	12,523.5	11,366.8
Debt and equity	37,543.0	34,181.0	29,885.9	27,926.6	27,048.4
Adjusted ratios					
EBIT interest coverage (x)	3.2	3.3	3.4	3.6	3.8
FFO int. cov. (x)	4.4	4.2	4.3	5.0	6.0
FFO/debt (%)	17.7	17.2	19.2	21.9	23.4
Discretionary cash flow/debt (%)	(12.7)	(8.8)	(7.2)	(5.0)	(4.1)
Net Cash Flow / Capex (%)	55.5	56.9	60.6	88.1	116.3
Debt/debt and equity (%)	58.4	59.0	56.1	55.2	58.0
Return on common equity (%)	8.8	11.2	12.9	13.3	14.2
Common dividend payout ratio (un-adj.) (%)	96.3	83.5	77.5	75.0	70.9

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2009--									
Southern Co. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	18,466.4	14,764.9	4,556.3	4,556.3	3,151.5	820.0	3,051.0	3,051.0	1,434.0	4,532.9
Standard & Poor's adjustments										
Operating leases	233.4	--	75.2	13.1	13.1	13.1	62.2	62.2	--	14.0

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Table 3.

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

Intermediate hybrids reported as debt	(206.0)	206.0	--	--	--	(9.5)	9.5	9.5	9.5	--
Intermediate hybrids reported as equity	541.0	(541.0)	--	--	--	32.5	(32.5)	(32.5)	(32.5)	--
Postretirement benefit obligations	1,395.6	--	(35.0)	(35.0)	(35.0)	--	20.8	20.8	--	--
Accrued interest not included in reported debt	188.1	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	82.4	(82.4)	(82.4)	--	(82.4)
Share-based compensation expense	--	--	--	23.0	--	--	--	--	--	--
Power purchase agreements	1,211.2	--	173.2	173.2	61.5	61.5	111.7	111.7	--	--
Asset retirement obligations	88.4	--	77.0	77.0	77.0	77.0	(44.9)	(44.9)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	167.4	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	800.2	--	--
Minority interests	--	1,195.1	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(6.0)	(6.0)	--	--
Total adjustments	3,451.6	860.1	290.4	251.2	283.9	256.9	38.4	838.7	(23.0)	(68.3)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	21,918.0	15,625.0	4,846.7	4,807.6	3,435.4	1,076.9	3,089.4	3,889.6	1,411.0	4,464.5

*Southern Co. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of October 14, 2010)*

Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of October 14, 2010)*(cont.)		
Preferred Stock (2 Issues)		BBB+
Senior Unsecured (4 Issues)		A-
Corporate Credit Ratings History		
21-Dec-2000	*Foreign Currency*	A/Stable/A-1
30-Nov-1998		A/Watch Neg/A-1
24-Jan-1997		--/--/A-1
21-Dec-2000	*Local Currency*	A/Stable/A-1
30-Nov-1998		A/Watch Neg/A-1
24-Jan-1997		A/Stable/A-1
Business Risk Profile		Excellent
Financial Risk Profile		Intermediate
Related Entities		
Alabama Power Capital Trust V		
Preferred Stock (1 Issue)		BBB+
Alabama Power Co.		
Issuer Credit Rating		A/Stable/A-1
Commercial Paper		
Local Currency		A-1
Preference Stock (2 Issues)		BBB+
Preferred Stock (4 Issues)		BBB+
Senior Secured (6 Issues)		A/A-1
Senior Unsecured (27 Issues)		A
Senior Unsecured (22 Issues)		A/A-1
Georgia Power Co.		
Issuer Credit Rating		A/Stable/A-1
Preference Stock (1 Issue)		BBB+
Preferred Stock (2 Issues)		BBB+
Senior Unsecured (48 Issues)		A
Senior Unsecured (1 Issue)		A-
Senior Unsecured (32 Issues)		A/A-1
Senior Unsecured (7 Issues)		A/NR
Gulf Power Co.		
Issuer Credit Rating		A/Stable/A-1
Preference Stock (2 Issues)		BBB+
Preferred Stock (3 Issues)		BBB+
Senior Unsecured (15 Issues)		A
Senior Unsecured (2 Issues)		A/A-1
Senior Unsecured (1 Issue)		A/NR
Mississippi Power Co.		
Issuer Credit Rating		A/Stable/A-1
Preferred Stock (4 Issues)		BBB+
Senior Secured (1 Issue)		A+/A-1
Senior Unsecured (5 Issues)		A

Ratings Detail (As Of October 14, 2010)*(cont.)	
Senior Unsecured (3 Issues)	A/A-1
Southern Company Capital Funding, Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (3 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

April 27, 2011

Summary:
Gulf Power Co.

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Summary:

Gulf Power Co.

Credit Rating: A/Stable/A-1

Rationale

Standard & Poor's Ratings Services' ratings on Gulf Power Co. reflect the credit profile of its parent, Southern Co. Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $13.2 billion (excluding Southern Power capital expenditures) during 2011-2013. The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 430,658 customers, primarily in the Florida Panhandle, and providing about 7% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2010 as a result of the overall weakness in the local economy. Residential and commercial customers account for 72% of revenues and 62% of sales, while industrial customers account for 110% of revenues and 11% of sales. There is no meaningful customer concentration. Sales for resale are modest at 13% of revenues and 27% of sales and are generally accomplished through longer term contracts with little meaningful fuel exposure. Total generating capacity is 2,663 MW, with coal-fired assets contributing 64.6% of energy, gas 17.8%, and purchases 17.6%. Plant availability remained consistently high during 2010, with 94.7% for the fossil-fired units. Retail rates are moderately competitive and could come under pressure as the company recovers deferred fuel and storm restoration costs, along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for annual true-ups. Environmental projects not in base rates are recovered through an environmental-recovery clause. As of Dec. 31, 2010, Gulf Power's deferred fuel balance was $17.4 million, a modest increase from June 30, 2010 of $11.2 million. The Florida Public Services Commission (FPSC) requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's consistent cash flow generation and generally conservative financial management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended Dec. 31, 2010, adjusted funds from operations (FFO) was about $4.41 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 4.9x, adjusted FFO to debt of 20.1%, and adjusted total debt to total capital of 56.5%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects which are included in rate base primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Gulf Power's stand-alone financial profile for the 12 months ended Dec. 31, 2010 is adequate for the current ratings, with adjusted FFO interest coverage of 6.0x, adjusted FFO to debt of 21.5%, and debt leverage of 56.5%.

Liquidity

Gulf Power's short-term rating is 'A-1' and we view its liquidity on a consolidated basis with that of Southern. Southern's liquidity is adequate under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern's adequate liquidity supports its 'A' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. The 'A-1' short-term rating on Southern and Gulf Power reflects the companies' corporate credit ratings, but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Southern has $4.4 billion in revolving credit facilities (excluding credit facility availability of Southern Power). As of Dec. 31, 2010, $1.3 billion supported outstanding commercial paper (CP), and $1.3 billion supported tax-exempt floating-rate securities, leaving about $1.74 billion undrawn. Of the total available credit facilities, Southern has $950 million available for short-term needs and CP backup; APC has $1.27 billion in available facilities; GPC $1.7 billion; Gulf Power $240 million; and MPC $161 million. Of the total available credit facilities, about $2.8 billion expires after September 2011. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Southern also had $447 million of cash on hand as of Dec. 31, 2010.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent, Southern. The stable outlook reflects Southern's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial profile.

We could lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO to interest coverage declines to below 4x, as a result of the substantial capital spending budget, the inability to recover such expenses in rates, or the inability to recover the current deferred fuel cost balance in a timely manner. The pursuit of the nuclear plant construction, which we expect to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost overruns on the budget, or indications of weakening regulatory support could lead to lower ratings.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009.
- Corporate Criteria: Analytical Methodology, published April 15, 2008.
- Corporate Criteria: Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010

STANDARD & POOR'S

Global Credit Portal

RatingsDirect®

April 27, 2011

Summary:
Southern Co.

Primary Credit Analyst:
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Secondary Contact:
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Summary:
Southern Co.

Credit Rating: A/Stable/A-1

Rationale

The ratings on Southern Co. (Southern) reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co. (APC), Georgia Power Co. (GPC), Gulf Power Co., and Mississippi Power Co. (MPC). Standard & Poor's Ratings Services views Southern Power Co., Southern Co.'s other major subsidiary, as an equity investment and does not incorporate it into the assessment of the credit quality of Southern.

Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $13.2 billion (excluding Southern Power capital expenditures) during 2011-2013. The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

The planned capital spending program includes preliminary costs for building two new nuclear plants at existing sites with major plant specific construction starting in late 2011, once the Nuclear Regulatory Commission approves the combined construction and operating license. Georgia Power will own 45.7% of each of the two 1,117MW units. The in-service certificated cost for Georgia Power's share of the project (including escalation and financing costs) is about $6.1 billion, with the first unit entering commercial operation in April 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new-generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensure recovery of prudently incurred investment in base rates upon completion. The Georgia Public Service Commission (PSC) certified construction of the proposed nuclear units in April 2009. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in progress during the construction period starting in 2011, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in rate base upon commercial operation. The ability to collect CWIP reduces the in-service cost to about $4.4 billion.

On Dec. 21, 2010, the Georgia PSC approved GPC's Nuclear Construction Cost Recovery (NCCR) tariff, effective Jan. 1, 2011, which allows recovery of about $223 million of financing costs associated with the nuclear plant construction. Given the new technology and long construction period, the construction of the new nuclear units contributes to an increase business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the project on budget and on schedule to mitigate adverse effects on credit quality. In early 2010, GPC amended the engineering, procurement, and construction contract with Westinghouse and Stone & Webster to replace certain index-based adjustments to the purchase price with fixed escalation amounts, thereby increasing cost certainty. The Georgia PSC approved the amendment in August 2010.

Southern is also pursuing the construction of a 582MW integrated gasification combined cycle unit (Kemper IGCC) at Mississippi Power at a cost of $2.4 billion. Similar to the nuclear plant construction, the Kemper IGCC unit is being built under a generally constructive regulatory framework and a significant portion of the costs for the construction will be known or fixed early in the construction process. Nevertheless, the lack of recent construction experience for similar types of plants in the U.S. contributes to an increase in business risk.

Southern's deferred fuel balance totaled about $420 million as of Dec. 31, 2010, a reduction of about $249 million compared to June 30, 2010. GPC's deferred fuel balance of $398 million contributes the bulk of this deferral. In April 2010, the Georgia PSC approved an adjustment to GPC's fuel rates to enable recovery of deferred fuel costs over 42 months. In addition, the Georgia PSC approved a mechanism that allows for fuel costs to adjust intra-year if fuel cost under-recovery exceeds the budget by more than $75 million, preventing further material accumulation. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery, may pressure the company's competitive rates and regulatory relationships, especially given the still-slow recovery in the regional economy.

Southern's consistent cash flow generation and generally conservative financial management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended Dec. 31, 2010, adjusted funds from operations (FFO) was about $4.41 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 4.9x, adjusted FFO to debt of 20.1%, and adjusted total debt to total capital of 56.5%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects included in the rate base primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Liquidity

Southern's liquidity is adequate under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern's adequate liquidity supports its 'A' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. The 'A-1' short-term rating on Southern reflects its corporate credit rating, but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Southern has $4.4 billion in revolving credit facilities (excluding credit facility availability of Southern Power). As of Dec. 31, 2010, $1.3 billion supported outstanding commercial paper (CP), and $1.3 billion supported tax-exempt floating-rate securities, leaving about $1.74 billion undrawn. Of the total available credit facilities, Southern has $950 million available for short-term needs and CP backup; APC has $1.27 billion in available facilities; GPC $1.7

billion; Gulf Power $240 million; and MPC $161 million. Of the total available credit facilities, about $2.8 billion expires after September 2011. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Southern also had $447 million of cash on hand as of Dec. 31, 2010.

Outlook

The stable outlook reflects Southern's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial profile.

We could lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO to interest coverage declines to below 4x as a result of the substantial capital spending budget, the inability to recover such expenses in rates, or the inability to recover the current deferred fuel cost balance in a timely manner. The pursuit of the nuclear plant construction, which we expect to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost overruns on the budget, or indications of weakening regulatory support could lead to lower ratings.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009.
- Corporate Criteria: Analytical Methodology, published April 15, 2008.
- Corporate Criteria: Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010

MOODY'S
INVESTORS SERVICE

Credit Opinion: Gulf Power Company

Global Credit Research - 12 Aug 2011

Florida, United States

Ratings

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

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Key Indicators

[1]**Gulf Power Company**

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

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

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

Opinion

Rating Drivers

- Stabilized Florida political and regulatory environment

- Regulatory risk with first base rate case filed since 2001

- Substantially higher capital expenditures for environmental compliance

- Cash flow coverage metrics have been weak for its A3 credit rating

Corporate Profile

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

SUMMARY RATING RATIONALE

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

DETAILED RATING CONSIDERATIONS

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

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

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

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

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

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

- Substantial capital expenditures for environmental compliance, transmission and distribution

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

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

Gulf Power's cash flow coverage metrics have been weak for an A rating in recent years, using parameters outlined in Moody's Regulated Electric and Gas Utilities Ratings Methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt of 17.9% in 2008, 21% in 2009, and 23.2% in 2010, on a Moody's adjusted basis, compared to a minimum guideline of 22% for an A rating under the rating methodology. The company has experienced higher operating costs and incurred additional debt to finance rising capital expenditure requirements. The improvement in coverage in 2010 was partly due to the impact of bonus depreciation, a temporary acceleration of future cash flows that will likely help improve coverage ratios in 2011 and 2012 as well. Any permanent, sustained improvement in cash flow coverage metrics will be largely dependent on the outcome of its pending rate case.

Liquidity

Gulf Power maintains $250 million of unused bank credit facilities supporting a $150 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of June 30, 2011, the company had $61 million of commercial paper outstanding and $69 million of variable rate pollution control bonds backed by the facilities, leaving the company with $120 million of available credit facility capacity. As of June 30, 2011, of the $250 million of credit facilities, $90 million expire in 2011 and $55 million in 2012. Subsequent to June 30, $60 million of the $90 million due in 2011 was renewed until 2014. There is no material adverse change clause in any of Gulf Power's credit agreements and some of the facilities include a 65% debt to capital covenant. As of June 30, 2011, the company was in compliance with this covenant.

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

Rating Outlook

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

What Could Change the Rating - Up

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

What Could Change the Rating - Down

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

Rating Factors

Gulf Power Company

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

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

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

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 12 Aug 2011

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa1
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

	LTM 6/30/2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	**6.1x**	**5.3x**	**4.4x**	**4.5x**
(CFO Pre-W/C) / Debt	**24%**	**21%**	**19%**	**18%**
(CFO Pre-W/C - Dividends) / Debt	**17%**	**14%**	**12%**	**11%**
Debt / Book Capitalization	**46%**	**47%**	**50%**	**50%**

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

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

Opinion

Rating Drivers

- Utility subsidiaries operate in mostly credit supportive regulatory environments

- New Vogtle nuclear construction project has increased Georgia Power's business risk profile

- Kemper IGCC plant increasing capital expenditures and business risk at Mississippi Power

- Substantial environmental compliance expenditures possible, depending on EPA regulations

- Potentially growing renewable energy business outside of the Southeast at Southern Power

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A2 senior unsecured, stable outlook), Mississippi Power Company (A2 senior unsecured, stable outlook) and Gulf Power Company (A3 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utility subsidiaries rated at low to mid-A rating levels and a highly contracted Baa1 rated wholesale generating company. Three of its four regulated utilities operate in consistently supportive regulatory environments, with the Florida regulatory environment recently stabilizing after a period of substantial uncertainty. Southern's traditionally low risk profile has increased modestly in recent years as a result of new nuclear and IGCC construction, potentially significant environmental compliance costs, and a thus far limited expansion into unregulated generation outside of its historical Southeast region, including biomass generation in Texas and solar generation in New Mexico. The company also has a renewable energy partnership with Ted Turner, the largest landowner in the U.S., to develop solar power.

DETAILED RATING CONSIDERATIONS

- Mostly credit supportive regulatory environments, with base rate case pending in Florida

Southern's rating considers the consistently credit supportive regulatory environments in Alabama, Georgia, and Mississippi, which have generally strong cost recovery provisions. Its utility subsidiaries operate under various formula rate plans with authorized return on equity (ROE) levels that are considered above average for U.S. electric utilities. There are several adjustment mechanisms in place to address rising costs and each of the respective regulatory jurisdictions allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

Moody's viewed Georgia Power's December 2010 rate case outcome as supportive of the utility's credit profile. The settlement included the implementation of a new, three year Alternate Rate Plan (ARP) that began on January 1, 2011. Under the plan, the company's retail return on equity is set at 11.15% and evaluated within a bandwidth of between 10.25% and 12.25%, with two thirds of earnings above the range refunded to customers and the remaining one-third retained by the company. Under the settlement, Georgia Power's base revenues increased by $562 million as of January 1, 2011, with subsequent rate adjustments of approximately $190 million in 2012 and $93 million in 2013. In total, rates will increase by approximately $845 million over three years, compared to the company's initial request of slightly over $1.1 billion.

The political and regulatory environment for investor-owned utilities in Florida appears to have stabilized over the last year following an almost complete change in the composition of the Florida Public Service Commission (FPSC), with the turnover of four of the five commissioner seats. The first significant new electric utility rate case to be addressed by this new constituted commission will be for Gulf Power. On July 8, 2011, Gulf Power filed for a $93.5 million base rate increase based on an 11.7% return on equity, with a decision expected from the FPSC in approximately eight months. This base rate case is the first for the company in over 10 years and its outcome may give an indication of the future direction of utility regulation in Florida.

- New Vogtle nuclear construction project has increased Georgia Power's business risk profile

Southern's largest utility subsidiary, Georgia Power Company, is in the midst of an expensive, multi-year construction program to add two new Westinghouse AP 1000 nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder to be owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%). The total cost of the project is expected to be approximately $14 billion with Georgia Power's share at $6.1 billion. On August 9, 2011, Southern announced that it had received the Final Safety Evalution Report (FSER) from the Nuclear Regulatory Commission (NRC) technical staff, a positive development indicating that the design of the Westinghouse AP1000 plant had been approved. Georgia Power expects to receive a Combined Construction and Operating License (COL) from the NRC in late 2011, although this could be delayed until early 2012. If the COL is delayed, the NRC may approve Georgia Power's request for a second limited work authorization, which would allow the company to perform additional construction activities at the site until the COL is effective.

In our opinion, building a new nuclear plant is a complex and risky endeavor which has increased Georgia Power's business risk profile, although the Vogtle project appears to be a relatively manageable investment for a utility the size of Georgia Power and for a utility system as diverse as Southern. According to the company, the project continues to be managed within the currently certified budgeted amount of $6.113 billion. Although the schedule had been tracking a few months behind the targeted April 1, 2016 commercial operation date (COD) of the first unit, the construction consortium recently submitted a revised schedule to the company that returned the COD to its original date. Both Georgia Power and the GPSC's Independent Construction Monitor have indicated that there are significant challenges in meeting both the schedule and budget for a nuclear construction project of this magnitude. The GPSC staff recently proposed a risk sharing mechanism that would have included and adjustment to the ROE applied to the Vogtle rate base if the total project cost falls outside of a dead band of between $5.8 and $6.4 billion. On August 2, 2011, the GPSC approved a settlement between the GPSC staff and the company which withdrew the proposal.

- Kemper IGCC plant increasing capital expenditures and business risk at Mississippi Power

In 2010, Mississippi Power decided to move forward on the construction of a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. Mississippi Power estimates the construction costs to be $2.4 billion, net of government construction cost incentives, and the plant is expected to be in operation by May 2014. Among the conditions imposed by the Mississippi Public Service Commission (MPSC) are a construction cost cap of $2.88 billion, 20% above the currently estimated capital cost; no CWIP recovery in 2010-2011 (AFUDC accrual only) with CWIP recovery thereafter, and regular, ongoing prudence reviews by the MPSC.

The plant's current cost estimate of $2.4 billion is almost equal to the total asset size of the utility, making it a substantial investment and material undertaking for the company. Because of the project's size, Mississippi Power's capital expenditures will increase dramatically over the next few years, rising from $247 million in 2010 to $818 million in 2011, $1.0 billion in 2012, and $878 million in 2013, the bulk of which will be for the IGCC plant. Although IGCC technology has been utilized at other plants on a limited basis, the size, scope, and complexity of the project will materially increase business and concentration risk at the utility, especially during the construction phase. Duke Energy Indiana's Edwardsport

IGCC plant, which is approximately 90% complete, has experienced substantial cost overruns, well in excess of the 20% cost overrun contingency approved for recovery for the Kemper plant by the MPSC. In addition, AEP recently decided not to move forward on its Mountaineer IGCC project, partly because of cost concerns.

Mississippi Power files monthly construction status reports on the plant with the MPSC and, as of June 30, 2011, the project was on schedule and on budget, having spent approximately $488 million or 20% of the $2.4 billion certified amount. Mitigating the impact of this construction spending to some degree are $412 million of tax credits that were allocated to the project by the IRS on April 30, 2010, utilization of which can only occur if the plant is completed on time, making the construction schedule particularly important. Other risk mitigating factors include state ad valorem tax exemptions, potential Department of Energy loan guarantees, and an agreement by Southern Mississippi Electric Membership Association (SMEPA) to take a 17.5% ownership share of the plant, subject to MPSC approval.

- Substantial environmental compliance expenditures possible, depending on EPA regulations

Southern generates approximately 58% of its electricity from coal and, as one of the largest coal-fired utility systems in the U.S., is vulnerable to additional costs associated with environmental compliance regulations. While the bulk of the company's estimated capital expenditure budget over the next three years is for new construction and other investments, approximately $1.2 billion is currently earmarked for environmental expenditures. However, the company estimates that potential incremental investments to comply with new environmental regulations could add as much as $2.9 billion to this amount, much of it at Georgia Power.

Southern recently filed comments with the EPA on its proposed Utility MACT rule which could, if implemented, cause approximately 40% of Southern's coal fleet to be either retired or transitioned to natural gas. The company has indicated that complying with the EPA's proposed rules could cost between $13 and $18 billion through 2020 and increase electricity prices by an additional 10% to 20% for its utilities. While Moody's anticipates the continued recovery of environmental costs through rate adjustments, funding requirements for these expenditures could put pressure on Southern's consolidated financial metrics and balance sheet, depending on both the magnitude of the expenditures and the timing of implementation. There should be additional clarity on these issues when the Utility MACT rules are finalized later this year.

- Potentially growing renewable energy business outside of the Southeast at Southern Power

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than most other competitive wholesale generators due to a strategy of entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities, and its focus on the Southeast region. In addition, the market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing SPC's financial and operating risk. SPC's capacity is highly contracted over the intermediate term.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus with the acquisition of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. Construction is currently underway and the plant is expected to be on line by mid-2012, with the output fully contracted to the City of Austin for 20 years. Southern Power has also completed a 30 MW solar project in New Mexico. Southern maintains a strategic alliance with Ted Turner, the largest individual landowner in the U.S., to develop and invest in additional similar scale solar photovoltaic projects in the U.S. in addition to developing other solar renewable technologies. While currently modest, significant additional investments in renewable energy outside of the Southeast has the potential to increase Southern Company's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of June 30, 2011. Southern maintains a $1 billion five year credit facility at the parent company level that expires in 2016. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of June 30, 2011, Southern was in compliance with its financial covenant.

Southern had $437 million of cash on hand and commercial paper and short-term borrowings outstanding of $852 million on a consolidated basis as of June 30, 2011. Moody's anticipates dividend contributions from the subsidiaries will be in the range of $1.8 billion to $2.0 billion annually in 2011 and 2012. Both Georgia Power and Mississippi Power will also require significant equity infusions to help meet construction expenditures over the next several years.

Southern's utility subsidiaries and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated credit facilities are approximately $5.18 billion as of June 30, 2011 (with $1.43 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these, $764 million expire in the second half of 2011, $245 million in 2012, with the bulk ($4.2 billion) expiring in 2013 and in subsequent years.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $586 million as of June 30, 2011. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.76 billion. Generally, collateral could be provided by a Southern Company guaranty, letter of credit, or cash. As of June 30, 2011, Southern had approximately $1.35 billion of consolidated long-term debt maturities over the next twelve months, $265 million of which was at the parent company/

Rating Outlook

The stable rating outlook reflects Moody's expectation that Southern Company's utility regulatory environments will remain credit supportive; that there will be no substantial delays or cost overruns at either the Vogtle nuclear or Kemper IGCC construction projects; that costs resulting from new environmental regulations will be manageable and recovered in rates without significant regulatory lag; and that growth of its renewable energy business outside of its region will remain modest.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries are engaged in major new construction projects. Ratings could be raised, however, if there is significant progress on the construction of these two projects and they remain on schedule and on budget, if there is additional clarity on the magnitude and timing of new environmental compliance costs; if one or both of its major utility subsidiaries, Alabama Power or Georgia Power, is upgraded; or if consolidated financial metrics show sustained improvement, including CFO pre-W/C interest coverage above 4.5x and CFO pre-W/C to debt above 22%.

What Could Change the Rating - Down

The ratings could be downgraded if either Alabama Power or Georgia Power's ratings are lowered; if there are significant delays or cost overruns on either the Vogtle nuclear or Kemper IGCC projects; if there is significant additional debt issued at the parent company level; if major new environmental costs are incurred that are not recovered on a timely basis; if consolidated metrics show a sustained decline, including CFO pre-W/C interest coverage below 4.0x and CFO pre-W/C to debt below 18%.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2010**			**Moody's 12-18 month Forward View* As of August 2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**		**Measure**	**Score**
a) Regulatory Framework		A			A
Factor 2: Ability To Recover Costs And Earn Returns (25%)					
a) Ability To Recover Costs And Earn Returns		A			A
Factor 3: Diversification (10%)					
a) Market Position (5%)		A			A
b) Generation and Fuel Diversity (5%)		Ba			Ba
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)					
a) Liquidity (10%)		A			A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.7x	A		5.5 - 6.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	19.2%	Baa		20 - 25%	A/Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	12.5%	Baa		15 - 20%	A/Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	48.9%	Baa		45 - 47%	Baa
Rating:					
a) Indicated Rating from Grid		A3			A3
b) Actual Rating Assigned		Baa1			Baa1

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

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

Gulf Power Company

Full Rating Report

Ratings

Security Class	Current Rating
Long-Term IDR	A–
Short-Term IDR	F1
Commercial Paper	F1
Senior Unsecured Debt	A
Preferred Securities	BBB+

Rating Outlook

Stable

Financial Data

Gulf Power Company

($ Mil.)	LTM 06/30/11	2010
Revenues	1,554	1,590
EBITDA	357	369
FFO	308	307
Capital Expenditures	318	286
Dividends	114	111
Debt	1,330	1,317

Related Research

Southern Company, Nov. 1, 2011

Rating North American Utilities, Power, Gas, and Water Companies', May 16, 2011

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Key Rating Drivers

Low-Risk Business Profile: Gulf Power Company's (Gulf) ratings are supported by its low-risk business profile as a vertically integrated utility. Annually adjusted rate riders that provide timely recovery of all prudent costs related to fuel, purchased power costs, and environmental expenditures enhance cash flow stability. Despite its small size, Gulf benefits operationally and financially from an affiliation with Southern Company (SO, issuer default rating [IDR] 'A'), a large utility group.

Strong Credit Metrics: Fitch Ratings expects Gulf to maintain credit ratios that are consistent with guidelines for its ratings and business risk. Fitch forecasts Gulf's funds from operation (FFO) coverage ratio to exceed 6x and debt/FFO to exceed 25% in 2011 and 2012. There is substantial capital spending planned. However, it is largely for environmental upgrades eligible for recovery via a cost recovery clause, which minimizes lag in cost recovery and supports credit metrics.

Pending Base Rate Case: Gulf filed a $93.5 million base rate case in July 2011. The Florida Public Service Commission (FPSC) approved an interim rate adjustment of $38.5 million beginning in September 2011 that included a 10.75% return on equity (ROE). A final order is expected in March 2012.

Diminished Political Risk: The FPSC experienced a period of politically induced turbulence during the 2010 gubernatorial race and restrictive rate orders for unaffiliated utilities. Since then, the environment has stabilized and is no longer hostile to utilities and utility investors. Fitch expects a reasonable outcome in Gulf's pending rate filing.

Slow Economic Recovery: Fitch forecasts the number of customers to grow at an annual rate of 1.5% over the next few years, which represents a recovery from the sluggish recession year average growth of 0.2% from 2007–2010. By contrast, customer increases in 2002–2006 averaged 2.2% annually. The unemployment rate in Florida was 10.7% at the end of July 2011, which was above the 9.2% national average.

DSM Plan Approved: The FPSC approved Gulf's demand side management (DSM) plan in February 2011. The plan provides incentives to consumers to adopt energy efficiency and on-site generation. Program expenses are estimated at $556 million through 2019, and costs are recoverable through the energy conservation recovery clause.

Equity Issuance: Gulf issued 500,000 shares of common stock to SO and realized proceeds of $50 million in January 2011. Fitch's Stable Outlook assumes a balanced mix of debt and equity will supplement internal cash flow to fund planned capital investment.

What Could Trigger a Rating Action

Positive: A positive rating action is not anticipated during the coming year.

Negative: An unexpected adverse outcome in the pending $93.5 million base rate case could result in a negative rating action.

Liquidity and Debt Structure

Support from SO Affiliation

Gulf had $137 million of available liquidity as of June 30, 2011, which is considered sufficient for its needs. In addition, Fitch considers Gulf to have parent company liquidity support. SO had $897 million of liquidity available as of June 30, 2011. The company's stand-alone liquidity consisted of $17 million of cash and equivalents and credit facility availability of $120 million. There are no long-term debt maturities in 2011 or 2012.

Gulf's common equity is wholly owned by SO. SO invested $50 million in Gulf's common equity in January 2011.

Debt Maturities and Expiring Credit Facilities — Gulf Power Co.

($ Mil., June 30, 2011)	2011	2012	2013	2014	2015	Total
Expiring Credit Facilities	120	55	0	105	0	280
Long-Term Debt Maturities	0	0	60	75	0	135

Source: Company financial report dated June 30, 2011.

Liquidity — Gulf Power Co.

($ Mil., June 30, 2011)

Cash and Equivalents	Credit Commitment Amount	Usage Under Commitments	Commercial Paper Notes[a]	Variable-Rate Tax-Exempt Notes	Available Under Commitments	Total Available Liquidity
17	280	30	61	69	120	137

[a]Notes are issued via an affiliate, Southern Company Funding Corp.
Source: Company financial report dated June 30, 2011.

Capital Structure — Gulf Power Co.

($ Mil., June 30, 2011)	
Short-Term Debt	95
Long-Term Debt	1,235
Total Debt	**1,330**
Total Hybrid Equity and Minority Interest	98
Common Equity	1,118
Total Capital	**2,546**
Total Debt/Total Capital (%)	52.2
Hybrid Equity and Minority Interest/Total Capital (%)	3.8
Common Equity/Total Capital (%)	43.9
Total	**100.0**

Source: Fitch model.

Debt Characteristics

Gulf's long-term debt is composed of unsecured senior notes. The company has no outstanding secured debt or mortgage bonds.

Gulf can raise short-term commercial paper funding at attractive rates by issuing notes to its affiliate, Southern Company Funding Corp., also a direct subsidiary of SO. The Southern Company has no money pool for borrowing and lending among affiliates, unlike some other utility holding company groups.

Capital Spending Plans

Gulf's capital-investment plans include environmental controls, transmission, distribution, and other system growth and reliability projects. The planned environmental investments account for the majority of the capital-expenditure (capex) budget and include completion of the scrubbers on Scherer Unit 3 and nitrous oxide (NOx) controls. Gulf has no investments in new generation capacity in the three-year plan. The company will continue to rely on external capital

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

Recovery Ratings and Notching Criteria for Utilities, Aug. 12, 2011

160186-OPC-POD-71-206

Capital Spending Plan — Gulf Power Co.

($ Mil., June 30, 2011)

2011	2012	2013
382	396	384

Source: Company financial report dated Dec. 31, 2010.

to fund a portion of capital spending, and the Stable Outlook assumes this will be a balanced mix of debt and equity to maintain a similar capital structure.

State Regulatory Developments

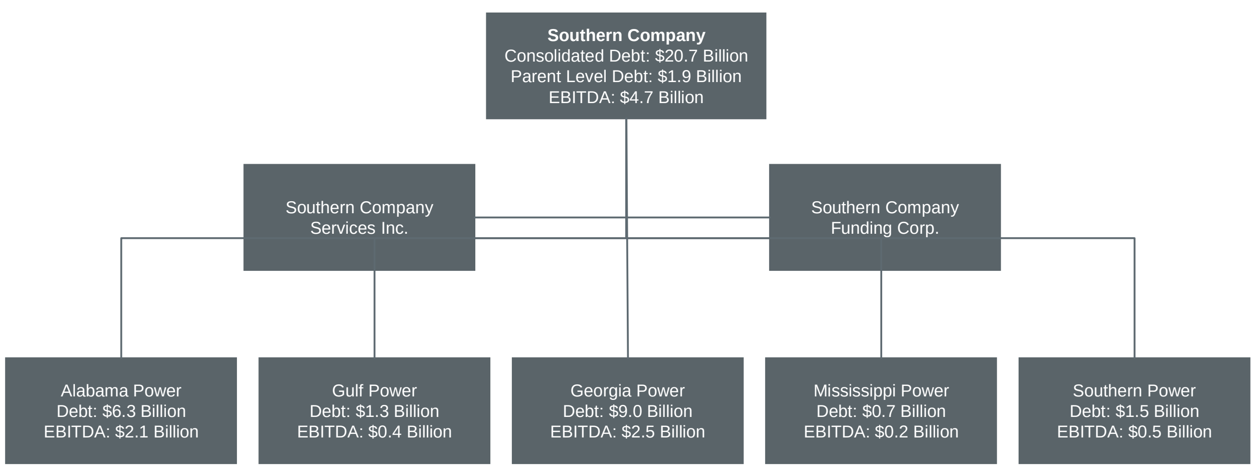
Base Rate Case

Gulf requested a $93.5 million base rate increase that incorporated an 11.7% ROE and 2012 test year. The proposed rate increase would fund costs for new transmission and distribution lines, replacing and repairing the electric infrastructure, and restoring the system after storms. It would also support increased spending to harden infrastructure and reduce future storm damage and fund expenses for related restoration activity. The FPSC authorized an interim $38.5 million rate increase that was based on a 10.75% ROE and a test year ended March 31, 2011.

Company Profile

Gulf is a vertically integrated utility subsidiary of SO. Its service territory is located in northwestern Florida. Gulf is a member of SO's power pool, which controls the economic dispatch of generation throughout the system.

Organization and Debt Structure — Southern Power Company and Affiliates
(As of June 30, 2011)



Source: Fitch Ratings.

160186-OPC-POD-71-207

Financial Summary — Gulf Power Company

($ Mil., Fiscal Years Ended Dec. 31)	LTM 6/30/11	Year End 2010	2009	2008	2007
Fundamental Ratios					
FFO/Interest Expense (x)	6.1	6.6	4.7	5.4	4.7
CFO/Interest Expense (x)	6.4	5.9	5.1	4.2	5.7
FFO/Debt (%)	23.2	23.3	14.5	20.6	21.2
Operating EBIT/Interest Expense (x)	3.8	4.5	4.0	4.1	3.8
Operating EBITDA/Interest Expense (x)	6.0	6.7	6.0	5.9	5.7
Operating EBITDAR/(Interest Expense + Rent) (x)	6.0	6.7	6.0	5.9	5.7
Debt/Operating EBITDA (x)	3.7	3.6	4.3	3.6	3.0
Common Dividend Payout (%)	97.3	85.2	80.2	83.7	88.1
Internal Cash/Capital Expenditures (%)	65.4	55.2	23.5	16.1	57.9
Capital Expenditures /Depreciation (%)	248.4	236.4	452.7	444.7	281.4
Profitability					
Adjusted Revenues	1,554	1,590	1,302	1,387	1,260
Net Revenues	758	751	637	642	616
Operating and Maintenance Expense	298	280	261	278	270
Operating EBITDA	357	369	281	277	263
Depreciation and Amortization Expense	128	121	93	85	86
Operating EBIT	229	248	188	192	177
Gross Interest Expense	60	55	47	47	46
Net Income for Common	110	122	111	98	84
Operating and Maintenance Expense % of Net Revenues	39.3	37.3	41.0	43.3	43.8
Operating EBIT % of Net Revenues	30.2	33.0	29.5	29.9	28.7
Cash Flow					
Cash Flow from Operations	322	269	195	149	217
Change in Working Capital	14	(38)	20	(56)	48
Funds from Operations	308	307	175	205	169
Dividends	(114)	(111)	(96)	(88)	(77)
Capital Expenditures	(318)	(286)	(421)	(378)	(242)
Free Cash Flow	(110)	(128)	(322)	(317)	(102)
Net Other Investment Cash Flow	(10)	(22)	(47)	29	3
Net Change in Debt	72	109	219	216	(32)
Net Equity Proceeds	51	52	157	75	129
Capital Structure					
Short-Term Debt	95	93	90	148	45
Long-Term Debt	1,235	1,224	1,119	849	754
Total Debt	**1,330**	**1,317**	**1,209**	**997**	**799**
Total Hybrid Equity and Minority Interest	98	98	98	98	85
Common Equity	1,118	1,075	1,004	822	731
Total Capital	**2,546**	**2,490**	**2,311**	**1,917**	**1,615**
Total Debt/Total Capital (%)	52.2	52.9	52.3	52.0	49.5
Total Hybrid Equity and Minority Interest/Total Capital (%)	3.8	3.9	4.2	5.1	5.3
Common Equity/Total Capital (%)	43.9	43.2	43.4	42.9	45.3

Source: Company reports and Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

The Southern Company

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR and CP	F1
Senior Unsecured Notes	A

IDR – Issuer default rating.

Rating Outlook

Stable

Financial Data

Southern Company

($ Mil.)	LTM 6/30/11	2010
Revenues	17,624	17,456
EBITDA	5,582	5,328
FFO	4,571	4,050
Capex	4,258	4,091
Dividends	1,613	1,561
Debt	20,913	20,900

Related Research

Alabama Power Company, Nov. 1, 2011
Georgia Power Company, Nov. 1, 2011
Gulf Power Company, Nov. 1, 2011
Mississippi Power Company, Nov. 1, 2011
Southern Power Company, Nov. 1, 2011

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Key Rating Drivers

Solid Credit Metrics: The Southern Company's (SO) consolidated credit ratios are consistent with Fitch guidelines for the 'A' rating and compare favorably with peer investment-grade utility holding companies. Fitch forecasts SO's consolidated ratios of EBITDA interest coverage to exceed 5x in 2011 and 2012. FFO debt leverage is likely to exceed 21%, excluding the FFO benefit from bonus depreciation in 2011–2012. Debt is primarily at the operating subsidiaries; SO's parent company debt is modest.

Supportive Regulatory Jurisdictions: SO's four utility subsidiaries operate as traditional integrated electric in Georgia, Alabama, Mississippi, and Florida, and contribute an estimated 93% of EBITDA. The subsidiaries have limited commodity price risk and recover their fuel expenses through separate cost trackers. The state jurisdictions also use periodic cost-adjustment mechanisms for other costs such as environmental spending, which tend to limit regulatory lag.

Non-Utility Power Business: Southern Power Company sells power primarily under long-term power sales agreements with investment-grade counterparties. The business strategy is to have at least 80% contract coverage of capacity with credit-worthy off-takers, resulting in predictable, stable cash flows, and consistent credit metrics over time. The non-utility power business accounts for 6% of fixed assets and approximately 7% of consolidated EBITDA.

Risk on Capital Projects: Key rating concerns relate to the construction of two baseload generation projects, along with high capex on other projects. Major projects are Plant Vogtle nuclear units 3 and 4 in Georgia (45.7% ownership interest in 2,200 MW), and the 580-MW Plant Ratcliffe/Kemper County integrated gasification combined-cycle plant in Mississippi. Fitch considers these two baseload projects to have higher risk than other utility capital spending due to their long lead times and pioneering elements of each project.

Other Capex Projects: Planned projects also include up to 2,500 MW of gas-fired combined-cycle capacity in Georgia to replace retired coal. Projects at wholesale generation subsidiary, Southern Power Co., include completion of the 720-MW Cleveland County combustion turbines and the 100-MW Nacogdoches biomass facility.

Capital Market Access and Liquidity: Fitch's ratings of SO recognize the company's strong liquidity, financial flexibility, and ready access to the capital markets as important factors in reducing financing risk during a period of projected high capex.

What Could Trigger a Rating Action

Positive: A positive rating action is unlikely during a period of high capex and completion risk.

Negative: Significant cost overruns on the Vogtle or Ratcliffe projects that cannot be recovered in rates, or unexpected long deferral periods for project costs could weaken credit ratings of the individual utilities and of SO. Less supportive regulatory treatment in Georgia, Alabama, Mississippi, and Florida could adversely affect the credit of individual utilities, and possibly SO.

The Southern Group

SO is a parent holding company of a large group whose principal operating subsidiaries are Alabama Power Company (APC), Georgia Power Company (GPC), Gulf Power Company (Gulf), Mississippi Power Company (MPC), and Southern Power Company (SPC). Another subsidiary, Southern Company Funding Corporation (SCFC), is an internal finance company that conducts short-term funding on behalf of APC, GPC, Gulf, and MPC. An organization chart showing the group structure and relative amounts of debt at each company appears on page 6. Electric utilities regulated under cost of service ratemaking contribute more than 90% of SO EBITDA, and non-utility businesses approximately 7%–8%.

Liquidity

SO and its subsidiaries have ample liquidity arrangements and good access to the capital markets. The parent company and its individual subsidiaries maintain committed bank lines (in aggregate $5.2 billion as of June 30, 2011) that may be used to back up CP and short-term note issuance, provide liquidity for variable-rate pollution-control bonds issued by the individual subsidiaries, and issue letters of credit.

Looking ahead to the expiration of credit facilities, SO and its subsidiaries have been successful in extending the maturities or replacing expiring credit facilities with new multi-year facilities (out to a maximum of five years) on favorable terms during 2011. The parent company has $1 billion of committed credit facilities expiring in 2016.

SCFC's sole activity is to issue CP on behalf of the utility operating subsidiaries. The subsidiaries issue intercompany short-term notes to SCFC, and SCFC in turn issues CP to outside investors. APC may issue CP directly on its own or via SCFC. SPC and SO are not eligible to borrow from SCFC.

Available Liquidity — The Southern Co.

($ Mil., As of June 30, 2011)

Borrower	Cash and Equivalents	Commitment Amount	Usage	Short-Term Notes[a]	Variable Rate[b]	Facility Availability	Total Available Liquidity
Southern Company	171	1,000	0	183	0	817	988
Georgia Power Company	21	1,775	12	321	522	920	941
Alabama Power Company	162	1,268	0	0	798	470	632
Mississippi Power Company	60	296	0	0	40	256	316
Gulf Power Company	17	280	30	61	69	120	137
Southern Power Company	6	500	0	201	0	299	305
Other	0	60	0	56	0	4	4
Total	**437**	**5,179**	**42**	**822**	**1,429**	**2,886**	**3,323**

[a]Includes notes issued through a funding subsidiary on behalf of individual borrowers. [b]Pollution Control Revenue Bonds with variable rates.
Source: Southern form 10-Q, June 30, 2011.

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

Recovery Ratings and Notching for Utilities, Aug. 12, 2011

Rating North American Utilities, Power, Gas, and Water Companies, May 16, 2011

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Consolidated Long-Term Debt Maturities — The Southern Co.

($ Mil., As of June 30, 2011)

Company	2011	2012	2013	2014	2015
Long-Term Debt Maturities					
Alabama Power Company	0	500	250	0	54
Georgia Power Company	0	450	1,675	0	250
Gulf Power Company	0	0	60	75	0
Mississippi Power Company	200	0	50	0	0
Southern Power Company	0	575	0	0	525
Southern Company — Parent	300	500	0	350	400
Consolidated Debt	**500**	**2,025**	**2,035**	**425**	**1,229**

Source: Company reports.

Debt and Capital Structure

Parent level debt ($1.9 billion as of June 30, 2011) is made up of senior unsecured notes. This was less than 10% of total consolidated debt of nearly $21 billion. The remainder of consolidated debt is issued by the operating subsidiaries.

SO owns the equity of its operating subsidiary and funds equity investment into the subsidiaries to maintain balanced capital structures at the subsidiaries and the consolidated company.

Capital Structure — The Southern Co.

($ Mil., As of June 30, 2011)

Short-Term Debt	857
Long-Term Debt	20,056
Total Debt	20,913
Total Hybrid Equity and Minority Interest	1,101
Common Equity	16,982
Total Capital	38,996
Total Debt/Total Capital (%)	53.63
Hybrid Equity and Minority Interest/Total Capital (%)	2.82
Common Equity/Total Capital (%)	43.55

Source: Fitch model.

New Environmental Rules Drive Capex

SO's regulated utilities are owners of approximately 20,000 MW of coal-fired generation operating capacity, and 58% of the SO system's power-generation was generated using coal in 2010. Thus, the SO generating portfolio is affected by various new or emerging Environmental Protection Agency (EPA) regulations that affect air and water emissions and coal-combustion residuals (ash).

To date, the utilities have made significant investments in scrubbers, which are among the most costly equipment retrofits. The major baseload construction projects under way at GPC (Vogtle 3 and 4 nuclear units) and MPC (Plant Ratcliffe), and up to 2,500 MW of gas-fired combined-cycle capacity planned at GPC are also investments to reduce the system's dependence on conventional coal-fired steam generation and reduce air emissions.

SO announced in August 2011 that based on its review of recent and pending EPA regulations, its operating subsidiaries would install new environmental devices on 12,000 MW of coal-fired generating facilities, approximately 60% of the more than 20,000 MW of coal capacity owned by SO subsidiaries. The companies would retire some units (4,000 MW), change fuel of some facilities to other fuels such as natural gas (3,200 MW), and replace other facilities with new natural gas-fired generation (1,500 MW), assuming that the draft rules become final rules. Approximately 40% of the coal fleet would either be retired or transitioned to natural gas as a

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result. SO estimated capex to comply with all of the proposed rules affecting coal-fired generation (air and water intake, and emissions and coal ash) to be at $13 billion–$18 billion through 2020.

Gulf, APC, and MPC have environmental cost-recovery mechanisms that allow them to implement recovery of their new investments for compliance, or to recover higher operating expenses due to compliance with environmental rules, without initiating a base rate case.

Capital Expenditures — Southern Co. and Subsidiaries

($ Mil., As of June 30, 2011)

Company	2011	2012	2013
Alabama Power Company	900	900	1,100
Georgia Power Company	2,100	2,200	2,000
Gulf Power Company	382	396	384
Mississippi Power Company	818	1,000	878
Southern Power Company	540	144	37
Total Consolidated	**4,900**	**5,100**	**4,500**
Anticipated EPA Regulations Effect — Additional Capex	74–289	191–670	476–1,900

Source: June 30, 2011 10-Q.

Only GPC has no environmental cost-recovery clause. GPC recovers projected environmental capex through base rate plans called accounting orders that are set every three years. The current accounting order extends to year-end 2013. GPC is consequently exposed to a lag in cash flow if new rules result in higher costs that were not forecast when the recent accounting order was decided. New environmental operating or capital costs incurred by GPC through 2013 and approved by the Georgia Public Service Commission (GPSC) would be deferred as a regulatory asset for eventual recovery in the utility's rates after 2013. Currently, GPC is in the midst of a regulatory proceeding on its Integrated Resource Plan and is seeking approval to start work for potential future installation of fabric filters (baghouses) on numerous coal-fired units.

SPC, SO's non-utility power generation subsidiary, has no exposure to coal-fired power generation. Most of its assets are modern combined-cycle natural gas power plants or gas peaking units, and SPC also owns 27 MW of solar generation.

Recent Developments

GPC's 2010 Rate Settlement

SO's and GPC's cash flows were boosted during 2011 by the implementation of a December 2010 rate settlement with the Georgia Public Service Commission and other parties. This is meaningful to SO, as GPC is the largest of the company's subsidiaries. The settlement rate increase is expected to restore GPC's 2011 credit metrics to levels consistent with the company's current rating.

GPC's three-year settlement created an alternate rate plan that became effective on Jan. 1, 2011. The plan includes first-year revenue increases of $562.3 million, primarily consisting of $347.2 million of base rate adjustments and $167.8 million of environmental compliance cost recovery. GPC's retail return on common equity (ROE) is set at 11.15%, and earnings will be evaluated against a retail ROE range of 10.25%–12.25% under the plan. In addition to the 2011 rate increases, tariffs will be further adjusted in 2012 and 2013 for phase-in of the cost recovery of Plant McDonough units 4–6 and additional demand-side management costs. The rate settlement was a primary factor in Fitch's December 2010 revision of GPC's Rating Outlook to Stable from Negative.

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Vogtle Nuclear Project

GPC continues the development and construction of the Westinghouse AP1000 Vogtle nuclear units 3 and 4. The project has been tracking on time and on budget, although it is still in an early phase of construction. The expected in-service dates for Vogtle units 3 and 4 are 2016 and 2017, respectively. GPC owns 45.7% of the two units with the remainder owned by investment-grade public power entities. The GPSC decided in July 2011 not to impose any reduction of ROE on costs of GPC's share of Vogtle that exceed the certified $6.1 billion. This eliminates a potential credit concern.

The GPSC approved GPC's spending on Vogtle units 3 & 4 on Aug. 16, 2011, for the period July 1, 2010, through Dec. 31, 2010. Vogtle construction is monitored by the GPSC via monthly filings and construction monitoring reports every six months. Cumulative project costs approved in August 2011 were $1.34 billion.

Plant Ratcliffe Project

Plant Ratcliffe is a 582-MW unit based on a design proprietary to SO and Kellogg Brown & Root that will refine local Mississippi lignite coal into a gas. The gas will then be used in a combined-cycle power plant to generate electricity. The plant will capture approximately 65% of the carbon dioxide during the refining process, which will be used for enhanced oil recovery in onshore formations in the region. Sulfur, mercury, and particulate matter emissions and many other air emissions are also reduced or eliminated in the refining process.

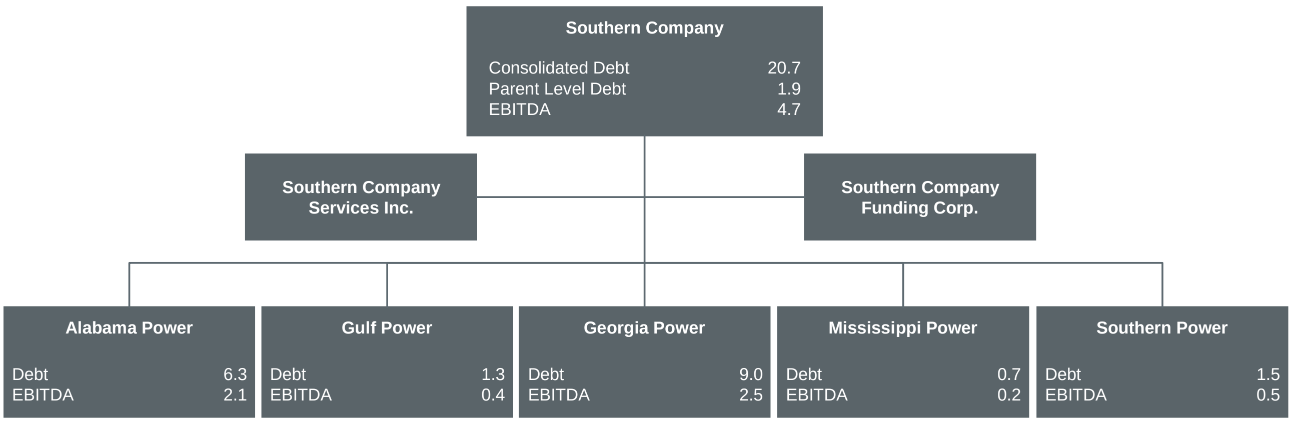
The project was certified by the Mississippi Public Service Commission (MPSC) on June 3, 2010, and construction is currently in an early stage. The unit is expected to be completed and start commercial operation in May 2014.

The project is expected to cost $2.4 billion to complete. The plant was tracking on time and on budget, as of the most recent available monthly construction monitoring report filed with the MPSC in June 2011, and about $430 million had been spent up to that date. The MPSC previously approved recovery of the investment in Plant Ratcliffe, subject to a cap of $2.4 billion. However, in May 2010, the MPSC reconsidered the cost cap and approved recovery in rates of up to $2.88 billion.

Renewables Investments Transferred to SPC

SO transferred to SPC its ownership in Southern Renewable Energy, Inc. in March 2011. The latter subsidiary was formed to construct, acquire, own, and manage renewable generation assets, and sell electricity output at market-based prices, primarily under long-term sales arrangements. Its business model is consistent with that of SPC, and the transaction did not result in any change in SPC's credit ratings.

Organizational and Debt Structure
($ Bil., As of June 30, 2011)



Source: Fitch Ratings.

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Financial Summary — Southern Company

($ Mil., Fiscal Year Ended December)	LTM 6/30/11	2010	2009	2008	2007
Fundamental Ratios (x)					
FFO/Interest Expense	5.7	5.1	4.3	4.9	4.4
CFO/Interest Expense	6.1	5.0	4.3	4.6	4.6
FFO/Debt (%)	21.9	19.4	16.5	20.1	19.8
Operating EBIT/Interest Expense	4.1	3.8	3.5	3.7	3.5
Operating EBITDA/Interest Expense	5.8	5.4	5.0	5.2	4.8
Operating EBITDAR/(Interest Expense + Rent)	5.7	5.3	4.9	5.2	4.7
Debt/Operating EBITDA	3.7	3.9	4.0	3.7	3.7
Common Dividend Payout (%)	77.6	75.7	83.3	73.5	—
Internal Cash/Capital Expenditures (%)	78.7	59.4	39.1	53.4	61.6
Capital Expenditures/Depreciation (%)	257.9	270.4	311.1	275.1	285.4
Profitability					
Adjusted Revenues	17,624	17,456	15,743	17,127	15,353
Net Revenues	10,497	10,194	9,317	9,494	8,982
Operating and Maintenance Expense	4,038	4,010	3,526	3,748	3,670
Operating EBITDA	5,582	5,328	4,986	4,962	4,584
Depreciation and Amortization Expense	1,651	1,513	1,503	1,443	1,245
Operating EBIT	3,931	3,815	3,483	3,519	3,339
Gross Interest Expense	969	994	1,002	950	963
Net Income for Common	1,996	1,975	1,643	1,742	1,734
Operating Maintenance Expense % of Net Revenues	38.5	39.3	37.8	39.5	40.9
Operating EBIT % of Net Revenues	37.4	37.4	37.4	37.1	37.2
Cash Flow					
Cash Flow from Operations	4,964	3,991	3,263	3,463	3,443
Change in Working Capital	393	(59)	(45)	(263)	125
Funds from Operations	4,571	4,050	3,308	3,726	3,318
Dividends	(1,613)	(1,561)	(1,434)	(1,345)	(1,253)
Capital Expenditures	(4,258)	(4,091)	(4,676)	(3,969)	(3,553)
FCF	(907)	(1,661)	(2,847)	(1,851)	(1,363)
Net Other Investment Cash Flow	(61)	(183)	17	(191)	(189)
Net Change in Debt	214	844	1,502	1,903	591
Net Equity Proceeds	913	772	1,286	349	1,008
Capital Structure					
Short-Term Debt	857	1,297	639	953	1,272
Long-Term Debt	20,056	19,603	19,392	17,581	15,469
Total Debt	20,913	20,900	20,031	18,534	16,741
Total Hybrid Equity and Minority Interest	1,101	1,101	1,101	1,101	1,099
Common Equity	16,982	16,202	14,878	13,276	12,385
Total Capital	38,996	38,203	36,010	32,911	30,225
Total Debt/Total Capital (%)	53.6	54.7	55.6	56.3	55.4
Total Hybrid Equity and Minority Interest/Total Capital (%)	2.8	2.9	3.1	3.3	3.6
Common Equity/Total Capital (%)	43.5	42.4	41.3	40.3	41.0

Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense.
Source: Company reports, Fitch Ratings.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

April 27, 2011

Summary: Gulf Power Co.

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Summary:

Gulf Power Co.

Credit Rating: A/Stable/A-1

Rationale

Standard & Poor's Ratings Services' ratings on Gulf Power Co. reflect the credit profile of its parent, Southern Co. Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $13.2 billion (excluding Southern Power capital expenditures) during 2011-2013. The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 430,658 customers, primarily in the Florida Panhandle, and providing about 7% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2010 as a result of the overall weakness in the local economy. Residential and commercial customers account for 72% of revenues and 62% of sales, while industrial customers account for 110% of revenues and 11% of sales. There is no meaningful customer concentration. Sales for resale are modest at 13% of revenues and 27% of sales and are generally accomplished through longer term contracts with little meaningful fuel exposure. Total generating capacity is 2,663 MW, with coal-fired assets contributing 64.6% of energy, gas 17.8%, and purchases 17.6%. Plant availability remained consistently high during 2010, with 94.7% for the fossil-fired units. Retail rates are moderately competitive and could come under pressure as the company recovers deferred fuel and storm restoration costs, along with invested capital.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate ROE. The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. Purchased power capacity and energy costs, both incurred and forecast, are recovered through a clause that provides for annual true-ups. Environmental projects not in base rates are recovered through an environmental-recovery clause. As of Dec. 31, 2010, Gulf Power's deferred fuel balance was $17.4 million, a modest increase from June 30, 2010 of $11.2 million. The Florida Public Services Commission (FPSC) requires Gulf Power

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to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's consistent cash flow generation and generally conservative financial management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended Dec. 31, 2010, adjusted funds from operations (FFO) was about $4.41 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 4.9x, adjusted FFO to debt of 20.1%, and adjusted total debt to total capital of 56.5%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects which are included in rate base primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Gulf Power's stand-alone financial profile for the 12 months ended Dec. 31, 2010 is adequate for the current ratings, with adjusted FFO interest coverage of 6.0x, adjusted FFO to debt of 21.5%, and debt leverage of 56.5%.

Liquidity

Gulf Power's short-term rating is 'A-1' and we view its liquidity on a consolidated basis with that of Southern. Southern's liquidity is adequate under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern's adequate liquidity supports its 'A' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. The 'A-1' short-term rating on Southern and Gulf Power reflects the companies' corporate credit ratings, but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Southern has $4.4 billion in revolving credit facilities (excluding credit facility availability of Southern Power). As of Dec. 31, 2010, $1.3 billion supported outstanding commercial paper (CP), and $1.3 billion supported tax-exempt floating-rate securities, leaving about $1.74 billion undrawn. Of the total available credit facilities, Southern has $950 million available for short-term needs and CP backup; APC has $1.27 billion in available facilities; GPC $1.7 billion; Gulf Power $240 million; and MPC $161 million. Of the total available credit facilities, about $2.8 billion expires after September 2011. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Southern also had $447 million of cash on hand as of Dec. 31, 2010.

Outlook

The stable outlook on Gulf Power reflects the outlook of its parent, Southern. The stable outlook reflects Southern's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial profile.

We could lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO to interest coverage declines to below 4x, as a result of the substantial capital spending budget, the inability to recover such expenses in rates, or the inability to recover the current deferred fuel cost balance in a timely manner. The pursuit of the nuclear plant construction, which we expect to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost overruns on the budget, or indications of weakening regulatory support could lead to lower ratings.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009.
- Corporate Criteria: Analytical Methodology, published April 15, 2008.
- Corporate Criteria: Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

April 27, 2011

Summary:
Southern Co.

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Summary:
Southern Co.

Credit Rating: A/Stable/A-1

Rationale

The ratings on Southern Co. (Southern) reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co. (APC), Georgia Power Co. (GPC), Gulf Power Co., and Mississippi Power Co. (MPC). Standard & Poor's Ratings Services views Southern Power Co., Southern Co.'s other major subsidiary, as an equity investment and does not incorporate it into the assessment of the credit quality of Southern.

Southern has an excellent business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by significant capital spending needs of about $13.2 billion (excluding Southern Power capital expenditures) during 2011-2013. The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

The planned capital spending program includes preliminary costs for building two new nuclear plants at existing sites with major plant specific construction starting in late 2011, once the Nuclear Regulatory Commission approves the combined construction and operating license. Georgia Power will own 45.7% of each of the two 1,117MW units. The in-service certificated cost for Georgia Power's share of the project (including escalation and financing costs) is about $6.1 billion, with the first unit entering commercial operation in April 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new-generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensure recovery of prudently incurred investment in base rates upon completion. The Georgia Public Service Commission (PSC) certified construction of the proposed nuclear units in April 2009. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in progress during the construction period starting in 2011, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in rate base upon commercial operation. The ability to collect CWIP reduces the in-service cost to about $4.4 billion.

On Dec. 21, 2010, the Georgia PSC approved GPC's Nuclear Construction Cost Recovery (NCCR) tariff, effective Jan. 1, 2011, which allows recovery of about $223 million of financing costs associated with the nuclear plant construction. Given the new technology and long construction period, the construction of the new nuclear units contributes to an increase business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the project on budget and on schedule to mitigate adverse effects on credit quality. In early 2010, GPC amended the engineering, procurement, and construction contract with Westinghouse and Stone & Webster to replace certain index-based adjustments to the purchase price with fixed escalation amounts, thereby increasing cost certainty. The Georgia PSC approved the amendment in August 2010.

Southern is also pursuing the construction of a 582MW integrated gasification combined cycle unit (Kemper IGCC) at Mississippi Power at a cost of $2.4 billion. Similar to the nuclear plant construction, the Kemper IGCC unit is being built under a generally constructive regulatory framework and a significant portion of the costs for the construction will be known or fixed early in the construction process. Nevertheless, the lack of recent construction experience for similar types of plants in the U.S. contributes to an increase in business risk.

Southern's deferred fuel balance totaled about $420 million as of Dec. 31, 2010, a reduction of about $249 million compared to June 30, 2010. GPC's deferred fuel balance of $398 million contributes the bulk of this deferral. In April 2010, the Georgia PSC approved an adjustment to GPC's fuel rates to enable recovery of deferred fuel costs over 42 months. In addition, the Georgia PSC approved a mechanism that allows for fuel costs to adjust intra-year if fuel cost under-recovery exceeds the budget by more than $75 million, preventing further material accumulation. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery, may pressure the company's competitive rates and regulatory relationships, especially given the still-slow recovery in the regional economy.

Southern's consistent cash flow generation and generally conservative financial management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations and a growing customer base. For the 12 months ended Dec. 31, 2010, adjusted funds from operations (FFO) was about $4.41 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 4.9x, adjusted FFO to debt of 20.1%, and adjusted total debt to total capital of 56.5%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects included in the rate base primarily through the use of riders. The most recent credit metrics reflect the inclusion of about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other post-retirement obligations and also include about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares as having intermediate equity content.

Liquidity

Southern's liquidity is adequate under Standard & Poor's corporate liquidity methodology, which describes a company's liquidity in five standard categories. Southern's adequate liquidity supports its 'A' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, cover projected uses, mainly necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. The 'A-1' short-term rating on Southern reflects its corporate credit rating, but also accounts for stable cash flow generation and sufficient liquidity to meet upcoming debt maturities and capital spending needs.

Southern has $4.4 billion in revolving credit facilities (excluding credit facility availability of Southern Power). As of Dec. 31, 2010, $1.3 billion supported outstanding commercial paper (CP), and $1.3 billion supported tax-exempt floating-rate securities, leaving about $1.74 billion undrawn. Of the total available credit facilities, Southern has $950 million available for short-term needs and CP backup; APC has $1.27 billion in available facilities; GPC $1.7

billion; Gulf Power $240 million; and MPC $161 million. Of the total available credit facilities, about $2.8 billion expires after September 2011. Most credit facilities include a 65% debt to total capitalization ratio, for which Southern and its subsidiaries are well in compliance. Southern also had $447 million of cash on hand as of Dec. 31, 2010.

Outlook

The stable outlook reflects Southern's consistent, regulated electric utility operations that benefit from constructive regulatory frameworks, strong operations, and service territories with growing customer bases and attractive demographics. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial profile.

We could lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage remains aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO to interest coverage declines to below 4x as a result of the substantial capital spending budget, the inability to recover such expenses in rates, or the inability to recover the current deferred fuel cost balance in a timely manner. The pursuit of the nuclear plant construction, which we expect to be funded in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedule, cost overruns on the budget, or indications of weakening regulatory support could lead to lower ratings.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009.
- Corporate Criteria: Analytical Methodology, published April 15, 2008.
- Corporate Criteria: Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010

STANDARD
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Standard & Poor's Research

September 28, 2011

Gulf Power Co.

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Gulf Power Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- Stable cash flows;
- Operations under generally constructive regulatory environments;
- A large and diverse customer base;
- Regulatory and geographic diversity; and
- Conservative financial risk management practices.

Weaknesses:

- Increased business risk with the construction of new nuclear and integrated gasification combined-cycle plants; and
- A significant capital spending program.

Rationale

Standard & Poor's Ratings Services' ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. Southern has an excellent consolidated business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

These strengths are offset primarily by significant capital spending needs of about $13.2 billion during 2011-2013 (excluding Southern Power Co., another of Southern's subsidiaries, which we treat as an equity investment and exclude from our assessment of Southern's credit quality). The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Capital expenditures may increase depending on the level and compliance timeframe for new environmental rules under development by the Environmental Protection Agency. Southern estimates that depending on the nature of the final rules, such expenditures may total $700 million to $2.9 billion over the next three years for potential environmental controls, replacement generation capacity and transmission upgrades. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

Gulf Power is Southern's third-largest subsidiary, serving 430,658 customers, primarily in the Florida Panhandle, and providing about 7% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2010 as a result of the overall weakness in the local economy. Residential and commercial customers account for 72% of revenues and 62% of sales, while industrial customers account for 10% of revenues and 11% of sales. There is no meaningful customer concentration. Sales for resale are modest, at 14% of revenues and 27% of sales, and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,663 megawatts (MW), with coal-fired assets contributing 64.6% of energy, gas 17.8%, and purchases 17.6%. Plant availability remained consistently high during 2010, with 94.7% for the fossil-fired units. Retail rates are moderately competitive.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital as well as capacity and fuel costs while earning an adequate return on equity (ROE). The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. In July 2011, Gulf Power filed for a base rate increase of $93.5 million with the Florida Public Service Commission (FPSC) based on an 11.7% ROE and using 2012 as the test year. In August 2011, the FPSC approved a $38.5 million interim rate increase based on a 10.75% ROE and expects to render a final decision in the rate case filing by early 2012.

Gulf Power recovers purchased power capacity and energy costs, both incurred and forecast, through a clause that provides for annual true-ups. It recovers the costs of environmental projects not in base rates through an environmental-recovery clause. Gulf Power plans to spend about $618 million from 2011-2013 to comply with existing environmental standards, and should recover such amounts through the environmental recovery clause. As of June 30, 2010, Gulf Power's deferred fuel balance was $18.9 million, largely unchanged from year-end 2010. The FPSC requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's consistent cash flow generation and generally conservative financial risk management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations. For the 12 months ended June 30, 2011, adjusted funds from operations (FFO) was about $4.9 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 5.6x, adjusted FFO to debt of 22%, and adjusted total debt to total capital of 55.4%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects included in the rate base. The most recent credit metrics reflect about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other postretirement obligations; this debt also includes about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares that we view as having intermediate equity content.

Gulf Power's stand-alone financial profile for the 12 months ended June 30, 2011, supports current ratings, with adjusted FFO interest coverage of 5.8x, adjusted FFO to debt of 21.5%, and debt leverage of 55.8%.

Liquidity

The short-term rating on Gulf Power is 'A-1'. We view Gulf Power's liquidity on a consolidated basis with that of its parent, Southern. Southern has adequate liquidity that can more than cover its needs for the next 12 months even if EBITDA declines by 20%. (For more on liquidity, see "Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers," published July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by more than 1.2x.
- Debt maturities for 2011 and 2012 are modest.
- Even if EBITDA declines by 20%, we believe that net sources of cash will still exceed net uses.
- The company has good relationships with its banks, in our assessment, and has a good standing in the capital markets, having successfully issued debt over the past few years, including during the credit crisis. Furthermore, Southern has the ability to absorb high-impact, low-probability events with limited refinancing.

In our analysis, we assumed liquidity of $9.5 billion over the next 12 months, consisting of cash, FFO, and availability under the revolving credit facilities. We estimate the company will use about $6.2 billion during the same period, for capital spending, debt maturities, working capital needs, and shareholder dividends.

Southern has manageable debt maturities for 2011 and 2012 and a larger maturity of $1.7 billion in 2013. As of June 30, 2011, the revolving credit facilities total $4.7 billion with about $4 billion still available. More than $4 billion of the available credit facilities mature in 2013 and beyond. The company also had $437 million of cash on hand.

Outlook

We base the stable outlook on Southern Company and its affiliates on the company's consistent, regulated electric utility operations, which benefit from constructive regulatory frameworks, strong operations, a large service territory with attractive demographics, and proactive and generally conservative management and financial risk practices. In addition, the stable outlook anticipates that Southern will continue to proactively manage its liquidity position to ensure adequate liquidity over the intermediate term, especially as capital spending increases. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial risk profile.

We would lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage becomes aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO interest coverage declines to below 4x as a result of the substantial capital spending program and the inability to recover such expenses in rates in a timely manner. The construction of the new nuclear plants in Georgia along with the new integrated gasification combined-cycle unit in Mississippi, both of which we expect Southern will fund in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedules, cost overruns on the budgets, or indications of weakening regulatory support that protracts or prevents recovery of the invested capital would also lead to lower ratings.

Financial Risk Profile

Accounting

Southern's financial statements are prepared in accordance with the accounting principles generally accepted in the U.S. and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2010.

In assessing the financial risk profile of Southern, Standard & Poor's views Southern Power as an equity investment and its dividend distributions to Southern as part of FFO for computing coverage ratios. We view Southern Power's equity as minority interest for capitalization ratios.

Southern reports changes in underrecovered fuel balances as part of changes in working capital. However, in analyzing company's cash flows, Standard & Poor's reclassifies these changes as part of changes in FFO. This adjustment reflects the long-term nature of recovery of fuel costs, which is a more standard measure of FFO than working capital.

Because of Southern's current funding level of pension and other postretirement obligations, we impute $870 million as an off-balance-sheet obligation.

Standard & Poor's views Southern's $412 million of trust-preferred securities and $1.1 billion of preferred and preference shares as of Dec. 31, 2010, as having intermediate equity content, ascribing 50% of each amount to debt and 50% to equity for ratio computation purposes. We treat the associated distributions similarly as 50% interest and 50% dividends.

Capitalization of non-rail-car operating leases adds about $212 million of off-balance-sheet obligations as of Dec. 31, 2010, while debt imputed for purchased power agreements adds about $1.1 billion. We include purchased power agreements with Southern Power in imputed debt because we rate Southern Power on a stand-alone basis.

Table 1

Southern Co. -- Peer Comparison

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	Dominion Resources Inc.	American Electric Power Co. Inc.	Xcel Energy Inc.
Rating as of Sept. 28, 2011	A/Stable/A-1	A-/Stable/A-2	A-/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2
	--Average of the past three fiscal years--				
(Mil. $)					
Revenues	15,645.6	13,403.3	15,539.3	13,871.7	10,385.6
EBITDA	4,921.6	4,474.4	4,572.3	4,190.0	2,524.8
Net income from continuing operations	1,664.9	1,219.7	2,028.7	1,314.7	694.4
Funds from operations (FFO)	3,955.5	3,985.8	3,160.3	3,256.9	2,004.8
Capital expenditures	4,191.1	4,530.2	3,568.4	3,182.0	2,052.6
Free operating cash flow	(596.1)	(549.7)	(571.1)	(568.1)	(67.7)
Dividends paid	1,402.8	1,232.7	1,067.7	762.6	422.9
Discretionary cash flow	(1,998.8)	(1,782.4)	(1,638.8)	(1,330.7)	(490.5)
Cash and short-term investments	498.9	1,416.3	58.7	767.0	155.1
Debt	21,358.2	18,503.2	18,353.2	20,743.2	10,963.4
Preferred stock	747.0	0.0	887.5	187.8	252.5
Equity	15,532.3	21,896.7	12,034.3	12,672.8	7,696.0
Debt and equity	36,890.6	40,399.9	30,387.5	33,416.0	18,659.4
Adjusted ratios					
EBITDA margin (%)	31.5	33.4	29.4	30.2	24.3
EBIT interest coverage (x)	3.3	3.2	3.4	2.5	2.7
Return on capital (%)	8.3	6.8	10.5	7.7	8.0
FFO interest coverage (x)	4.5	5.1	4.0	3.5	4.1

Table 1

Southern Co. -- Peer Comparison (cont.)					
FFO/debt (%)	18.5	21.5	17.2	15.7	18.3
Free operating cash flow/debt (%)	(2.8)	(3.0)	(3.1)	(2.7)	(0.6)
Discretionary cash flow/debt (%)	(9.4)	(9.6)	(8.9)	(6.4)	(4.5)
Net cash flow/capital expenditures (%)	60.9	60.8	58.6	78.4	77.1
Debt/EBITDA (x)	4.3	4.1	4.0	5.0	4.3
Total debt/debt plus equity (%)	57.9	45.8	60.4	62.1	58.8
Return on capital (%)	8.3	6.8	10.5	7.7	8.0
Return on common equity (%)	10.4	4.3	18.0	9.9	8.2
Common dividend payout ratio (unadjusted) (%)	86.4	99.7	50.2	56.8	64.2

Table 2

Gulf Power Co. -- Financial Summary					
Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/--	A/Stable/--	A/Stable/--
(Mil. $)					
Revenues	1,590.2	1,302.2	1,387.2	1,259.8	1,203.9
EBITDA	377.8	288.7	276.9	262.1	255.7
Net income from continuing operations	127.7	117.4	104.5	88.0	79.3
Funds from operations (FFO)	313.6	264.2	202.1	190.3	138.2
Capital expenditures	291.9	417.1	384.5	240.5	152.8
Dividends paid	107.4	92.4	84.7	75.8	74.2
Debt	1,461.9	1,372.8	1,138.6	858.7	836.2
Preferred stock	49.0	49.0	49.0	49.0	47.6
Equity	1,124.0	1,053.3	871.1	780.3	681.6
Debt and equity	2,585.9	2,426.1	2,009.7	1,638.9	1,517.8
Adjusted ratios					
EBITDA margin (%)	23.8	22.2	20.0	20.8	21.2
EBIT interest coverage (x)	4.2	3.9	3.9	3.7	3.6
FFO interest coverage (x)	5.9	5.8	4.7	4.6	3.8
FFO/debt (%)	21.5	19.2	17.8	22.2	16.5
Discretionary cash flow/debt (%)	(7.4)	(23.3)	(28.4)	(11.5)	(9.6)
Net cash flow/capital expenditures (%)	70.7	41.2	30.5	47.6	41.9
Debt/debt and equity (%)	56.5	56.6	56.7	52.4	55.1
Return on capital (%)	8.8	8.4	9.6	9.8	9.6
Return on common equity (%)	10.7	8.5	12.2	12.3	12.0
Common dividend payout ratio (unadjusted) (%)	85.8	80.3	83.1	87.5	92.5

Table 3

Reconciliation Of Gulf Power Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2010--									
Gulf Power Co. reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	1,317.6	1,173.0	1,590.2	368.3	246.8	51.9	267.8	267.8	110.5	285.8
Standard & Poor's adjustments										
Operating leases	2.8	--	--	0.2	0.2	0.2	2.0	2.0	--	0.1
Intermediate hybrids reported as equity	49.0	(49.0)	--	--	--	3.1	(3.1)	(3.1)	(3.1)	--
Postretirement benefit obligations	40.5	--	--	(2.6)	(2.6)	--	17.4	17.4	--	--
Capitalized interest	--	--	--	--	--	2.9	(2.9)	(2.9)	--	(2.9)
Share-based compensation expense	--	--	--	1.1	--	--	--	--	--	--
Power purchase agreements	31.1	--	--	10.2	1.3	1.3	8.8	8.8	--	8.8
Asset retirement obligations	7.5	--	--	0.7	0.7	0.7	0.7	0.7	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	4.3	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	22.8	--	--
Debt -- accrued interest not included in reported debt	13.4	--	--	--	--	--	--	--	--	--
Total adjustments	144.3	(49.0)	--	9.5	3.8	8.1	23.0	45.8	(3.1)	6.1
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	1,461.9	1,124.0	1,590.2	377.8	250.6	60.0	290.8	313.6	107.4	291.9

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009

- Analytical Methodology, April 15, 2008

Ratings Detail (As Of September 28, 2011)*	
Gulf Power Co.	
Corporate Credit Rating	A/Stable/A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (16 Issues)	A
Senior Unsecured (2 Issues)	A/A-1
Senior Unsecured (1 Issue)	A/NR
Corporate Credit Ratings History	
29-Jun-2009	A/Stable/A-1
21-Dec-2000	A/Stable/--
30-Nov-1998	A+/Watch Neg/--
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (28 Issues)	A
Senior Unsecured (22 Issues)	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (47 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (31 Issues)	A/A-1
Senior Unsecured (7 Issues)	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (7 Issues)	A
Senior Unsecured (4 Issues)	A/A-1
Southern Co.	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (As Of September 28, 2011)*(cont.)	
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (5 Issues)	A-
Southern Company Capital Funding Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (4 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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Standard & Poor's Research

September 28, 2011

Summary:
Gulf Power Co.

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Summary:

Gulf Power Co.

Credit Rating: A/Stable/A-1

Rationale

Standard & Poor's Ratings Services' ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. Southern has an excellent consolidated business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

These strengths are offset primarily by significant capital spending needs of about $13.2 billion during 2011-2013 (excluding Southern Power Co., another of Southern's subsidiaries, which we treat as an equity investment and exclude from our assessment of Southern's credit quality). The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Capital expenditures may increase depending on the level and compliance timeframe for new environmental rules under development by the Environmental Protection Agency. Southern estimates that depending on the nature of the final rules, such expenditures may total $700 million to $2.9 billion over the next three years for potential environmental controls, replacement generation capacity and transmission upgrades. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

Gulf Power is Southern's third-largest subsidiary, serving 430,658 customers, primarily in the Florida Panhandle, and providing about 7% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2010 as a result of the overall weakness in the local economy. Residential and commercial customers account for 72% of revenues and 62% of sales, while industrial customers account for 10% of revenues and 11% of sales. There is no meaningful customer concentration. Sales for resale are modest, at 14% of revenues and 27% of sales, and are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,663 megawatts (MW), with coal-fired assets contributing 64.6% of energy, gas 17.8%, and purchases 17.6%. Plant availability remained consistently high during 2010, with 94.7% for the fossil-fired units. Retail rates are moderately competitive.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the

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company to recover invested capital as well as capacity and fuel costs while earning an adequate return on equity (ROE). The allowed ROE range is 10.75% to 12.75%, with rates set at 12% to recognize Gulf Power's above-average operating performance. In July 2011, Gulf Power filed for a base rate increase of $93.5 million with the Florida Public Service Commission (FPSC) based on an 11.7% ROE and using 2012 as the test year. In August 2011, the FPSC approved a $38.5 million interim rate increase based on a 10.75% ROE and expects to render a final decision in the rate case filing by early 2012.

Gulf Power recovers purchased power capacity and energy costs, both incurred and forecast, through a clause that provides for annual true-ups. It recovers the costs of environmental projects not in base rates through an environmental-recovery clause. Gulf Power plans to spend about $618 million from 2011-2013 to comply with existing environmental standards, and should recover such amounts through the environmental recovery clause. As of June 30, 2010, Gulf Power's deferred fuel balance was $18.9 million, largely unchanged from year-end 2010. The FPSC requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's consistent cash flow generation and generally conservative financial risk management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations. For the 12 months ended June 30, 2011, adjusted funds from operations (FFO) was about $4.9 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 5.6x, adjusted FFO to debt of 22%, and adjusted total debt to total capital of 55.4%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects included in the rate base. The most recent credit metrics reflect about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other postretirement obligations; this debt also includes about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares that we view as having intermediate equity content.

Gulf Power's stand-alone financial profile for the 12 months ended June 30, 2011, supports current ratings, with adjusted FFO interest coverage of 5.8x, adjusted FFO to debt of 21.5%, and debt leverage of 55.8%.

Liquidity

The short-term rating on Gulf Power is 'A-1'. We view Gulf Power's liquidity on a consolidated basis with that of its parent, Southern. Southern has adequate liquidity that can more than cover its needs for the next 12 months even if EBITDA declines by 20%. (For more on liquidity, see "Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers," published July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by more than 1.2x.
- Debt maturities for 2011 and 2012 are modest.
- Even if EBITDA declines by 20%, we believe that net sources of cash will still exceed net uses.
- The company has good relationships with its banks, in our assessment, and has a good standing in the capital markets, having successfully issued debt over the past few years, including during the credit crisis. Furthermore, Southern has the ability to absorb high-impact, low-probability events with limited refinancing.

In our analysis, we assumed liquidity of $9.5 billion over the next 12 months, consisting of cash, FFO, and

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availability under the revolving credit facilities. We estimate the company will use about $6.2 billion during the same period, for capital spending, debt maturities, working capital needs, and shareholder dividends.

Southern has manageable debt maturities for 2011 and 2012 and a larger maturity of $1.7 billion in 2013. As of June 30, 2011, the revolving credit facilities total $4.7 billion with about $4 billion still available. More than $4 billion of the available credit facilities mature in 2013 and beyond. The company also had $437 million of cash on hand.

Outlook

We base the stable outlook on Southern Company and its affiliates on the company's consistent, regulated electric utility operations, which benefit from constructive regulatory frameworks, strong operations, a large service territory with attractive demographics, and proactive and generally conservative management and financial risk practices. In addition, the stable outlook anticipates that Southern will continue to proactively manage its liquidity position to ensure adequate liquidity over the intermediate term, especially as capital spending increases. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial risk profile.

We would lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage becomes aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO interest coverage declines to below 4x as a result of the substantial capital spending program and the inability to recover such expenses in rates in a timely manner. The construction of the new nuclear plants in Georgia along with the new integrated gasification combined-cycle unit in Mississippi, both of which we expect Southern will fund in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedules, cost overruns on the budgets, or indications of weakening regulatory support that protracts or prevents recovery of the invested capital would also lead to lower ratings.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008

STANDARD
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Standard & Poor's Research

September 28, 2011

Southern Co.

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Southern Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- Stable cash flows;
- Operations under generally constructive regulatory environments;
- A large and diverse customer base;
- Regulatory and geographic diversity; and
- Conservative financial risk management practices.

Weaknesses:

- Increased business risk with the construction of new nuclear and integrated gasification combined-cycle plants; and
- A significant capital spending program.

Rationale

The ratings on Atlanta-based utility holding company Southern Co. reflect the consolidated credit profiles of its operating subsidiaries Alabama Power Co., Georgia Power Co., Gulf Power Co., and Mississippi Power Co. Standard & Poor's Ratings Services views Southern Power Co., Southern's other major subsidiary, as an equity investment and does not incorporate it into the assessment of Southern's credit quality.

Southern has an excellent consolidated business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

These strengths are offset primarily by significant capital spending needs of about $13.2 billion during 2011-2013 (excluding Southern Power). The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Capital expenditures may increase depending on the level and compliance timeframe for new environmental rules under development by the Environmental Protection Agency. Southern estimates that depending on the nature of the final rules, such expenditures may total an additional $700 million to $2.9 billion over the next three years for potential environmental controls, replacement generation capacity, and transmission upgrades. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

The planned capital spending program includes amounts for building two new nuclear plants at an existing Georgia Power site. We expect that major plant-specific construction will start once the company receives the combined construction and operating license from the Nuclear Regulatory Commission in late 2011 or early 2012. Georgia Power will own 45.7% of each of the two 1,117-megawatt (MW) units. The Georgia Public Service Commission (GPSC) certified construction of the two units in April 2009 at an in-service cost for Georgia Power's share of the project (including escalation and financing costs) of about $6.1 billion. We expect the first unit to enter commercial operation in 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new-generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensure recovery of prudently incurred investments in base rates upon timely and on-budget completion. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in progress during the construction period starting in 2011, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in the rate base upon commercial operation. The ability to collect about $1.68 billion in financing costs during the construction period reduces the in-service cost of the new plants to about $4.4 billion. On Dec. 21, 2010, the GPSC approved Georgia Power's Nuclear Construction Cost Recovery tariff, effective Jan. 1, 2011, which allows recovery of about $223 million during the year of financing costs associated with the nuclear plant construction.

Given the new technology and long construction period, the construction of the new nuclear units contributes to an increase business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the project on budget and on schedule to mitigate adverse effects on credit quality. In early 2010, Georgia Power amended the engineering, procurement, and construction contract with Westinghouse and Stone & Webster to replace certain index-based adjustments to the purchase price with fixed escalation amounts, thereby increasing cost certainty. The GPSC approved the amendment in August 2010.

Southern is also pursuing the construction of a 582-MW integrated gasification combined-cycle unit (Kemper IGCC) at Mississippi Power at a certified cost of $2.4 billion. Mississippi Power has submitted a filing with the Mississippi Public Service Commission to begin recovering financing costs during the construction period, starting in 2012 and ending in 2014. Similar to the nuclear plant construction, the Kemper IGCC unit is being built under a generally constructive regulatory framework. Importantly, we expect that a significant portion of the costs for the construction will be known or fixed early in the construction process, mitigating the price risk of the project. Nevertheless, the lack of recent construction experience for similar types of plants in the U.S. contributes to an increase in business risk.

Southern's consolidated deferred fuel balance totaled about $309 million as of June 30, 2011, a reduction of about $210 million compared to June 30, 2010. Georgia Power was the largest contributor to this deferral with about $321 million. The GPSC approved a mechanism that allows for fuel costs to adjust intra-year if fuel cost underrecovery exceeds the budget by more than $75 million, preventing further material accumulation. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery may pressure the company's competitive rates and regulatory relationships, especially given the still-slow recovery in the regional economy.

Southern's consistent cash flow generation and generally conservative financial risk management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations. For the 12 months ended June 30, 2011, adjusted funds from operations (FFO) was about $4.9 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 5.6x, adjusted FFO to debt of

22%, and adjusted total debt to total capital of 55.4%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects included in the rate base. The most recent credit metrics reflect about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other postretirement obligations; this debt also includes about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares that we view as having intermediate equity content.

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In our analysis, we assumed liquidity of $9.5 billion over the next 12 months, consisting of cash, FFO, and availability under the revolving credit facilities. We estimate the company will use about $6.2 billion during the same period, for capital spending, debt maturities, working capital needs, and shareholder dividends.

Southern has manageable debt maturities for 2011 and 2012 and a larger maturity of $1.7 billion in 2013. As of June 30, 2011, the revolving credit facilities totaled $4.7 billion, with about $4 billion still available. More than $4 billion of the available credit facilities mature in 2013 and beyond. The company also had $437 million of cash on hand.

Outlook

We base the stable outlook on Southern and its affiliates on the company's consistent, regulated electric utility operations, which benefit from constructive regulatory frameworks, strong operations, a large service territory with attractive demographics, and proactive and generally conservative management and financial risk practices. In addition, the stable outlook anticipates that Southern will continue to proactively manage its liquidity position to ensure adequate liquidity over the intermediate term, especially as capital spending increases. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial risk profile.

We would lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage becomes aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO interest coverage declines to below 4x as a result of the substantial capital spending program and the inability to recover such expenses in rates in a timely manner. The construction of the new nuclear plants in Georgia along with the new integrated gasification combined-cycle unit in Mississippi, both of which we expect Southern will fund in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedules, cost overruns on the budgets, or indications of weakening regulatory support that protracts or prevents recovery of the invested capital would also lead to lower ratings.

Financial Risk Profile

Accounting

Southern's financial statements are prepared in accordance with the accounting principles generally accepted in the U.S. and are audited by Deloitte & Touche, which has issued unqualified opinions on the company's financial statements and internal controls for 2010.

In assessing the financial risk profile of Southern, Standard & Poor's views Southern Power as an equity investment and its dividend distributions to Southern as part of FFO for computing coverage ratios. We view Southern Power's equity as minority interest for capitalization ratios.

Southern reports changes in underrecovered fuel balances as part of changes in working capital. However, in analyzing the company's cash flows, Standard & Poor's reclassifies these changes as part of changes in FFO. This adjustment reflects the long-term nature of recovery of fuel costs, which is a more standard measure of FFO than working capital.

Because of Southern's current funding level of pension and other postretirement obligations, we impute $870 million as an off-balance-sheet obligation.

Standard & Poor's views Southern's $412 million of trust-preferred securities and $1.1 billion of preferred and preference shares as of Dec. 31, 2010, as having intermediate equity content, ascribing 50% of each amount to debt and 50% to equity for ratio computation purposes. We treat the associated distributions similarly as 50% interest and 50% dividends.

Capitalization of non-rail-car operating leases adds about $212 million of off-balance-sheet obligations as of Dec. 31, 2010, while debt imputed for purchased power agreements adds about $1.1 billion. We include purchased power agreements with Southern Power in imputed debt because we rate Southern Power on a stand-alone basis.

Table 1

Southern Co. -- Peer Comparison

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	Dominion Resources Inc.	American Electric Power Co. Inc.	Xcel Energy Inc.
Rating as of Sept. 28, 2011	A/Stable/A-1	A-/Stable/A-2	A-/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2
	--Average of the past three fiscal years--				
(Mil. $)					
Revenues	15,645.6	13,403.3	15,539.3	13,871.7	10,385.6
EBITDA	4,921.6	4,474.4	4,572.3	4,190.0	2,524.8
Net income from continuing operations	1,664.9	1,219.7	2,028.7	1,314.7	694.4
Funds from operations (FFO)	3,955.5	3,985.8	3,160.3	3,256.9	2,004.8
Capital expenditures	4,191.1	4,530.2	3,568.4	3,182.0	2,052.6
Free operating cash flow	(596.1)	(549.7)	(571.1)	(568.1)	(67.7)
Dividends paid	1,402.8	1,232.7	1,067.7	762.6	422.9

Table 1

Southern Co. -- Peer Comparison (cont.)					
Discretionary cash flow	(1,998.8)	(1,782.4)	(1,638.8)	(1,330.7)	(490.5)
Cash and short-term investments	498.9	1,416.3	58.7	767.0	155.1
Debt	21,358.2	18,503.2	18,353.2	20,743.2	10,963.4
Preferred stock	747.0	0.0	887.5	187.8	252.5
Equity	15,532.3	21,896.7	12,034.3	12,672.8	7,696.0
Debt and equity	36,890.6	40,399.9	30,387.5	33,416.0	18,659.4
Adjusted ratios					
EBITDA margin (%)	31.5	33.4	29.4	30.2	24.3
EBIT interest coverage (x)	3.3	3.2	3.4	2.5	2.7
Return on capital (%)	8.3	6.8	10.5	7.7	8.0
FFO interest coverage (X)	4.5	5.1	4.0	3.5	4.1
FFO/debt (%)	18.5	21.5	17.2	15.7	18.3
Free operating cash flow/debt (%)	(2.8)	(3.0)	(3.1)	(2.7)	(0.6)
Discretionary cash flow/debt (%)	(9.4)	(9.6)	(8.9)	(6.4)	(4.5)
Net cash flow/capital expenditures (%)	60.9	60.8	58.6	78.4	77.1
Debt/EBITDA (x)	4.3	4.1	4.0	5.0	4.3
Total debt/debt plus equity (%)	57.9	45.8	60.4	62.1	58.8
Return on capital (%)	8.3	6.8	10.5	7.7	8.0
Return on common equity (%)	10.4	4.3	18.0	9.9	8.2
Common dividend payout ratio (unadjusted) (%)	86.4	99.7	50.2	56.8	64.2

Table 2

Southern Co. -- Financial Summary					
Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	16,326.9	14,796.3	15,813.5	14,381.0	13,579.0
EBITDA	5,145.0	4,807.6	4,812.3	4,415.0	4,211.4
Net income from continuing operations	1,910.0	1,487.1	1,597.6	1,602.4	1,449.5
Funds from operations (FFO)	4,419.5	3,973.5	3,473.6	3,207.8	3,412.6
Capital expenditures	3,925.9	4,606.9	4,040.7	3,465.7	2,620.3
Dividends paid	1,538.0	1,411.0	1,259.2	1,197.1	1,184.0
Debt	21,998.7	21,918.0	20,158.0	16,754.9	15,490.4
Preferred stock	747.0	747.0	747.0	746.0	1,152.5
Equity	16,949.0	15,625.0	14,023.0	13,131.0	12,523.5
Debt and equity	38,947.7	37,543.0	34,181.0	29,885.9	28,013.9
Adjusted ratios					
EBITDA margin (%)	31.5	32.5	30.4	30.7	31.0

Table 2

Southern Co. -- Financial Summary (cont.)					
EBIT interest coverage (x)	3.6	3.2	3.3	3.4	3.9
FFO interest coverage (x)	4.9	4.4	4.2	4.3	5.6
FFO/debt (%)	20.1	18.1	17.2	19.1	22.0
Discretionary cash flow/debt (%)	(5.4)	(13.2)	(9.5)	(8.0)	(5.6)
Net cash flow/capital expenditures (%)	73.4	55.6	54.8	58.0	85.1
Debt/debt and equity (%)	56.5	58.4	59.0	56.1	55.3
Return on capital (%)	8.3	8.1	8.6	9.1	8.6
Return on common equity (%)	11.0	8.8	11.2	12.9	13.3
Common dividend payout ratio (unadjusted) (%)	81.1	96.3	83.5	77.5	75.0

Table 3

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2010--									
Southern Co. reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	19,250.2	16,051.9	16,326.9	4,912.7	3,518.7	818.9	3,771.0	3,771.0	1,561.0	3,786.4
Standard & Poor's adjustments										
Operating leases	211.9	--	--	10.5	10.5	10.5	65.9	65.9	--	44.4
Intermediate hybrids reported as debt	(206.0)	206.0	--	--	--	(9.5)	9.5	9.5	9.5	--
Intermediate hybrids reported as equity	541.0	(541.0)	--	--	--	32.5	(32.5)	(32.5)	(32.5)	--
Postretirement benefit obligations	870.4	--	--	(61.0)	(61.0)	--	418.0	418.0	--	--
Capitalized interest	--	--	--	--	--	73.9	(73.9)	(73.9)	--	(73.9)
Share-based compensation expense	--	--	--	33.0	--	--	--	--	--	--
Power purchase agreements	1,136.2	--	--	171.8	53.8	53.8	118.0	118.0	--	118.0
Asset retirement obligations	--	--	--	78.0	78.0	78.0	(40.3)	(40.3)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	159.4	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	137.8	--	--
Minority interests	--	1,232.1	--	--	--	--	--	--	--	--

Table 3

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)										
U.S. decommissioning fund contributions	--	--	--	--	--	--	(5.0)	(5.0)	--	--
Debt -- accrued interest not included in reported debt	195.0	--	--	--	--	--	--	--	--	--
FFO -- other	--	--	--	--	--	--	51.0	51.0	--	--
Capital expenditures -- other	--	--	--	--	--	--	--	--	--	51.0
Total adjustments	2,748.4	897.1	--	232.3	240.7	239.2	510.7	648.5	(23.0)	139.5
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	21,998.7	16,949.0	16,326.9	5,145.0	3,759.4	1,058.1	4,281.7	4,419.5	1,538.0	3,925.9

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008

Ratings Detail (As Of September 28, 2011)*	
Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (5 Issues)	A-
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/A-1
30-Nov-1998	A/Watch Neg/A-1
24-Jan-1997	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock (1 Issue)	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1

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Ratings Detail (As Of September 28, 2011)*(cont.)	
Preference Stock (2 Issues)	BBB+
Preferred Stock (4 Issues)	BBB+
Senior Secured (6 Issues)	A/A-1
Senior Unsecured (28 Issues)	A
Senior Unsecured (22 Issues)	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (1 Issue)	BBB+
Preferred Stock (2 Issues)	BBB+
Senior Unsecured (47 Issues)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (31 Issues)	A/A-1
Senior Unsecured (7 Issues)	A/NR
Gulf Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock (2 Issues)	BBB+
Preferred Stock (3 Issues)	BBB+
Senior Unsecured (16 Issues)	A
Senior Unsecured (2 Issues)	A/A-1
Senior Unsecured (1 Issue)	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock (4 Issues)	BBB+
Senior Secured (1 Issue)	A+/A-1
Senior Unsecured (7 Issues)	A
Senior Unsecured (4 Issues)	A/A-1
Southern Company Capital Funding Inc.	
Senior Unsecured (1 Issue)	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (1 Issue)	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (4 Issues)	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

Standard & Poor's Research

September 28, 2011

Summary: Southern Co.

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Summary:
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Credit Rating: A/Stable/A-1

Rationale

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Southern has an excellent consolidated business risk profile characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

These strengths are offset primarily by significant capital spending needs of about $13.2 billion during 2011-2013 (excluding Southern Power). The expenditures are to address significant environmental-compliance requirements, transmission and distribution system growth needs, new generation projects (including nuclear), system maintenance, and nuclear fuel expenditures. Capital expenditures may increase depending on the level and compliance timeframe for new environmental rules under development by the Environmental Protection Agency. Southern estimates that depending on the nature of the final rules, such expenditures may total an additional $700 million to $2.9 billion over the next three years for potential environmental controls, replacement generation capacity, and transmission upgrades. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

The planned capital spending program includes amounts for building two new nuclear plants at an existing Georgia Power site. We expect that major plant-specific construction will start once the company receives the combined construction and operating license from the Nuclear Regulatory Commission in late 2011 or early 2012. Georgia Power will own 45.7% of each of the two 1,117-megawatt (MW) units. The Georgia Public Service Commission (GPSC) certified construction of the two units in April 2009 at an in-service cost for Georgia Power's share of the project (including escalation and financing costs) of about $6.1 billion. We expect the first unit to enter commercial operation in 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new-generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensure recovery of prudently incurred investments in base rates upon timely and on-budget completion. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in progress during the construction period starting in 2011, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in the rate base upon commercial operation. The ability to collect about $1.68 billion in financing costs during the construction period reduces the in-service cost of the new plants to about $4.4 billion. On Dec. 21, 2010, the GPSC approved Georgia Power's Nuclear Construction Cost Recovery tariff, effective Jan. 1, 2011, which allows recovery of about $223 million during the year of financing costs associated with the nuclear plant construction.

Given the new technology and long construction period, the construction of the new nuclear units contributes to an increase business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the project on budget and on schedule to mitigate adverse effects on credit quality. In early 2010, Georgia Power amended the engineering, procurement, and construction contract with Westinghouse and Stone & Webster to replace certain index-based adjustments to the purchase price with fixed escalation amounts, thereby increasing cost certainty. The GPSC approved the amendment in August 2010.

Southern is also pursuing the construction of a 582-MW integrated gasification combined-cycle unit (Kemper IGCC) at Mississippi Power at a certified cost of $2.4 billion. Mississippi Power has submitted a filing with the Mississippi Public Service Commission to begin recovering financing costs during the construction period, starting in 2012 and ending in 2014. Similar to the nuclear plant construction, the Kemper IGCC unit is being built under a generally constructive regulatory framework. Importantly, we expect that a significant portion of the costs for the construction will be known or fixed early in the construction process, mitigating the price risk of the project. Nevertheless, the lack of recent construction experience for similar types of plants in the U.S. contributes to an increase in business risk.

Southern's consolidated deferred fuel balance totaled about $309 million as of June 30, 2011, a reduction of about $210 million compared to June 30, 2010. Georgia Power was the largest contributor to this deferral with about $321 million. The GPSC approved a mechanism that allows for fuel costs to adjust intra-year if fuel cost underrecovery exceeds the budget by more than $75 million, preventing further material accumulation. Although the regulatory environment has historically been generally constructive, the large capital spending program combined with the deferred fuel-cost recovery may pressure the company's competitive rates and regulatory relationships, especially given the still-slow recovery in the regional economy.

Southern's consistent cash flow generation and generally conservative financial risk management policies support the company's overall intermediate financial risk profile, and benefit from the preponderance of regulated utility operations. For the 12 months ended June 30, 2011, adjusted funds from operations (FFO) was about $4.9 billion, while total adjusted debt was $22 billion, leading to adjusted FFO interest coverage of 5.6x, adjusted FFO to debt of 22%, and adjusted total debt to total capital of 55.4%. Adjusted FFO benefits from incremental recovery of fuel costs, as well as the completion of various projects included in the rate base. The most recent credit metrics reflect about $870 million in off-balance-sheet debt stemming from the shortfall in the current funding level of pension and other postretirement obligations; this debt also includes about $412 million of trust-preferred securities and $1.08 billion of preferred and preference shares that we view as having intermediate equity content.

Liquidity

The short-term rating on Southern is 'A-1'. The company has adequate liquidity that can more than cover its needs for the next 12 months even if EBITDA declines by 20%. (For more on liquidity, see "Standard & Poor's

Standardizes Liquidity Descriptors For Global Corporate Issuers," published July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by more than 1.2x.
- Debt maturities for 2011 and 2012 are modest.
- Even if EBITDA declines by 20%, we believe that net sources of cash will still exceed net uses.
- The company has good relationships with its banks, in our assessment, and has a good standing in the capital markets, having successfully issued debt over the past few years, including during the credit crisis. Furthermore, Southern has the ability to absorb high-impact, low-probability events with limited refinancing.

In our analysis, we assumed liquidity of $9.5 billion over the next 12 months, consisting of cash, FFO, and availability under the revolving credit facilities. We estimate the company will use about $6.2 billion during the same period, for capital spending, debt maturities, working capital needs, and shareholder dividends.

Southern has manageable debt maturities for 2011 and 2012 and a larger maturity of $1.7 billion in 2013. As of June 30, 2011, the revolving credit facilities totaled $4.7 billion, with about $4 billion still available. More than $4 billion of the available credit facilities mature in 2013 and beyond. The company also had $437 million of cash on hand.

Outlook

We base the stable outlook on Southern and its affiliates on the company's consistent, regulated electric utility operations, which benefit from constructive regulatory frameworks, strong operations, a large service territory with attractive demographics, and proactive and generally conservative management and financial risk practices. In addition, the stable outlook anticipates that Southern will continue to proactively manage its liquidity position to ensure adequate liquidity over the intermediate term, especially as capital spending increases. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial risk profile.

We would lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage becomes aggressive, adjusted FFO to total debt is consistently below 18%, and adjusted FFO interest coverage declines to below 4x as a result of the substantial capital spending program and the inability to recover such expenses in rates in a timely manner. The construction of the new nuclear plants in Georgia along with the new integrated gasification combined-cycle unit in Mississippi, both of which we expect Southern will fund in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedules, cost overruns on the budgets, or indications of weakening regulatory support that protracts or prevents recovery of the invested capital would also lead to lower ratings.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008

STANDARD
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Global Credit Portal®
RatingsDirect®

March 22, 2012

Summary:
Gulf Power Co.

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160186-OPC-POD-71-259

Summary:

Gulf Power Co.

Credit Rating: A/Stable/A-1

Rationale

Standard & Poor's Ratings Services' ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co. Southern has an "excellent" consolidated business risk profile (as our criteria define the term), characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income.

The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by a significant capital spending program of about $13.2 billion from 2012-2014 for the core operations (excluding Southern Power). The expenditures are to address transmission and distribution system growth needs, new-generation projects, system maintenance, and nuclear fuel. Capital expenditures are likely to increase to further address compliance with new environmental rules issued by the Environmental Protection Agency (EPA). Southern estimates that new environmental compliance expenditures, primarily for mercury emissions, may total up to $2.8 billion over the next three years for the installation of environmental controls, replacement generation capacity, and transmission upgrades. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

Gulf Power's business risk profile is "excellent" (as our criteria define the term). The company is Southern's third-largest subsidiary, serving 432,536 customers, primarily in the Florida Panhandle, and providing about 6% of operating income and cash from operations. The moderately sized service territory has attractive demographics but experienced no meaningful customer growth during 2011 as a result of the overall weakness in the local economy. Residential and commercial customers account for 69% of revenues and 58% of sales, lending a measure of stability to revenues and cash flows. Industrial customers account for 10% of revenues and 11% of sales and exhibit no meaningful customer concentration. Sales for resale are somewhat material at 16% of revenues and 29% of sales, but are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,663 megawatts (MW), with coal-fired assets contributing 49.4% of energy, gas 24%, and purchases 26.6%. Plant availability declined somewhat compared with 2010 at 84.7% for the fossil-fired units. Retail rates are moderately competitive.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital on a timely basis as well as capacity and fuel costs while earning an adequate return on equity (ROE). In Gulf Power's last rate case, the Florida PSC approved a $68.1 million base rate increase reflecting a 10.25% ROE. The base rate increase will be implemented in two steps, with a $64.1 million increase effective January 2012 and an additional increase of $4 million effective in January 2013. The company had initially requested a $101.6 million increase based on an 11.7% ROE.

Gulf Power recovers purchased power capacity and energy costs, both incurred and forecast, through a clause that provides for annual true-ups. It recovers the costs of environmental projects not in base rates through an environmental-recovery clause. Gulf Power plans to spend about $523 million from 2012-2014 to comply with existing environmental regulations, and we expect it will recover such amounts through the environmental recovery clause once approved and incurred. The company estimates that compliance with the EPA's new mercury rules could cost an additional $375 million over 2012-2014. Gulf Power's fuel balance has improved during 2011, and the company had an over-recovery of $9.9 million compared with an under-recovery of $17.4 million at year-end 2010. The FPSC requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's consistent cash flow generation and generally conservative financial risk management policies support the company's overall "intermediate" financial risk profile under our criteria and benefits from the preponderance of regulated utility operations. For the 12 months ended Dec. 31, 2011, adjusted funds from operations (FFO) was about $5.3 billion, while adjusted total debt was $23.1 billion, leading to adjusted FFO to debt of 23%, and adjusted total debt to total capital of 55.8%. Adjusted FFO benefits from incremental recovery of fuel costs, base-rate increases, and the completion of various projects included in rate base.

Gulf Power's stand-alone financial profile for the 12 months ended Dec. 31, 2011, supports current ratings, with adjusted FFO to debt of 21.5%, and debt leverage of 56.3%.

Liquidity

We view Gulf Power's liquidity on a consolidated basis with that of its parent, Southern. Southern's liquidity is "adequate" (as our criteria define the term) under Standard & Poor's liquidity methodology. The short-term rating on Gulf Power is 'A-1' and largely reflects the long-term corporate credit rating on the company and the stable regulated utility operations that generate the bulk of the cash flows.

We base our liquidity assessment of adequate on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by more than 1.2x.
- Long-term debt maturities for 2012 and 2013 are manageable.
- Even if EBITDA declines by 15%, we believe that net sources of cash will still exceed net uses.
- The company has good relationships with its banks, in our assessment, and has a good standing in the capital markets.

As of Dec. 31, 2011, Southern had $4.6 billion in credit facilities, with about $4 billion still undrawn. More than $4.2 billion of the available credit facilities mature in 2014 and beyond. The company also had about $1.3 billion of cash on hand.

In our analysis, based on information available as of Dec. 31, 2011, we assumed liquidity of $9.7 billion over the next 12 months, consisting primarily of FFO and availability under the revolving credit facilities. We estimate the company could use up to $7.6 billion during the same period, for capital spending, debt maturities, working capital needs, and shareholder dividends.

Furthermore, Southern's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management and financial policies further support our description of liquidity as adequate.

Outlook

We base the stable outlook on Southern and its subsidiaries, including Gulf Power, on the company's consistent, regulated electric utility operations, which we expect will generate sufficient cash flow to consistently achieve adjusted FFO to total debt of more than 20% and adjusted debt leverage that is below 58%. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial risk profile with adjusted FFO to total debt that approaches 30% and debt leverage that is well below 55%.

We would lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage becomes aggressive and approaches 60% and adjusted FFO to total debt is consistently below 18% as a result of the substantial capital spending program and the inability to recover such expenses in rates in a timely manner. The construction of the new nuclear plants in Georgia along with the new integrated gasification combined-cycle unit in Mississippi, both of which we expect Southern will fund in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedules, cost overruns on the budgets, or indications of weakening regulatory support that protracts or prevents recovery of the invested capital would also lead to lower ratings.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008

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March 22, 2012

Summary:
Southern Co.

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160186-OPC-POD-71-264

Summary:
Southern Co.

Credit Rating: A/Stable/A-1

Rationale

Standard & Poor's Ratings Services' ratings on Atlanta-based utility holding company Southern Co. reflect the consolidated credit profiles of its operating subsidiaries, Alabama Power Co., Georgia Power Co., Gulf Power Co., and Mississippi Power Co. We view Southern Power Co., Southern's other major subsidiary, as an equity investment and do not incorporate it into our assessment of Southern's credit quality.

Southern has an "excellent" consolidated business risk profile (as our criteria define the term), characterized by stable regulated electric utility operations in Georgia, Alabama, Mississippi, and Florida, which contribute more than 90% of consolidated operating income. The business risk profile benefits from operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations; strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates for the region that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by a significant capital spending program of about $13.2 billion from 2012-2014 for the core operations (excluding Southern Power). The expenditures are to address transmission and distribution system growth needs, new-generation projects, system maintenance, and nuclear fuel. Capital expenditures are likely to increase to further address compliance with new environmental rules issued by the Environmental Protection Agency (EPA). Southern estimates that new environmental compliance expenditures, primarily for mercury emissions, may total up to $2.8 billion over the next three years for the installation of environmental controls, replacement generation capacity, and transmission upgrades. Timely recovery of these expenditures is necessary to provide ongoing support to the consolidated credit profile, although this may be challenging given the still-modest economic recovery in the regional and national economies.

The planned capital spending program also includes amounts for building two new nuclear plants at an existing Georgia Power site. In February 2012, Georgia Power received the combined construction and operating license to begin full construction on the project. Georgia Power will own 45.7% of each of the two 1,117-megawatt (MW) units. The Georgia Public Service Commission (GPSC) certified construction of the two units in April 2009 at an in-service cost for Georgia Power's share of the project (including escalation and financing costs) of about $6.1 billion. We expect the first unit to enter commercial operation in 2016 and the second in 2017. The regulatory framework in Georgia supports construction of new-generation assets through the combination of the Integrated Resource Plan approach and a plant certification process, which ensure recovery of prudently incurred investments in base rates upon timely and on-budget completion. In addition, legislation was passed in Georgia that allows for recovery of a cash return on construction work in progress during the construction period starting in 2011, providing incremental credit support for large capital spending projects and moderating the rate impact of including the new plant in the rate base upon commercial operation. Georgia Power's ability to collect about $1.7 billion in financing costs during the construction period reduces the in-service cost of the new plants to about $4.4 billion. During 2011, Georgia Power collected about $223 million in financing costs relating to the new nuclear construction as approved by the Georgia PSC in December 2010.

Given the new technology and long construction period, the construction of the new nuclear units contributes to an increase in business risk, placing pressure on the consolidated business risk profile, and necessitating completion of the project on budget and on schedule to mitigate adverse effects on credit quality. In early 2010, Georgia Power amended the engineering, procurement, and construction contract with Westinghouse and Stone & Webster to replace certain index-based adjustments to the purchase price with fixed escalation amounts, thereby increasing cost certainty. The GPSC approved the amendment in August 2010.

Southern is also pursuing the construction of a 582-MW integrated gasification combined-cycle unit (Kemper IGCC) at Mississippi Power at a certified cost of $2.4 billion. Mississippi Power has submitted a filing with the Mississippi Public Service Commission to begin recovering financing costs during the construction period, starting in 2012 and ending in 2014. Similar to the nuclear plant construction, the Kemper IGCC unit is being built under a generally constructive regulatory framework. Importantly, we expect that a significant portion of the costs for the construction will be known or fixed early in the construction process, mitigating the price risk of the project. Nevertheless, the lack of recent construction experience for similar types of plants in the U.S. contributes to an increase in business risk. In March 2012, the Mississippi Supreme Court introduced some uncertainty in the project by challenging the Mississippi Public Service Commission order that issued the plants' certificate of public convenience and necessity. The court concluded that the original order did not provide enough detail supporting the project's approval and remanded the matter to the public service commission to amend the order.

Southern's consolidated deferred fuel balance totaled about $169 million as of Dec. 31, 2011, a significant decline from prior years. The decline in deferred fuel costs benefits from the moderation in natural gas prices and the utilization of fuel-clause adjustments. Although the regulatory environment has historically been generally constructive for Southern's subsidiaries, the large capital spending program combined with the deferred fuel-cost recovery can pressure the company's competitive rates and regulatory relationships, especially given the still-slow recovery in the regional economy.

Southern's consistent cash flow generation and generally conservative financial risk management policies support the company's overall "intermediate" financial risk profile (as our criteria define the term) and benefits from the preponderance of regulated utility operations. For the 12 months ended Dec. 31, 2011, adjusted funds from operations (FFO) was about $5.3 billion, while adjusted total debt was $23.1 billion, leading to adjusted FFO to debt of 23%, and adjusted total debt to total capital of 55.8%. Adjusted FFO benefits from incremental recovery of fuel costs, base-rate increases, and the completion of various projects included in rate base.

Liquidity

Southern's liquidity is "adequate" (as our criteria define the term) under Standard & Poor's liquidity methodology. The short-term rating on Southern is 'A-1' and largely reflects the long-term corporate credit rating on the company and the stable regulated utility operations that generate the bulk of the cash flows.

We base our liquidity assessment of adequate on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by more than 1.2x.

- Long-term debt maturities for 2012 and 2013 are manageable.
- Even if EBITDA declines by 15%, we believe that net sources of cash will still exceed net uses.
- The company has good relationships with its banks, in our assessment, and has a good standing in the capital markets.

As of Dec. 31, 2011, Southern had $4.6 billion in credit facilities, with about $4 billion still undrawn. More than $4.2 billion of the available credit facilities mature in 2014 and beyond. The company also had about $1.3 billion of cash on hand.

In our analysis, based on information available as of Dec. 31, 2011, we assumed liquidity of $9.7 billion over the next 12 months, consisting primarily of FFO and availability under the revolving credit facilities. We estimate the company could use up to $7.6 billion during the same period, for capital spending, debt maturities, working capital needs, and shareholder dividends.

Furthermore, Southern's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management and financial policies further support our description of liquidity as adequate.

Outlook

We base the stable outlook on Southern and its subsidiaries on the company's consistent, regulated electric utility operations, which we expect will generate sufficient cash flow to consistently achieve adjusted FFO to total debt of more than 20% and adjusted debt leverage that is below 58%. Currently, we don't contemplate a higher rating, but such a change would largely depend on a consistently stronger financial risk profile, with adjusted FFO to total debt that approaches 30% and debt leverage that is well below 55%.

We would lower the ratings on Southern and its subsidiaries if the consolidated financial risk profile weakens over the next few years such that debt leverage becomes aggressive and approaches 60% and adjusted FFO to total debt is consistently below 18% as a result of the substantial capital spending program and the inability to recover such expenses in rates in a timely manner. The construction of the new nuclear plants in Georgia along with the new integrated gasification combined-cycle unit in Mississippi, both of which we expect Southern will fund in a balanced manner, places additional pressure on the consolidated ratings, such that any delays in the construction schedules, cost overruns on the budgets, or indications of weakening regulatory support that protracts or prevents recovery of the invested capital would also lead to lower ratings.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers, July 2, 2010
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008

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Summary:
Gulf Power Co.

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Summary:

Gulf Power Co.

Credit Rating:	A/Stable/A-1

Rationale

Standard & Poor's Ratings Services' ratings on Gulf Power Co. (Gulf Power) reflect the consolidated credit profile of its parent, Southern Co. (Southern). Southern has an "excellent" consolidated business risk profile under our criteria based on its stable, regulated utility operations in Alabama, Georgia, Florida, and Mississippi that contribute more than 90% of consolidated operating income. Our assessment of business risk profile takes into account the utility's operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations in most jurisdictions. We have also considered the utility's strong operating performance and high availability and capacity utilization factors for owned generation; regulatory and operating diversity with a presence in four states; competitive rates that provide some cushion for future rate increases to recover fuel costs and increasing capital expenditures; lack of meaningful unregulated operations; and prudent and reasonably conservative management and financial policies.

These strengths are offset primarily by a significant capital spending program of about $15.4 billion from 2012-2014 for the core operations (excluding Southern Power); the need for timely recovery of that investment; the construction of two new nuclear plants at Georgia Power and an integrated gasification combined cycle (IGCC) unit at Mississippi Power, both of which introduce significant construction risk; cost increases at the IGCC project; and challenging regulatory developments at Mississippi Power that currently prevent the recovery of financing costs for the IGCC project.

Gulf Power's business risk profile is excellent. The company is Southern's third-largest subsidiary, serving 432,536 customers, primarily in the Florida Panhandle, and providing about 6% to 8% of consolidated operating income and cash from operations. The moderately sized service territory has attractive demographics but lacked any meaningful customer growth during 2011 as a result of the overall weakness in the local economy. Residential and commercial customers account for 69% of revenues and 58% of sales, lending a measure of stability to revenues and cash flows. Industrial customers account for 10% of revenues and 11% of sales and exhibit no meaningful customer concentration. Sales for resale are somewhat material at 16% of revenues and 29% of sales, but are generally accomplished through longer-term contracts with little meaningful fuel exposure. Total generating capacity is 2,663 megawatts (MW), with coal-fired assets contributing 49.4% of energy, gas 24%, and purchases 26.6%. Plant availability declined somewhat compared with 2010 at 84.7% for the fossil-fired units. Retail rates are moderately competitive.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital on a timely basis as well as capacity and fuel costs while earning an adequate return on equity (ROE). In Gulf Power's last rate case, in March 2012, the Florida Public Service Commission (FPSC) approved a $68.1 million base-rate increase reflecting a 10.25% ROE. The base-rate increase will be implemented in two steps, with a $64.1 million increase effective January 2012 and an additional increase of $4 million effective in January 2013.

Gulf Power recovers purchased power capacity and energy costs, both incurred and forecast, through a clause that provides for annual true-ups. It recovers the costs of environmental projects not in base rates through an environmental-recovery clause. Gulf Power plans to spend about $325 million from 2012-2014 to comply with upcoming environmental regulations, and we expect it will recover such amounts through the environmental recovery clause once these costs are approved by the FPSC and incurred. Gulf Power's deferred fuel balance has improved, and as of June 30, 2012, the company had an overrecovery of $42 million. The FPSC requires Gulf Power to file for updated fuel-cost recoveries if fuel revenues deviate by more than 10% of the projected fuel costs for the period. Given Gulf Power's exposure to hurricanes, the FPSC has allowed the company to accrue $3.5 million annually to fund its storm reserve for future contingencies.

Southern's consolidated financial risk profile is significant. The company's plan to defer equity issuances until 2014 will contribute to weaker credit protection measures over the next three years as capital spending peaks, eliminating some of the cushion in the financial risk profile. Nevertheless, Southern continues to proactively refinance upcoming debt maturities and has extended the tenor of its revolving credit facilities. For the 12 months ended June 30, 2012, funds from operations (FFO) was about $5.6 billion, while total debt was $23.8 billion, leading to FFO to debt of 23.5%, total debt to total capital of 55.8% and debt to EBITDA of 4.2x. For the period, Southern's cash flow generation benefited from incremental recovery of fuel costs, base-rate increases, and the completion of various projects included in the rate base.

Gulf Power's stand-alone financial profile for the 12 months ended June 30, 2012, supports current ratings, with adjusted FFO to debt of 29%, and debt leverage of 55.6%.

Liquidity

We view Gulf Power's liquidity on a consolidated basis with that of its parent, Southern Co. The parent company's liquidity is adequate under Standard & Poor's liquidity methodology criteria. The short-term rating on Gulf Power is 'A-1' and largely reflects the long-term corporate credit rating on the company and the stable regulated utility operations that generate the bulk of the cash flows. We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including FFO and credit facility availability) over the next 12 months to exceed its uses by more than 1.2x.
- Long-term debt maturities are material, but should be manageable, with $865 million maturing in 2012, $2.1 billion in 2013 and $425 million in 2014.
- Even if EBITDA declines by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets.

Southern Co. has $4.6 billion in available revolving credit facilities, with $1.05 billion available to the parent and the balance available among the operating subsidiaries as follows:

- Alabama Power Co.--$1.288 billion;

- Georgia Power Co.--$1.745 billion;
- Gulf Power Co.--$275 million;
- Mississippi Power Co.--$301 million.

Total undrawn capacity as of June 30, 2012, was $4.2 billion. Most of Southern Co.'s revolving credit facilities mature beyond 2014.

In our analysis, based on information available as of June 30, 2012, we assumed liquidity of about $10 billion over the next 12 months, consisting mainly of FFO, cash on hand, and availability under the revolving credit facilities. We estimate the company could use about $8 billion during the same period for capital spending, debt maturities, and shareholder dividends.

Southern Co.'s ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management further support our description of liquidity as adequate.

Outlook

The stable outlook on Southern and its subsidiaries, including Gulf Power, reflects our baseline projections that the company's consistent, regulated electric utility operations will continue generating sufficient cash flow to consistently achieve FFO to total debt of more than 18% and debt leverage that remains below 58%. Our expectations are that Southern will preserve its "significant" financial risk profile in the midst of a large capital spending program that includes construction of new nuclear plants in Georgia and an integrated gasification combined-cycle unit in Mississippi. We will lower the ratings on Southern and its subsidiaries by one notch if the consolidated financial risk profile weakens during this construction build-out period such that FFO to total debt is below 18% and debt leverage approaches 60%. Given the amount of capital spending forecast at about $15.4 billion over the next three years, we see no ratings upside at present.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Analytical Methodology, April 15, 2008

STANDARD & POOR'S

Standard & Poor's Research

Southern Co.

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Southern Co.

Major Rating Factors

Corporate Credit Rating
A/Stable/A-1

Strengths:

- Generally constructive regulatory environments for most operations;
- A large and diverse customer base;
- Regulatory, operating, and geographic diversity;
- Conservative financial risk management practices; and
- Stable cash flows.

Weaknesses:

- A significant capital spending program;
- Need for timely recovery of the investment;
- Increased business risk associated with the construction of new nuclear plants and integrated gasification combined cycle plant (IGCC); and
- Challenging regulatory developments at Mississippi Power regarding the IGCC plant.

Rationale

Standard & Poor's Ratings Services bases its rating on Atlanta-based utility holding company Southern Co. on the consolidated credit profile of its utility operating subsidiaries that results in an "excellent" business risk and a "significant" financial risk profile under our criteria. We view Southern Power Co., Southern's nonutility subsidiary, as an equity investment and do not incorporate its credit profile into our assessment of Southern's credit quality.

Our assessment of Southern's business risk profile takes into account its regulated utility operations that span four states, serving about 4.4 million electric customers in Alabama, Georgia, Florida, and Mississippi. The regulated utility operations contribute more than 90% of the consolidated operating income. Our view of the business risk profile incorporates Southern's operations in jurisdictions with generally constructive regulatory frameworks, combined with effective management of regulatory relations in most jurisdictions. We also consider its strong operations with high availability and capacity utilization factors for owned generation and regulatory and operating diversity with a presence across four states. In addition, we take into account competitive rates in Southern's operating regions that provide some cushion for future rate increases; the lack of meaningful unregulated operations; and the prudent and reasonably conservative management. However, these strengths are offset by significant capital spending of about $15.4 billion from 2012-2014 for the core operations (excluding Southern Power) to meet environmental requirements and growth needs; the need for timely recovery of the investment; the construction of two new nuclear plants at Georgia Power and an integrated gasification combined cycle (IGCC) unit at Mississippi Power, both of which introduce significant construction risk; cost increases at the IGCC project; and challenging regulatory developments at Mississippi Power which currently prevent the recovery of financing costs for the IGCC project. These factors somewhat weaken the business risk profile.

In our assessment, the consolidated financial risk profile is significant, based on adjusted financial measures from our baseline forecast that are in line with the rating category, financial policies that are credit supportive and combined with adequate liquidity. We expect that Southern will perform in line with its peers over the next 12 to 24 months with credit protection measures weakening modestly in light of the large capital spending program and the delay of a planned equity offering until 2014.

Our baseline forecast of funds from operations (FFO) to total debt of more than 18%, debt to EBITDA of about 4.2x, and total debt to total capital that remains at about 57% reflects our expectation of steady economic activity in the company's largest service territories in Alabama and Georgia. Our projections also incorporate Southern's large capital spending program to maintain and expand its regulated utility system and for environmental compliance projects along with ongoing and timely recovery of such costs once in service, which provides the foundation for cash flow stability and manageable debt leverage.

Liquidity

Southern's liquidity is "adequate" under Standard & Poor's liquidity methodology criteria. The short-term rating on Southern is 'A-1' and largely reflects the long-term corporate credit rating on the company and the stable regulated utility operations that generate the bulk of the cash flows. We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including FFO and credit facility availability) over the next 12 months to exceed its uses by more than 1.2x.
- Long-term debt maturities are material, but should be manageable, with $865 million maturing in 2012, $2.1 billion in 2013, and $425 million in 2014.
- Even if EBITDA declines by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets.

Southern has $4.6 billion in available revolving credit facilities, with $1.05 billion available to the parent and the balance available among the operating subsidiaries as follows:

- Alabama Power Co.--$1.288 billion;
- Georgia Power Co.--$1.745 billion;
- Gulf Power Co.--$275 million; and
- Mississippi Power Co.--$301 million.

Total undrawn capacity as of June 30, 2012, was $4.2 billion. Most of Southern Co.'s revolving credit facilities mature after 2014.

In our analysis, based on information available as of June 30, 2012, we assumed liquidity of about $10 billion over the next 12 months, consisting mainly of FFO, cash on hand, and availability under the revolving credit facilities. We estimate the company could use about $8 billion during the same period for capital spending, debt maturities, and shareholder dividends.

Our assessment of Southern's liquidity as adequate is supported its ability to absorb high-impact, low-probability events with limited need for refinancing; its flexibility to lower capital spending; its sound bank relationships; its solid standing in credit markets; and its generally prudent risk management.

Outlook

The stable outlook on Southern and its subsidiaries reflects our baseline projections that the company's consistent, regulated electric utility operations will continue generating sufficient cash flow to consistently achieve FFO to total debt of more than 18% and debt leverage that remains below 58%. We expect Southern will preserve its significant financial risk profile while it undertakes a large capital spending program that includes construction of new nuclear plants in Georgia and an integrated gasification combined-cycle unit in Mississippi. We will lower the ratings on Southern and its subsidiaries by one notch if the consolidated financial risk profile weakens during this construction build-out period such that FFO to total debt is below 18% and debt leverage approaches 60%. Given the amount of spending forecast at about $15.4 billion over the next three years, we see no ratings upside at present.

Business Description

Southern generates, transmits, and sells electricity through its four regulated electric utility subsidiaries in Alabama, Georgia, Florida, and Mississippi. Southern's regulated electric utility subsidiaries are Alabama Power Co., Georgia Power Co., Gulf Power Co., and Mississippi Power Co. In addition, Southern owns Southern Power Co., which has about 8,000 megawatts (MW) of electric generation capacity in the southeastern U.S. We view this entity as an equity investment and do not incorporate its credit profile into our assessment of Southern's credit quality.

Rating Methodology

We assign ratings on Southern and its subsidiaries that reflect the consolidated credit profile of the regulated operating subsidiaries, acknowledging the lack of any meaningful measures, regulatory or otherwise, that can prevent the free flow of cash throughout the enterprise. We view Southern as a single economic entity because all the regulated utilities are core to the corporate strategy. As a result, we view the likelihood of default to be the same throughout the organization.

In addition, we view Southern's nonutility subsidiary, Southern Power Co., as an equity investment. Standard & Poor's has historically viewed Southern Power as a noncore entity of Southern and therefore determines its credit quality on a stand-alone basis. The separateness argument is supported by the separation requirements imposed by the Federal Energy Regulatory Commission (FERC), Southern's lack of any guarantees to Southern Power, and Southern Power's inability to borrow from Southern's money pool.

Business Risk Profile: Excellent, Though The Regulated Utility Operations Face Increased Business Risk

Southern's excellent business risk profile reflects its operations as a sole provider of essential services in its service territories, with the largest in Alabama and Georgia. Its electric utility operations remain fully regulated. More than 90% of the consolidated operating income is from regulated utility operations, which provides a measure of support and insulation from market challenges. In addition, with operations across four states, Southern benefits from geographical and regulatory diversity, potentially minimizing the effect of economic weakness in one particular state or any single adverse regulatory decision. The diversity in markets and regulation supports credit quality, while the existence of constructive regulatory frameworks in the largest service territories supports cash flow stability.

At the same time, the ongoing regulatory challenges at Mississippi Power, which is building a new IGCC unit, currently prevent the recovery of financing costs and have contributed to increased business risk. Given the limited time remaining before the plant completes construction, we don't think the company will be able to collect any meaningful amount of financing costs during the remaining construction period. Under this scenario, we expect that upon commercial operation the necessary rate increase could be high enough to require Mississippi Power to pursue alternate recovery methods. In addition, the company now expects the project to cost at the upper end of the initial budget estimate, leaving little room for additional cost increases and potentially exposing Mississippi Power to regulatory scrutiny. The difficulties at Mississippi Power combined with the risks inherent in building the new nuclear power plants at Georgia Power, albeit under a constructive regulatory framework and a well-designed engineering, procurement, and construction contract, somewhat erodes Southern's excellent business risk profile.

Management and strategy

Southern's management has been transparent and has generally managed regulatory risk effectively. Management remains focused on increasing the rate base by investing in new generation and general system growth. The company avoids risky unregulated activities and has consistently accessed the debt and equity markets when necessary. Southern has managed its liquidity risk by proactively refinancing debt maturities and extending the tenor of its credit facilities. We view Southern's management and strategy as generally conservative. Nonetheless, the company's decision to move forward with the Kemper IGCC despite the several unresolved issues that have emerged in 2012 point to a higher level of risk tolerance.

S&P base-case operating expectations

Standard & Poor's base-case scenario for Southern is based on the following assumptions:

- The company remains a holding company that owns fully regulated electric utilities with no material unregulated operations.
- Economic conditions in the company's service territories continue to improve, albeit modestly.
- The customer base remains largely residential and commercial, which is beneficial since such customers generally maintain their electricity usage, providing at least a base level of consumption.
- Southern's efficient electricity generating operations continue to produce competitively priced power, with high levels of plant utilization, a low level of unforced outages, and high reliability.
- The capital spending program will remain significant to address ongoing system growth needs and new generation, including the construction of two new nuclear plants in Georgia and the IGCC unit in Mississippi.
- The utility subsidiaries operate under regulatory terms that continue to largely support credit quality and remain generally constructive, including providing for timely recovery of fuel costs, the ability to recover financing costs in Georgia, and ability to earn within the allowed ROE range (with the exception of Mississippi Power).

Financial Risk Profile: Modestly Increasing Leverage And Steady Cash Flow Result In A Significant Financial Risk Profile

In our assessment, Southern's financial risk profile ss significant. Southern's steady operating cash flows from its regulated utilities resulted in FFO to total debt of 23.5% for the 12 months ended June 30, 2012. Debt to EBITDA of 4.2x and total debt to total capital of 55.8% were slightly weaker for the significant financial risk profile category. The company is very capital intensive with net cash flow (FFO less dividends) to capital spending that remains at 85.6%. After reducing cash flow from operations with capital spending and dividends, discretionary cash flow was negative $1.14 billion. Both these measures indicate the need for external funding.

S&P base-case cash flow and capital structure expectations

Our base-case forecast suggests that key credit measures will weaken somewhat over the next three years as capital spending peaks, eliminating some of the cushion in the financial risk profile. The company's plan to defer common equity issuances until 2014 will also contribute to weaker credit protection measures. As a result, we expect that FFO to debt will decline slightly but remain consistently above 18%, debt leverage will increase to about 57%, and debt to EBITDA will remain at about 4.2x. In addition, we expect net cash flow to capital spending to decline to around 55% and discretionary cash flow to become more negative over the next several years due to the large capital spending program and higher dividends. We derive the base-case forecast financial measures from our assumptions, including:

- EBITDA growth at the regulated utility operations that incorporates earned returns in the middle of the allowed range, except Mississippi Power, which we expect will earn below its allowed range.
- Revenue increases associated with customer growth will modestly contribute to EBITDA growth.
- No financing cost recovery associated with the Kemper IGCC plant.
- Capital spending that will rise over the next few years as spending on generation projects (nuclear as well as IGCC) peak and to meet environmental requirements.
- Timely recovery of fuel costs.
- Dividends increase in the mid-single-digit growth.
- As the company has announced, it will issue no common equity until 2014, at which point Southern plans to issue about $700 million in common equity.
- All upcoming debt maturities are refinanced.
- Liquidity remains in the adequate category.

Accounting

Standard & Poor's adjusts Southern's ratios to account for hybrid securities, operating leases, purchase power agreements, postretirement benefit obligations, accrued interest, and asset retirement obligations.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Analytical Methodology, April 15, 2008

Table 1

Southern Co. -- Peer Comparison

Industry Sector: Electric

	Southern Co.	Dominion Resources Inc.	Xcel Energy Inc.	Duke Energy Corp.	American Electric Power Co. Inc.
Rating as of Sept. 28, 2012	A/Stable/A-1	A-/Stable/A-2	A-/Stable/A-2	BBB+/Negative/A-2	BBB/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	15,848.1	14,902.3	10,202.8	13,844.0	14,093.5
EBITDA	5,199.3	4,699.9	2,689.8	4,760.6	4,421.1
Net income from cont. oper.	1,834.3	1,886.0	759.6	1,361.7	1,383.0
Funds from operations (FFO)	4,569.2	3,299.8	2,226.2	3,969.0	3,518.1
Capital expenditures	4,281.4	3,601.2	2,085.3	4,468.4	2,797.7
Free operating cash flow	68.8	(495.7)	168.7	(207.0)	576.7
Discretionary cash flow	(1,461.3)	(1,646.2)	(285.1)	(1,509.7)	(265.1)
Cash and short-term investments	805.2	70.7	124.1	1,837.3	692.7
Debt	22,382.9	19,263.1	11,330.0	20,272.4	20,671.1
Equity	16,932.0	12,637.4	8,184.6	22,468.0	13,986.7
Adjusted ratios					
EBITDA margin (%)	32.8	31.5	26.4	34.4	31.4
EBITDA interest coverage (x)	5.0	4.5	4.2	4.6	3.8
EBIT interest coverage (x)	3.6	3.6	2.9	3.3	2.8
Return on capital (%)	8.3	10.5	8.1	7.1	7.8
FFO/debt (%)	20.4	17.1	19.6	19.6	17.0
Free operating cash flow/debt (%)	0.3	(2.6)	1.5	(1.0)	2.8
Debt/EBITDA (x)	4.3	4.1	4.2	4.3	4.7
Total debt/debt plus equity (%)	56.9	60.4	58.1	47.4	59.6

Table 2

Southern Co. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2011	**2010**	**2009**	**2008**	**2007**
Rating history	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	16,421.0	16,326.9	14,796.3	15,813.5	14,381.0
EBITDA	5,645.2	5,145.0	4,807.6	4,812.3	4,415.0
Net income from continuing operations	2,105.8	1,910.0	1,487.1	1,597.6	1,602.4

Table 2

Southern Co. -- Financial Summary (cont.)					
Funds from operations (FFO)	5,314.5	4,419.5	3,973.5	3,473.6	3,207.8
Capital expenditures	4,311.6	3,925.9	4,606.9	4,040.7	3,465.7
Dividends paid	1,641.3	1,538.0	1,411.0	1,259.2	1,197.1
Debt	23,232.1	21,998.7	21,918.0	20,158.0	16,754.9
Preferred stock	644.0	747.0	747.0	747.0	746.0
Equity	18,222.0	16,949.0	15,625.0	14,023.0	13,131.0
Debt and equity	41,454.1	38,947.7	37,543.0	34,181.0	29,885.9
Adjusted ratios					
EBITDA margin (%)	34.4	31.5	32.5	30.4	30.7
EBIT interest coverage (x)	4.0	3.6	3.2	3.3	3.4
FFO int. cov. (x)	6.1	5.0	4.5	4.3	4.3
FFO/debt (%)	22.9	20.1	18.1	17.2	19.1
Discretionary cash flow/debt (%)	(1.3)	(5.4)	(13.2)	(9.5)	(8.0)
Net cash flow/capex (%)	85.2	73.4	55.6	54.8	58.0
Debt/debt and equity (%)	56.0	56.5	58.4	59.0	56.1
Return on capital (%)	8.4	8.3	8.1	8.6	9.1
Return on common equity (%)	11.8	11.0	8.8	11.2	12.9
Common dividend payout ratio (un-adj.) (%)	78.5	81.1	96.3	83.5	77.5

Table 3

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2011--									
Southern Co. reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	19,740.2	17,187.5	16,421.0	5,487.3	3,894.5	779.7	5,581.8	5,581.8	1,666.0	4,270.3
Standard & Poor's adjustments										
Operating leases	163.5	--	--	8.1	8.1	8.1	52.4	52.4	--	4.0
Intermediate hybrids reported as debt	(103.0)	103.0	--	--	--	(7.8)	7.8	7.8	7.8	--
Intermediate hybrids reported as equity	541.0	(541.0)	--	--	--	32.5	(32.5)	(32.5)	(32.5)	--
Postretirement benefit obligations	1,495.7	--	--	(117.0)	(117.0)	--	52.7	52.7	--	--
Capitalized interest	--	--	--	--	--	60.0	(60.0)	(60.0)	--	(60.0)
Share-based compensation expense	--	--	--	40.0	--	--	--	--	--	--
Power purchase agreements	1,101.6	--	--	144.7	47.5	47.5	97.2	97.2	--	97.2

Table 3

Reconciliation Of Southern Co. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)

Asset retirement obligations	89.1	--	--	82.0	82.0	82.0	(45.5)	(45.5)	--	--
Non-operating income (expense)	--	--	--	--	134.0	--	--	--	--	--
Reverse changes in working-capital	--	--	--	--	--	--	--	(334.5)	--	--
Minority interests	--	1,472.5	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	(5.0)	(5.0)	--	--
Debt - Accrued interest not included in reported debt	204.1	--	--	--	--	--	--	--	--	--
Total adjustments	3,491.9	1,034.5	0.0	157.8	154.6	222.2	67.1	(267.3)	(24.7)	41.3

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	23,232.1	18,222.0	16,421.0	5,645.2	4,049.1	1,001.9	5,648.9	5,314.5	1,641.3	4,311.6

Ratings Detail (As Of September 28, 2012)

Southern Co.	
Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A-
Corporate Credit Ratings History	
21-Dec-2000	A/Stable/A-1
30-Nov-1998	A/Watch Neg/A-1
24-Jan-1997	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Preferred Stock	BBB+
Senior Unsecured	A
Senior Unsecured	A/A-1

Ratings Detail (As Of September 28, 2012) (cont.)	
Georgia Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock	BBB+
Senior Unsecured	A
Senior Unsecured	A/A-1
Senior Unsecured	A/NR
Gulf Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preference Stock	BBB+
Preferred Stock	BBB+
Senior Unsecured	A
Senior Unsecured	A/A-1
Senior Unsecured	A/NR
Mississippi Power Co.	
Issuer Credit Rating	A/Stable/A-1
Preferred Stock	BBB+
Senior Secured	A+/A-1
Senior Unsecured	A
Senior Unsecured	A/A-1
Southern Company Capital Funding Inc.	
Senior Unsecured	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Stable/--
Southern Electric Generating Co.	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Summary:
Southern Co.

Primary Credit Analyst:
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Summary:

Southern Co.

Credit Rating:	A/Stable/A-1

Rationale

Standard & Poor's Ratings Services bases its rating on Atlanta-based utility holding company Southern Co. on the consolidated credit profile of its utility operating subsidiaries that results in an "excellent" business risk and a "significant" financial risk profile under our criteria. We view Southern Power Co., Southern's nonutility subsidiary, as an equity investment and do not incorporate its credit profile into our assessment of Southern's credit quality.

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Our baseline forecast of funds from operations (FFO) to total debt of more than 18%, debt to EBITDA of about 4.2x, and total debt to total capital that remains at about 57% reflects our expectation of steady economic activity in the company's largest service territories in Alabama and Georgia. Our projections also incorporate Southern's large capital spending program to maintain and expand its regulated utility system and for environmental compliance projects along with ongoing and timely recovery of such costs once in service, which provides the foundation for cash flow stability and manageable debt leverage.

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- Long-term debt maturities are material, but should be manageable, with $865 million maturing in 2012, $2.1 billion in 2013, and $425 million in 2014.
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Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Analytical Methodology, April 15, 2008

McGRAW-HILL

STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:
Gulf Power Co.

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Summary:

Gulf Power Co.

Corporate Credit Rating	A/Stable/A-1

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable … Excellent
FINANCIAL RISK	SIGNIFICANT	Highly leveraged … Minimal

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Construction of two new nuclear units at Georgia Power Co. and an integrated gasification combined cycle (IGCC) power plant at Mississippi Power Co. introduces significant construction risk, on a consolidated basis • Regulated utility operations that span four states, serve a large customer base and contribute more than 90% of operating income • Operations in jurisdictions with generally constructive regulatory environments providing for timely investment recovery • Prudent and largely conservative financial risk management and generally effective handling of regulatory risk	• Large capital spending program for system expansion and environmental compliance can pressure financial profile absent timely rate relief • Ongoing need for external financing • Generally stable debt leverage • Dividend payout ratio remains high in light of planned capital spending program

Outlook: Stable

The stable outlook on Southern Co. and its subsidiaries incorporates expectations of ongoing effective management of regulatory risk combined with our baseline projections that Gulf Power Co.'s stable, regulated electric utility operations will continue generating sufficient cash flow to consistently achieve funds from operations (FFO) to total debt of more than 18% and debt leverage that remains below 58%.

Downside scenario

We will lower the ratings on Southern and its subsidiaries by one notch if the consolidated financial risk profile weakens during this construction build-out period such that FFO to total debt is less than 18% and debt leverage approaches 60% on a consistent basis.

Upside scenario

Given the large capital spending program of about $14.1 billion over the next three years and the increased construction risk of the new nuclear and integrated gasification combined cycle projects, we see no ratings upside at present.

Standard & Poor's Base-Case Scenario

Our base case scenario incorporates moderate operating income growth, a large capital spending program, and largely stable debt leverage.

Assumptions

- Consolidated operating income grows in the mid-single digits, benefiting from incremental recovery of invested capital, recovery of financing costs, and modest load growth in 2013 and 2014.
- Consolidated capital spending totals $14.1 billion through 2015 and peaks in 2014
- Planned equity issuance of about $700 million expected in 2014
- Common dividends growth tracks earnings growth of about 4% to 6% annually.
- Fuel costs are recovered in a timely manner avoiding material over- and under-collections.

Key Metrics

	2012A	2013E	2014E
FFO/Debt	21.7%	18%-20%	18%-20%
Debt to EBITDA	4.1x	4x–4.2x	4x–4.2x
FFO interest coverage	6x	5x–5.5x	4.8x–5.2x

Leverage and coverage ratios include operating lease, pension and postretirement and power purchase agreement adjustments that increase debt by $163.6 million, $1.56 billion and $1.1 billion respectively as of Dec. 31, 2012. We do not expect these adjustments to change materially over the next few years. A--Actual. E--Estimate

Business Risk: Excellent

Standard & Poor's Ratings Services' ratings on Gulf Power Co. reflect the consolidated credit profile of its parent, Southern Co..

Gulf Power's business risk profile is "excellent", reflecting operations under a generally constructive regulatory environment that enables the company to earn at or close to the allowed return, a moderately sized customer base that recently has experienced only modest customer growth, and a consistently good operating record for its owned generation fleet. The company is Southern's third-largest subsidiary, serving 432,536 customers, primarily in the Florida Panhandle, and providing about 6% to 8% of consolidated operating income and cash from operations. Residential and commercial customers account for 69% of revenues and 55% of sales, lending a measure of stability to cash flow generation. The company has no meaningful customer concentration.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, allowing the company to recover invested capital on a timely basis while earning an adequate return on equity (ROE), and to recover capacity and fuel costs through riders. In Gulf Power's last rate case, in March 2012, the Florida Public Service Commission (FPSC) approved a $68.1 million base-rate increase reflecting a 10.25% ROE.

Financial Risk: Significant

In our assessment, the consolidated financial risk profile is "significant", based on adjusted financial measures from our baseline forecast that are in line with the rating category and financial policies that are generally credit supportive and are combined with adequate liquidity. We expect that Southern's credit protection measures will weaken modestly over the next 12 to 24 months compared to historical financial performance, while still remaining adequate for the rating, in light of the large capital spending program and the delay of a planned equity offering until 2014. Our projections also incorporate Southern's large capital spending program to maintain and expand its regulated utility system and for environmental compliance projects along with ongoing and timely recovery of such costs once in service, which provides the foundation for cash flow stability and manageable debt leverage.

Liquidity: Adequate

We view Gulf Power's liquidity on a consolidated basis with that of its parent, Southern Co. Gulf Power's short-term rating is 'A-1'. Southern has "adequate" liquidity to cover its needs over the next 12 to 18 months, in our view. We expect that the company's sources of liquidity will exceed uses by 1.2x or more, the minimum threshold for an adequate designation under our criteria and that the company will also meet our other criteria for such a designation. At the same time, we expect that Southern and its subsidiaries will continue to have access to the capital markets under favorable terms to fund a portion of capital spending needs and to refinance maturing debt obligations.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash flow from operations of about $5 billion to $5.5 billion in each of 2013 and 2014 • Assumed ongoing revolving credit facility availability of more than $4 billion • Assumed cash on hand of about $250 million to $500 million	• Debt maturities of about $2.1 billion in 2013 and $450 million in 2014 • Maintenance capital spending and long-term commitments of about $4 billion in 2013 and $4.5 billion in 2014 • Dividends of about $1.85 billion in 2013 and $1.95 billion in 2014

Covenant Analysis

As of Dec. 31, 2012, Southern Co. and its subsidiary companies had adequate cushion of compliance with the one financial covenant included in their revolving credit facilities (debt to total capitalization of less than 65%). Headroom could erode if debt rises rapidly without adequate growth in equity during this period of large capital spending.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:

Southern Co.

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Dimitri Nikas, New York (1) 212-438-7807; dimitri_nikas@standardandpoors.com

Secondary Contact:
Gabe Grosberg, New York (1) 212-438-6043; gabe_grosberg@standardandpoors.com

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Summary:

Southern Co.

Corporate Credit Rating	A/Stable/A-1

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable	Excellent
FINANCIAL RISK	SIGNIFICANT	Highly leveraged	Minimal

Rationale

Business Risk: Excellent

- Regulated utility operations that span four states, serve a large customer base, and contribute more than 90% of operating income
- Operations in jurisdictions with generally constructive regulatory environments providing for timely investment recovery
- Construction of two new nuclear units at Georgia Power and an integrated gasification combined cycle (IGCC) power plant at Mississippi Power introduces significant construction risk to the consolidated credit profile
- Prudent and largely conservative financial risk management and generally effective handling of regulatory risk

Financial Risk: Significant

- Large capital spending program for system expansion and environmental compliance can pressure financial profile absent timely rate relief
- Ongoing need for external financing
- Generally stable debt leverage
- Dividend payout ratio remains high in light of planned capital spending program

Outlook: Stable

The stable rating outlook on Southern Co. and its subsidiaries incorporates expectations of ongoing effective management of regulatory risk combined with our baseline projections that the company's stable, regulated electric utility operations will continue generating sufficient cash flow to consistently achieve funds from operations (FFO) to total debt of more than 18% and debt leverage that remains at less than 58%.

Downside scenario

We will lower the ratings on Southern and its subsidiaries by one notch if the consolidated financial risk profile weakens during this construction build-out period such that FFO to total debt is less than 18% and debt leverage approaches 60% on a consistent basis, largely to waning regulatory support.

Upside scenario

Given the large capital spending program of about $14.1 billion over the next three years and the increased construction risk of the new nuclear and integrated gasification combined cycle projects, we see no ratings upside at present.

Standard & Poor's Base-Case Scenario

Our base case scenario incorporates moderate operating income growth, a large capital spending program and largely stable debt leverage.

Assumptions

- Consolidated operating income grows in the mid-single digits, benefiting from incremental recovery of invested capital, recovery of financing costs and modest load growth in 2013 and 2014.
- Consolidated capital spending totals $14.1 billion through 2015 and peaks in 2014
- Planned equity issuance of about $700 million expected in 2014
- Common dividends growth tracks earnings growth of about 4% to 6% annually.
- Fuel costs are recovered in a timely manner avoiding material over- and under-collections.

Key Metrics

	2012A	2013E	2014E
FFO/Debt	21.7%	18%-20%	18%-20%
Debt to EBITDA	4.1x	4x–4.2x	4x–4.2x
FFO interest coverage	6x	5x–5.5x	4.8x–5.2x

Leverage and coverage ratios include operating lease, pension and postretirement and power purchase agreement adjustments that increase debt by $163.6 million, $1.56 billion, and $1.1 billion, respectively, as of Dec. 31, 2012. We do not expect these adjustments to change materially over the next few years.
A--Actual. E—Estimate.

Business Risk: Excellent

Southern's "excellent" business risk profile benefits from operations in states with generally constructive regulatory frameworks and a large service territory that spans four states and provides geographical and regulatory diversity, potentially minimizing the effect of economic weakness in one particular state or any single adverse regulatory decision. The diversity in markets and regulation supports credit quality, while the existence of constructive regulatory frameworks in the largest service territories supports cash flow stability. More than 90% of operating income is from regulated utility operations.

Southern is dealing with regulatory challenges at Mississippi Power Co., which is building a new IGCC unit. Mississippi Power only recently received approval to raise base rates for the project, contributing to increased business risk and the need to pursue alternate cost recovery methods, different than those initially planned. In addition, Southern now expects the project to cost $2.88 billion, which is at the upper end of the initial budget estimate, leaving little room for additional cost increases and potentially exposing Mississippi Power to regulatory scrutiny. The cost of Georgia Power Co.'s share of its new nuclear units has increased to $6.8 billion, and the company has requested approval of the revised costs from the Georgia Public Service Commission. The difficulties at Mississippi Power combined with the risks inherent in building the new nuclear units at Georgia Power, albeit under a more constructive and transparent regulatory framework and a well-designed engineering, procurement, and construction contract, somewhat erode Southern's excellent business risk profile. These challenges emphasize the importance of and need for ongoing constructive regulatory frameworks and outcomes.

Financial Risk: Significant

In our assessment, the consolidated financial risk profile is "significant", based on adjusted financial measures from our baseline forecast that are in line with the rating category and financial policies that are generally credit supportive and are combined with adequate liquidity. We expect that Southern's credit protection measures will weaken modestly over the next 12 to 24 months compared to historical financial performance, while still remaining adequate for the rating, in light of the large capital spending program and the delay of a planned equity offering until 2014. Our projections also incorporate Southern's large capital spending program to maintain and expand its regulated utility system and for environmental compliance projects along with ongoing and timely recovery of such costs once in service, which provides the foundation for cash flow stability and manageable debt leverage.

Liquidity: Adequate

Southern has "adequate" liquidity to cover its needs over the next 12 to 18 months, in our view. We expect that the company's sources of liquidity will exceed uses by 1.2x or more, the minimum threshold for an adequate designation under our criteria, and that the company will also meet our other criteria for such a designation. At the same time, we expect that Southern and its subsidiaries will continue to have access to the capital markets under favorable terms to fund a portion of capital spending needs and to refinance maturing debt obligations.

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• Cash flow from operations of about $5 billion to $5.5 billion in each of 2013 and 2014 • Assumed ongoing revolving credit facility availability of more than $4 billion • Assumed cash on hand of about $250 million to $500 million	• Debt maturities of about $2.1 billion in 2013 and $450 million in 2014 • Maintenance capital spending and long-term commitments of about $4 billion in 2013 and $4.5 billion in 2014 • Dividends of about $1.85 billion in 2013 and $1.95 billion in 2014

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As of Dec. 31, 2012, Southern Co. and its subsidiary companies had adequate cushion of compliance with the one financial covenant included in their revolving credit facilities (debt to total capitalization of less than 65%). Headroom could erode if debt rises rapidly without adequate growth in equity during this period of large capital spending.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

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Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

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Research Update:

Southern Co. And Subsidiaries Rating Outlook Revised To Negative; 'A' Rating Affirmed

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Southern Co. And Subsidiaries Rating Outlook Revised To Negative; 'A' Rating Affirmed

Overview

- Recent regulatory, operational, and risk management developments at Southern Co. have contributed to an increase in the company's business risk, eroding the consolidated credit profile.
- We are revising the rating outlook on Southern Co. and its subsidiaries, Alabama Power Co., Georgia Power Co., Gulf Power Co., and Mississippi Power Co., to negative from stable. The rating outlook on subsidiary Southern Power Co. is stable.
- Absent effective resolution of these challenges to help preserve Southern Co.'s "excellent" business risk profile, in combination with consistently robust credit protection measures that will support the financial profile, we will lower ratings by one notch.
- We are affirming the 'A' corporate credit rating on Southern Co. and its subsidiaries and the 'BBB+' corporate credit rating on Southern Power Co.

Rating Action

On May 24, 2013, Standard & Poor's Ratings Services revised the rating outlook on Southern Co. and its operating subsidiaries to negative from stable. At the same time, we affirmed the 'A' corporate credit rating on those entities and the 'BBB+' corporate credit rating on Southern Power Co. The rating outlook on Southern Power Co. is stable.

Rationale

The outlook revision on Southern Co. and its operating subsidiaries reflects our assessment of increased business risk as a result of a series of unfavorable regulatory, operational, and risk management developments. Over the past 12 months, adverse regulatory and project developments at Mississippi Power's integrated gasification combined cycle generation facility have contributed to a significant increase to the company's business risk and by association to Southern Co.'s business risk. Project costs have increased by $540 million contributing to an impairment of $540 million and introducing the potential of additional cost increases and impairments along with potential delays in the plant's in-service date. Any delays in the in-service date can further reduce the project's value and benefits. Mississippi Power recognized a material weakness in internal control over financial reporting, which, in combination with the company failing to provide information to the Mississippi Public Service Commission in a timely manner, raises broader concerns about effective project oversight, handling of regulatory risk, and overall risk management within Southern Co., supporting our earlier assessment that Southern Co. has developed a higher tolerance for risk than what we initially incorporated into our ratings. These developments have taken place against a backdrop of a breakdown in the regulatory construct in Mississippi that was initially put in place to ensure recovery of financing costs for the project during construction, regular prudence reviews and alignment of interests in the project between the regulators and the company that have not materialized and which we viewed as important in supporting the company's credit profile.

Effective handling of these risks becomes imperative given that Southern Co. is also building a much larger project at Georgia Power, consisting of two new nuclear units at the existing Plant Vogtle site, the cost of which has now risen to $4.8 billion and which may rise further, depending on the resolution of the pending litigation with the project's contractor. The nuclear project has entered a period of increasing capital spending and any indications that the Vogtle project is experiencing issues akin to those of Mississippi Power, especially with regard to inability to collect financing costs, cost disallowances, or overall weakening regulatory support, will lead to a further erosion of Southern's credit profile and lower ratings.

The ratings on Southern Co. reflect the company's excellent business risk profile and "significant" financial risk profile.

Liquidity

Southern's liquidity is "adequate" under Standard & Poor's liquidity methodology criteria. The short-term rating on Southern is 'A-1' and largely reflects the long-term corporate credit rating on the company and the large proportion of operating income that is generated by the company's regulated utility operations.

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including FFO and credit facility availability) over the next 12 months to exceed its uses by more than 1.2x
- Scheduled long-term debt maturities are material, but should be manageable, with $1.7 billion remaining in 2013 and $425 million in 2014
- Even if EBITDA decreases by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets.

Southern has $4.67 billion in available revolving credit facilities, with $480 million maturing in 2016 and $3.6 billion maturing in 2018. As of March 31, 2013, total available capacity was $3.8 billion.

In our analysis, based on information available as of Dec. 31, 2012, we assumed liquidity of $9.5 billion to $10 billion over the next 12 months, consisting mainly of $5 billion to $5.5 billion in cash from operations, ongoing availability under the revolving credit facility of about $3.5 billion to $4 billion, and cash on hand of about $250 million to $500 million.

We estimate the company could use about $4 billion to $4.5 billion for maintenance and growth capital spending; about $1.7 billion and $425 million in 2013 and 2014, respectively, for debt maturities; and about $1.85 billion to $1.95 billion for dividends in 2013 and 2014, respectively.

Further supporting our assessment of Southern's liquidity as adequate are the company's ability to absorb high-impact, low-probability events with a limited need for refinancing; its flexibility to lower capital spending; its sound bank relationships; its solid standing in credit markets; and its generally prudent risk management.

Outlook

The negative outlook on Southern and its subsidiaries reflects the potential for lower ratings over the next 12 to 24 months if business risk remains elevated as a result of the company's inability to resolve the challenges that have surfaced at Mississippi Power or if business risk increases further should similar challenges and issues arise at Georgia Power as the capital spending for the new nuclear plants reaches its peak. If Southern is able to address these challenges in a timely manner while still preserving its significant financial risk profile with FFO to debt of more than 18%, debt leverage that remains less than 58%, and debt to EBITDA that remains close to 4.5x on a consistent basis, we will revise the outlook to stable.

Related Criteria And Research

- Criteria - Corporates - 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Criteria - Corporates - General: 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- Criteria - Corporates - Utilities: Assessing U.S. Utility Regulatory Environments, Nov. 7, 2007
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria: Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008.
- Criteria - Corporates - Utilities: Methodology: Differentiating The Issuer Credit Ratings Of A Regulated Utility Subsidiary And Its Parent, March 11, 2010
- Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent , Oct. 28, 2004
- General Criteria: Methodology: Management And Governance Credit Factors

For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria - Corporates - General: Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Southern Co.		
Mississippi Power Co.		
Gulf Power Co.		
Georgia Power Co.		
Alabama Power Co.		
Corporate Credit Rating	A/Negative/A-1	A/Stable/A-1
Southern Co. Services Inc.		
Corporate Credit Rating	A/Negative/--	A/Stable/--
Southern Electric Generating Co.		
Corporate Credit Rating	A/Negative/NR	A/Stable/NR

Ratings Affirmed

Southern Company Funding Corp.	
Corporate Credit Rating	--/--/A-1
Commercial Paper	A-1
Southern Power Co.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Commercial Paper	A-2
Southern Co.	
Senior Unsecured	A-
Commercial Paper	A-1
Alabama Power Capital Trust V	
Preferred Stock	BBB+
Alabama Power Co.	
Senior Unsecured	A
Preferred Stock	BBB+
Preference Stock	BBB+
Commercial Paper	A-1
Georgia Power Capital Trust VII	
Preferred Stock	BBB+

Georgia Power Co.	
Senior Unsecured	A
Preferred Stock	BBB+
Preference Stock	BBB+
Gulf Power Co.	
Senior Unsecured	A
Preferred Stock	BBB+
Preference Stock	BBB+
Mississippi Power Co.	
Senior Unsecured	A
Preferred Stock	BBB+
Southern Company Capital Funding Inc.	
Senior Unsecured	A-
Southern Company Capital Trust I	
Preferred Stock	BBB+
Southern Company Capital Trust II	
Preferred Stock	BBB+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 24 Feb 2012

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa1
Commercial Paper	P-1

Contacts

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William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Southern Company (The)**

	LTM 9/30/2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	6.2x	5.3x	4.4x	4.5x
(CFO Pre-W/C) / Debt	24%	21%	19%	18%
(CFO Pre-W/C - Dividends) / Debt	17%	14%	12%	11%
Debt / Book Capitalization	45%	47%	50%	50%

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

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

Opinion

Rating Drivers

- Utility subsidiaries operate in generally credit supportive regulatory environments

- New Vogtle nuclear construction project has increased Georgia Power's business risk profile

- Substantial capital expenditure program over next three years

- Kemper IGCC plant increasing capital expenditures and business risk at Mississippi Power

- Potentially growing renewable energy business outside of the Southeast at Southern Power

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A2 senior unsecured, stable outlook), Mississippi Power Company (A2 senior unsecured, stable outlook) and Gulf Power Company (A3 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utility subsidiaries rated at low to mid-A rating levels and a highly contracted Baa1 rated wholesale generating company. Three of its four regulated utilities operate in consistently supportive regulatory environments, with the Florida regulatory environment stabilizing and potentially improving after a period of substantial uncertainty. Southern's traditionally low risk profile has increased modestly in recent years as a result of new nuclear and IGCC construction, substantial environmental compliance costs, and a thus far limited expansion into unregulated generation outside of its historical Southeast region, including biomass generation in Texas and solar generation in New Mexico. The company also has a renewable energy partnership with Ted Turner, the largest landowner in the U.S., to develop solar power.

DETAILED RATING CONSIDERATIONS

- Generally credit supportive regulatory environments, with base rate case pending in Florida

Southern's rating considers the consistently credit supportive regulatory environments in Alabama, Georgia, and Mississippi, which have generally strong cost recovery provisions. Its utility subsidiaries operate under various formula rate plans with authorized return on equity (ROE) levels that are above average for U.S. electric utilities. There are several adjustment mechanisms in place to address rising costs and each of the respective regulatory jurisdictions allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

Moody's viewed Georgia Power's most recent rate case outcome as supportive of the utility's credit profile. The settlement included the implementation of a new, three year Alternate Rate Plan (ARP) that began on January 1, 2011. Under the plan, the company's retail return on equity is set at 11.15% and evaluated within a bandwidth of between 10.25% and 12.25%, with two thirds of earnings above the range refunded to customers and the remaining one-third retained by the company. Under the settlement, Georgia Power's base revenues increased by $562 million as of January 1, 2011, with subsequent rate adjustments of approximately $190 million in 2012 and $93 million in 2013. In total, rates will increase by approximately $845 million over the three years, compared to the company's initial request of slightly over $1.1 billion.

The political and regulatory environment for investor-owned utilities in Florida appears to have stabilized and may be improving following an almost complete change in the composition of the Florida Public Service Commission (FPSC), with the turnover of four of the five commissioner seats. The first significant new electric utility rate case to be addressed by this new constituted commission is for Gulf Power. On July 8, 2011, the utility filed for a $93.5 million base rate increase based on an 11.7% return on equity, with a decision expected from the FPSC by March 19, 2012. This base rate case is the first for the utility in over 10 years and its outcome may give an indication of the future direction of utility regulation in Florida. On February 15, 2012, the FPSC staff recommended a revenue increase of $62.3 million in 2012 with a subsequent $4 million revenue increase in 2013 and a return on equity of 10.25% (plus or minus 100 basis points. The FPSC is expected to vote in the rate case on February 27, 2012.

- New Vogtle nuclear construction project has increased Georgia Power's business risk profile

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new Westinghouse AP 1000 nuclear generating units (Units 3 and 4), each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder to be owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%). The total cost of the project is expected to be approximately $14 billion with Georgia Power's share at $6.1 billion with Unit 3 expected to become operational in 2016 and Unit 4 in 2017. Georgia Power hopes to finance a significant portion of the project with U.S. Department of Energy loan guarantees, the terms of which are still being negotiated.

On February 9, 2011, the Nuclear Regulatory Commission voted 4 to 1 to approve the issuance of the Combined Construction and Operating License (COL) for the new units, clearing the way for full construction. As of June 30, 2011, Georgia Power had incurred $1.7 billion of costs for the project, mostly for preliminary site work and for the purchase some long lead time equipment. The construction process now enters a more complicated and critical phase, with a higher risk of project delays and/or cost overruns. The company files a semi-annual construction monitoring report with the Georgia Public Service Commission (GPSC) each August and February, with the next one to be filed on February 28, 2012.

In Moody's view, building a new nuclear plant is a complex and risky endeavor which has increased Georgia Power's business risk profile, although the Vogtle project appears to be a relatively manageable investment for a utility the size of Georgia Power and for a system as diverse as Southern. According to the company, the project continues to be managed within the currently certified budgeted amount of $6.113 billion. Although the schedule had been tracking a few months behind the targeted April 1, 2016 commercial operation date (COD) for Unit 3, the construction consortium has since submitted a revised schedule to the company that returned the COD to its original date. Both Georgia Power and the GPSC's Independent Construction Monitor have indicated that there will be significant challenges in meeting both the schedule and budget for a construction project of this magnitude.

- Substantial capital expenditure program, partly for environmental compliance, over next three years

As one of the largest coal-fired utility systems in the U.S., Southern is vulnerable to additional costs associated with EPA mandated environmental compliance regulations. Over the 2012-2014 time period, Southern projects $14 billion of base capital expenditures, of which $1.5 billion is for environmental compliance. However, the company faces additional environmental compliance capital expenditures of up to $4.4 billion over the same period related to still pending Utility MACT (MATS), water (316b), and coal combustion residual (ash) rules. While Moody's anticipates the continued recovery of environmental costs in rates, a significant portion of the capital program will be funded through debt issuances of approximately $10.4 billion (including $4.7 billion at Georgia Power) over the next three years, which could put pressure on Southern's consolidated financial metrics and balance sheet, depending on both the magnitude of the expenditures and the timing of implementation.

- Kemper IGCC plant increasing capital expenditures and business risk at Mississippi Power

In 2010, Mississippi Power decided to move forward on the construction of a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. Mississippi Power estimates the construction costs to be $2.4 billion, net of government construction cost incentives, and the plant is expected to be in operation by May 2014. Among the conditions imposed by the Mississippi Public Service Commission (MPSC) are a construction cost cap of $2.88 billion, 20% above the currently estimated capital cost; no CWIP recovery in 2010-2011 (AFUDC accrual only) with CWIP recovery thereafter; and regular, ongoing prudence reviews by the MPSC.

The plant's current cost estimate of $2.4 billion is almost equal to the total asset size of the utility, making it a substantial investment and a material undertaking for the company. Because of the project's size, Mississippi Power's capital expenditures have increased dramatically, rising from $247 million in 2010 to $818 million in 2011, $1.5 billion in 2012, and approximately $400 million in 2013, the bulk of which will be for the IGCC plant. Although IGCC technology has been utilized at other plants on a limited basis, the size, scope, and complexity of the project will materially increase business and concentration risk at the utility, especially during the construction phase. Duke Energy Indiana's Edwardsport IGCC plant, which is approximately 90% complete, has experienced substantial cost overruns, well in excess of the 20% cost overrun contingency approved for recovery for the Kemper plant by the MPSC. In addition, AEP has decided not to move forward on its Mountaineer IGCC project, partly because of cost concerns.

Mississippi Power files monthly construction status reports on the plant with the MPSC and, as of December 31, 2011, the project was on schedule and on budget, having spent approximately $827 million or 35% of the $2.4 billion certified amount. Mitigating the impact of this construction spending to some degree are $412 million of tax credits that were allocated to the project by the IRS, utilization of which can only occur if the plant is completed on time, making the construction schedule particularly important. Other risk mitigating factors include state ad valorem tax exemptions, pending Department of Energy loan guarantees, and an agreement by Southern Mississippi Electric Membership Association (SMEPA) to take a 17.5% ownership share of the plant, subject to MPSC approval. Additionally, on November 15, 2011 the company requested to implement a "certified new plant" (CNP) rider, which would allow a cash return on construction work in progress associated with the IGCC plant. If approved by the MPSC, Mississippi Power would recover $98 million based on a 10.70% return on equity in 2012.

- Potentially growing renewable energy business outside of the Southeast at Southern Power

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than most other competitive wholesale generators due to a strategy of entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities, and its focus on the Southeast region. In addition, the market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing SPC's financial and operating risk. SPC's capacity is highly contracted over the intermediate term. Southern Power is also benefiting from the current low natural gas price environment and has the potential to expand its natural gas fired generating capacity at several of its existing sites.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus with the acquisition of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. Construction is currently underway and the plant is expected to be on line in 2012, with the output fully contracted to the City of Austin for 20 years. Southern Power has also completed a 30 MW solar project in New Mexico. Southern maintains a strategic alliance with Ted Turner, the largest individual landowner in the U.S., to develop and invest in additional similar scale solar photovoltaic projects in the U.S. in addition to developing other solar renewable technologies. While currently modest, significant additional investments in renewable energy outside of the Southeast has the potential to increase Southern Company's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of September 30, 2011. Southern maintains a $1 billion five year credit facility at the parent company that expires in 2016. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of September 30, 2011, Southern was in compliance with its financial covenant.

Southern had approximately $1.5 billion of cash on hand and $132 million of commercial paper and short-term borrowings outstanding on a consolidated basis as of September 30, 2011. Moody's anticipates dividend contributions from its subsidiaries will be in the range of $1.8 billion to $2.0 billion in 2012. Both Georgia Power and Mississippi Power will also require significant equity infusions to help meet construction expenditures over the next several years.

Southern's utility subsidiaries and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities are approximately $5.13 billion as of September 30, 2011 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these, $316 million expire in 2012, $60 million expire in 2013, $860 million expire in 2014, and $3.8 billion expire in 2016.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $606 million as of September 30, 2011. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.8 billion. Generally, collateral could be provided by a Southern Company guaranty, letter of credit, or cash. As of September 30, 2011, Southern had approximately $1.89 billion of consolidated long-term debt maturities over the twelve months ending September 30, 2012, and a total of $2.9 billion of long-term debt due over the 2012-2013 time period.

Rating Outlook

The stable rating outlook reflects Moody's expectation that Southern Company's utility regulatory environments will remain credit supportive; that there will be no substantial delays or cost overruns at either the Vogtle nuclear or Kemper IGCC construction projects; that costs resulting from new environmental regulations will be manageable and recovered in rates without significant regulatory lag or substantial deferrals; and that growth of its renewable energy business outside of its region will remain modest.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries are engaged in major new construction projects. Ratings could be raised, however, if there is significant progress on the construction of these two projects and they remain on schedule and on budget, if one or both of its largest utility subsidiaries, Alabama Power or Georgia Power, is upgraded; or if consolidated financial metrics show sustained improvement, including CFO pre-W/C interest coverage above 4.5x and CFO pre-W/C to debt above 22%, after adjusting for accelerated cash flow benefits derived from bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if either Alabama Power or Georgia Power's ratings are lowered; if there are significant delays or cost overruns on the Vogtle nuclear project; if there is significant additional debt issued at the parent company level; if major new environmental costs are incurred that are not recovered on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C interest coverage below 4.0x and CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2010**			**Moody's 12-18 month Forward View* As of February 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**		**Measure**	**Score**
a) Regulatory Framework		A			A
Factor 2: Ability To Recover Costs And Earn Returns (25%)					
a) Ability To Recover Costs And Earn Returns		A			A
Factor 3: Diversification (10%)					
a) Market Position (5%)		A			A
b) Generation and Fuel Diversity (5%)		Ba			Ba
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)					
a) Liquidity (10%)		A			A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.7x	A		5.5 - 6.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	19.2%	Baa		20 - 25%	A/Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	12.5%	Baa		15 - 20%	A/Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	48.9%	Baa		45 - 47%	Baa
Rating:					
a) Indicated Rating from Grid		A3			A3
b) Actual Rating Assigned		Baa1			Baa1

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NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED
IN THE TEXT DOES NOT INCORPORATE
SIGNIFICANT ACQUISITIONS OR DIVESTITURES

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

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Gulf Power Company

Global Credit Research - 10 Aug 2012

Florida, United States

Ratings

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

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Key Indicators

[1]**Gulf Power Company**

	LTM 06/30/2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	**6.6x**	**5.5x**	**6.3x**	**6.2x**
(CFO Pre-W/C) / Debt	**27%**	**21%**	**23%**	**21%**
(CFO Pre-W/C - Dividends) / Debt	**19%**	**13%**	**16%**	**14%**
Debt / Book Capitalization	**46%**	**48%**	**49%**	**49%**

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

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

Opinion

Rating Drivers

- Stabilized political and regulatory environment and strong cost recovery provisions in Florida

- Latest rate case outcome was reasonably credit supportive

- Cash flow coverage metrics are weak for its A3 credit rating

- Higher capital expenditures for environmental compliance

- Position as part of Southern Company system is credit positive

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves 435,000 customers in a 7,400 square mile region. Gulf Power owns 2,663 megawatts of nameplate capacity, the majority of which are coal-fired baseload units, and operates within the Southern Company power pool.

SUMMARY RATING RATIONALE

Gulf Power's A3 senior unsecured debt rating reflects the stabilized political and regulatory environment in Florida; a reasonably credit supportive outcome to its first rate case filing since 2001; cash flow coverage metrics that are weak for its A3 rating; and higher capital expenditures for environmental compliance and transmission and distribution system investment. The rating also considers Gulf Power's position as part of the Southern Company corporate family, partially offsetting risks associated with the utility's relatively small size and concentrated service territory exposed to storm related event risk.

DETAILED RATING CONSIDERATIONS

- Stabilized political and regulatory environment and strong cost recovery provisions in Florida

The political and regulatory environment for investor-owned utilities in Florida has largely stabilized and appears to be improving since base rate proceedings for two other utilities in the state that became highly politicized in late 2009 and early 2010. Since these rate proceedings, there has been an almost complete change in the composition of the Florida Public Service Commission (FPSC), with the turnover of four of the five commissioner seats. There was also a new governor elected in the state. Because of these constructive developments, we have returned Gulf Power's score on Factor 1 of our Regulated Electric and Gas Rating Methodology grid, Regulatory Framework, to the "A" or above average category from the "Baa" or average category.

Despite the uncertainty regarding the regulatory framework in Florida over the last few years, the company operates with relatively strong cost recovery provisions in place. The utility benefits from a FPSC approved fuel cost recovery mechanism that includes a true-up of actual costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over or under recovery exceeds 10% of the projected annual fuel revenues for the period. Because of these strong and timely cost recovery provisions, we have consistently viewed Gulf Power's ability to recover its costs and earn returns (Factor 2 in our rating methodology) as above average or in the "A" rating category.

In addition, with utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting the credit quality of the company in storm affected years. The company can petition for recovery of any storm damage costs in excess of its storm reserve to be collected through a storm surcharge. Gulf Power would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

- Rate case outcome was reasonably credit supportive

On March 12, 2012, the FPSC approved a permanent increase in retail base rates of $64 million effective April 11, 2012. The FPSC authorized a retail ROE range of 9.25% to 11.25% with a midpoint retail ROE of 10.25%. The FPSC also approved an additional step increase to Gulf Power's retail rates of $4 million to be effective in January 2013. This outcome compares to Gulf Power's original rate case filing for a $93.5 million base rate increase based on an 11.7% ROE. This base rate increase request is the first for the company in nearly 10 years and results from several factors including the addition of new power lines, infrastructure upgrades and hardening, the impact of several major hurricanes over the last few years, and higher material costs.

We view the Gulf Power rate case outcome as reasonably supportive of credit quality. The rate increase granted was approximately 70% of the company's original request, the 10.25% ROE is roughly in line with the overall industry average, and the company was granted an interim rate increase, which we view as credit supportive. Most of the difference between the company's request and the outcome related to the difference in ROE, with some smaller adjustments made to rate base, incentive compensation, and storm related accruals.

- Cash flow coverage metrics are weak for its A3 credit rating

Gulf Power's cash flow coverage metrics have been weak for an A rating in recent years, using parameters outlined in our ratings methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt has averaged 21.6% over the last three fiscal years, on a Moody's adjusted basis, just below the minimum guideline of 22% for an A rating under our rating methodology. Cash flow coverage metrics in 2011 were positively affected by bonus depreciation, which increased cash flow by approximately $45 million. Gulf Power expects significantly higher cash flow from bonus depreciation in 2012, estimating between $105 million and $135 million. We view bonus depreciation as a temporary acceleration of future cash flows and typically adjust for this extraordinary benefit when evaluating utility credit quality. Without bonus depreciation, Gulf Power's CFO pre-W/C to debt for 2011 would have been only 17.6% on Moody's adjusted basis instead of the reported 20.5%, well below the single A rating guideline.

- Substantial capital expenditures for environmental compliance, transmission and distribution

In 2011, Gulf Power generated approximately 67% of its power from coal, down from 78% in 2010, as natural gas generation increased to 33% in 2011 from 22% in 2010. Despite the lower reliance on coal fired generation over the last year, Gulf Power faces substantial costs for environment compliance over the next few years. The company is expected to spend approximately $1.1 billion from 2012 - 2014 on base level capital expenditures, including approximately $523 million for environmental compliance. It estimates that potential new environmental regulations could incrementally add up to $335 million to these figures. This estimate is below the "up to $480 million" estimate provided in its 2011 10-K filing, as the company recently reduced environmental compliance spending estimates over the 2012-2014 time period, citing the delay in implementation of some environmental rules and regulations. Most of the other capital spending is for transmission and distribution, since the company has no need for new generation over the near term. The FPSC has approved recovery of prudently incurred environmental compliance costs through an environmental cost recovery clause that is adjusted annually subject to certain limits. The company expects to finance these capital expenditures from a combination of operating cash flow, long and short-term debt issuances, and equity contributions from the parent company.

- Position as part of Southern Company system is credit positive

Although Gulf Power is a relatively small utility, it benefits from being part of the large, stable Southern Company system. Unlike the three investor owned utilities with service territories in peninsular Florida with transmission constraints into and out of Florida, Gulf is highly interconnected with the rest of the Southern Company system and benefits from joint dispatch arrangements with its affiliate utilities. Several functions are handled centrally through Southern Company services, enhancing efficiency at all of Southern Company's utility affiliates, including Gulf Power.

Liquidity

Gulf Power maintains $275 million of unused bank credit facilities supporting a $200 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of June 30, 2012, the company had $114 million of commercial paper outstanding and $69 million of variable rate pollution control bonds backed by the facilities, leaving the company with $92 million of available credit facility capacity. As of June 30, 2012, of the $275 million of credit facilities, $20 million expires in 2012, $60 million in 2013, and $195 million in 2014. There is no material adverse change clause in any of Gulf Power's credit agreements and some of the facilities include a 65% debt to capital covenant. As of June 30, 2012, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of a downgrade to Baa3, Gulf Power had potential collateral requirements of $120 million as of June 30, 2012. If Gulf Power's credit rating is downgraded to below investment grade, the utility's potential collateral requirement rises to $530 million. On June 30, 2012, Gulf Power had $21.2 million of cash on hand, up slightly from $17.3 million at December 31, 2011. The company has no long-term debt due over the 12 months ending June 30, 2013.

Rating Outlook

The stable rating outlook reflects Moody's view that the Florida regulatory environment for investor owned utilities has stabilized and that cost recovery provisions in the state are credit supportive. Although Gulf Power's cash flow coverage metrics are below the parameters typically required for an A3 rating, especially after adjusting for bonus depreciation, this is largely offset by an above average regulatory framework, lack of significant new generation needs, and considers its position as part of the Southern Company system.

What Could Change the Rating - Up

An upgrade could be considered if the utility's regulatory environment and cost recovery provisions remain supportive, if capital expenditures moderate from currently high levels, or if cash flow coverage metrics show sustained improvement, including CFO pre-W/C interest coverage of at least 5.0x and CFO pre-W/C to debt of at least 25%.

What Could Change the Rating - Down

Ratings could be downgraded if there adverse political or regulatory developments in Florida that could negatively affect credit quality, if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage, or if cash flow coverage metrics remain significantly below our guidelines for the A rating level, including CFO pre-working capital interest coverage below 4.5x or CFO pre-working capital to debt below 22%, for a sustained period.

Rating Factors

Gulf Power Company

Regulated Electric and Gas Utilities Industry [1][2]	**LTM 06/30/2012**			**Moody's 12-18 month Forward View* As of August 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**		**Measure**	**Score**
a) Regulatory Framework		A			A
Factor 2: Ability To Recover Costs And Earn Returns (25%)					
a) Ability To Recover Costs And Earn Returns		A			A
Factor 3: Diversification (10%)					
a) Market Position (5%)		Ba			Ba
b) Generation and Fuel Diversity (5%)		B			B
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)					
a) Liquidity (10%)		Baa			Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	6.2x	Aa		6.0 - 6.5x	Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	23.3%	A		25 - 30%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	15.8%	Baa		15 - 20%	A/Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	47.6%	Baa		43 - 46%	A/Baa
Rating:					
a) Indicated Rating from Grid		Baa1			A3
b) Actual Rating Assigned		A3			A3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE

VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 06/30/2012(LTM); Source: Moody's Financial Metrics

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FitchRatings

FITCH AFFIRMS RATINGS FOR SOUTHERN COMPANY AND SUBSIDIARIES

Fitch Ratings-New York-22 August 2012: Fitch Ratings has affirmed the Issuer Default Rating (IDR) and security ratings for Southern Company. In addition, Fitch has affirmed the IDRs and debt ratings of Southern Company's subsidiaries, Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), Mississippi Power Company (Mississippi Power) and Southern Power Company (Southern Power). The Rating Outlook for all of the subsidiaries is Stable except for Mississippi Power, which remains Negative. Approximately $22 billion of long-term debt is affected by these rating actions. A complete list of rating actions is provided at the end of this release.

Southern Company
Southern Company's ratings recognize the financial support that the company gets from its operating subsidiaries in the form of dividends for the payment of corporate expenses, debt-service, dividends to common stockholders, and for other business matters. Southern Company provides equity funding to its subsidiaries for their long-term growth while optimizing their capital mix. Southern Company's regulated utility subsidiaries derive predictable cash flows from low-risk utility businesses, enjoy relatively favorable regulatory framework in their service territories, and exhibit limited commodity price risks due to the ability to recover fuel and purchased power through separate cost trackers. Southern Company's non-regulated generation subsidiary, Southern Power, follows a conservative business model by signing long-term sale contracts with credit worthy counterparties and minimal commodity exposure through recovery of fuel costs through its power supply contracts.

Southern Company's consolidated credit metrics are much stronger than pre-recession levels aided by factors such as, bonus depreciation benefits, strong rate case decisions at Georgia Power and Gulf Power, significant fuel recoveries at Georgia Power and steady operating and financial performance at Alabama Power and Southern Power. Electric sales have recovered well across its subsidiaries post the recession, albeit growth has slowed somewhat in 2012 compared with 2011. Regulatory environments remain supportive across all the states it operates in, except in Mississippi.

Southern Company's consolidated environmental compliance expenditures remain significant over Fitch's forecast period of 2012-2014, even as these have been ratcheted down from prior expectations due to timing effects. The company is planning to spend approximately $2.3 billion over 2012-2014 on environment capex, which was recently reduced from its prior guidance of $4.2 billion. All of Southern Company's regulated subsidiaries, with the exception of Georgia Power, have environment trackers. Georgia Power has typically recovered environment compliance related costs through base rate case decisions.

For the last 12 months (LTM) ending June 30, 2012, the funds flow from operations (FFO) to total debt ratio stood at 24%, which includes the benefit of bonus depreciation, and the adjusted debt to EBITDA ratio stood at 3.8x. Fitch forecasts Southern Company's coverage ratios to remain strong over the forecast period. Fitch expects EBITDA interest coverage to be greater than 6x over 2012-2014 and FFO interest coverage to decline to 5.5x range as the benefit of bonus depreciation subsides. Fitch expects Southern Company's adjusted debt to EBITDA ratio to be approximately 3.3x and FFO to adjusted debt to be approximately 21% by 2014.

Fitch's rating concerns for Southern Company include significant construction and regulatory risks associated with the two large baseload projects under construction, namely the 2,200 MW Plant Vogtle nuclear units 3 and 4 being built by Georgia Power and the 580 MW Integrated Gasification and Combined Cycle (IGCC) plant at Kemper being built by Mississippi Power. The Vogtle nuclear units are recovering the financing costs on construction work in progress (CWIP) through a tracker since 2011 and have, as yet, not filed for any adjustment to the total project costs or schedule. Georgia Power is currently negotiating with its contractors for Vogtle regarding a claim filed for cost increases related to the delays in project schedule most significantly due to the timing of approval of the Design Control Document (DCD) and issuance of the combined operating license (COL) by the Nuclear Regulatory Commission (NRC). It is Fitch's expectation that any adjustments to the overall project costs are deemed recoverable by the Georgia Public Service Commission (GPSC). Fitch has assumed a continuation of constructive regulatory support in Georgia during the period of high capital spending.

Regarding the Kemper IGCC project, Fitch has several concerns, namely: (1) uncertainty around CWIP recovery given the denial by the Mississippi Public Service Commission (MPSC) of such recovery in June 2012 and the recent Mississippi Supreme Court's denial of Mississippi Power's request for interim rate relief; (2) a hard construction cap of $2.88 billion imposed by the MPSC (which is also the last revised construction cost estimate by Mississippi Power) that exposes the utility to residual risk; (3) untested technology at the proposed scale; and (4) large undertaking for a small utility.

At the present time, Fitch's concerns regarding the Kemper IGCC project are not causing any ratings pressure for the parent company. This is based on Fitch's assumption that the project becomes operational within the currently projected capital costs and schedule, and that the MPSC authorizes a timely recovery of both capital and operating costs. The Stable Rating Outlook for Southern Company reflects successful execution of both Vogtle and Kemper construction projects and balanced funding of cash flow deficits. The Stable Outlook also reflects adequate liquidity, financial flexibility, and easy access to capital markets during a period of high capital investment. In the first half of 2012, Southern Company raised approximately $2.5 billion in long-term bond issuances at attractive interest rates.

Fitch does not anticipate any positive rating actions for Southern Company in the near future. Negative rating actions could result from a decline in the consolidated credit metrics due to factors such as persistent economic weakness in its service territories, unfavorable regulatory actions and/or higher leverage to support a heavy capital investment program at Mississippi Power and Georgia Power. Significant time/cost overrun on the Vogtle or Kemper projects and negative regulatory actions on recovery of those costs would also be a trigger for downward rating actions.

Alabama Power
The ratings and Stable Outlook for Alabama Power reflect consistent financial performance and strong credit metrics expected over the next three years driven by a gradual improvement in industrial sales and timely recovery of costs through its regulatory mechanisms including Rate Stabilization & Equalization (RSE). Alabama Power enjoys a constructive regulatory environment and has consistently earned more than 13% ROE over the last five years. Alabama Power is expected to incur rising environmental expenditure to bring its coal dominated generation mix in compliance with the Environmental Protection Agency (EPA) rules. The environmental cost recovery clauses reduce the regulatory lag associated with such investments.

Rating concerns for Alabama Power include a high reliance on the industrial sector, which makes up for approximately 37% of its total MWH sales. A prolonged economic slowdown or a double-dip recession in a stress case, can impact Alabama Power's credit metrics. However, while the metrics would see some degradation, these should continue to be in line with Fitch's guideline ratios for a low risk 'A' rated utility given the significant headroom that currently exists. Fitch expects adjusted debt to EBITDA ratio to remain in the 2.7x-2.75x range over the next three years. FFO to adjusted debt is expected to moderate to 25% by 2014 after the benefit of bonus depreciation recedes.

Positive ratings actions for Alabama Power could be driven by strong electric sales spurred by robust economic growth and supportive regulatory actions that allow the utility to earn superior credit metrics. Any unexpected negative regulatory developments that cause a mismatch between incurrence and recovery of capital and operating expenses could lead to negative rating actions in the future as also a sharp industrial slowdown in Alabama Power's service territory that curtail its flexibility to continue to earn attractive ROEs.

Georgia Power

Georgia Power's ratings are supported by the solid financial profile of the integrated utility which benefits from constructive regulation in Georgia that limits regulatory lag. The execution risk associated with the construction of Vogtle units 3 and 4 and the associated external financing needs are also considered in the ratings. The Stable Outlook reflects the expectation that the company will continue to receive constructive regulatory treatment of the pre-approved nuclear projects including recovery of costs during the construction period.

Capital projects, in addition to Georgia Power's $6.1 billion share of Vogtle costs, include up to 2,500 MWs of gas-fired combined cycle capacity at Plant McDonough that will be used to replace retiring coal-fired capacity. Coal-fired power plants will require ongoing spending for environmental compliance. Georgia Power's annual capital expenditures are forecasted to be in the $2 billion-$2.5 billion range over 2012-2014, or approximately three times depreciation, for the next few years. This is a high level relative to peer electric utilities. Approximately 36% of these expenditures are related to new generation projects and 13% related to environmental expenditures.

Georgia Power's revenue increases resulting from the December 2010 base rate settlement, bonus depreciation and significant fuel recoveries have resulted in strengthening of cash flow credit measures. This has allowed Georgia Power to embark on a heavy capital investment program with strong credit metrics. Georgia Power's FFO interest coverage ratio was 7.3x for the LTM ended June 30, 2012, and FFO to adjusted debt was 24.5%. Fitch anticipates a gradual decline in Georgia Power's financial ratios until 2014 under the current three-year rate settlement. Fitch expects Georgia Power's coverage metrics to remain strong relative to its rating category until 2014, however, the leverage ratios are expected to be modestly weaker reflecting the pressure from a large capital intensive construction program. Fitch forecasts Georgia Power's adjusted debt to EBITDA and FFO to adjusted debt to be approximately 3.3x and 21.5%, respectively, in 2014.

Successful execution of nuclear plant construction and continued regulatory support is key to maintaining rating stability at Georgia Power. In this regard, Fitch will continue to monitor the construction timelines, frequency and nature of any license amendment requests to the NRC, potential escalation of the project costs, and outcome of the periodic monitoring reports filed by Georgia Power at the GPSC. Positive rating actions for the utility are unlikely while the Vogtle project is underway. On the other hand, cost overruns or schedule delays in the Vogtle construction could pressure cash flow and ratings. Significant project cost overruns that cannot be recovered in rates or unexpected long deferral periods for project costs would be adverse credit factors. In addition, any adverse change in Georgia Power's relations with the GPSC, which is currently not anticipated, would also likely lead to negative rating action.

Gulf Power

The ratings and Stable Outlook for Gulf Power reflect predictable cash flows from regulated electric operations, a slow but steady improvement in retail sales after a deep economic downturn, return to a more orderly and constructive regulatory environment in Florida, and steadily improving credit metrics from 2009 cyclical lows. Gulf Power's service territory continues to see slow but steady improvement in the local economy with economic indicators such as housing starts, unemployment and income growth, all showing positive trends.

The utility enjoys several rate riders that provide timely recovery of all prudent costs related to fuel, purchased costs and environmental expenditures. While Gulf Power is heavily dependent on coal fired generation capacity that must comply with stringent emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs.

Gulf Power achieved a constructive outcome in its recently concluded rate case. The Florida Public Service Commission authorized a $64.1 million rate increase for Gulf Power and an additional $4 million step up increase in 2013. The rate increases are based on a midpoint ROE of 10.25% and an authorized retail ROE range of 9.25%-11.25%. As a result, Fitch expects Gulf Power's credit metrics to be much stronger than these have been historically. Fitch forecasts Gulf Power's adjusted debt to EBITDA and FFO to adjusted debt to be approximately 3.5x and 20.5%, respectively, in

2014, which is in line with its rating category.

Positive rating actions for Gulf Power are not anticipated at this time. Negative rating actions could be triggered by unexpected negative regulatory developments or extended weakness in Florida economy.

Mississippi Power
The ratings for Mississippi Power reflect several supportive regulatory mechanisms in place that provide timely recovery of prudent costs related to fuel, purchased power, storm restoration, and environmental expenditure, and projected future test year data to determine base rates. As a result, Mississippi Power's historical credit metrics have typically been very stable. There has risen, however, significant risk of recovery lag from the current large construction program related to Kemper IGCC project due to recent actions taken by the MPSC.

The key near-term uncertainty at Mississippi Power remains the cost of recovery of financing costs associated with the construction of the Kemper project. The uncertainty stems for the MPSC's June 2012 decision to deny Mississippi Power's revenue increase request to earn a cash return on CWIP associated with the Kemper IGCC plant. Mississippi Power appealed the MPSC's denial of CWIP to the Mississippi Supreme Court and requested interim rate relief. The Mississippi Supreme Court denied Mississippi Power's request for interim rate relief. Mississippi Power's appeal of the MPSC's denial of CWIP is still pending before the Mississippi Supreme Court.

The MPSC's decision to deny CWIP to Mississippi Power raises the risk of a significant and unpalatable rate shock to Mississippi Power's customers given the utility is likely to continue to construct the plant and capitalize the financing costs. Fitch is also concerned with the escalation in capital costs of the Kemper IGCC project. The latest revised project cost estimate of $2.88 billion is also the hard cap imposed by the MPSC for plant construction. If the cost of the plant exceeds $2.88 billion, the excess may not be recoverable from utility customers, a source of potential credit risk for Mississippi Power.

The delay in recovery of financing costs has already caused significant stress on Mississippi Power's credit metrics. For the LTM ending June 30, 2012, the FFO to total debt ratio declined to 12.2% and the leverage ratio increased to 7.6x, which is significantly below historical metrics and Fitch's guidelines for Mississippi Power's current rating category. Excluding the impact of Kemper IGCC, Fitch believes the underlying financial metrics of the utility remain strong. Fitch's financial analysis indicates that if the project becomes operational within the currently projected capital costs and schedule, and based on the assumption that the MPSC authorizes a timely recovery of both capital and operating costs, Mississippi Power's credit metrics are expected to revert to Fitch's guideline ratios of a low risk 'A-' rated utility company by 2015. Until then, however, Fitch expects the utility's credit metrics to remain considerably weak.

The Negative Outlook reflects rising regulatory risks for the company in addition to the construction and operational risks associated with the IGCC project. Fitch expects the Negative Outlook to persist until there is sufficient clarity regarding the cost recovery mechanisms for Kemper project as well as final confirmation of the capital costs. Fitch views the Mississippi Supreme Court's decision regarding Mississippi Power's appeal of the MPSC's denial of CWIP as the next key event to monitor.

Southern Power
The ratings and Stable Outlook for Southern Power is based upon consistent credit metrics generated by the company, a disciplined low-risk business model, visibility of cash flows due to the highly contracted nature of the generation output and conservative financial strategy employed by management. External funding requirements are minimal.

Southern Power is generally able to pass through fuel costs to its customers under power sales contracts, although the company retains margin exposure to the operating efficiency of its plants. The company is well positioned relative to other power generators in the face of more stringent environmental regulations that affect coal and oil-fired generation, as its fleet mainly consists of modern gas-fired power plants. Fitch expects Southern Power's generation fleet to benefit from potential retirement of old and inefficient coal capacity in its region.

Fitch expects Southern Power's credit metrics to strengthen until 2014, excluding the benefit from bonus depreciation. Fitch expects Southern Power's debt to EBITDA and FFO to debt metrics to be approximately 3.2x and 21%, respectively, in 2014, both strong relative to Southern Power's rating category.

Southern Power's Stable Rating Outlook is based on ample liquidity and access to capital both on its own and as a subsidiary of Southern Company, management's conservative business strategy, and relatively low projected external funding requirements. Rating concerns include decline in electric demand due to a prolonged economic slowdown.

Positive rating actions for Southern Power are not anticipated at this time. Negative rating actions can be triggered by deterioration in credit metrics due to weak sales demand led by protracted weakness in economic growth. Debt funded acquisitions or new development could also lead to downward rating actions.

Fitch affirms the following ratings with a Stable Outlook:

Southern Company
--Long-term IDR at 'A';
--Short-term IDR at 'F1';
--Commercial paper at 'F1';
--Senior unsecured notes at 'A'.

Southern Company Funding Corp.
--Short-term IDR at 'F1';
--Commercial paper at 'F1'.

Alabama Power Company
--Long-term IDR at 'A';
--Short-term IDR at 'F1';
--Commercial paper at 'F1';
--Senior unsecured notes at 'A+';
--Pollution control revenue bonds at 'A+' and 'F1';
--Preferred securities at 'A-'.

Alabama Power Company Capital Trust V
--Trust preferred stock at 'A-'.

Georgia Power Company
--Long-term IDR at 'A';
--Short-term IDR at 'F1';
--Commercial paper at 'F1';
--Senior unsecured notes at 'A+';
--Pollution control revenue bonds at 'A+' and 'F1';
--Preferred securities at 'A-'.

Gulf Power Company
--Long-term IDR at 'A-';
--Short-term IDR at 'F1';
--Commercial paper at 'F1';
--Senior unsecured notes at 'A';
--Pollution control revenue bonds at 'A'and 'F1';
--Preferred securities at 'BBB+'.

Southern Power Company

--Long-term IDR at 'BBB+';
--Short-term IDR at 'F2';
--Senior unsecured debt at 'BBB+'.

Fitch affirms the following ratings with a Negative Outlook:

Mississippi Power Company
--Long-term IDR at 'A-';
--Short-term IDR at 'F1';
--Commercial paper at 'F1';
--Senior unsecured notes at 'A';
--Pollution control revenue bonds at 'A'and 'F1';
--Preferred securities at 'BBB+'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 8, 2012);
--'Recovery Ratings and Notching Criteria for Utilities' (May 3, 2012);
--'Rating North American Utilities, Power, Gas and Water Companies' (May 16, 2011).

Applicable Criteria and Related Research:
Rating North American Utilities, Power, Gas, and Water Companies
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=625129
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460
Recovery Ratings and Notching Criteria for Utilities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=677735

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 23 Aug 2012

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa1
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

	LTM 6/30/2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	**6.6x**	**6.5x**	**5.2x**	**4.4x**
(CFO Pre-W/C) / Debt	**24%**	**24%**	**21%**	**19%**
(CFO Pre-W/C - Dividends) / Debt	**17%**	**17%**	**14%**	**12%**
Debt / Book Capitalization	**46%**	**46%**	**47%**	**50%**

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

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

Opinion

Rating Drivers

- Utility subsidiaries operate in generally credit supportive regulatory environments

- New nuclear construction project is experiencing some schedule delays and cost increases

- Kemper IGCC plant has raised business and operating risk profile of Mississippi Power

- Exposure to environmental compliance mandates

- Highly contracted competitive generation subsidiary at Southern Power with growing renewable energy business outside of Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A2 senior unsecured, stable outlook), Mississippi Power Company (A3 senior unsecured, negative outlook) and Gulf Power Company (A3 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utility subsidiaries rated at low to mid-A rating levels and a highly contracted Baa1 rated wholesale generating company. Southern's traditionally low risk profile has increased modestly in recent years as a result of new nuclear and IGCC construction, substantial environmental compliance costs, and a thus far very limited expansion into unregulated generation outside of its historical Southeast region, including biomass generation in Texas and solar generation in New Mexico and Nevada. Its four regulated utilities operate in generally credit supportive regulatory environments, with the Florida regulatory environment improving after a period of substantial uncertainty. Georgia Power's new nuclear construction project is experiencing some delays and cost increases, which has raised that utility's business and operating risk profile. The recent denial of financing cost recovery for new IGCC plant construction in Mississippi was unexpected and could signal a potential shift in the Mississippi regulatory environment.

DETAILED RATING CONSIDERATIONS

- Generally credit supportive regulatory environments, although Mississippi Power was recently denied financing cost recovery on new IGCC construction

Southern's rating considers the generally credit supportive regulatory environments in Alabama, Georgia, Florida, and Mississippi, where each of Southern's utilities has reasonably constructive relationships with their respective commissions and where there are generally strong cost recovery provisions in place. Its utility subsidiaries operate under various formula rate plans with authorized return on equity (ROE) levels that are at or above the average for electric utilities nationwide. There are several adjustment mechanisms in place to address rising costs and each of the respective regulatory jurisdictions allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

We viewed Georgia Power's most recent rate case outcome as supportive of the utility's credit profile. The settlement included the implementation of a new, three year Alternate Rate Plan (ARP) that began on January 1, 2011 and continues through 2013. Under the plan, the company's retail return on equity is set at 11.15% and evaluated within a bandwidth of between 10.25% and 12.25%, with two thirds of earnings above the range refunded to customers and the remaining one-third retained by the company. Under the settlement, Georgia Power's base revenues increased by $562 million (or approximately 7.5%) as of January 1, 2011, with subsequent rate adjustments of approximately $142 million (approximately 1.8%) in 2012 and $80 million (approximately 1.0%) in 2013. In total, base rates will increase by approximately $784 million over the three years, compared to the company's initial request of slightly over $1.1 billion.

Alabama Power Company operates in a credit supportive regulatory environment with above average returns and strong cost recovery provisions that limit regulatory lag. Since 1982, the company has operated under Rate Stabilization and Equalization (RSE) plan, under which it is allowed to earn an ROE level within a band of 13% and 14.5% with rates adjusting to maintain a ROE of 13.75% if projected earnings are outside the authorized range. On December 1, 2011, the company made a Rate RSE submission of projected data for calendar year 2012. As projected earnings were within the company's return range, no rate adjustment was warranted. Under the terms of Alabama Power's Rate RSE, the maximum possible increase in 2013 is 5.0%.

At Mississippi Power, the final Mississippi Public Service Commission (MPSC) order approving construction of the Kemper County IGCC plant approved a construction cap of $2.88 billion and financing cost recovery of construction work in progress (CWIP) in 2012, 2013, and through May 1, 2014. However, on June 22, 2012, the MPSC unanimously voted to deny the company's initial 2012 request for recovery of financing costs, indicating that such recovery would not be prudent given a Sierra Club lawsuit challenging the plant's certificate of need pending before the Mississippi Supreme Court. While two of the three Mississippi commissioners issued press releases reiterating their support for the Kemper plant, we view the denial of financing cost recovery as a credit negative. Mississippi Power's senior unsecured rating was downgraded to A3 (negative outlook) from A2 on August 6, 2012.

For Gulf Power, the political and regulatory environment for investor-owned utilities in Florida has largely stabilized and appears to be improving since base rate proceedings for two other utilities in the state became highly politicized in late 2009 and early 2010. Since those rate proceedings, there has been an almost complete change in the composition of the Florida Public Service Commission (FPSC), with the turnover of four of the five commissioner seats. There was also a new governor elected in the state. Because of these constructive developments, we have returned Gulf Power's score on Factor 1 of our rating methodology grid, Regulatory Framework, to the "A" or above average category from the "Baa" or average category.

- New Vogtle nuclear construction project is experiencing some delays and cost increases, raising Georgia Power's business and operating risk profile

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder to be owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%). The original cost of the project was expected to be approximately $14 billion with Georgia Power's share to be $6.1 billion.

On February 10, 2012, the Nuclear Regulatory Commission voted 4 to 1 to approve the issuance of the Combined Construction and Operating License (COL) for the new units, clearing the way for full construction. As of May 31, 2012, Georgia Power had incurred $2.2 billion of costs for the project, mostly for site development, work on the nuclear island, and for the purchase of some long lead time equipment. The construction process has now entered a more complicated and critical phase, with a higher risk of project delays or cost overruns. Partly due to the delay in the issuance of the COL, the completion of the first of the two units will likely be postponed by at least six months to November 2016 from the construction consortium's original estimate of April 2016 and we believe further delays over the course of the long construction period are likely. Both Georgia Power and the Georgia Public Service Commission's (GPSC) Independent Construction Monitor have indicated that there are significant challenges in meeting both the schedule and budget for a nuclear construction project of this magnitude.

Georgia Power is permitted to earn a cash return on construction work in progress (CWIP), an important and supportive regulatory mechanism that will help maintain the company's financial profile during construction. Georgia Power files semi-annual construction monitoring reports with the GPSC with updated cost estimates, six of which have been filed since August 2009. The sixth and most recent filing, covering the period July 1, 2011 through December 31, 2011, was unanimously approved by the GPSC on August 21, 2012. The next semi-annual construction monitoring report is expected to be filed by the end of August.

We view nuclear power as a viable long-term strategy for a few investor-owned utilities to meet new baseload capacity and reduce reliance on coal despite the current low natural gas prices that have increased the competitiveness of natural gas generation. Building a new nuclear plant is a complex and risky endeavor, although the new Vogtle plants appear to be a relatively manageable investment for a company the size of Georgia Power. If the project is for some reason not completed, recovery of Georgia Power's sunk costs is subject to regulatory risk, although this is somewhat mitigated by the semiannual reporting and GPSC approval process in place.

The extent of any financial and/or ratings pressure over the construction period will be dependent on the progress of construction, any cost overruns or schedule delays that may occur, the composition and continued supportiveness of the GPSC, economic conditions in the state, and any potential alternative generation or electric efficiency developments that may occur over the extended construction period.

- Kemper IGCC plant has increased capital expenditures and business risk at Mississippi Power

Mississippi Power Company is currently in the peak spending year for the construction of a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. Mississippi Power originally estimated the construction costs to be $2.4 billion, net of government construction cost incentives, although costs were recently revised to $2.88 billion, including a contingency of $72 million. The plant is scheduled to be in operation in May 2014. The revised cost estimate has now reached the level of the Mississippi Public Service Commission (MPSC) approved construction cost cap of $2.88 billion. Recovery of amounts over this cost cap is less certain and subject to MPSC review. As of June 30, 2012, the company had spent a total of $1.7 billion on the project including the cost of the lignite mine and equipment, the CO2 pipeline facilities, and regulatory filing costs.

The plant's cost estimate is significant when compared to the $4.6 billion of total assets of the utility as of June 30, 2012, making it a substantial investment and material undertaking for the company. Because of the project's size, Mississippi Power's capital expenditures have increased dramatically, rising from $247 million in 2010 to $964 million in 2011 and $1.8 billion in 2012, the peak spending year. The company projects total capital expenditures will fall to $843 million in 2013. Although IGCC technology has been utilized on a limited basis at other plants, the size, scope, and complexity of the project has materially increased business and concentration risk at the utility. Duke Energy Indiana's Edwardsport 618 MW IGCC plant, which is over 90% complete, has experienced substantial cost overruns in the range of 50%, well in excess of the 20% cost overrun contingency approved for recovery for the Kemper plant. In addition, AEP decided not to move forward on its Mountaineer IGCC construction project, partly because of cost concerns.

- Exposure to environmental compliance mandates

As one of the largest coal-fired utility systems in the U.S., Southern is vulnerable to additional costs associated with EPA mandated environmental compliance regulations. Over the 2012-2014 time period, Southern projects $14 billion of base capital expenditures, with additional environmental compliance capital expenditures of up to $2.3 billion over the same period related to MATS, water (316b), and coal combustion residual (ash) rules. This latest number is below the "up to $4.2 billion" estimate provided in its 2011 10-K filing, as the company recently reduced its environmental compliance spending estimates over the 2012-2014 time period, citing the delay in implementation of some environmental rules and regulations. While we anticipate the continued recovery of environmental costs in rates, a significant portion of the capital program will be funded through debt issuances of approximately $10.4 billion (including $5.1 billion at Georgia Power) from 2012 through 2014, which could put pressure on Southern's consolidated financial metrics and balance sheet, depending on both the magnitude of the expenditures and the timing of implementation.

- Highly contracted competitive generation subsidiary with growing renewable energy business outside of Southeast

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than most other competitive wholesale generators due to a strategy of entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities, and its focus on the Southeast region. The company's generating capacity is approximately 80% contracted over the near term, although the average duration of the contracts has declined over the last few years. The market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing Southern Power's financial and operating risk. Southern Power is also benefiting from the current low natural gas price environment and has the potential to expand its natural gas fired generating capacity at several of its existing sites.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus with the acquisition of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. The plant came on line in June 2012 at a cost expected to be between $465 million and $470 million, with the output fully contracted to the City of Austin for 20 years. Southern Power has also completed a 30 MW solar project in New Mexico and on June 29, 2012 purchased a 20 MW solar project in Nevada in partnership with Turner Renewable Energy. Southern maintains a strategic alliance with Ted Turner, the largest individual landowner in the U.S., to develop and invest in additional similar scale solar photovoltaic projects in the U.S. in addition to developing other solar renewable technologies. While currently modest, significant additional investments in renewable energy outside of the Southeast has the potential to increase Southern Company's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of June 30, 2012. Southern maintains a $1 billion five year credit facility at the parent company that expires in 2016. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of June 30, 2012, Southern was in compliance with its financial covenant.

Southern had approximately $659 million of cash on hand and $445 million of commercial paper outstanding on a consolidated basis as of June 30, 2012. We anticipate dividend contributions from its subsidiaries will be in the range of $1.8 billion to $2.0 billion in 2012. Both Georgia Power and Mississippi Power will also require significant equity infusions to help meet construction expenditures over the next several years.

Southern's utility subsidiaries and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities are approximately $5.16 billion as of June 30, 2012 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $98 million expire in 2012, $306 million in 2013, with the bulk ($4.76 billion) expiring in 2014 and subsequent years.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $613 million as of June 30, 2012. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.7 billion. Generally, collateral could be provided by a Southern Company guaranty, letter of credit, or cash. As of June 30, 2012, Southern had approximately $2 billion of consolidated long-term debt maturities over the twelve months ending June 30, 2013.

Rating Outlook

The stable rating outlook reflects Moody's expectation that Southern Company's utility regulatory environments will remain credit supportive; that delays and cost increases at the Vogtle nuclear and Kemper IGCC construction projects will remain manageable; and that costs resulting from new environmental regulations will be recovered in rates without significant regulatory lag or substantial deferrals.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries are engaged in major new construction projects. Ratings could be raised, however, if there is significant progress on the construction of these two projects and they remain close to their current schedules and budgets, if one or both of its largest utility subsidiaries, Alabama Power or Georgia Power, is upgraded; or if consolidated financial metrics show sustained improvement, including CFO pre-W/C to debt above 22%, after adjusting for accelerated cash flow benefits derived from bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if either Alabama Power or Georgia Power's ratings are lowered; if there are significant delays or cost overruns on the Vogtle nuclear or Kemper IGCC projects; if there is significant additional debt issued at the parent company level; if major new environmental costs are incurred that are not recovered on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry [1][2]	LTM 06/30/2012		Moody's 12-18 month Forward View* As of August 2012	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		Ba		Ba
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	5.8x	A	5.5 - 6.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	22.1%	A	20 - 23%	A/Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	15.2%	Baa	13 - 16%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	47.1%	Baa	44 - 46%	A/Baa
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		Baa1

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

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 06/30/2012(LTM); Source: Moody's Financial Metrics

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Gulf Power Company

Full Rating Report

Ratings

Gulf Power Company

Long-Term IDR	A–
Senior Unsecured Notes	A
Pollution-Control Revenue Bonds	A
Preferred Securities	BBB+
Short-Term IDR	F1
Commercial Paper	F1

IDR – Issuer Default Rating.

Rating Outlook

Long-Term Rating	Stable

Financial Data

Gulf Power Company

($ Mil.)	LTM 9/30/12	2011
Revenue	1,435	1,519
Operating EBITDA	397	354
EBITDA/Revenues (%)	27.67	23.30
CFFO	457	376
FCF	1	(64)
FFO/Interest Expense (x)	7.52	5.73
Total Debt	1,440	1,525
Debt/EBITDA (x)	3.63	4.31
EBITDA/Interest Expense (x)	6.30	5.71
FFO/Debt (%)	28.54	19.21

Related Research

Southern Company (February 2013)

2013 Outlook: Utilities, Power, and Gas (December 2012)

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Key Rating Drivers

Improving Credit Outlook: The ratings and Stable Outlook for Gulf Power Company (Gulf Power) reflect predictable cash flows from regulated electric operations, a slow but steady improvement in retail sales after a deep economic downturn, return to a more orderly and constructive regulatory environment in Florida, and steadily improving credit metrics from 2009 cyclical lows.

Constructive Outcome in Rate Case: Gulf Power achieved a constructive outcome in March 2012 in its base rate proceedings, whereby the Florida Public Service Commission (FPSC) authorized a $64.1 million rate increase for Gulf Power and an additional $4 million step-up increase in 2013. The rate increase was based on a midpoint return on equity (ROE) of 10.25% and an authorized retail ROE range of 9.25%–11.25%. The base rate increase has significantly boosted the profitability and cash flow measures for Gulf Power. In addition, the utility enjoys several rate riders that provide timely recovery of all prudent costs related to fuel, purchased costs, and environmental expenditures.

Recovering Sales Growth: Gulf Power's service territory continues to see slow but steady improvement in the local economy with economic indicators such as housing starts, unemployment, and income growth all showing positive trends. Large-scale investment and job creation projects that should drive industrial and commercial sales growth, are underway in Northwest Florida.

Stronger Credit Measures: Fitch expects Gulf Power's credit metrics to be much stronger than they have been historically. Fitch forecasts Gulf Power's adjusted debt to EBITDA and FFO to adjusted debt to be approximately 3.5x and 20.5%, respectively, in 2014, which is in line with its rating category. Fitch expects EBITDA and FFO-based coverage metrics to be approximately 5.5x and 5.0x, respectively, in 2014.

Rating Concerns: Gulf Power is heavily dependent on coal-fired generation capacity that must comply with stringent emissions standards, specifically the Mercury Air Toxics Rule (MATS). However, the fuel and environmental recovery clauses provide timely recovery of environmental compliance-related costs, materially reducing the regulatory lag.

What Could Trigger a Rating Action

Weakening Sales Trend: Extended weakness in Florida's economy or significant changes in customer usage patterns that cause electricity sales to materially lag Fitch's expectations could lead to negative rating actions for Gulf Power.

Change in Florida Regulation: Unfavorable changes in current Florida regulatory policies for timely recovery of utility capital investments, fuel and purchased power costs, and storm-related costs would adversely affect Gulf Power's ratings.

Financial Overview

Liquidity and Debt Structure

Gulf Power's credit arrangements provide liquidity support to its commercial paper borrowings, and as of Sept. 30, 2012, approximately $16 million of commercial paper was outstanding. Another $69 million was dedicated to funding potential purchase obligations related to variable-rate pollution-control revenue bonds. Gulf Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper.

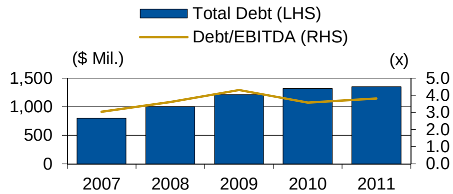
Debt Maturities and Liquidity

($ Mil., At Sept. 30, 2012)

2012	—
2013	60
2014	75
2015	—
2016	110
Cash and Cash Equivalents	23
Unused Committed Facilities	190

Source: Company data, Fitch Ratings.

Total Debt and Leverage



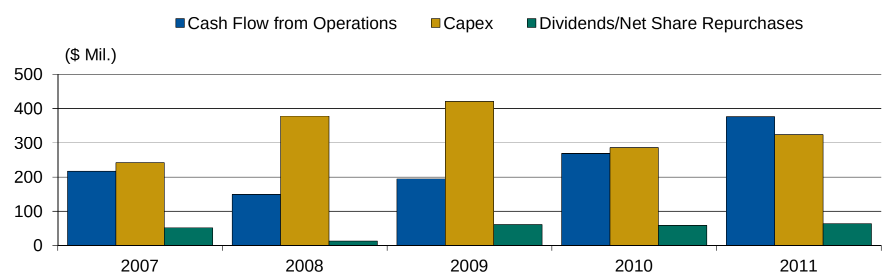
Source: Company data, Fitch Ratings.

Cash Flow Analysis

Like many members of the utility sector, Gulf Power's capital spending exceeds internal cash flow, resulting in negative FCF after capital investments and dividends. Fitch expects Gulf Power's FCF deficit to widen over the next two years as the capex increases to accommodate spending on environmental compliance. Fitch expects Gulf Power to finance its future capex needs using a mix of equity and debt to maintain its regulatory capital structure.

Fitch anticipates Gulf Power's cash flow from operations to continue to get a boost from bonus depreciation benefits in 2013 and 2014. According to management estimates, the positive cash flow due to bonus depreciation in 2012 is estimated to be between $135 million and $150 million.

CFO and Cash Use



Source: Company data, Fitch Ratings.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (November 2012)

Corporate Rating Methodology (August 2012)

Rating North American Utilities, Power, Gas, and Water Companies (May 2011)

160186-OPC-POD-71-339

Peer and Sector Analysis

Peer Group

Issuer	Country
A–	
Carolina Power & Light Company (D/B/A Progress Energy Carolinas)	United States
Louisville Gas & Electric Company	United States
BBB+	
Florida Power Corporation (D/B/A Progress Energy Florida)	United States

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Aug. 22, 2012	A–	Stable
Aug. 30, 2011	A–	Stable
Sept. 3, 2010	A–	Stable
Sept. 4, 2009	A–	Stable
Jan. 22, 2008	A–	Stable
Aug. 10, 2006	A–	Stable
Dec. 6, 2005	A–	Stable
Aug. 16, 2005	A	Stable

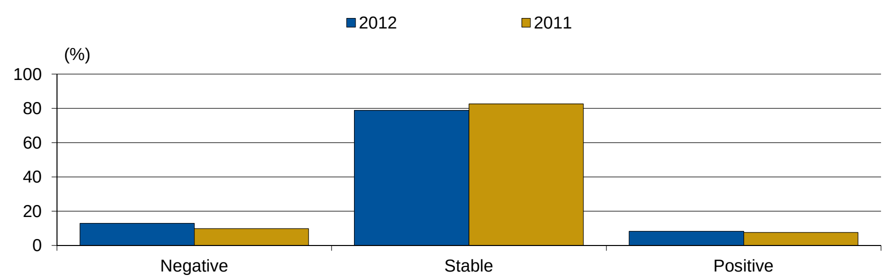
LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

	Gulf Power Company	Carolina Power & Light Company (D/B/A Progress Energy Carolinas)	Louisville Gas & Electric Company	Florida Power Corporation (D/B/A Progress Energy Florida)
LTM as of	9/30/12	9/30/12	9/30/12	9/30/12
Long-Term IDR	A–	A–	A–	BBB+
Outlook	Stable	Stable	Stable	Negative
Financial Statistics ($ Mil.)				
Revenue	1,435	4,568	1,319	4,600
YoY Revenue Growth (%)	(7)	(2)	(4)	(1)
EBITDA	397	1,083	380	1,113
EBITDA Margin (%)	27.67	23.71	28.81	24.20
FCF	1	(775)	(25)	(157)
Total Adjusted Debt	1,265	4,867.50	1,112	4,910
Cash and Cash Equivalents	23	19	48	20
Funds Flow from Operations	411	1,364	313	678
Capex	(335)	(1,429)	(263)	(765)
Net Equity Proceeds	42	0	0	0
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	6.30	4.86	9.27	4.14
Debt/FFO	3.08	3.57	3.55	7.24
Debt/EBITDA	3.19	4.49	2.93	4.41
FFO Interest Coverage	7.52	7.12	8.63	3.52
Capex/Depreciation (%)	244.53	269.11	174.17	355.81

IDR – Issuer Default Rating. YoY – Year-over-year.
Source: Company data, Fitch.

Sector Outlook Distribution



Source: Company data, Fitch Ratings.

160186-OPC-POD-71-340

Key Rating Issues

Sales Growth Trend

Gulf Power's electric sales growth is on a path of recovery after the sharp slowdown witnessed during the last recession. Large investment and job creation projects are underway throughout Northwest Florida that should drive industrial and commercial sales growth, in Fitch's view. Population growth in Gulf Power's service territory stalled during the recession, but is expected to start growing again by 2013. The unemployment rate peaked at 10% in December 2010 and has been improving since.

Environmental Capex

Gulf Power owns close to 2,700 MW of fossil electric generation capacity. The mix includes 78% coal, and the balance consists of natural gas- and oil-fired combined-cycle and combustion turbines. Gulf Power is spending a lot of capital in installing environmental controls at its coal-fired plants. Environmental capex through 2021 could be approximately $1.3 billion, based on latest company disclosures. This estimate reflects the assumption that coal combustion byproducts will continue to be regarded as nonhazardous solid waste under the rule proposed by the Environmental Protection Agency. Gulf Power has an environmental clause as part of its rate structure that allows associated capital and operating costs to be recovered in rates with minimal regulatory lag.

Regulatory Update

The regulatory environment in Florida used to be one of the most constructive in the country, but a weak economy and political interference turned it into a very difficult one over 2009–2010. Gulf Power was fortunate to avoid filing a rate proceeding during the contentious period. The Florida regulatory environment has much improved since and Gulf Power succeeded in getting a constructive outcome in its last rate case. The FPSC authorized a $64.1 million rate increase for Gulf Power in March 2012, with rates set at the midpoint of 10.25%, with a retail ROE range of 9.25%–11.25%. The FPSC also approved another step increase of $4 million to be effective in 2013. Gulf Power had filed for a $93.5 million rate increase request in July 2011.

Organizational Chart — Southern Company

($ Mil., As of Sept. 30, 2012)

Southern Company
IDR: A

Floating Rate Sr. Unsecured Notes	80
4.150% Sr. Unsecured Notes due 5/15/14	350
2.375% Sr. Unsecured Notes due 9/15/15	400
1.950% Sr. Unsecured Notes due 9/1/16	500

Alabama Power Company
IDR: A

4.850% Sr. Unsecured Notes due 12/15/12	500
5.800% Sr. Unsecured Notes due 11/15/13	250
5.200% Sr. Unsecured Notes due 1/15/16	200
5.550% Sr. Unsecured Notes due 2/1/17	200
5.500% Sr. Unsecured Notes due 10/15/17	325
5.125% Sr. Unsecured Notes due 2/15/19	200
3.375% Sr. Unsecured Notes due 10/1/20	250
3.950% Sr. Unsecured Notes due 6/1/21	200
5.875% Sr. Unsecured Notes due 12/1/22	200
5.700% Sr. Unsecured Notes due 2/15/33	250
5.600% Sr. Unsecured Notes due 3/15/33	200
5.650% Sr. Unsecured Notes due 3/15/35	250
6.125% Sr. Unsecured Notes due 5/15/38	300
6.000% Sr. Unsecured Notes due 3/1/39	500
5.500% Sr. Unsecured Notes due 3/15/41	250
5.200% Sr. Unsecured Notes due 6/1/41	250
4.1% Sr. Unsecured Notes due 1/15/42	250
5.875% Sr. Unsecured Notes due 2/1/46	100
Other/PCRB (Fixed and Variable) and VRN due 2015–2038	1,249

Southern Power Company
IDR: BBB+

4.875% Sr. Unsecured Notes due 7/15/15	525
6.375% Sr. Unsecured Notes due 11/15/36	200
5.150% Sr. Unsecured Notes due 9/15/41	575

Mississippi Power Company
IDR: A–

6.000% Sr. Unsecured Notes due 11/15/13	50
2.350% Sr. Unsecured Notes due 10/15/16	300
5.600% Sr. Unsecured Notes due 11/15/17	35
5.550% Sr. Unsecured Notes due 3/1/19	125
5.400% Sr. Unsecured Notes due 7/1/35	30
4.750% Sr. Unsecured Notes due 10/15/41	150
4.250% Sr. Unsecured Notes due 3/15/42	450
366-Day Floating Rate Bank Loan	125
Other/PCRB (Fixed and Variable) and VRN due 2020–2040	653

Georgia Power Company
IDR: A

5.125% Sr. Unsecured Notes due 11/15/12	200
Variable-Rate Sr. Unsecured Notes due 1/15/13	300
Floating Rate Sr. Unsecured Notes due 3/15/13	350
4.900% Sr. Unsecured Notes due 9/15/13	100
1.300% Sr. Unsecured Notes due 9/15/13	500
6.000% Sr. Unsecured Notes due 11/1/13	400
4.900% Sr. Unsecured Notes due 12/15/13	25
0.750% Sr. Unsecured Notes due 8/10/15	400
5.250% Sr. Unsecured Notes due 12/15/15	250
3.000% Sr. Unsecured Notes due 4/15/16	250
5.700% Sr. Unsecured Notes due 6/1/17	450
5.400% Sr. Unsecured Notes due 6/1/18	250
4.250% Sr. Unsecured Notes due 12/1/19	500
2.850% Sr. Unsecured Notes due 5/15/22	400
5.750% Sr. Unsecured Notes due 4/15/23	100
5.800% Sr. Unsecured Notes due 4/15/35	125
5.650% Sr. Unsecured Notes due 3/1/37	250
6.050% Sr. Unsecured Notes due 12/1/38	100
5.950% Sr. Unsecured Notes due 2/1/39	500
5.400% Sr. Unsecured Notes due 6/1/40	600
4.750% Sr. Unsecured Notes due 9/1/40	500
4.300% Sr. Unsecured Notes due 3/15/42	1,100
8.200% Sr. Unsecured Notes due 11/1/48	100
Other/PCRB (Fixed and Variable) and VRN due through 2052	1,826

Gulf Power Company
IDR: A–

4.350% Sr. Unsecured Notes due 7/15/13	60
4.900% Sr. Unsecured Notes due 10/1/14	75
5.300% Sr. Unsecured Notes due 12/1/16	110
5.900% Sr. Unsecured Notes due 6/15/17	85
4.750% Sr. Unsecured Notes due 4/15/20	175
3.100% Sr. Unsecured Notes due 5/15/22	100
5.250% Sr. Unsecured Notes due 7/15/33	30
5.650% Sr. Unsecured Notes due 9/1/35	60
5.100% Sr. Unsecured Notes due 10/1/40	125
5.750% Sr. Unsecured Notes due 6/1/51	125
Other/PCRB (Fixed and Variable) and VRN due 2022–2049	309

Other Subsidiaries

Southern Nuclear	NR
Southern Wireless, Inc.	NR
Southern Holdings	NR
Southern Renewable Energy	NR
Direct and Indirect Subsidiaries	NR

IDR – Issuer Default Rating. NR – Not rated. PCRB – Pollution-control revenue bond. VRN – Variable-rate note.
Source: Company filings, Bloomberg, Fitch Ratings.

Definitions

Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.

FCF/Revenue: FCF after dividends divided by revenue.

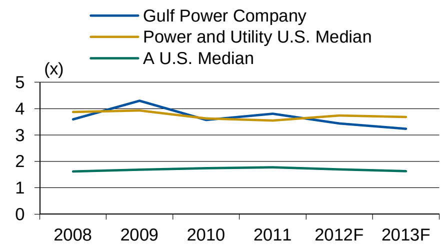
FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock.

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecasts assumptions include:

- 1.0%–1.5% sales growth in 2013 and 2014.
- Base rate increase as granted in the last rate case.
- Environmental clause recovery at the authorized ROE.

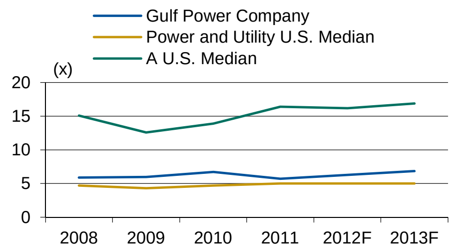
Key Metrics

Leverage: Total Adjusted Debt/ Operating EBITDAR



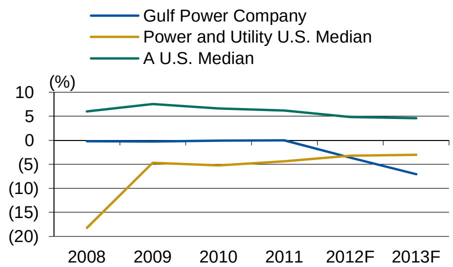
F – Forecast.
Source: Company data, Fitch Ratings.

Interest Coverage: Operating EBITDA/ Gross Interest Expense



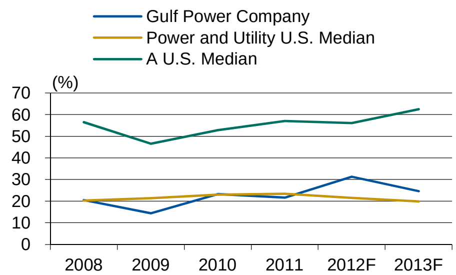
F – Forecast.
Source: Company data, Fitch Ratings.

FCF/Revenues



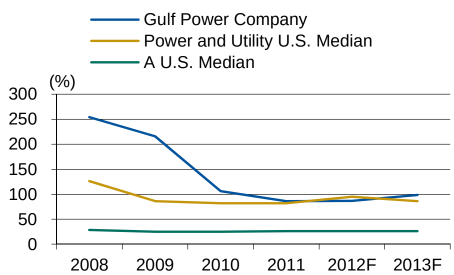
F – Forecast.
Source: Company data, Fitch Ratings.

FFO/Debt



F – Forecast.
Source: Company data, Fitch Ratings.

Capex/CFO



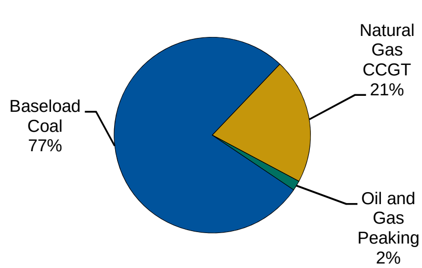
F – Forecast.
Source: Company data, Fitch Ratings.

Projected Environmental Capex

USD Mil.	2013	2014
MATS Compliance	Up to 55	Up to 150
Proposed Water and Coal Combustion Byproduct Rules	Up to 10	Up to 25

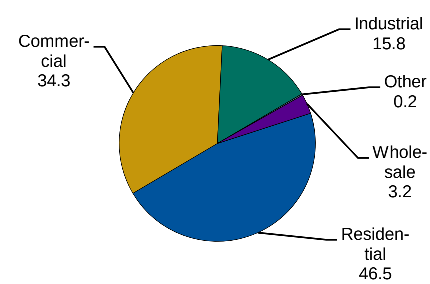
MATS – Mercury and Air Toxics Standards.
Source: Company data, Fitch Ratings.

2011 Self Generation Capacity Mix



Source: Company data, Fitch Ratings.

2011 Territorial Customer Mix



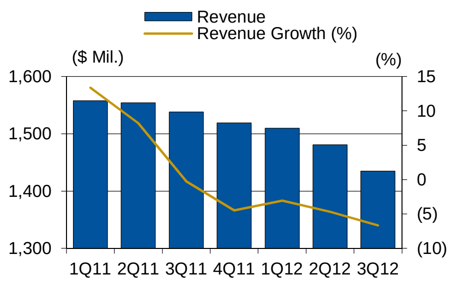
Source: Company data, Fitch Ratings.

Company Profile

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. It provides generated and purchased electricity, along with transmission and distribution thereof at retail in 71 communities in northwest Florida (including Pensacola, Panama City, and Fort Walton Beach), and in wholesale to a non-affiliated utility. Gulf Power's service territory has been affected by the housing market downturn, but the retail revenues are supported by diversity in its customer base that includes revenue from a military base, which currently represent a significant proportion of the total industrial sector sales. Other major industries within Gulf Power's service territory are chemical and pulp and paper.

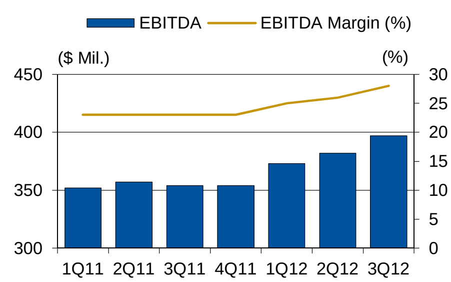
Business Trends

Revenue Dynamics



Source: Company data, Fitch Ratings.

EBITDA Dynamics



Source: Company data, Fitch Ratings.

160186-OPC-POD-71-344

Financial Summary — Gulf Power Company

($ Mil., Fiscal Years Ended Dec. 31)	2008	2009	2010	2011	LTM Ended 9/30/12
Fundamental Ratios (x)					
FFO/Interest Expense	5.36	4.72	6.58	5.73	7.52
CFO/Interest Expense	4.17	5.15	5.89	7.06	8.25
FFO/Debt (%)	19.77	13.57	20.44	19.21	28.54
Operating EBIT/Interest Expense	4.09	4	4.51	3.61	4.13
Operating EBITDA/Interest Expense	5.89	5.98	6.71	5.71	6.30
Operating EBITDAR/(Interest Expense + Rent)	5.89	5.98	6.71	5.71	6.30
Debt/Operating EBITDA	3.60	4.30	3.57	3.81	3.19
Common Dividend Payout (%)	83.67	80.18	85.25	104.76	93.50
Internal Cash/Capital Expenditures (%)	16.14	23.52	55.24	80.25	100.30
Capital Expenditures/Depreciation (%)	444.71	452.69	236.36	249.23	244.53
Profitability					
Adjusted Revenues	1,387	1,302	1,590	1,519	1,435
Net Revenues	642	637	751	767	808
Operating and Maintenance Expense	278	261	280	312	313
Operating EBITDA	277	281	369	354	397
Depreciation and Amortization Expense	85	93	121	130	137
Operating EBIT	192	188	248	224	260
Gross Interest Expense	47	47	55	62	63
Net Income for Common	98	111	122	105	123
Operating and Maintenance Expense % of Net Revenues	43.30	40.97	37.28	40.68	38.74
Operating EBIT % of Net Revenues	29.91	29.51	33.02	29.20	32.18
Cash Flow					
Cash Flow from Operations	149	195	269	376	457
Change in Working Capital	(56)	20	(38)	83	46
Funds From Operations	205	175	307	293	411
Dividends	(88)	(96)	(111)	(116)	(121)
Capital Expenditures	(378)	(421)	(286)	(324)	(335)
FCF	(317)	(322)	(128)	(64)	1
Net Other Investment Cash Flow	29	(47)	(22)	(19)	(32)
Net Change in Debt	216	219	109	35	(5)
Net Equity Proceeds	75	157	52	52	42
Capital Structure					
Short-Term Debt	148	90	93	115	19
Long-Term Debt	889	1,200	1,409	1,410	1,421
Total Debt	**1,037**	**1,290**	**1,502**	**1,525**	**1,440**
Total Hybrid Equity and Minority Interest	98	98	98	98	98
Common Equity	822	1,004	1,075	1,125	1,186
Total Capital	**1,957**	**2,392**	**2,675**	**2,748**	**2,724**
Total Debt/Total Capital (%)	52.99	53.93	56.15	55.50	52.86
Total Hybrid Equity and Minority Interest/Total Capital (%)	5.01	4.10	3.66	3.57	3.60
Common Equity/Total Capital (%)	42.00	41.97	40.19	40.94	43.54

Source: Company data, Fitch.

160186-OPC-POD-71-345

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Southern Company

Full Rating Report

Ratings

Southern Company

Long-Term IDR	A
Senior Unsecured	A
Short-Term IDR	F1
Commercial Paper	F1
Southern Company Funding Corporation	
Short-Term IDR	F1
Commercial Paper	F1

IDR – Issuer Default Rating.

Rating Outlook

Long-Term Rating	Stable

Financial Data

Southern Company

($ Mil.)	LTM 9/30/12	2011
Revenue	16,530	17,657
Operating EBITDA	6,011	5,948
EBITDA/Revenues (%)	36.36	33.69
CFFO	5,349	5,903
FCF	(1,362)	(293)
FFO/Interest Expense (x)	6.64	6.70
Total Debt	23,215	22,640
Total Debt/EBITDA (x)	3.86	3.81
EBITDA/Interest Expense (x)	6.30	6.36
FFO/ Debt (%)	23.18	23.54

Related Research

Alabama Power Company (February 2013)
Georgia Power Company (February 2013)
Gulf Power Company (February 2013)
Mississippi Power Company (February 2013)
Southern Power Company (February 2013)

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Key Rating Drivers

Conservative Business Model: Southern Company's regulated subsidiaries derive predictable cash flows from low-risk utility businesses and generally supportive regulatory mechanisms. All of its utility subsidiaries have environment trackers, with the exception of Georgia Power Company (Georgia Power), which typically recovers environmental compliance-related costs through base rate case decisions. Its nonregulated generation subsidiary, Southern Power Company (Southern Power), follows a conservative business model of long-term sale contracts with creditworthy counterparties and minimal commodity exposure.

Strong Operating Environment: Consolidated credit metrics are stronger than pre-recession levels, aided by factors such as bonus depreciation benefits, strong rate case decisions at Georgia Power and Gulf Power Company (Gulf Power), significant fuel recoveries at Georgia Power, and steady operating and financial performance at Alabama Power Company (Alabama Power) and Southern Power.. Electric sales have recovered well across its subsidiaries post the recession, although growth slowed somewhat in 2012. Regulatory environments remain generally supportive across all the states. Southern Company has strong liquidity and enjoys easy capital markets.

Solid Credit Metrics: Fitch Ratings forecasts Southern Company's coverage ratios to remain strong over the forecast period. Fitch expects EBITDA interest coverage to be greater than 6.0x over 2013–2014 and FFO interest coverage to moderate to 5.5x as the benefit of bonus depreciation subsides. Fitch expects Southern Company's adjusted debt-to-EBITDA ratio to be approximately 3.3x and FFO to adjusted debt to be approximately 21% by 2014.

Risk on Capital Projects: Fitch's rating concerns include significant construction and regulatory risks associated with Plant Vogtle nuclear units 3 and 4, and the Kemper Integrated Gasification and Combined Cycle (IGCC) plant. The Vogtle units are recovering the financing costs on construction work in progress (CWIP) through a tracker since 2011 and have not yet filed for any adjustment to the total project costs or schedule. It is Fitch's expectation that any adjustments to the overall project costs are deemed recoverable by the Georgia Public Service Commission (GPSC).

Concerns on Kemper: The recent settlement agreement between Mississippi Power Company (Mississippi Power) and the Mississippi Public Service Commission (MPSC) lowers the contribution from Kemper compared with Fitch's earlier expectations, but significantly dissipates regulatory uncertainty around CWIP recovery and managing rate shock to customers. A material cost overrun exceeding the hard cap of $2.88 billion, which is not recoverable from utility customers on a timely basis, could cause rating concerns.

What Could Trigger a Rating Action

Positive Action: A positive rating action in unlikely during a period of high capex and completion risk.

Negative Action: Significant cost overruns on Vogtle and Kemper projects that cannot be recovered in rates or long deferral periods for project costs could weaken credit ratings of the individual utilities and the parent. Decline in the consolidated credit metrics due to a significant drop in sales, unfavorable regulatory actions, and/or higher leverage to support the heavy capex at Mississippi Power and Georgia Power would also be a trigger for downward rating actions.

Financial Overview

Liquidity and Debt Structure

Southern Company has substantial cash flow from operating activities and access to capital markets, including commercial paper programs, which are backed by bank credit facilities, to meet liquidity needs. Approximately $1.8 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies' variable-rate pollution-control revenue bonds as of Sept. 30, 2012. Southern Company does not maintain a money pool or centralized cash management. Each regulated operating subsidiary, including Southern Power, issues its own debt and preferred securities, which is nonrecourse to the parent.

Southern Company Funding Corporation's (SCFC) sole activity is to issue commercial paper on behalf of its utility operating subsidiaries. Southern Power and Southern Company are not eligible to borrow from SCFC.

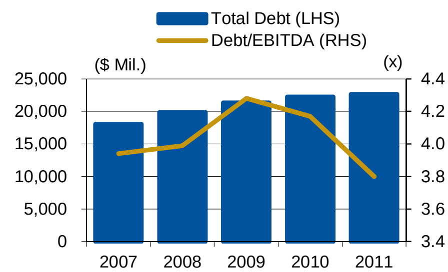
Debt Maturities and Liquidity

($ Mil., At Sept. 30, 2012)

2012	700
2013	2,085
2014	425
2015	1,629
2016	1,364
Cash and Cash Equivalents	1,256
Uncommitted Credit Facilities	3,044

Source: Company data, Fitch.

Total Debt and Leverage

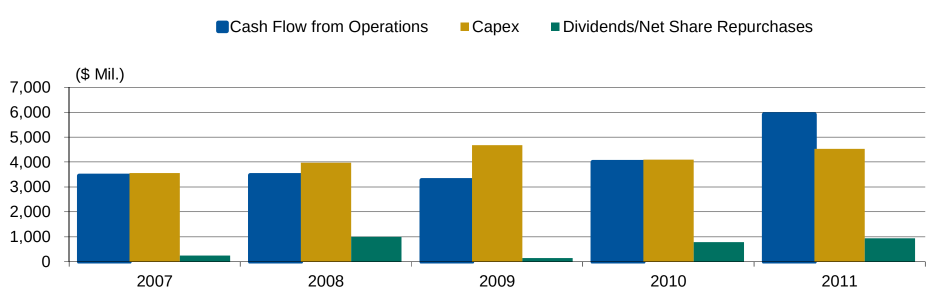


Source: Company data, Fitch.

Cash Flow Analysis

Southern Company's capex will remain elevated due to new baseload generation projects being undertaken by its utility subsidiaries and increasing environmental capex, requiring continuous access to capital markets for funding. Fitch does not anticipate any incremental debt at the parent company. Fitch anticipates Southern Company's consolidated cash flow from operations to continue to get a boost from bonus depreciation benefits in 2013 and 2014. According to management estimates, the positive cash flow due to bonus depreciation in 2012 is estimated to be between $775 million and $860 million.

CFO and Cash Use



Source: Company data, Fitch.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (November 2012)

Corporate Rating Methodology (August 2012)

Rating North American Utilities, Power, Gas, and Water Companies, (May 2011)

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Peer and Sector Analysis

Peer Group

Issuer	Country
A–	
NextEra Energy, Inc.	United States
OGE Energy Corp.	United States
Wisconsin Energy Corp.	United States

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Aug. 22, 2012	A	Stable
Aug. 30, 2011	A	Stable
Dec. 22, 2010	A	Stable
Sept. 3, 2010	A	Negative
Sept. 4, 2009	A	Stable
Jan. 22, 2008	A	Stable
Aug. 10, 2006	A	Stable
Dec. 6, 2005	A	Stable
Aug. 24, 2005	A	Stable

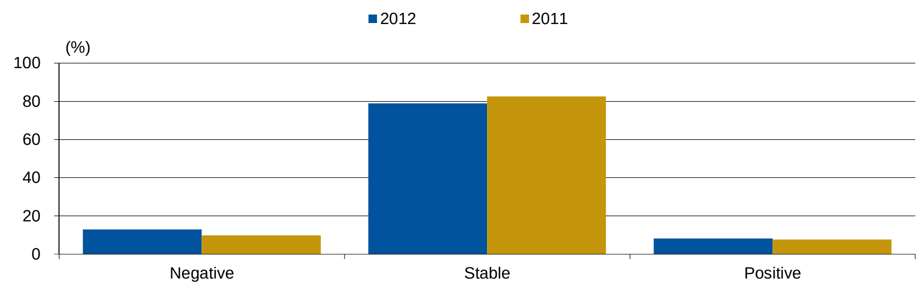
LT IDR – Long-term Issuer Default Rating.
Source: Fitch.

Peer Group Analysis

	Southern Company	NextEra Energy, Inc.	OGE Energy Corp.	Wisconsin Energy Corp.
LTM as of	9/30/12	9/30/12	9/30/12	9/30/12
Long-Term IDR	A	A–	A–	A–
Outlook	Stable	Stable	Stable	Stable
Financial Statistics ($ Mil.)				
Revenue	16,530	14,665	3,695	4,287
YoY Revenue Growth (%)	(7)	(1)	(6)	(4)
EBITDA	6,011	5,120	1,017	1,346
EBITDA Margin (%)	36	35	28	31
FCF	(1,362)	(5,919)	(325)	182
Total Adjusted Debt	23,215	24,535	3,304	4,840
Cash and Cash Equivalents	1,256	246	10	13
Funds Flow from Operations	5,382	4,150	855	1,115
Capex	(4,971)	(9,000)	(1,156)	(709)
Net Equity Proceeds	399	467	9	6
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	6.30	4.30	6.24	5.14
Debt/FFO	4.31	5.91	3.86	4.34
Debt/EBITDA	3.86	4.79	3.25	3.6
FFO Interest Coverage	6.64	4.49	6.25	5.26
Capex/Depreciation (%)	280.37	643.32	329.36	200.28

IDR – Issuer Default Rating. YoY – Year-over-year.
Source: Company data, Fitch.

Sector Outlook Distribution



Source: Company data, Fitch.

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Key Rating Issues

Strong Credit Metrics

Southern Company's consolidated credit metrics are much stronger than pre-recession levels, aided by factors such as bonus depreciation benefits, strong rate case decisions at Georgia Power and Gulf Power, significant fuel recoveries at Georgia Power, CWIP recovery for Vogtle units 3 and 4, and steady operating and financial performance at Alabama Power and Southern Power. Fitch forecasts Southern Company's coverage ratios to remain strong over the forecast period. Fitch expects EBITDA interest coverage to be greater than 6.0x over 2012–2014 and FFO interest coverage to decline to the 5.5x range as the benefit of bonus depreciation subsides. Fitch expects Southern Company's adjusted debt-to-EBITDA ratio to be approximately 3.3x and FFO to adjusted debt to be approximately 21.0% by 2014.

Large Construction Projects

Fitch's rating concerns for Southern Company include significant construction and regulatory risks associated with Vogtle nuclear units 3 and 4 and the Kemper IGCC plant. The Vogtle nuclear units are recovering the financing costs on CWIP through a tracker since 2011, and have not yet filed for any adjustment to the total project costs or schedule. Georgia Power is currently negotiating with its contractors for Vogtle regarding a claim filed for cost increases related to the delays in project schedule, most significantly due to the timing of approval of the Design Control Document (DCD) and issuance of the combined operating license (COL) by the Nuclear Regulatory Commission (NRC). Fitch expects that any adjustments to the overall project costs will be deemed recoverable by the GPSC. Fitch has assumed a continuation of constructive regulatory support in Georgia during the period of high capital spending.

In July 2012, Fitch downgraded Mississippi Power's Issuer Default Rating (IDR) by one notch and revised the Rating Outlook to Negative, driven by concerns around recovery of financing costs associated with Kemper and risk of a significant rate shock to customers once the plant goes in service. The recent settlement between Mississippi Power and the MPSC addresses both these concerns, albeit reducing the contribution from Kemper versus Fitch's prior expectations. The settlement agreement is contingent upon enabling legislation that is currently in the works in the Mississippi legislature.

Fitch still has concerns regarding the hard construction cap of $2.88 billion imposed by the MPSC for Kemper, which is also the last revised construction cost estimate by Mississippi Power. Cost overruns may not be recoverable from customers, a potential credit risk for Mississippi Power. Kemper remains a large undertaking for a small utility, and the technology remains untested at the proposed scale.

Environmental Capex

Southern Company's consolidated environmental compliance expenditures remain significant over Fitch's forecast period of 2012–2014. The company is planning to spend approximately $2.3 billion over 2012–2014, which was reduced from its prior guidance of $4.2 billion. The company estimates total environmental capex to be toward the lower end of the $13 billion–$18 billion range over 2012–2021. These expenditures are largely directed toward complying with the Environmental Protection Agency's (EPA) final Mercury and Air Toxics Standards (MATS) rule and the proposed water and coal combustion byproduct rules.

Alabama Power, Gulf Power, and Mississippi Power have environmental cost recovery mechanisms that allow them to recover environmental compliance-related costs through a tracker, without the need to initiate a base rate case. Only Georgia Power has no environmental cost recovery clause and typically recovers projected environmental-related capex through base rate plans that are set every three years. Fitch has assumed that Georgia Power continues to get adequate and timely rate relief on its environment capex.

Organizational Chart — Southern Company
($ Mil., As of Sept. 30, 2012)

Southern Company
IDR: A

Floating Rate Sr. Unsecured Notes	80
4.150% Sr. Unsecured Notes due 5/15/14	350
2.375% Sr. Unsecured Notes due 9/15/15	400
1.950% Sr. Unsecured Notes due 9/1/16	500

Alabama Power Company
IDR: A

4.850% Sr. Unsecured Notes due 12/15/12	500
5.800% Sr. Unsecured Notes due 11/15/13	250
5.200% Sr. Unsecured Notes due 1/15/16	200
5.550% Sr. Unsecured Notes due 2/1/17	200
5.500% Sr. Unsecured Notes due 10/15/17	325
5.125% Sr. Unsecured Notes due 2/15/19	200
3.375% Sr. Unsecured Notes due 10/1/20	250
3.950% Sr. Unsecured Notes due 6/1/21	200
5.875% Sr. Unsecured Notes due 12/1/22	200
5.700% Sr. Unsecured Notes due 2/15/33	250
5.600% Sr. Unsecured Notes due 3/15/33	200
5.650% Sr. Unsecured Notes due 3/15/35	250
6.125% Sr. Unsecured Notes due 5/15/38	300
6.000% Sr. Unsecured Notes due 3/1/39	500
5.500% Sr. Unsecured Notes due 3/15/41	250
5.200% Sr. Unsecured Notes due 6/1/41	250
4.100% Sr. Unsecured Notes due 1/15/42	250
5.875% Sr. Unsecured Notes due 2/1/46	100
Other/PCRB (Fixed and Variable) and VRN due 2015–2038	1,249

Southern Power Company
IDR: BBB+

4.875% Sr. Unsecured Notes due 7/15/15	525
6.375% Sr. Unsecured Notes due 11/15/36	200
5.150% Sr. Unsecured Notes due 9/15/41	575

Mississippi Power Company
IDR: A–

6.000% Sr. Unsecured Notes due 11/15/13	50
2.350% Sr. Unsecured Notes due 10/15/16	300
5.600% Sr. Unsecured Notes due 11/15/17	35
5.550% Sr. Unsecured Notes due 3/1/19	125
5.400% Sr. Unsecured Notes due 7/1/35	30
4.750% Sr. Unsecured Notes due 10/15/41	150
4.250% Sr. Unsecured Notes due 3//15/42	450
366-Day Floating Rate Bank Loan	125
Other/PCRB (Fixed and Variable) and VRN due 2020–2040	653

Georgia Power Company
IDR: A

5.125% Sr. Unsecured Notes due 11/15/12	200
Variable-Rate Sr. Unsecured Notes due 1/15/13	300
Floating Rate Sr. Unsecured Notes due 3/15/13	350
4.900% Sr. Unsecured Notes due 9/15/13	100
1.300% Sr. Unsecured Notes due 9/15/13	500
6.000% Sr. Unsecured Notes due 11/1/13	400
4.900% Sr. Unsecured Notes due 12/15/13	25
0.750% Sr. Unsecured Notes due 8/10/15	400
5.250% Sr. Unsecured Notes due 12/15/15	250
3.000% Sr. Unsecured Notes due 4/15/16	250
5.700% Sr. Unsecured Notes due 6/1/17	450
5.400% Sr. Unsecured Notes due 6/1/18	250
4.250% Sr. Unsecured Notes due 12/1/19	500
2.850% Sr. Unsecured Notes due 5/15/22	400
5.750% Sr. Unsecured Notes due 4/15/23	100
5.800% Sr. Unsecured Notes due 4/15/35	125
5.650% Sr. Unsecured Notes due 3/1/37	250
6.050% Sr. Unsecured Notes due 12/1/38	100
5.950% Sr. Unsecured Notes due 2/1/39	500
5.400% Sr. Unsecured Notes due 6/1/40	600
4.750% Sr. Unsecured Notes due 9/1/40	500
4.300% Sr. Unsecured Notes due 3/15/42	1,100
8.200% Sr. Unsecured Notes due 11/1/48	100
Other/PCRB (Fixed and Variable) and VRN due through 2052	1,826

Gulf Power Company
IDR: A–

4.350% Sr. Unsecured Notes due 7/15/13	60
4.900% Sr. Unsecured Notes due 10/1/14	75
5.300% Sr. Unsecured Notes due 12/1/16	110
5.900% Sr. Unsecured Notes due 6/15/17	85
4.750% Sr. Unsecured Notes due 4/15/20	175
3.100% Sr. Unsecured Notes due 5/15/22	100
5.250% Sr. Unsecured Notes due 7/15/33	30
5.650% Sr. Unsecured Notes due 9/1/35	60
5.100% Sr. Unsecured Notes due 10/1/40	125
5.750% Sr. Unsecured Notes due 6/1/51	125
Other/PCRB (Fixed and Variable) and VRN due 2022–2049	309

Other Subsidiaries

Southern Nuclear	NR
Southern Wireless, Inc.	NR
Southern Holdings	NR
Southern Renewable Energy	NR
Direct and Indirect Subsidiaries	NR

IDR – Issuer Default Rating. NR – Not rated. PCRB – Pollution-control revenue bond. VRN – Variable-rate note.
Source: Company filings, Bloomberg, Fitch Ratings.

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Definitions

Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.

FCF/Revenue: FCF after dividends divided by revenue.

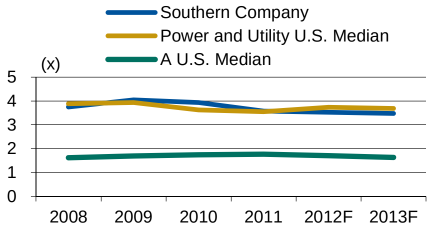
FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock.

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecasts assumptions include:

- Moderate growth in sales across all utility subsidiaries.
- CWIP in rates for the Vogtle units 3 and 4.
- Allowance for funds used during construction (AFUDC) in rates for Kemper IGCC till the plant becomes operational in May 2014, on budget and on schedule.
- Investment tax credits included in FFO.

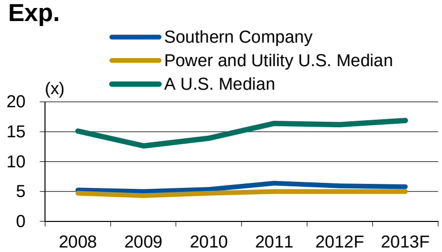
Key Metrics

Leverage: Total Adj. Debt/Op. EBITDAR



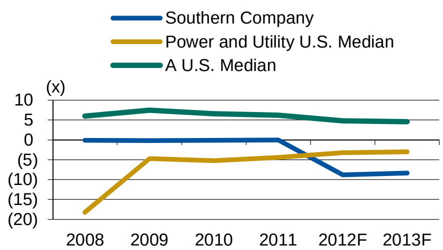
F – Forecast.
Source: Company data, Fitch.

Int. Coverage: Op EBITDA/Gross Int. Exp.



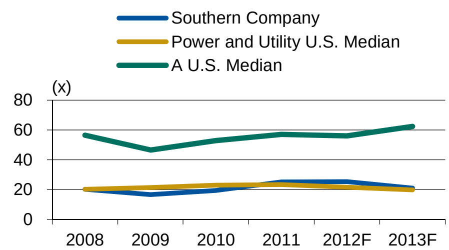
F – Forecast.
Source: Company data, Fitch.

FCF/Revenues



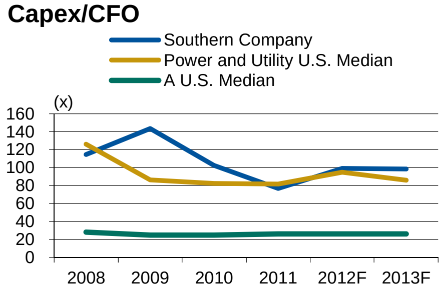
F – Forecast.
Source: Company data, Fitch.

FFO/Debt



F – Forecast.
Source: Company data, Fitch.

Capex/CFO



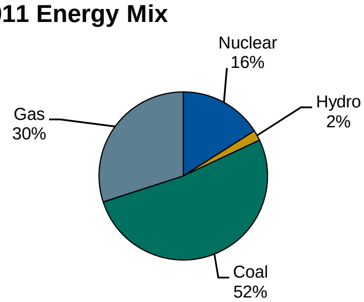
F – Forecast.
Source: Company data, Fitch.

Projected Environmental Capex

($ Mil.)	2013	2014
MATS Compliance	440	1,215
Proposed Water and Coal Combustion Byproduct Rules	85	405

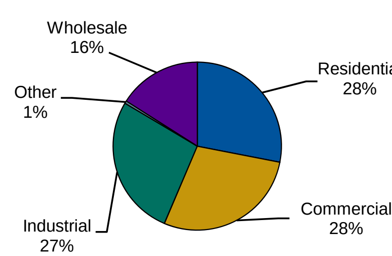
MATS – Mercury and Air Toxics Standards.
Source: Company data, Fitch.

2011 Energy Mix



Source: Company data, Fitch.

2011 Territorial Customer Mix



Source: Company data, Fitch.

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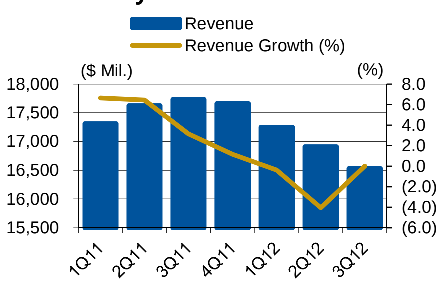
Company Profile

Southern Company is a utility holding company of four regulated and vertically integrated electric utilities that operate in the states of Alabama, Georgia, Florida, and Mississippi. Southern Power, the nonregulated generation company, sells electricity under long-term contracts, primarily to investment-grade counterparties, including affiliates. Other subsidiaries include Southern Nuclear, which provides nuclear plant operating services to Georgia Power and Alabama Power, and Southern Services Company, which provides system services to subsidiary companies. The state regulatory environment across Southern Company's regulated subsidiaries is generally constructive and provides reasonable return on equity (ROE) that is higher than the national average.

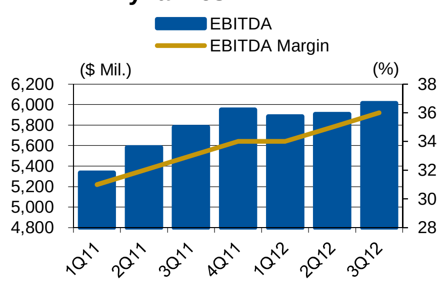
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Pension Analysis

Pension Analysis

	2011	2010
PBO (Under)/Over Funded Status ($ Mil.)	(1,279)	(389)
Pension Funded Analysis (%)	84.17	94.61
Estimated Pension Outflows/(FFO+Pension Contribution) (%)	6.84	4.85

Source: Company data, Fitch.

Financial Summary — Southern Company

($ Mil., Fiscal Years Ended Dec. 31)	2008	2009	2010	2011	LTM Ended 9/30/12
Fundamental Ratios (x)					
FFO/Interest Expense	4.92	4.30	5.07	6.70	6.64
CFO/Interest Expense	4.65	4.26	5.02	7.31	6.61
FFO/Debt (%)	18.78	15.49	18.21	23.54	23.18
Operating EBIT/Interest Expense	3.70	3.48	3.84	4.53	4.44
Operating EBITDA/Interest Expense	5.22	4.98	5.36	6.36	6.30
Operating EBITDAR/(Interest Expense + Rent)	5.15	4.91	5.29	6.36	6.30
Debt/Operating EBITDA	4.00	4.28	4.17	3.81	3.86
Common Dividend Payout (%)	73.48	83.32	75.75	72.67	77.38
Internal Cash/Capital Expenditures (%)	53.36	39.11	59.40	93.53	72.60
Capital Expenditures/Depreciation (%)	275.05	311.11	270.39	263.83	280.37
Profitability					
Adjusted Revenues	17,127	15,743	17,456	17,657	16,530
Net Revenues	9,494	9,317	10,194	10,787	10,815
Operating and Maintenance Expense	3,748	3,526	4,010	3,938	3,918
Operating EBITDA	4,962	4,986	5,328	5,948	6,011
Depreciation and Amortization Expense	1,443	1,503	1,513	1,717	1,773
Operating EBIT	3,519	3,483	3,815	4,231	4,238
Gross Interest Expense	950	1,002	994	935	954
Net Income for Common	1,742	1,643	1,975	2,203	2,228
Operating and Maintenance Expense % of Net Revenues	39.48	37.84	39.34	36.51	36.23
Operating EBIT % of Net Revenues	37.07	37.38	37.42	39.22	39.19
Cash Flow					
Cash Flow from Operations	3,463	3,263	3,991	5,903	5,349
Change in Working Capital	(263)	(45)	(59)	573	(33)
Funds From Operations	3,726	3,308	4,050	5,330	5,382
Dividends	(1,345)	(1,434)	(1,561)	(1,666)	(1,740)
Capital Expenditures	(3,969)	(4,676)	(4,091)	(4,530)	(4,971)
FCF	**(1,851)**	**(2,847)**	**(1,661)**	**(293)**	**(1,362)**
Net Other Investment Cash Flow	(191)	17	(183)	322	(78)
Net Change in Debt	1,903	1,502	844	111	759
Net Equity Proceeds	349	1,286	772	723	399
Capital Structure					
Short-Term Debt	953	639	1,297	859	335
Long-Term Debt	18,886	20,713	20,940	21,781	22,880
Total Debt	**19,839**	**21,352**	**22,237**	**22,640**	**23,215**
Total Hybrid Equity and Minority Interest	1,102	1,102	1,102	999	999
Common Equity	13,276	14,878	16,202	17,578	18,639
Total Capital	**34,217**	**37,332**	**39,541**	**41,217**	**42,853**
Total Debt/Total Capital (%)	57.98	57.20	56.24	54.93	54.17
Total Hybrid Equity and Minority Interest/Total Capital (%)	3.22	2.95	2.79	2.42	2.33
Common Equity/Total Capital (%)	38.80	39.85	40.98	42.65	43.50

Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 22 Feb 2013

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Jr Subordinate Shelf	(P)Baa1
Pref. Stock	Baa1
Commercial Paper	P-1

Contacts

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William L. Hess/New York City	212.553.3837

Key Indicators

[1]**Southern Company (The)**

	LTM 9/30/2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	**6.5x**	**6.5x**	**5.2x**	**4.4x**
(CFO Pre-W/C) / Debt	**24%**	**24%**	**21%**	**19%**
(CFO Pre-W/C - Dividends) / Debt	**17%**	**17%**	**14%**	**12%**
Debt / Book Capitalization	**45%**	**46%**	**47%**	**50%**

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

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

Opinion

Rating Drivers

- Utility subsidiaries operate in generally credit supportive regulatory environments

- New nuclear construction project is experiencing schedule delays and cost increases

- Kemper IGCC plant has raised business and operating risk profile of Mississippi Power

- Highly contracted competitive generation subsidiary at Southern Power with growing renewable energy business outside of Southeast

- Exposure to environmental compliance mandates

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A2 senior unsecured, stable outlook), Mississippi Power Company (A3 senior unsecured, negative outlook) and Gulf Power Company (A3 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utility subsidiaries rated at low to mid-A rating levels and a highly contracted Baa1 rated wholesale generating company. Southern's traditionally low risk profile has increased modestly in recent years as a result of new nuclear and IGCC construction, substantial capital expenditures related to environmental compliance, and a thus far limited expansion into unregulated renewable generation outside of its historical Southeast region. Its regulated utilities operate in generally credit supportive regulatory environments, with the Florida regulatory environment improving after a period of substantial uncertainty. Georgia Power's new nuclear construction project is experiencing some delays and cost increases, which has raised that utility's business and operating risk profile. Mississippi Power's ratings have a negative outlook because of issues associated with its new Kemper IGCC plant construction currently underway, although a recently announced regulatory settlement provides some clarity and mitigates rate pressure.

DETAILED RATING CONSIDERATIONS

GENERALLY CREDIT SUPPORTIVE REGULATORY ENVIRONMENTS

Southern's rating considers the credit supportive regulatory environments in Alabama, Georgia, Florida, and Mississippi, where each utility subsidiary has reasonably constructive relationships with its commission and where there are generally strong cost recovery provisions. The utilities operate under formula rate plans with authorized ROE levels that are at or above average for electric utilities nationwide. There are several adjustment mechanisms in place to address rising costs and each jurisdiction allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

Georgia Power is in the final year of a three year Alternate Rate Plan (ARP) that began on 1 January 2011 and continues through 2013, and the utility is expected to file a new rate case during the second half of 2013. Under the current plan, the company's retail return on equity is set at 11.15% and evaluated within a bandwidth of between 10.25% and 12.25%, with two thirds of earnings above the range refunded to customers and the remaining one-third retained by the company. Under the terms of the ARP, on 1 November 2012, Georgia Power filed for an increase in its Demand Side Management tariffs by approximately $16 million and an increase in base tariffs of approximately $58 million to recover revenue requirements for its Plant McDonough-Atkinson Units 4, 5 and 6. It also filed for a reduction in its fuel cost recovery rate that would reduce annual billings by approximately $122 million.

Alabama Power operates in a supportive regulatory environment with above average returns and strong cost recovery provisions. Since 1982, the company has operated under Rate Stabilization and Equalization (RSE) plan, under which it is allowed to earn an ROE level within a band of 13% and 14.5% with rates adjusting to maintain a ROE of 13.75% if projected earnings are outside the authorized range. On 10 January 2013, the Alabama PSC decided not to formally review the utility's ROE, but it will still undergo an informal review as part of the company's

RSE plan. On 6 November 2012, the Alabama PSC approved an accounting order permitting the deferral of some expenses and an increase in 2013 pension costs into a regulatory asset to be amortized over several years. The utility expects the accounting order and other cost containment measures will preclude a need for a 2013 rate adjustment under the Rate RSE.

At Mississippi Power, the final Mississippi Public Service Commission (MPSC) order approving construction of the Kemper IGCC plant approved a construction cap of $2.88 billion and financing cost recovery of construction work in progress (CWIP) in 2012, 2013, and through 1 May 2014. However, on 22 June 2012, the MPSC unanimously voted to deny the company's initial 2012 request for recovery of financing costs, indicating that it would not be prudent given a pending Sierra Club lawsuit challenging the plant's certificate of need. Mississippi Power appealed the decision and requested interim rates under bond of $55.3 million, which was denied. However, the utility recently announced a regulatory settlement with the MPSC that will provide some rate relief in 2013, discussed more fully below. Mississippi Power's senior unsecured rating was downgraded to A3 (negative from A2 on 6 August 2012.

For Gulf Power, the political and regulatory environment for investor-owned utilities in Florida has improved since base rate proceedings for two other utilities in the state became highly politicized several years ago. Since those rate proceedings, there has been an almost complete change in the composition of the Florida Public Service Commission (FPSC), with the turnover of four of the five commissioner seats. There was also a new governor elected in the state. Because of these constructive developments, we have returned Gulf Power's score on Factor 1 of our rating methodology grid, Regulatory Framework, to the "A" or above average category from the "Baa" or average category.

NUCLEAR CONSTRUCTION PROJECT IS FACING SOME DELAYS AND COST INCREASES, WITH POTENTIAL ADDITIONAL DELAYS AND ONGOING LITIGATION INCREASING RISK

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder to be owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%). The original cost of the project was expected to be approximately $14 billion with Georgia Power's share to be $6.1 billion. As of June 30, 2012, Georgia Power had incurred $2.3 billion of costs for the project, mostly for site development, work on the nuclear island, and for long lead time equipment.

In December 2012, the GPSC's independent monitor testified that the project is in his view at least 14 months behind its original schedule, with the first unit's commercial operation date likely to occur no earlier than June 2017 instead of the original April 2016 projected date. The independent monitor also characterized the construction consortium's performance in certain key safety-related activities as unsatisfactory, particularly in the area of module construction and fabrication. Of particular concern from a credit risk standpoint is the monitor's assertion that additional delays should be anticipated given the performance of the construction consortium to date and its inability to meet milestone dates in key safety-related areas. For these reasons, he has recommended that delay scenarios of 24, 36 and 48 months be evaluated by the GPSC Staff and Georgia Power. Delays of this magnitude, if they materialize, would put additional pressure on both project costs and on Georgia Power's credit profile.

In addition, Georgia Power (and its co-owners) and the contractors have been engaged in a dispute over $930 million of cost increases ($425 million for Georgia Power) relating to changes to the Design Control Document (DCD) and costs associated with schedule delays related to the timing of approval of the DCD and issuance of the Combined Operating License by the NRC. The parties were unable to resolve their differences via mediation last year and on 1 November 2012 each party filed a lawsuit claiming the other is responsible for the cost increases. While a settlement is possible, the litigation between the owners and the contractor has been an unanticipated negative development and could raise the risk profile of the project if it is not resolved in a timely manner or other significant disputes materialize.

Georgia Power is permitted to earn a cash return on construction work in progress (CWIP), an important and supportive regulatory mechanism that will help maintain the company's financial profile during construction. Georgia Power files semi-annual construction monitoring reports with the GPSC with updated cost estimates, seven of which have been filed since August 2009. The sixth filing, covering the period July 1, 2011 through December 31, 2011, was unanimously approved by the GPSC on August 21, 2012. The seventh semi-annual construction monitoring report, for the period January 1, 2012 through June 30, 2012 was filed by the end of August 2012 and is expected to be acted upon by the GPSC this month, with the eighth construction report due to be filed by the end of February.

KEMPER IGCC PLANT HAS INCREASED BUSINESS RISK AT MISSISSIPPI POWER, ALTHOUGH RECENT SETTLEMENT WILL ALLEVIATE SOME RATE PRESSURE

Mississippi Power is currently in the midst of constructing a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. Mississippi Power originally estimated the construction costs to be $2.4 billion, net of government construction cost incentives, although costs have been revised to $2.88 billion, including a contingency of $40 to $50 million. The plant is scheduled to be in operation in May 2014. The revised cost estimate is now at the level of the Mississippi Public Service Commission (MPSC) approved construction cost cap of $2.88 billion. As of January 30, 2013, the company had spent a total of $2.5 billion on the project including the cost of the lignite mine and equipment, the CO2 pipeline facilities, and regulatory filing costs.

The plant's cost estimate is significant when compared to the overall size of the utility, making it a substantial investment. Because of the project's size, Mississippi Power's capital expenditures have increased dramatically, rising from $247 million in 2010 to $964 million in 2011 and $1.8 billion in 2012, the peak spending year. The company projects total capital expenditures will fall to $713 million in 2013. Although IGCC technology has been utilized on a limited basis at other plants, the size, scope, and complexity of the project has materially increased business and concentration risk at the utility.

In light of the substantial cost of the project and the potential impact on customer rates, the utility and the MPSC recently announced a settlement agreement regarding cost recovery. Among the key terms include the following: 1) Mississippi Power filed for $172 million of immediate rate relief, which the MPSC will act on within 50 days; and 2) inclusion of the project in rate base will be limited to $2.4 billion rather than the $2.88 billion projected cost, with the remaining $480 million expected to be securitized subject to regulatory approval. The utility will file a rate plan that will address rates over seven years on the $2.4 billion of costs allowed in rate base. Although the settlement involves several negatives in that it reduces rate base, will lower the overall project return, and will likely result in some regulatory lag, particularly with regard to the seven year rate plan, it does provide regulatory clarity, allows for complete recovery (avoiding a write-off), and lowers the initial rate increase for customers to the 20% range from the 30% to 35% estimate previously.

HIGHLY CONTRACTED COMPETITIVE GENERATION SUBSIDIARY WITH GROWING RENEWABLE ENERGY BUSINESS OUTSIDE OF SOUTHEAST

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. The company's generating capacity is approximately 80% contracted over the near term, although the average duration of the contracts has declined over the last few years. The market-based contracts under which capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers, thereby reducing Southern Power's financial and operating risk.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus with the completion of a 30 MW solar project in New Mexico and the purchase of a 20 MW solar project in Nevada in partnership with Turner Renewable Energy. Southern Power maintains a strategic alliance with Ted Turner, the largest individual landowner in the U.S., to develop and invest in additional similar solar photovoltaic projects in the US in addition to developing other solar renewable technologies. Southern Power is also the owner and operator of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. The plant came on line in June 2012 at a final cost expected to be between $460 million and $465 million, with the output fully contracted to the City of Austin for 20 years. While currently modest compared to the rest of its business, significant additional investments in renewable energy outside of the Southeast has the potential to increase Southern Power's overall business and operating risk profile.

EXPOSURE TO ENVIRONMENTAL COMPLIANCE MANDATES

As one of the largest coal-fired utility systems in the U.S., Southern is vulnerable to additional costs associated with EPA mandated environmental compliance regulations. Over the 2012-2014 time period (2013-2015 projections are not yet available), Southern projects $14 billion of base capital expenditures, with additional environmental compliance capital expenditures of up to $2.3 billion over the same period related to MATS, water

(316b), and coal combustion residual (ash) rules. This latest estimate is below the "up to $4.2 billion" estimate provided in its 2011 10-K filing, as the company reduced its environmental compliance spending estimates during 2012, citing the delay in implementation of some environmental rules and regulations. While we anticipate the continued recovery of environmental costs in rates, a significant portion of the capital program will be funded through debt issuances of approximately $10.4 billion (including $5.1 billion at Georgia Power) from 2012 through 2014.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of 30 September 2012. Southern maintains a $1 billion five year credit facility at the parent company that expires in 2016. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of 30 September 2012, Southern was in compliance with its financial covenant.

Southern had approximately $1.3 billion of cash on hand and $329 million of commercial paper outstanding on a consolidated basis as of 30 September 2012. We anticipate dividend contributions from its subsidiaries will be in the range of $1.5 billion to $1.8 billion in 2013. Both Georgia Power and Mississippi Power will also require equity infusions in 2013 to help meet construction expenditures.

Southern's utilities and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities are approximately $5.17 billion as of 30 September 2012 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $387 million expires in 2013, with the bulk expiring in 2014 and subsequent years.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $635 million as of 30 September 2012. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.7 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash. As of 30 September 2012, Southern had approximately $2.4 billion of consolidated long-term debt maturities over the twelve months ending 30 September 2013.

Rating Outlook

The stable rating outlook reflects Moody's expectation that Southern Company's utility regulatory environments will remain credit supportive; that delays and cost increases at the Vogtle nuclear and Kemper IGCC construction projects will remain manageable and that most costs will be recovered in rates; and that new environmental regulations will be phased in and costs recovered without significant regulatory lag or substantial deferrals.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries are engaged in major new construction projects. Ratings could be raised, however, if there is significant progress on the construction of the Vogtle nuclear construction project, including resolution of pending litigation, and it remains close to its original schedule and budget. Southern's rating could also be raised if one or both of its largest utility subsidiaries, Alabama Power or Georgia Power, are upgraded; or if consolidated financial metrics show sustained improvement, including CFO pre-W/C to debt above 22%, after adjusting for bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if either Alabama Power or Georgia Power's ratings are lowered; if there are significant additional delays or cost increases on the Vogtle nuclear project; if there is substantial additional debt issued at the parent company level; if major new environmental costs are incurred that are not recovered in rates on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry [1][2]	**LTM 09/30/2012**		**Moody's 12-18 month Forward View* As of February 2013**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		A		A
b) Generation and Fuel Diversity (5%)		Baa		Baa
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	6.0x	A	5.5 - 6.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	23.0%	A	20 - 23%	A/Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	15.9%	Baa	13 - 16%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	46.1%	Baa	44 - 46%	A/Baa
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		Baa1

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

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 09/30/2012(LTM); Source: Moody's Financial Metrics

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Moody's Investors Service

Credit Opinion: Southern Company (The)

Global Credit Research - 21 Feb 2014

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A3
Pref. Stock	A3
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

	9/30/2013(L)	12/31/2012	12/31/2011	12/31/2010	12/31/2009
CFO pre-WC + Interest / Interest	**6.5x**	**6.7x**	**6.5x**	**5.2x**	**4.8x**
CFO pre-WC / Debt	**22.0%**	**24.0%**	**23.8%**	**20.8%**	**18.8%**
CFO pre-WC - Dividends / Debt	**14.9%**	**16.9%**	**16.7%**	**13.8%**	**12.3%**
Debt / Capitalization	**45.7%**	**45.8%**	**46.2%**	**47.4%**	**49.8%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Utility subsidiaries operate in credit supportive regulatory environments

- New nuclear construction project is progressing after some schedule delays and cost increases

- Kemper IGCC plant is well over budget and has raised business and operating risk profile of Mississippi Power

- Mostly contracted competitive generation subsidiary with growing renewable energy business outside of Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa1 senior unsecured, stable outlook) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utility subsidiaries with ratings between A1 and Baa1 and a highly contracted Baa1 rated wholesale generating company. Southern's traditionally low risk profile has increased modestly in recent years as a result of new nuclear and IGCC construction, substantial capital expenditures for both these projects and for environmental compliance, and a thus far limited expansion into unregulated renewable generation outside of its historical Southeast region. Its regulated utilities operate in generally credit supportive regulatory frameworks, with the resolution of several rate proceedings over the last year, although the Mississippi regulatory environment has been somewhat affected by Kemper IGCC project issues. Ratings of utility subsidiaries Alabama Power and Gulf Power were recently upgraded as part of a wider rating action reflecting Moody's more favorable view of the relative credit supportiveness of US utility regulation.

DETAILED RATING CONSIDERATIONS

GENERALLY CREDIT SUPPORTIVE REGULATORY ENVIRONMENTS WITH RESOLUTION OF SEVERAL RATE PROCEEDINGS OVER THE LAST YEAR

Southern's rating considers the generally credit supportive regulatory environments in the states in which it operates where each utility subsidiary has reasonably constructive relationships with its regulators and generally strong cost recovery provisions. The utilities operate under rate plans with authorized ROE levels that are at or above the average for electric utilities nationwide. There are several automatic adjustment mechanisms in place to address rising costs and each jurisdiction allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

Georgia Power, Southern's largest utility subsidiary, operates under a new three year rate settlement ("2013 Alternate Rate Plan") implemented on 1 January 2014 that we viewed as supportive of the company's credit profile, particularly considering the additional annual rate increases associated with ongoing nuclear construction. Under the new settlement, the company increased its base rates by $79.5 million effective January 1 and will collect an additional $30.5 million in 2014 through its Environmental Compliance Cost Recovery (ECRT) and other tariffs, for a total rate increase of $110 million. Additional base rate and cost recovery tariff rate increases estimated to total $186.8 million in 2015 and $169.8 million in 2016 will also be implemented as part of the settlement.

The settlement represents a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 31 December 2013, including its three year term. Under the new Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10% to 12% from 10.25% to 12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery tariff.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has remained credit supportive despite recent scrutiny of Alabama Power's return on equity and changes to the utility's long standing rate plan that occurred in 2013. The utility had operated under an Alabama Public Service Commission (APSC) approved Rate Stabilization and Equalization (Rate RSE) plan that was in place since 1982. Under this structure, the utility had been allowed to earn an ROE level within a range of 13% to 14.5%.

In January 2013, the APSC declined, by a two-to-one vote, to initiate a formal review of the Rate RSE plan that was proposed by one of the three commissioners. The APSC instead decided to hold public hearings on the matter and to consider changes to the Rate RSE construct outside of the formal review.

On 13 August 2013, the APSC voted, again by a two-to-one margin, to accept the APSC staff recommendation for a change to the Rate RSE plan by moving to a weighted average cost of capital approach. The new Rate RSE eliminates the 13% to 14.5% ROE range and 45% allowed equity ratio and replaces them with an allowed weighted cost of equity ("WCE") range of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. The revised Rate RSE became effective this year with substantially all of the other provisions of the Rate RSE remaining unchanged.

In Mississippi, issues associated with the Kemper IGCC plant have had an adverse impact on the Mississippi regulatory environment under which Mississippi Power operates. A key question will be whether these developments will lead to a permanent change in the regulatory framework or if it will return to the credit supportive construct that had existed previously. The Mississippi Public Service Commission (MPSC) capped recoverable plant construction costs at $2.88 billion, with none of the cost increases announced in 2013 being recoverable from customers, which has helped mitigate the impact of these cost increases on Mississippi Power's regulators and ratepayers.

Mississippi Power is currently operating under a rate settlement that incorporated a 15% increase in retail rates effective March 2013 and an additional 3% increase in retail rates effective 1 January 2014, which together will collect $156 million annually. Amounts collected through April 2014, which are expected to total $126 million, will be recorded as a regulatory liability to be used to mitigate the impact on rates when the plant is placed into service. The Kemper rate recovery plan filed for the first seven years of its operation essentially limits rate recovery in the early years and defers some recovery over the seven year term of the agreement, and perhaps longer. However, it has had a key positive credit benefit of mitigating rate shock and averting a rate increase that could have been higher than 30% if Kemper capital and financing costs were put into rates all at once.

In December, the Florida Public Service Commission unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allows the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continues its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

NUCLEAR CONSTRUCTION IS PROGRESSING AFTER SOME DELAYS AND COST INCREASES, WITH INITAL DOE LOAN GUARANTEES RECENTLY EXECUTED

Georgia Power is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

On 20 February 2014, Georgia Power announced that it had closed on the first tranche of US Department of Energy loan guarantee program by borrowing $1 billion from the Federal Financing Bank with a final maturity date of 2044. We view the DOE loan guarantee as credit positive for Georgia Power as it modestly lowers the financing costs of the project and demonstrates to Georgia state regulators and other constituents the company's commitment to minimize the financing costs of the construction project on its electric ratepayers. The company estimates the loan guarantees will result in $225 to $250 million of net present value savings to customers compared to traditional financing.

In early 2013, in its 8th Semi-Annual Vogtle Construction Monitoring Report (8th VCM) filed with the GPSC, Georgia Power requested a $381 million increase in the certified capital cost of its share of the project to approximately $4.8 billion from $4.4 billion. It also indicated that there would be an increase in financing costs by $356 million to approximately $2.1 billion from $1.7 billion due to a delay in the scheduled completion date, for a combined capital and financing cost increase of $737 million.

The company attributed these cost increases primarily to delays in obtaining Nuclear Regulatory Commission (NRC) approval for the plant's design, as well as problems with the construction of certain plant components, most notably plant modules being manufactured off-site by Shaw Modular Solutions (SMS) in Lake Charles, Louisiana. The commercial operation date of the project has been moved to the fourth quarter of 2017 for Unit 3 (from April 2016 originally) and the fourth quarter of 2018 for Unit 4 (from April 2017 originally).

These cost increases and schedule delays follow some other negative project developments, including ongoing litigation with the construction consortium over responsibility for $425 million of additional costs that were not included in the 8th VCM filing and more than 20 license amendment requests requiring approval by the NRC as a result of deviations to the originally approved project design.

Despite these developments, regulatory support continues to be strong for the project, and Georgia Power earns a cash return on construction work in progress (CWIP) up to the certified capital cost, which helps to maintain the company's financial profile and credit metrics over the lengthy construction period. Construction continues to proceed with key building modules in the process of being placed in the first of the two nuclear units (Unit 3). The GPSC has verified and approved all costs incurred through the 8th VCM ($2.2 billion as of 31 December 2012), with the 9th and 10th VCMs expected to be filed together by the end of February 2014.

On 3 September 2013, the GPSC approved a stipulation entered into by the company and the GPSC staff that waives the requirement that the GPSC approve further increases to the certified project cost. Additional increases in the certified cost would not occur until the completion of Unit 3. We view this stipulation as credit negative because any financing costs above the certified amount would no longer be recovered through the Nuclear Construction Cost Recovery (NCCR) tariff and any construction costs above the certified cost would not be included in rate base until Unit 3 is completed, if shown to be reasonable and prudent. Although the GPSC would continue to consider costs up to the certified cost through the current VCM process, we had considered its approval of certified cost increases as an important part of the regulatory validation process. We believe the ongoing litigation with the construction consortium, one of the rationales for entering into the stipulation, has negatively affected the critical regulatory approval process that has been in place between the GPSC and the company since the outset of the Vogtle construction project.

The extent of any financial and/or ratings pressure over the remaining construction period will depend on the progress of construction, the magnitude of cost overruns or schedule delays that still may occur, and the continued supportiveness of the GPSC on the recovery of project costs. Significant additional cost increases or schedule delays leading to a decrease in the level of regulatory, political, public, or partner support for the project could have negative credit consequences.

KEMPER IGCC PLANT CONSTRUCTION HAS EXPERIENCED SUBSTANTIAL COST OVERRUNS AND DELAYS

Mississippi Power is in the midst of constructing a 582 MW integrated coal gasification combined cycle or IGCC plant in Kemper County, Mississippi. The company originally estimated the construction costs of the plant alone to be $2.4 billion, net of government construction cost incentives, although cost estimates have been revised upward several times and now stand at $4.06 billion ($5.04 billion in total, including peripheral items such as the lignite mine and CO2 pipeline, which are excluded from the MPSC imposed cost cap). Over the past year, the utility announced several cost increases totaling $1.2 billion, for which it and parent company Southern took pre-tax charges to net income. These charges were necessary because the utility will not be able to seek recovery of these additional costs from Mississippi ratepayers pursuant to a settlement agreement with the Mississippi Public Service Commission.

The plant's current $5 billion total cost estimate is substantial when compared to the total asset size of Mississippi Power, making it a substantial investment and material undertaking for the company and resulting in substantial concentration risk. Because of the project's size, Mississippi Power's capital expenditures have increased dramatically, rising from $340 million in 2010 to $1.2 billion in 2011 and $1.7 billion in 2012, the peak spending year. The company had projected total capital expenditures to fall to $796 million in 2013, although the recent announced cost increases will increase this amount to approximately $1.8 billion.

In October 2013, Mississippi Power announced that it had postponed the scheduled in-service date for the Kemper plant to the fourth quarter of 2014 from May 2014 as the result of lower-than-planned installation levels for piping at the plant as well as abnormally wet weather. The company now expects to begin testing the plant's gasifier in the second quarter of 2014 and begin delivering syngas to each of the plant's combustion turbine units in the third quarter of 2014.

On 27 January 2014, the company again slightly revised its cost estimate upward to $4.06 billion, taking a $40 million ($25 million after-tax) charge in the fourth quarter of 2013, in addition to charges totaling $1.1 billion ($656 million after-tax) that had been recognized by the company earlier in the year. Through December 2013, the company had spent a total of $3.3 billion on the plant and nearly $700 million on related aspects of the project, for a total of approximately $4 billion, or 80% of the overall project cost.

MOSTLY CONTRACTED COMPETITIVE GENERATION SUBSIDIARY WITH GROWING RENEWABLE ENERGY BUSINESS OUTSIDE OF SOUTHEAST

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. The company's generating capacity is approximately 80% contracted over the near term, although the average duration of the contracts has declined over the last few years. The company has also experienced a decline in energy margins over the last year, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus, most recently with the August 2013 acquisition of the 20 MW Adobe Solar power generating project under construction in Kern County, California, expected to be operational in the spring of 2014. This follows the April 2013 acquisition of the larger 139-MW Campo Verde Solar project in southern California. Both acquisitions were made in partnership with Turner Renewable Energy, the company's strategic alliance with Ted Turner, the largest individual landowner in the U.S., to develop and invest in additional similar solar photovoltaic projects in the US in addition to developing other solar renewable technologies. Southern Power is also the owner and operator of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. While currently modest compared to the rest of its business, significant additional investments in renewable energy outside of the Southeast has the potential to increase Southern Power's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of 30 September 2013. Southern maintains a $1 billion five year credit facility at the parent company with an expiration date in 2018. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of 30 September 2013, Southern was in compliance with its financial covenant.

Southern had approximately $682 million of cash on hand and $760 million of commercial paper outstanding on a consolidated basis as of 30 September 2013. We anticipate dividend contributions from its subsidiaries will be in the range of $1.8 billion to $2.0 billion in 2014. Both Georgia Power and Mississippi Power are also expected to require equity infusions to help meet construction expenditures in 2014.

Southern's utilities and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities are approximately $5.2 billion as of 30 September 2013 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $553 million expire in 2014, $60 million in 2015, $480 million in 2016 and $4.1 billion in 2018.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $656 million as of 30 September 2013. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.6 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash. As of 30 September 2013, Southern had approximately $1.3 billion of consolidated debt maturities over the next twelve months. Southern has also guaranteed the obligations of Mississippi Power with respect to a $150 million refundable deposit from Kemper IGCC plant co-owner Southern Mississippi Electric Power Association (SMEPA).

Rating Outlook

The stable rating outlook reflects Moody's expectation that Southern Company's utility regulatory environments will remain credit supportive; that delays and cost increases at the Vogtle nuclear and Kemper IGCC construction projects will remain manageable; that subsidiary Georgia Power will continue to recover prudently incurred costs related to Vogtle on a timely basis, and that regulatory, political, public, and partner support for the Vogtle project will continue. The stable outlook is also supported by the recent upgrades of two of its four regulated utility subsidiaries.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries are in the midst of major new construction projects. Ratings could be raised, however, if there is significant additional progress made on the construction of the Vogtle project under current cost and schedule estimates, including resolution of pending litigation with the construction consortium, such that Georgia Power's rating is upgraded. Southern's rating could also be raised if consolidated financial metrics show sustained improvement, including CFO pre-W/C to debt above 22%, after adjusting for bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if Georgia Power or one or more of its other significant subsidiary's ratings are lowered; if there are significant additional delays or cost increases on the Vogtle nuclear project; if there is substantial additional debt issued at the parent company level; if major new environmental or other costs are incurred that are not recovered in rates on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2013**		[3]**Moody's 12-18 Month Forward ViewAs of February 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.4x	Aa	5.0x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	23.6%	A	22% - 25%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	16.3%	Baa	14% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	45.2%	Baa	45% - 47%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching		-1		-1

a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2013(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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Summary:
Gulf Power Co.

Primary Credit Analyst:
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160186-OPC-POD-71-373

Summary:

Gulf Power Co.

Corporate Credit Rating	A/Negative/A-1

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable	Excellent
FINANCIAL RISK	SIGNIFICANT	Highly leveraged	Minimal

Initial Analytical Outcome ("Anchor") And Rating Result

Our 'A' issuer credit rating on Gulf Power Co. is derived from:

- Our anchor of 'a-', based on our "excellent" business risk and "significant" financial risk profile assessments for the company.
- We assess the comparable rating analysis modifier as positive, lifting the anchor score by one notch to 'a' from 'a-'.
- Under our group rating methodology, we consider Gulf Power to be a core subsidiary of Southern Co., which has a group credit profile of 'a'. As a result, we assign Gulf Power an 'A' issuer credit rating.

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Regulated integrated electric utility operations benefiting from a generally constructive regulatory framework • Medium size service territory with modest customer growth • Lack of competition in regulated service territory	• Robust credit protection measures benefit from regulatory mechanisms that provide for timely investment recovery • Negative discretionary cash flow

Outlook: Negative

The rating outlook on Gulf Power reflects our rating outlook on its parent, Southern Co. The negative outlook on Southern and its subsidiaries reflects the potential for lower ratings over the next 12 to 18 months resulting from increased business risk at Mississippi Power Co. and concerns of similar challenges and issues arising at Georgia Power as the capital spending for the new nuclear units reaches its peak.

Downside scenario

We could lower the ratings on Southern and its subsidiaries if the company is unable to effectively address the regulatory and project challenges at Mississippi Power or it encounters similar obstacles with the construction of the new nuclear units in Georgia.

Upside scenario

Given the large planned capital spending program of about $14.1 billion over the next three years and the increased construction risk of the new nuclear and integrated gasification combined cycle projects, we do not expect to raise the ratings in the intermediate term. However, we could affirm the ratings and revise the outlook to stable if Southern is able to address these challenges in a timely manner while still maintaining its "significant" financial risk profile with FFO to debt of more than 13% and debt to EBITDA that remains below 4.5x on a consistent basis.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
• Gross margin growth in the mid-single digits benefiting from base rate increases of $35 million in 2014 and $20 million in 2015 • Capital spending of $400 million in 2014 and $300 million in 2015, largely for environmental compliance needs	Under our base case scenario, we expect that Gulf Power's financial risk profile will remain in the upper end of the "significant" category, although weakening somewhat from recent levels largely due to lower expected deferred tax benefits.

Business Risk: Excellent

We assess Gulf Power's business risk profile as "excellent", incorporating the benefits of operations under a generally constructive regulatory environment that enables the company to earn at or close to the allowed return, a midsize customer base that should begin to experience moderate customer growth as the local economy recovers, and a consistently good operating record for its owned generation fleet. Residential and commercial customers account for the majority of sales and revenues, providing a measure of stability to cash flows, and the company has no meaningful industrial exposure.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, enabling the company to recover invested capital in a timely manner while earning an adequate return on equity (ROE), and to recover capacity, fuel, and environmental compliance costs through riders. In its last rate case filing, Gulf Power received approval to raise base rates by $35 million in 2014 and by an additional $20 million in 2015, with an allowed ROE of 10.25%. In addition, Gulf Power received approval to file for recovery of about $200 million in requested transmission investments starting in 2017 while accruing carrying costs in the interim.

Gulf Power is Southern Co.'s third-largest subsidiary, serving 440,000 customers, primarily in the Florida Panhandle, and providing about 6% to 8% of consolidated operating income.

Financial Risk: Significant

We view Gulf Power's financial risk profile as being in the "significant" category using the medial volatility financial ratio benchmarks, reflecting our base case scenario that the company will maintain credit protection measures that remain in the upper end of the category. For the year ended Dec. 31, 2013, FFO to debt was 25.1% and debt to EBITDA was 3.4x, although we expect both measures will weaken somewhat over the next few years as capital spending rises leading to modestly higher debt levels and as deferred tax benefits decline.

Liquidity: Adequate

We view Gulf Power's liquidity on a consolidated basis with that of Southern, given Gulf Power's group status as a core subsidiary.

In our opinion, Southern's liquidity is "adequate" to cover its needs over the next 12 to 18 months. We expect the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an "adequate" designation under our criteria, and that the company will also meet our other criteria for such a designation.

Southern has $4.7 billion in revolving credit facilities, with $560 million maturing in 2014, $480 million in 2016, and $3.6 billion in 2018. As of Dec. 31, 2013, total undrawn capacity was $3.2 billion.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash from operations of about $5.25 billion to $5.5 billion • Availability under the revolving credit facility of about $3.5 billion • About $600 million in equity proceeds in 2014 • Cash on hand of about $250 million to $500 million	• Debt maturities of $620 million in 2014 and $2.45 billion in 2015 • Maintenance capital spending of between $3.5 billion and $4 billion • Common dividends of about $1.9 billion

Other Modifiers

The positive comparable rating analysis modifier reflects our view that Gulf Power is favorably positioned relative to peers at a similar rating level, accounting for the company's long-standing effective management of regulatory risk, lack of unregulated operations, and good operating record for owned generation, factors we believe support its overall credit profile.

All other modifiers are neutral and do not affect the anchor score.

Group Influence

Under our group rating methodology, we consider Gulf Power to be a core subsidiary of Southern Co. Southern Co.'s group credit profile is 'a', resulting in an 'A' issuer credit rating on Gulf Power.

Ratings Score Snapshot

Issuer Credit Rating: A/Negative/A-1

Business risk: Excellent

- Country risk: Very Low
- Industry risk: Very Low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: 'a-'

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: 'a'

- Group credit profile: 'a'
- Entity status within group: core subsidiary

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

STANDARD & POOR'S RATINGS SERVICES
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Summary:
Southern Co.

Primary Credit Analyst:
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Secondary Contact:
Gabe Grosberg, New York (1) 212-438-6043; gabe.grosberg@standardandpoors.com

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Summary:

Southern Co.

Corporate Credit Rating	A/Negative/A-1
Profile Assessments	
BUSINESS RISK	EXCELLENT (Vulnerable — Excellent)
FINANCIAL RISK	SIGNIFICANT (Highly leveraged — Minimal)

Initial Analytical Outcome ("Anchor") And Rating Result

Our 'A' issuer credit rating on Southern Co. is derived from:

- Our anchor of 'a-', based on our "excellent" business risk and "significant" financial risk profile assessments for the company.
- We assess the comparable rating analysis modifier as positive, lifting the anchor score by one notch to 'a' from 'a-'.

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Regulated utility operations that span four states, serve a large and diverse customer base, and contribute more than 90% of consolidated operating • Operations in jurisdictions with generally constructive regulatory environments providing for timely investment recovery and cash flow stability • Construction of two new nuclear units at Georgia Power Co. and an integrated gasification combined cycle (IGCC) power plant at Mississippi Power Co. that introduces significant construction risk • Prudent and largely conservative financial risk management and generally effective management of regulatory risk	• Large capital spending program for system expansion and environmental compliance that could pressure the financial profile absent timely rate relief • Ongoing need for external financing • Generally stable debt leverage • Dividend payout ratio that remains high in light of planned capital spending program

Outlook: Negative

The negative rating outlook on Southern Co. and its subsidiaries reflects the potential for lower ratings over the next 12 to 18 months resulting from increased business risk at Mississippi Power and concerns of similar challenges and issues arising at Georgia Power as the capital spending for the new nuclear units reaches its peak.

Downside scenario

We could lower the ratings on Southern and its subsidiaries if the company is unable to effectively address the regulatory and project challenges at Mississippi Power or it encounters similar obstacles with the construction of the new nuclear units in Georgia.

Upside scenario

Given the large planned capital spending program of about $14.1 billion over the next three years and the increased construction risk of the new nuclear and IGCC projects, we do not expect to raise the ratings in the intermediate term. However, we could affirm the ratings and revise the outlook to stable if Southern is able to address these challenges in a timely manner while still maintaining its "significant" financial risk profile with FFO to debt of more than 13% and debt to EBITDA that remains below 4.5x on a consistent basis.

Standard & Poor's Base-Case Scenario

Assumptions

- Consolidated operating income grows in the mid-single digits, benefiting from incremental recovery of invested capital, recovery of financing costs and modest load growth in 2014 and 2015.
- Consolidated capital spending totals $14.1 billion through 2016 and peaks in 2014.
- Planned equity issuance of about $600 million expected in 2014
- Common dividends growth tracks earnings growth of about 4% to 6% annually.
- Timely fuel cost recovery.

Key Metrics

	2013A	2014E	2015E
FFO/debt	22.1%	18% - 20%	17% - 19%
Debt/EBITDA	3.5x	3.5x – 4x	3.5x – 4x
CFO/debt	22.4%	20% - 22%	19% - 21%

A--Actual. E--Estimated. FFO--Funds from operations. CFO--Cash flow from operations.

Business Risk: Excellent

We assess Southern's business risk profile as "excellent", incorporating the company's operations in jurisdictions with generally constructive regulatory frameworks along with largely effective management of regulatory risk; its large service territory that spans four states and provides geographical and regulatory diversity, potentially minimizing the effect of economic weakness in one particular state or any single adverse regulatory decision; and efficient operations that provide for competitively priced power across customer classes.

Throughout 2013, Southern's subsidiaries effectively addressed regulatory developments in Alabama, Georgia, and Florida, reaching constructive rate case outcomes in each state, which we expect will continue to provide cash flow stability and mitigate business risk.

The company's primary challenges remain the completion of construction and successful operation of the Kemper IGCC at Mississippi Power, now expected in late 2014, and the two new nuclear units -- Vogtle Units 3 and 4 -- at Georgia Power, in late 2017 and 2018, respectively. The Kemper project has been particularly challenging for Southern, incurring substantial cost increases and some schedule delays. In addition, the Kemper project has experienced unfavorable regulatory developments, which have led to the delayed implementation of rate increases and prudence hearings, increasing risk and introducing uncertainty in what was initially expected to be a transparent and constructive regulatory framework. While these developments have caused impairments totaling about $1.2 billion, Southern has continued to provide financial support to Mississippi Power.

The new Vogtle units are also experiencing some delays in their expected in-service dates as well as increased noncapital costs totaling $381 million to date. Project costs could increase further by as much as $425 million resulting from pending litigation between the company, the co-owners of the project, and the project contractor. Southern has no immediate plans to include the initial cost increase in the overall certified project budget. In the event such uncertified costs increase further or their recovery becomes uncertain, Georgia Power's and Southern's credit profile could weaken, given the magnitude of the Vogtle project. Nevertheless, given the project's first-of-its-kind nature, the schedule delays and cost increases experienced are not unexpected and, so far, Southern has effectively managed the risks involved, benefiting from Georgia's constructive and transparent regulatory framework as well as from the well-designed engineering, procurement, and construction contract.

Financial Risk: Significant

We view Southern's financial risk profile as being in the "significant" category using the medial volatility financial ratio benchmarks, reflecting our base case scenario that the company will maintain credit protection measures that remain in the upper end of the category, with FFO to debt of about 18% to 20% and debt to EBITDA that remains at less than 4x. While Southern incurred impairments relating to the Kemper IGCC, the company has issued equity in 2013 and plans to issue additional equity in 2014, which should provide support to its financial profile. The financial profile will also benefit from recent rate case decisions that provide for staggered rate increases over the next few years.

Liquidity: Adequate

In our opinion, Southern's liquidity is "adequate" to cover its needs over the next 12 to 18 months. We expect the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an "adequate" designation under our criteria, and that the company will also meet our other criteria for such a designation.

Southern has $4.7 billion in revolving credit facilities, with $560 million maturing in 2014, $480 million in 2016, and

$3.6 billion in 2018. As of Dec. 31, 2013, total undrawn capacity was $3.2 billion.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash from operations of about $5.25 billion to $5.5 billion • Availability under the revolving credit facility of about $3.5 billion • About $600 million in equity proceeds in 2014 • Cash on hand of about $250 million to $500 million	• Debt maturities of $620 million in 2014 and $2.45 billion in 2015 • Maintenance capital spending of between $3.5 billion and $4 billion • Common dividends of about $1.9 billion

Other Modifiers

The positive comparable rating analysis modifier reflects our view that Southern is favorably positioned relative to peers at a similar rating level, accounting for the company's long-standing effective management of regulatory risk and generally conservative management with prudent financial policies, factors we believe support its overall credit profile.

All other modifiers are neutral and do not affect the anchor score.

Group Influence

The group credit profile for Southern is 'a' and the issuer credit rating is 'A'.

Ratings Score Snapshot

Issuer Credit Rating: A/Negative/A-1

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: 'a-'

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)

- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
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- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Commercial Paper, April 15, 2008

160186-OPC-POD-71-385

MOODY'S
INVESTORS SERVICE

Credit Opinion: Gulf Power Company

Global Credit Research - 08 Aug 2014

Florida, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Subordinate Shelf	(P)A3
Pref. Stock	Baa1
Parent: Southern Company (The)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2

Contacts

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Key Indicators

[1]**Gulf Power Company**

	3/31/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	5.4x	5.4x	7.4x	5.6x	5.8x
CFO pre-WC / Debt	22.7%	20.8%	28.6%	21.4%	21.4%
CFO pre-WC - Dividends / Debt	15.0%	13.4%	21.1%	14.2%	14.3%
Debt / Capitalization	41.4%	43.4%	46.1%	49.3%	50.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Credit supportive regulatory environment with reasonable rate case settlement in late 2013

- Cash flow coverage metrics are weak for its A2 credit rating after adjusting for bonus depreciation

- High environmental capital expenditures and exposure to pending EPA carbon rules

- Position as part of Southern Company system is credit positive

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves approximately 440,000 customers in a 7,500 square mile region. Gulf Power owns 2,663 megawatts of nameplate capacity, the majority of which are coal-fired baseload units, and operates within the Southern Company power pool.

SUMMARY RATING RATIONALE

Gulf Power's A2 senior unsecured debt rating reflects a credit supportive regulatory environment in Florida; a reasonable rate case settlement in late 2013; cash flow coverage metrics that are weak for its A2 rating after adjusting for bonus depreciation; high capital expenditures for environmental compliance and transmission and distribution system investment; and exposure to pending EPA carbon rules. The rating also considers Gulf Power's position as part of the Southern Company corporate family, partially offsetting risks associated with the utility's relatively small size, concentrated service territory, and exposure to storm related event risk.

On 31 January 2014, Gulf Power was upgraded by one notch as part of a sector-wide rating action reflecting Moody's more favorable view of the relative credit supportiveness of US utility regulation.

DETAILED RATING CONSIDERATIONS

- Credit supportive regulatory environment with reasonable rate case settlement in late 2013

In December 2013, the Florida Public Service Commission (FPSC) unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a generally credit supportive regulatory framework in Florida. The settlement allows the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015; and continues its authorized ROE level of 10.25% (the midpoint of range between 9.25% and 11.25%), slightly above the national average. The settlement includes an adjustment mechanism that would increase the authorized ROE to 10.5% if the 30 year US treasury bond yield increases by a predetermined amount. The utility can accrue a return similar to AFUDC on certain transmission upgrades from 2014 to 2017, and reduce depreciation expense and record a regulatory asset for cost of removal of up to $62.5 million to reach the midpoint of its authorized ROE. As part of the settlement, Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

The political and regulatory environment for investor-owned utilities in Florida has improved since base rate proceedings several years ago resulted in adverse rate case outcomes for two other utilities in the state. Since that time, there has been an almost complete change in the composition of the Florida Public Service Commission (FPSC) , with more recent rate case outcomes for utilities in the state viewed as credit supportive. Gulf Power benefits from several timely cost recovery provisions, including a FPSC approved fuel cost recovery mechanism that includes a true-up of actual fuel costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over or under recovery exceeds 10% of the projected annual fuel revenues for the period.

In addition, with utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting Gulf Power's credit quality in storm affected years. The company can petition for recovery of any storm damage costs in excess of its storm reserve to be collected through a storm surcharge. It would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

- Cash flow coverage metrics are weak for its A2 credit rating after adjusting for bonus depreciation

Gulf Power's cash flow coverage metrics are weak for an A rating, after adjusting for high levels of bonus depreciation over the last three years, using the financial ratio parameters outlined in our ratings methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt averaged 23.6% over the last three fiscal years, on a Moody's adjusted basis, including the effects of bonus depreciation. In 2011, bonus depreciation inflated cash flow numbers by approximately $50 million; in 2012, it was responsible for most of the $190 million increase in accumulated deferred income taxes; and in 2013, it had a positive cash flow impact of $25.5 million. If the effects of bonus depreciation are excluded from the last three years' cash flows, we estimate this ratio would have averaged around 19-20% for the 2011-2013 period, below the A rating range of 22%-30% under our methodology. Gulf Power expects bonus depreciation in 2014 to be significantly less than recent years at $5 million, although this could change if bonus depreciation is extended. We view bonus depreciation as a temporary acceleration of future cash flows and typically adjust for this extraordinary benefit when evaluating utility credit quality.

- High environmental capital expenditures and exposure to pending EPA carbon rules

In 2012 and 2013, Gulf Power generated approximately 60% of its own power from coal, down from 67% in 2011 and 78% 2010, respectively, with the remaining coming from natural gas, in addition to a significant amount of predominantly gas fired purchased power. Despite the lower reliance on its own coal fired generation over the last few years, Gulf Power has faced substantial costs for environment compliance in recent years. The company is expected to spend $871 million from 2014 - 2016 on base level capital expenditures, including $464 million for environmental compliance. However, environmental capital expenditures are projected to peak this year at approximately $255 million before falling to $143 million in 2015 and $66 million in 2016.

These projected capital expenditures relate to existing statutes and regulations, and do not include costs for proposed water and coal combustion byproducts rules as well as pending EPA carbon rules. Proposed guidelines announced by the EPA on 2 June 2014 could add to the level of environmental capital expenditures in the outer years, although there is still significant uncertainty over the final rules, regulations, and timeline. We believe regulated utilities like Gulf Power will fare better than unregulated coal generators in meeting these obligations, and Gulf Power's current rating and outlook incorporate the expectation that the utility will continue to recover its environmental expenditures as part of its rate proceedings, although there could be some regulatory lag.

- Position as part of Southern Company system is credit positive

Although Gulf Power is a relatively small utility, it benefits from being part of the large, stable Southern Company system. Unlike the other three investor owned utilities in Florida with service territories in the peninsular part of the state with electric transmission and gas pipeline constraints into and out of the state, Gulf Power is highly interconnected with the rest of the Southern Company system and benefits from joint dispatch arrangements with its affiliate utilities. Several functions are handled centrally through Southern Company Services, enhancing efficiency at all of Southern's utilities, including Gulf Power.

Liquidity

Gulf Power maintains $275 million of unused bank credit facilities supporting a $200 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of 30 June 2014, the company had $139 million of commercial paper outstanding and $69 million of variable rate pollution control bonds backed by the facilities, leaving the company with $67 million of available credit facility capacity. As of 30 June 2014, of the $275 million of credit facilities, $20 million expires in 2014, $60 million in 2015, $165 million in 2016, and $30 million in 2017. Of the company's credit facilities, $50 million contain provisions allowing for term loans that can be executed by the company at expiration. There is no material adverse change clause in any of these credit agreements, and some of the facilities include a 65% debt to capital covenant. As of 30 June 2014, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a downgrade. In the event of a downgrade to Baa3, Gulf Power had potential collateral requirements of $74 million as of 30 June 2014. If Gulf Power's credit rating is downgraded below investment grade, the utility's potential collateral requirement increases to $392 million. On 30 June 2014, Gulf Power had $30 million of cash, up from $22 million at 31 December 2013. The company has $75 million of long-term debt coming due and $65 million of fixed rate pollution control revenue bonds that are required to be remarketed over the 12 months ending 30 June 2015.

Rating Outlook

The stable rating outlook reflects our view that Gulf Power's Florida regulatory environment and the cost recovery provisions in place are credit supportive. Although the utility's cash flow coverage metrics are below the parameters typically required for an A2 rating after adjusting for bonus depreciation, this is largely offset by an above average regulatory framework, lack of significant new generation needs, and its position as part of the Southern Company system.

What Could Change the Rating - Up

An upgrade could be considered if the utility's regulatory environment and cost recovery provisions remain supportive, if capital expenditures moderate from currently high levels, and if cash flow coverage metrics show sustained improvement to levels more appropriate for its rating, including CFO pre-W/C to debt of at least 25%, after adjusting for the impact of bonus depreciation.

What Could Change the Rating - Down

Ratings could be downgraded if there are adverse political or regulatory developments in Florida that could negatively affect credit quality; if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage; or if cash flow coverage metrics continue to remain significantly below our guidelines for the A rating level, including CFO pre-working capital to debt below 22% for a sustained period.

Rating Factors

Gulf Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2014**		[3]**Moody's 12-18 Month Forward ViewAs of August 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.1x	Aa	5.0x - 6.0x	A
b) CFO pre-WC / Debt (3 Year Avg)	24.8%	A	20% - 25%	A/Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	17.4%	A	12% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	44.6%	A	43% - 46%	A/Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching		na		na
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 19 Aug 2014

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A2
Pref. Stock	A3
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

	6/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	6.9x	6.9x	6.7x	6.5x	5.2x
CFO pre-WC / Debt	22.5%	24.2%	24.1%	23.8%	20.8%
CFO pre-WC - Dividends / Debt	15.1%	16.7%	16.9%	16.7%	13.8%
Debt / Capitalization	44.9%	44.1%	45.8%	46.2%	47.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Utility subsidiaries operate in credit supportive regulatory environments

- Vogtle nuclear project is an important driver of consolidated credit profile

- Kemper IGCC plant has experienced major cost overruns and delays, requiring significant capital contributions from The Southern Company

- Mostly contracted competitive generation subsidiary with growing renewable energy business outside of Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa1 senior unsecured, stable outlook) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utilities with ratings between A1 and Baa1 and a highly contracted Baa1 rated wholesale power company. Southern's traditionally low risk profile has increased modestly in recent years as a result of new nuclear and IGCC construction, substantial capital expenditures for both of these projects and for environmental compliance, and a limited expansion into unregulated renewable generation outside the Southeast. Its regulated utilities operate in mostly credit supportive regulatory frameworks, with the constructive resolution of rate proceedings in Alabama, Georgia and Florida in 2013, although the Mississippi regulatory environment has been negatively affected by Kemper IGCC project issues. The ratings of utilities Alabama Power and Gulf Power were upgraded in January 2014 as part of a wider rating action reflecting Moody's more favorable view of the relative credit supportiveness of US utility regulation.

DETAILED RATING CONSIDERATIONS

GENERALLY CREDIT SUPPORTIVE REGULATORY ENVIRONMENTS WITH RESOLUTION OF SEVERAL RATE PROCEEDINGS IN 2013

Southern's rating considers the mostly credit supportive regulatory environments in the states in which it operates where each utility subsidiary has constructive relationships with its regulators and strong cost recovery provisions. The utilities operate under rate plans with authorized ROE levels that are at or above the average for electric utilities nationwide. There are several automatic adjustment mechanisms in place to address rising costs and each jurisdiction allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

Georgia Power, Southern's largest subsidiary, operates under a three year rate settlement ("2013 Alternate Rate Plan") implemented on 1 January 2014 that we view as credit supportive, particularly considering the additional annual rate increases associated with its ongoing nuclear construction program. Under the rate plan, the company increased its base rates by approximately $80 million effective 1 January 2014 and will collect an additional $30 million in 2014 through its Environmental Compliance Cost Recovery (ECCR) and other tariffs, for a total rate increase of $110 million. Additional base rate and cost recovery tariff rate increases estimated to total $183 million in 2015 and $168 million in 2016 will also be implemented as part of the settlement. In total, rates will increase by $467 million over three years, compared to the company's original request of $482 million in the first year. The settlement represents a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 31 December 2013, including its three year term. Under the 2013 Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10% to 12% from 10.25% to 12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery tariff.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has remained credit supportive despite some scrutiny of Alabama Power's return on equity and changes to the utility's long standing rate plan in

2013. Prior to 2014, the utility had operated under an Alabama Public Service Commission (APSC) approved Rate Stabilization and Equalization (Rate RSE) plan, in place since 1982. Under this structure, the utility had been allowed to earn an ROE level within a range of 13% to 14.5%.

On 13 August 2013, the APSC voted to accept its staff recommendation for a change to the Rate RSE plan by moving to a weighted average cost of capital approach. The new Rate RSE eliminated the 13% to 14.5% ROE range and 45% allowed equity ratio and replaced them with an allowed weighted cost of equity ("WCE") range of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. The revised Rate RSE became effective in 2014 with substantially all of the other provisions of the Rate RSE remaining unchanged. In November 2013, Alabama Power made its Rate RSE submission to the APSC for 2014 and, since projected earnings were in the allowed range, retail rates would remain unchanged for 2014.

In Mississippi, delays and cost overruns associated with the Kemper IGCC plant have had an adverse impact on the Mississippi regulatory environment. A key uncertainty will be whether these developments will lead to a permanent change in the regulatory framework or if it will return to the credit supportive construct that had existed previously. The Mississippi Public Service Commission (MPSC) capped recoverable plant construction costs at $2.88 billion, with none of the $1.56 billion of cost increases above that being recoverable from customers, which has helped mitigate the impact of these cost increases on Mississippi Power's regulators and ratepayers.

In February 2013, Mississippi Power filed a rate plan for the first seven years of the plant's operation, including revenue requirements for the years 2014 through 2020; however, that plan was never approved by the MPSC and will likely be revised given the schedule delays and cost increases that have occurred since it was filed. The company has been engaged in discussions with the MPSC staff in the hopes of reaching a global settlement that would incorporate both a revised rate plan and a prudency determination. Hearings on the prudency of costs incurred through 31 March 2013 had been scheduled for the third quarter of 2014. However, on 5 August 2014, because of concerns and uncertainties related to the cost, schedule, and operational availability of the plant, the MPSC cancelled these prudency hearings and will not consider or determine prudency until after the plant is placed in commercial operation and demonstrates its availability for a reasonable period. We view this as a credit negative regulatory development as we would have viewed a determination of prudency, even for the costs incurred through 31 March 2013, as a positive sign of regulatory support for the project.

In December 2013, the Florida Public Service Commission unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allows the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continues its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

VOGTLE NUCLEAR PROJECT IS IMPORTANT DRIVER OF CONSOLIDATED CREDIT PROFILE, WITH ADDITIONAL SCHEDULE DELAYS AND COST INCREASES LIKELY

Georgia Power is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

The project has experienced some delays and cost increases over the course of construction, which can be partly attributed to the large amount of "first of a kind" practices and technology being utilized at the project. The 21 month schedule change thus far can be attributed primarily to delays in obtaining Nuclear Regulatory Commission (NRC) approval for the plant's design, as well as problems with the construction of various plant components, most notably plant modules being manufactured off-site by Shaw Modular Solutions (SMS), in Lake Charles, Louisiana (now part of Chicago Bridge and Iron or CB&I). The commercial operation date of the project has been moved to the fourth quarter of 2017 for Unit 3 (from April 2016 originally) and the fourth quarter of 2018 for Unit 4 (from April 2017 originally), although there are some indications that these dates may be delayed further.

In February 2014, the company filed its 9th and 10th Semi-Annual Vogtle Construction Monitoring Report (9th/10th VCM) with the Georgia Public Service Commission, requesting that the commission verify and approve $389 million of Vogtle expenditures made in 2013. The company also indicated that there would be a decrease in financing costs of $91 million. The certified capital cost of the project remained unchanged from the 8th VCM when it was raised by $381 million to $4.8 billion from $4.4 billion. The GPSC, which has unanimously approved all eight of the other VCM's filed over the last five years, is expected to rule on the latest two VCM's on August 19. In a positive sign, in his most recent testimony on these VCM's, the GPSC's independent monitor has recommended that the commission verify and approve these costs.

Following concerns voiced last year by the same independent monitor about the lack of detail in the integrated project schedule provided by the Vogtle construction consortium, the contractors have since presented two more detailed project schedules, although only for activities through December 2015. The first schedule, which incorporates a Unit 3 commercial operation date of January 6, 2018, close to the company's current scheduled date, is designated as an "Accelerated Schedule" and is heavily dependent on several mitigation strategies, including compression of the timing of the Shield Building construction. The company and the independent monitor have indicated that this "Accelerated Schedule" is the current project working schedule. The second project schedule presented by the contractors, which is designated a "Fully Impacted Schedule", includes a second, presumably later date for Unit 3 commercial operation, that has not been publicly disclosed. The contractors are expected to provide the company with a more detailed project schedule through the commercial operation dates later this year.

We believe the high reliance on such mitigation strategies to maintain the current schedule makes additional delays likely. The independent monitor has expressed skepticism over the ability of Georgia Power and the construction consortium to meet the designated "Accelerated Schedule" without significant but highly uncertain mitigation efforts. In addition, the GPSC staff continues to analyze delay scenarios of 45, 57, and 69 months beyond the currently scheduled commercial operation date of December 2017 and December 2018. We note that neighboring South Carolina Electric and Gas, which is building the nearly identical Summer nuclear project, recently announced a revised project schedule that has delayed the commercial operation date of its first unit until late 2018 or the first half of 2019, approximately three years after the originally projected commercial operation date.

Georgia Power continues to be engaged in litigation with the construction consortium over $425 million of additional costs associated with changes to the design approved by the NRC related to the shield building and structural modules, as well as the delay in the timing of certain NRC approvals. Although the aggregate amount of the disputed costs by themselves are not significant enough to affect Georgia Power's rating or overall credit quality, we would view significant additional legal disputes between the company and the construction contractors as credit negative.

On 20 February 2014, Georgia Power announced that it had closed on the first tranche of US Department of Energy loan guarantee program by borrowing $1 billion from the Federal Financing Bank with a final maturity date of 2044. We view the DOE loan guarantee as credit positive for Georgia Power as it modestly lowers the financing costs of the project and demonstrates to Georgia state regulators and other constituents the company's commitment to minimize the financing costs of the construction project on its electric ratepayers. The company estimates the loan guarantees will result in $250 million of 2018 net present value savings to customers compared to traditional financing.

The extent of any financial and/or ratings pressure over the remaining construction period will depend on the progress of construction, the magnitude of cost overruns or schedule delays that still may occur, and the continued supportiveness of the GPSC on the recovery of project costs, which has not wavered much this far. Significant additional cost increases or schedule delays that lead to a decrease in the level of regulatory, political, public, or partner support for the project could have negative credit consequences.

KEMPER IGCC PLANT HAS EXPERIENCED SUBSTANTIAL COST OVERRUNS AND DELAYS, REQUIRING CAPITAL CONTRIBUTIONS FROM SOUTHERN COMPANY

Mississippi Power has experienced significant cost overruns and schedule delays at its 582 MW integrated coal gasification combined cycle or IGCC plant under construction in Kemper County, Mississippi. The plant is close to transitioning from its construction phase (which is approximately 95% complete) to its start-up phase, with the first gasifier expected to be fired in the late 3rd quarter or early 4th quarter of this year, and the first syngas production expected late this year. The company originally estimated construction costs of $2.4 billion, net of government construction cost incentives, and the MPSC agreed to a cap on recoverable costs of $2.88 billion. However, that amount has been revised upward several times and was most recently increased to $4.44 billion ($5.56 billion in total, including peripheral items like the lignite mine and CO2 pipeline, which are excluded from the cost recovery cap).

To finance the project, Mississippi Power received capital contributions from Southern of $300 million in 2011,

$700 million in 2012, $1.1 billion in 2013, and $210 million during the first half of 2014. Over the course of 2013, the utility announced cost increases totaling $1.18 billion, for which it and its parent company, Southern, took pre-tax charges to net income. In the first quarter of 2014, the company and Southern wrote off an additional $380 million, although no additional material cost increases or write-offs occurred in the second quarter of 2014, the first time in six quarters costs have not increased.

Mississippi Power has extended the in-service date of the plant (including the complicated gasification system) from its original May 2014 date to the first half of 2015. On 14 August 2014, the company announced that the plant's combined cycle unit had been placed into commercial operation. Because of the delay in the in-service date, the company lost $133 million of tax credits ($113 million net of Southern Mississippi Electric Power Association' co-ownership) that had been allocated by the IRS in 2014 under the condition that it was completed by the original May 2014 date. Furthermore, the utility may also lose approximately $130 million to $160 million of bonus depreciation benefits that will need to be adjusted in its pending seven year rate plan settlement, which remains under discussion and subject to the final approval of the MPSC. A possible extension of bonus depreciation benefits beyond 2014 could reduce these lost benefit amounts.

The Kemper project has been a substantial undertaking for a company the size of Mississippi Power. At its current $5.56 billion cost estimate, the plant is over twice the company's total equity of $2.2 billion at 30 June 2014. Because of the project's size, the company's capital expenditures have increased to approximately $1.6 billion in both 2012 and 2013 compared to the $200 million range pre-Kemper. The company expects capital expenditures to remain high at $1.6 billion in 2014, but decrease to $461 million and $249 million in 2015 and 2016, respectively, assuming no additional cost increases.

MOSTLY CONTRACTED COMPETITIVE GENERATION SUBSIDIARY WITH GROWING RENEWABLE ENERGY BUSINESS OUTSIDE OF SOUTHEAST

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. The company's generating capacity is approximately 79% contracted over the next five years, although the average duration of the contracts has exhibited a declining trend in recent years. The company has also experienced lower energy margins, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus, most recently with the May 2014 acquisition of the 50 MW Macho Springs solar generating facility in Luna County, New Mexico, which began commercial operation in May 2014. This follows the April 2014 acquisition of the 20 MW Adobe solar project in southern California. Both projects have 20-year power purchase agreements with investor owned utilities El Paso Electric and Southern California Edison, respectively. Southern Power is also the owner and operator of the 100 MW Nacogdoches biomass-fueled generating facility in Nacogdoches, Texas. While currently modest compared to the rest of its business, significant additional investments in renewable energy outside of the Southeast has the potential to increase Southern Power's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of 30 June 2014. Southern maintains a $1 billion five year credit facility at the parent company with an expiration date in 2018. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of 30 June 2014, Southern was in compliance with its financial covenant.

Southern had approximately $583 million of cash on hand and $1.6 billion of commercial paper outstanding on a consolidated basis as of 30 June 2014. We anticipate dividend contributions from its subsidiaries will be in the $2 billion range in both 2014 and 2015. Both Georgia Power and Mississippi Power will require equity infusions to help meet construction expenditures in 2014 and 2015.

Southern's utilities and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities were approximately $5.2 billion as of 30 June 2014 (with $1.7 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $223 million expires in 2014, $335 million in 2015, $480 million in 2016, $30 million in 2017, and $4.1 billion in 2018. Of these credit facilities, approximately $188 million have provisions allowing for term loans that can be executed by the relevant utility upon facility expiration.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $448 million as of 30 June 2014. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.2 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash. As of 30 June 2014, Southern had approximately $585 million of consolidated long-term debt maturities over the next twelve months, in addition to $1.8 billion of notes payable. Southern has also guaranteed the obligations of Mississippi Power with respect to a $225 million refundable deposit from Kemper IGCC plant co-owner Southern Mississippi Electric Power Association (SMEPA).

Rating Outlook

The stable rating outlook reflects Moody's expectation that Southern Company's utilities' regulatory environments will remain credit supportive; that delays and cost increases at the Vogtle nuclear and Kemper IGCC construction projects will remain manageable; that subsidiary Georgia Power will continue to recover prudently incurred costs related to Vogtle on a timely basis, and that regulatory, political, public, and partner support for the Vogtle project will continue. The stable outlook is also supported by the January 2014 upgrades of two of its four regulated utility subsidiaries.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries are in the midst of major new construction projects. Ratings could be raised, however, if there is significant additional progress made on the construction of the Vogtle project under current cost and schedule estimates, including resolution of pending litigation with the construction consortium, such that Georgia Power's rating is upgraded. Southern's rating could also be raised if consolidated financial metrics show sustained improvement, including CFO pre-W/C to debt above 22%, after adjusting for bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if Georgia Power or one or more of its other significant subsidiary's ratings are lowered; if there are significant additional delays or cost increases on the Vogtle nuclear project; if there is substantial additional debt issued at the parent company level; if major new environmental or other costs are incurred that are not recovered in rates on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 8/19/2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa

Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.6x	Aa	5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.8%	A	18% - 22%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.6%	Baa	11% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	45.9%	Baa	44% - 46%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

MOODY'S
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Southern Co.

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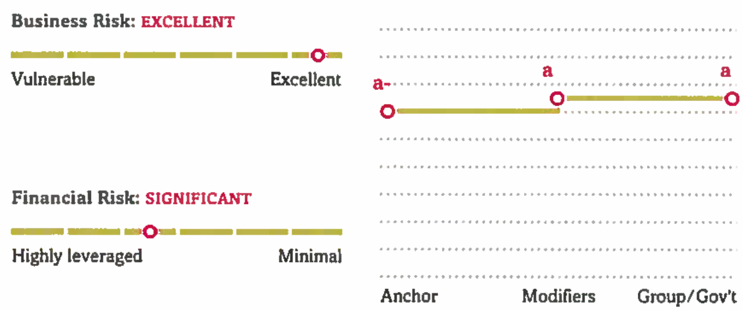
Southern Co.



CORPORATE CREDIT RATING

A/Negative/A-1

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Regulated utility operations that span four states, serve a large and diverse customer base, and contribute to more than 90% of consolidated operating income • Operations in jurisdictions with generally constructive regulatory environments providing for timely investment recovery and cash flow stability • Construction of two new nuclear units at Georgia Power Co. and an integrated gasification combined cycle (IGCC) power plant at Mississippi Power Co. that introduces significant construction risk • Prudent and largely conservative financial risk management and generally effective management of regulatory risk	• Large capital spending program for system expansion and environmental compliance that could pressure the financial profile • Ongoing need for external financing • Stable debt leverage • High dividend payout ratio in light of planned capital spending program

Outlook: Negative

The negative rating outlook on Southern Co. and its subsidiaries reflects the potential for lower ratings resulting from increased business risk at Mississippi Power and the possibility for similar challenges and issues arising at Georgia Power as the capital spending for the new nuclear units reaches its peak.

Downside scenario

We could lower the ratings on Southern and its subsidiaries if the company is unable to effectively address the regulatory and project challenges at Mississippi Power and it encounters similar obstacles with the construction of the new nuclear units in Georgia.

Upside scenario

Given the large planned capital spending program of about $14 billion over the next three years and elevated construction risk with nuclear and IGCC projects, we do not expect to raise the ratings. However, we could affirm the ratings and revise the outlook to stable if Southern is able to meet these challenges without impinging on its "significant" financial risk profile.

Standard & Poor's Base-Case Scenario

Assumptions

- Consolidated operating income grows in the mid-single digits, benefiting from incremental recovery of invested capital, recovery of financing costs and modest load growth.
- Consolidated capital spending totals $14 billion through 2016 after peaking in 2014.
- Common dividends growth tracks earnings growth of about 4% to 6% annually.
- Full and timely cost recovery through various regulatory means, except for amounts forgone in Mississippi.

Key Metrics

Southern Company	2013A	2014E	2015E
FFO/debt (%)	22.1%	18% - 20%	17% - 19%
Debt/EBITDA (x)	3.5x	3.5x – 4x	3.5x – 4x

A--Actual. E--Estimate. FFO--Funds from operations.

Company Description

The Southern Company is a large utility holding company that owns integrated electric utilities in the southeastern and mid-south regions of the U.S. It also develops and operates merchant generating facilities primarily in its utility footprint but increasingly in unrelated regions.

Business Risk: Excellent

S&P Base-Case Operating Scenario

- The company maintains its low regulatory risk in most jurisdictions.
- The company manages the pace and risk profile of its unregulated investments so that they do not outpace the risk profile of the rest of the company.
- Large construction projects are managed better going forward, and are completed close to estimated time and budgets.

We assess Southern's business risk profile as "excellent," incorporating operations in generally supportive regulatory environments due to effective management of regulatory risk. A large service territory spanning four states provides geographical and regulatory diversity, minimizing the effect of economic weakness or adverse regulatory decisions in any one state, and efficient operations provide competitively priced power across customer classes.

Challenges remain in the completion of construction and successful operation of the Kemper IGCC at Mississippi Power, now significantly delayed into 2016, and the two new nuclear units -- Vogtle Units 3 and 4 -- at Georgia Power, in late 2017 and 2018, respectively. The Kemper project has been particularly troublesome, with substantial cost increases and schedule delays that have migrated into unfavorable regulatory developments such as delayed or foregone rate increases and prudence determinations. While these developments have led to pre-tax impairments totaling about $2 billion, Southern has continued to provide financial support to Mississippi Power.

The new Vogtle units are also experiencing some delays in their expected in-service dates as well as increased noncapital costs totaling $381 million to date. Project costs could increase further by as much as $425 million resulting from pending litigation among the co-owners of the project and the project contractor. Southern has no immediate plans to include the initial cost increase in the overall certified project budget. In the event uncertified costs increase further or recovery becomes problematic, Georgia Power's and Southern's credit profile could weaken given the magnitude of the Vogtle project. Nevertheless, given the project's complexity, the delays and cost increases are not unexpected and have been managed well, benefiting from Georgia's constructive and transparent regulatory framework and the carefully-crafted engineering, procurement, and construction contract.

Peer comparison

Table 1

Southern Co. -- Peer Comparison

Industry Sector: Electric

	Southern Co.	Duke Energy Corp.	American Electric Power Co. Inc.	Wisconsin Electric Power Co.	Xcel Energy Inc.
Ratings as of Oct. 28, 2014	A/Negative/A-1	BBB+/Stable/A-2	BBB/Positive/A-2	A-/Stable/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					

Table 1

Southern Co. -- Peer Comparison (cont.)					
Revenues	15,861.3	19,583.7	14,838.8	3,713.7	10,566.0
EBITDA	6,511.0	7,222.3	5,021.1	931.4	3,128.1
Funds from operations (FFO)	5,161.9	5,501.9	3,835.6	757.9	2,425.9
Net income from cont. oper.	1,963.3	2,028.3	1,437.3	356.0	898.3
Cash flow from operations	5,143.6	5,038.2	3,874.7	805.9	2,422.9
Capital expenditures	4,664.5	5,080.9	3,242.3	590.0	2,678.6
Free operating cash flow	479.1	(42.8)	632.4	215.9	(255.6)
Discretionary cash flow	(1,243.8)	(1,816.1)	(295.2)	(37.8)	(758.1)
Cash and short-term investments	207.3	466.8	132.4	9.8	30.5
Debt	23,656.9	35,510.5	19,611.6	6,037.6	12,385.6
Equity	18,946.5	35,102.3	15,381.8	3,332.0	9,107.4
Adjusted ratios					
EBITDA margin (%)	41.0	36.9	33.8	25.1	29.6
Return on capital (%)	8.6	6.7	7.9	6.7	8.0
EBITDA interest coverage (x)	5.6	4.2	4.2	5.4	4.6
FFO cash int. cov. (X)	7.9	5.5	5.2	7.6	5.4
Debt/EBITDA (x)	3.6	4.9	3.9	6.5	4.0
FFO/debt (%)	21.8	15.5	19.6	12.6	19.6
Cash flow from operations/debt (%)	21.7	14.2	19.8	13.3	19.6
Free operating cash flow/debt (%)	2.0	(0.1)	3.2	3.6	(2.1)
Discretionary cash flow/debt (%)	(5.3)	(5.1)	(1.5)	(0.6)	(6.1)

Financial Risk: Significant

S&P Base-Case Cash Flow And Capital Structure Scenario

Our base case projections incorporate the following assumptions:

- Gross margins (revenues - fuel costs) grow by 6% to 7% driven by rate increases across all utilities and modest load growth of less than 1%
- Operations and management cost increases averaging over 10% mostly related to construction activities
- Capital spending of over $6 billion in 2014 tapering to $4.0 billion in later years of the forecast
- Dividends grow by 5% annually
- All debt maturities are refinanced and we expect that the company will finance negative discretionary cash flow with a combination of debt and equity.

Financial summary

Table 2

Southern Co. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2013	**2012**	**2011**	**2010**	**2009**
Rating history	A/Negative/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	15,811.8	15,351.0	16,421.0	16,326.9	14,796.3
EBITDA	6,812.6	6,585.7	6,134.8	5,648.0	5,271.8
Funds from operations (FFO)	5,338.0	5,016.9	5,131.0	4,404.8	3,337.3
Net income from continuing operations	1,544.5	2,239.7	2,105.8	1,910.0	1,487.1
Cash flow from operations	5,408.2	4,558.4	5,464.2	4,122.8	2,958.1
Capital expenditures	4,968.4	4,717.5	4,307.5	3,881.5	4,592.8
Free operating cash flow	439.8	(159.1)	1,156.6	241.3	(1,634.7)
Dividends paid	1,798.5	1,729.0	1,641.3	1,538.0	1,411.0
Discretionary cash flow	(1,358.7)	(1,888.1)	(484.7)	(1,296.7)	(3,045.8)
Debt	24,172.9	24,553.1	22,244.8	21,658.2	21,392.7
Preferred stock	668.5	644.0	644.0	747.0	747.0
Equity	19,676.5	18,941.0	18,222.0	16,949.0	15,625.0
Debt and equity	43,849.4	43,494.1	40,466.8	38,607.2	37,017.7
Adjusted ratios					
EBITDA margin (%)	43.1	42.9	37.4	34.6	35.6
EBITDA interest coverage (x)	6.0	5.4	5.5	4.7	4.2
FFO cash int. cov. (x)	8.3	7.6	7.7	7.0	5.8
Debt/EBITDA (x)	3.5	3.7	3.6	3.8	4.1
FFO/debt (%)	22.1	20.4	23.1	20.3	15.6
Cash flow from operations/debt (%)	22.4	18.6	24.6	19.0	13.8
Free operating cash flow/debt (%)	1.8	(0.6)	5.2	1.1	(7.6)
Discretionary cash flow/debt (%)	(5.6)	(7.7)	(2.2)	(6.0)	(14.2)
Net Cash Flow / Capex (%)	71.2	69.7	81.0	73.9	41.9
Return on capital (%)	8.5	8.7	8.6	8.4	8.3
Return on common equity (%)	7.1	12.0	11.8	11.0	8.8
Common dividend payout ratio (unadjusted) (%)	119.2	77.8	78.5	81.1	96.3

Southern's financial risk profile is "significant" using the medial volatility financial ratio benchmarks, reflecting our base case scenario that the company will maintain credit protection measures that remain in the upper end of the category, with FFO to debt of about 18% to 20% and debt to EBITDA that remains below 4x. While Southern incurred impairments relating to the Kemper IGCC, the company has issued equity in 2013 and plans to issue additional equity in 2014, which should provide support to its financial profile. The financial profile will also benefit from recent rate case decisions that provide for staggered rate increases over the next few years.

Liquidity: Adequate

We consider liquidity, measured on a consolidated basis, to be "adequate" under our corporate liquidity methodology. Projected liquidity sources exceed uses by more than 1.1x. The company's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending or sell assets, sound bank relationships, solid standing in credit markets, and generally prudent risk management also support our assessment of its liquidity as adequate.

Southern has $5.1 billion in revolving credit facilities, with $223 million maturing in 2014 and $335 million in 2015. As of June 30, 2014, undrawn capacity was $5.2 billion.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash from operations of about $4.9 billion • Availability under the revolving credit facility of about $3.9 billion	• Debt maturities of $585 million • Capital spending of about $4.5 billion • Common dividends of about $2 billion

Other Modifiers

We use a positive comparable rating analysis modifier because Southern is favorably positioned versus peers. The company's long-standing effective management of regulatory risk and generally conservative management with prudent financial policies support its overall credit profile.

Group Influence

As a parent company with no insulated subsidiary, the group credit profile is equal to the stand-alone credit profile of 'a'.

Ratings Score Snapshot

Corporate Credit Rating

A/Negative/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a

- **Group credit profile:** a

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19,2013
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- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 31, 2014)

Southern Co.	
Corporate Credit Rating	A/Negative/A-1
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of October 31, 2014) (cont.)	
Preferred Stock	BBB+
Senior Unsecured	A-
Corporate Credit Ratings History	
24-May-2013	A/Negative/A-1
21-Dec-2000	A/Stable/A-1
30-Nov-1998	A/Watch Neg/A-1
Related Entities	
Alabama Power Capital Trust V	
Preferred Stock	BBB+
Alabama Power Co.	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	
Local Currency	A-1
Preference Stock	BBB+
Preferred Stock	BBB+
Senior Secured	A/A-1
Senior Unsecured	A
Senior Unsecured	A/A-1
Georgia Power Co.	
Issuer Credit Rating	A/Negative/A-1
Preference Stock	BBB+
Preferred Stock	BBB+
Senior Unsecured	A
Senior Unsecured	A/A-1
Gulf Power Co.	
Issuer Credit Rating	A/Negative/A-1
Preference Stock	BBB+
Preferred Stock	BBB+
Senior Unsecured	A
Senior Unsecured	A/A-1
Mississippi Power Co.	
Issuer Credit Rating	A/Negative/A-1
Preferred Stock	BBB+
Senior Secured	A+/A-1
Senior Unsecured	A
Senior Unsecured	A/A-1
Southern Company Capital Funding Inc.	
Senior Unsecured	A-
Southern Company Funding Corp.	
Issuer Credit Rating	--/--/A-1
Commercial Paper	
Local Currency	A-1
Southern Co. Services Inc.	
Issuer Credit Rating	A/Negative/--

Ratings Detail (As Of October 31, 2014) (cont.)	
Southern Electric Generating Co.	
Issuer Credit Rating	A/Negative/NR
Senior Unsecured	A
Southern Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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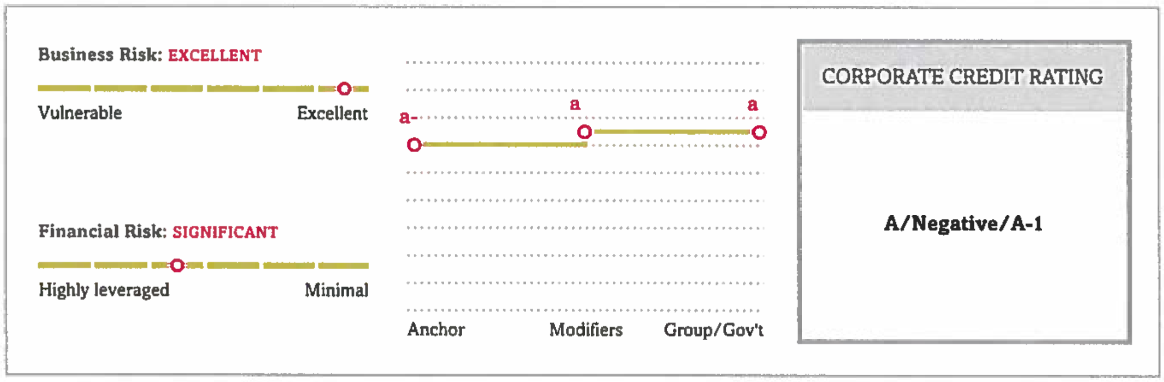

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Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Gulf Power Company

Full Rating Report

Ratings

Long-Term IDR	A–
Senior Unsecured	A
Pollution Control Revenue Bonds	A
Preferred Securities	BBB+
Short-Term IDR	F1
Commercial Paper	F1

IDR – Issuer Default Rating.

Rating Outlook

Local-Currency Long-Term Rating	Stable

Financial Data

Gulf Power Company

($ Mil.)	LTM 6/30/14	12/31/13
Revenue	1,532	1,440
Operating EBITDAR	450	432
Revenue Growth (%)	5.5	0
FFO	366	377
FCF	(47)	(85)
FFO Fixed Charge Coverage (x)	5.31	5.49
Total Adjusted Debt	1,422	1,406
Total Adjusted Debt/ Op. EBITDAR (x)	3.16	3.26
FFO Adjusted Leverage (x)	3.15	3.05

Related Research

A Bright Spot Before Summer Sluggishness (2Q14 Earnings Calls Wrap-Up) (September 2014)

Fitch Affirms Southern Company and Subsidiaries' Ratings (September 2014)

U.S. Utilities, Power and Gas Peer Study (What the Data Reveals) (September 2014)

Analysts

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Julie Jiang
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Key Rating Drivers

Ratings Affirmed: Fitch Ratings affirmed the Issuer Default Rating (IDR) and security ratings for Gulf Power on Sept. 18, 2014. The ratings and Stable Outlook reflect Fitch's view that the utility will continue to generate stable credit metrics over the next three years, driven by a constructive decision in the last rate case and gradual improvement in its service territory.

Constructive Regulation: Gulf Power has several rate riders that provide timely recovery of all prudent costs related to fuel, purchased power costs and environmental expenditures. While Gulf Power is dependent on coal-fired generation capacity that must comply with stringent emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs.

Favorable Outcome in Rate Case: Gulf Power was authorized a base rate increase of $35 million effective January 2014 and an additional $20 million effective January 2015 based on return on equity (ROE) of 10.25%. Gulf Power can record credits to depreciation expense with an offset to a regulatory asset of up to $62.5 million between January 2014 and June 2017 such that jurisdictional ROE does not exceed 10.25% in any given month. Gulf Power may not request a base rate increase to be effective until after June 2017 unless the retail ROE falls below the authorized ROE range and the $62.5 million credit is exhausted.

Improvement in Retail Sales: Gulf Power's service territory continues to see slow but steady improvement in the local economy, with economic indicators such as housing starts, unemployment and income growth all showing positive trends. The number of customers served continues to grow; however, customer usage trends have been unpredictable. In the first half of 2014, weather adjusted residential and commercial MWh sales fell by 0.8% and 1.1%, respectively, from the corresponding period in 2013, primarily due to a drop in customer usage. Industrial sales increased 14%, primarily due to decreased customer co-generation.

Stable Credit Metrics: Fitch forecasts Gulf Power's adjusted debt/EBITDAR and FFO adjusted leverage to be approximately 3.4x and 3.6x, respectively, in 2016, which is in line with its rating category.

Rating Sensitivities

Positive Rating Action: Sustained FFO adjusted leverage lower than 3.0x can lead to positive rating actions.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include:

- unexpected negative regulatory developments in Florida;
- continued weakness in customer usage and a reversal of customer growth trends that results in significantly lower than expected sales;
- sustained FFO adjusted leverage higher than 4.0x.

Financial Overview

Liquidity and Debt Structure

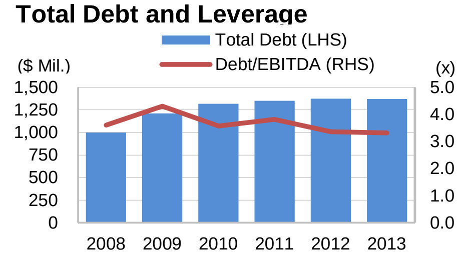
Gulf Power has adequate access to liquidity, in Fitch's view. The company has $275 million of credit facilities, which provide liquidity support to its CP borrowings. As of June 30, 2014, $69 million of liquidity support was dedicated to funding potential purchase obligations related to variable-rate pollution control revenue bonds. Most of the credit facilities carry a 65% debt-to-capital covenant, and Gulf Power was well within the threshold. Gulf Power may also meet its short-term cash needs through a Southern Company subsidiary organized to issue and sell CP. Near-term debt maturities are manageable.

Debt Maturities and Liquidity

($ Mil., As of June 30, 2014)	
2014	75
2015	0
2016	110
2017	85
After 2018	899
Cash and Cash Equivalents	22
Undrawn Committed Facilities	136

Source: Fitch.

Total Debt and Leverage

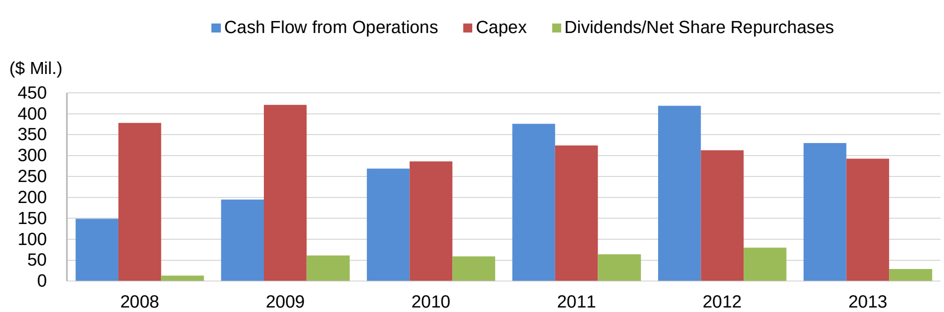


Source: Fitch.

Cash Flow Analysis

Like many members of the utility sector, Gulf Power's capital spending exceeds internal cash flow, resulting in negative FCF after capital investments and dividends. Fitch expects Gulf Power's FCF deficit to peak in 2014, coinciding with the peak in capex. As capex progressively declines in 2015 and 2016, Fitch expects Gulf Power's FCF to approach break-even by 2016. Fitch expects Gulf Power to finance its future capex needs using a mix of equity and debt to maintain its regulatory capital structure.

CFO and Cash Use



Source: Company data, Fitch.

Peer and Sector Analysis

Peer Group

Issuer	Country
A	
Florida Power & Light Co.	United States
Oklahoma Gas & Electric Co.	United States
Wisconsin Electric Power Co.	United States

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)
Sept. 18, 2014	A–
April 7, 2014	A–
Aug. 6, 2013	A–
Aug. 22, 2012	A–
Aug. 30, 2011	A–
Sept. 3, 2010	A–
Sept. 4, 2009	A–
Jan. 22, 2008	A–
Aug. 10, 2006	A–
Dec. 6, 2005	A–
Aug. 16, 2005	A

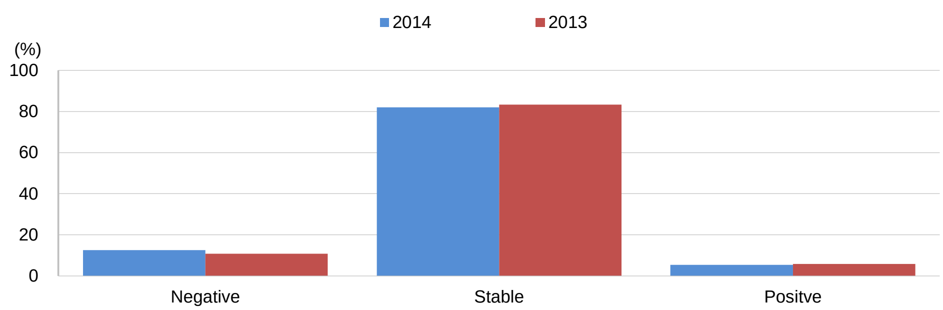
LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

	Gulf Power Company	Florida Power & Light Co.	Oklahoma Gas & Electric Co.	Wisconsin Electric Power Co.
LTM as of	6/30/14	06/30/14	06/30/14	06/30/14
Long-term IDR	A–	A	A	A
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Financial Statistics ($ Mil.)				
Revenue	1,532.00	10,877.00	2,403.00	4,104.00
YoY Revenue Growth (%)	5.51	7.45	8.39	10.65
EBITDA	432.00	3,866.00	791.00	963.00
EBITDA Margin (%)	28.20	35.54	32.92	23.46
Free Cash Flow	(47.00)	(446.00)	(270.00)	56.00
Total Adjusted Debt	1,385.00	9,094.00	2,585.00	3,065.00
Cash and Cash Equivalents	30.00	58.00	1.00	19.00
Funds Flow from Operations	366.00	3,216.00	675.00	933.00
Capex	(315.00)	(2,863.00)	(713.00)	(510.00)
Net Equity Proceeds	54.00	375.00	—	—
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	7.32	9.36	5.65	7.96
Debt/FFO	3.78	2.83	3.83	3.28
Debt/EBITDA	3.21	2.35	3.27	3.18
FFO Interest Coverage	7.20	8.79	5.82	8.71
Capex/Revenues	(0.21)	(0.26)	(0.30)	(0.12)
Capex/Depreciation (%)	215.75	238.58	280.71	177.70

IDR – Issuer Default Rating. YoY – Year over year.
Source: Company data, Fitch.

Sector Outlook Distribution



Source: Company data, Fitch.

Key Rating Issues

Constructive regulation: The regulatory environment in Florida has improved significantly as compared to the contentious climate that existed in 2009–10. On Dec 3, 2013, the Florida Public Service Commission voted to approve a base rate increase of $35 million annually effective January 2014 and an additional $20 million in annual revenues effective January 2015 based on current authorized ROE of 10.25%. The allowed retail ROE range is 9.25 %–11.25%.

Gulf Power has the ability to record credits to depreciation expense with an offset to a regulatory asset in amounts up to $62.5 million between January 2014 and June 2017; in any given month the credit may not exceed the amount necessary for the jurisdictional ROE to reach the authorized midpoint. Also, Gulf Power may not request a base rate increase to be effective until after June 2017 unless the retail ROE falls below the authorized ROE range and the $62.5 million credit is exhausted.

Improvement in Retail Sales: Gulf Power's service territory continues to see slow but steady improvement in the local economy, with economic indicators such as housing starts, unemployment and income growth all showing positive trends. The number of customers served continues to grow; however, customer usage trends have been unpredictable. In the first half of 2014, weather adjusted residential and commercial MWh sales fell by 0.8% and 1.1%, respectively, over the corresponding period in 2013, primarily due to drop in customer usage. Industrial sales increased 14%, primarily due to decreased customer co-generation.

High Proportion of Coal in Fuel Mix: Gulf Power owns close to 2,700 MW of fossil electric generation capacity. The mix includes 78% coal, and the balance consists of natural gas- and oil-fired combined cycle and combustion turbines. Gulf Power has spent $1.5 billion in installing environmental controls through 2013. Two scrubbers are expected to be installed at plant Daniel by 2016. Two additional selective catalytic reductions are expected to be installed by 2019. The total projected environmental capex is approximately $456.5 million over the next three years. An environmental cost recovery clause allows Gulf Power to recover environmental investments and associated costs.

Credit Metrics: Gulf Power’s credit metrics have shown steady improvement since 2011, led by two back-to-back rate cases in 2011 and 2013. For the LTM ended June 30, 2014, Gulf Power's adjusted debt/EBITDAR and FFO adjusted leverage were both at 3.2x. Fitch expects these ratios to modestly weaken to approximately 3.4x and 3.6x, respectively, in 2016; however, these are still in line with its rating level.

Organizational Structure

Organizational Chart — Southern Company

($ Mil., As of June 30, 2014)

Southern Company
IDR: A

2.375% Sr. Unsecured Notes due 2015	400
1.950% Sr. Unsecured Notes due 2016	500
5.250% Sr. Unsecured Notes due 2043	500

Alabama Power Company
IDR: A

0.055% Sr. Unsecured Notes due 2015	400
5.200% Sr. Unsecured Notes due 2016	200
5.550% Sr. Unsecured Notes due 2017	200
5.500% Sr. Unsecured Notes due 2017	325
5.125% Sr. Unsecured Notes due 2019	200
3.375% Sr. Unsecured Notes due 2020	250
3.950% Sr. Unsecured Notes due 2021	200
5.875% Sr. Unsecured Notes due 2022	200
5.700% Sr. Unsecured Notes due 2033	250
5.600% Sr. Unsecured Notes due 2033	200
5.650% Sr. Unsecured Notes due 2035	250
6.125% Sr. Unsecured Notes due 2038	300
6.000% Sr. Unsecured Notes due 2039	500
5.500% Sr. Unsecured Notes due 2041	250
5.200% Sr. Unsecured Notes due 2041	250
4.100% Sr. Unsecured Notes due 2042	250
3.850% Sr. Unsecured Notes due 2042	350
Variable Rate Debt Payable to Affiliated Trusts due 2042	206
0.580% to 5.000% PCRBs due 2034	367
Variable Rate PCRBs due 2015	54
Variable Rate PCRBs due 2017	36
Variable Rate PCRBs due 2021–2038	694

Georgia Power Company
IDR: A

0.750% Sr. Unsecured Notes due 2015	400
0.625% Sr. Unsecured Notes due 2015	400
5.250% Sr. Unsecured Notes due 2015	250
Floating Rate Sr. Unsecured Notes due 2016	250
3.000% Sr. Unsecured Notes due 2016	250
Floating Rate Sr. Unsecured Notes due 2016	200
5.700% Sr. Unsecured Notes due 2017	450
5.400% Sr. Unsecured Notes due 2018	250
4.250% Sr. Unsecured Notes due 2019	500
2.850% Sr. Unsecured Notes due 2022	400
5.750% Sr. Unsecured Notes due 2023	125
5.800% Sr. Unsecured Notes due 2035	250
5.650% Sr. Unsecured Notes due 2037	100
5.950% Sr. Unsecured Notes due 2039	500
5.400% Sr. Unsecured Notes due 2040	600
4.750% Sr. Unsecured Notes due 2040	500
4.300% Sr. Unsecured Notes due 2042	1,100
4.300% Sr. Unsecured Notes due 2042	400
8.200% Sr. Unsecured Notes due 2048	100
Variable and Fixed Rate PCRBs due through 2052	1,680

50% (Alabama Power Company) — 50% (Georgia Power Company)

Southern Electric Generating Company
IDR: A

2.200% Sr. Notes due 2018	100

Gulf Power Company
IDR: A–

4.900% Sr. Unsecured Notes due 2014	75
5.300% Sr. Unsecured Notes due 2016	110
5.900% Sr. Unsecured Notes due 2017	85
4.750% Sr. Unsecured Notes due 2020	175
3.100% Sr. Unsecured Notes due 2022	100
5.650% Sr. Unsecured Notes due 2035	60
5.100% Sr. Unsecured Notes due 2040	125
5.000% Sr. Unsecured Notes due 2043	90
5.750% Sr. Unsecured Notes due 2051	125
Other/PCRB (Fixed and Variable) and VRN due 2022–2049	296

Mississippi Power Company
IDR: A–

Promissory Floating Rate Note	220
Floating Rate Bank Loans due 2015	250
2.350% Sr. Unsecured Notes due 2016	300
Floating Rate Bank Loans due 2017	300
5.600% Sr. Unsecured Notes due 2017	35
5.550% Sr. Unsecured Notes due 20197.130% Plant Daniel Revenue	125
Bonds due 2021	270
5.400% Sr. Unsecured Notes due 2035	30
4.750% Sr. Unsecured Notes due 2041	150
4.250% Sr. Unsecured Notes due 2042	450
Variable Rate PCRBs	81

Southern Power Company
IDR: BBB+

4.875% Sr. Unsecured Notes due 2015	525
2.450% Sr. Unsecured Notes due 2018	300
6.375% Sr. Unsecured Notes due 2036	200
5.150% Sr. Unsecured Notes due 2041	575
Other Long-term Notes	18

Other Subsidiaries

Southern Nuclear	NR
Southern Wireless, Inc.	NR
Southern Holdings	NR
Southern Renewable Energy	NR
Direct and Indirect Subsidiaries	NR

IDR – Issuer default rating. NR – Not rated.
Source: Company filings, Bloomberg, and Fitch Ratings.

Key Metrics

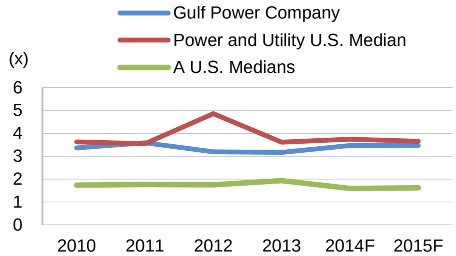
Definitions

- Total Adjusted Debt/EBITDAR: Total balance sheet debt plus lease adjustment minus equity credit for hybrid instruments minus securitization debt divided by operating EBITDA plus gross rental expense minus securitization amortization
- Interest Cover: EBITDAR divided by gross interest paid plus preferred dividends
- FCF/Revenue: FCF after dividends divided by revenue
- FFO/Debt: FFO divided by total balance sheet debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock minus securitization debt

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

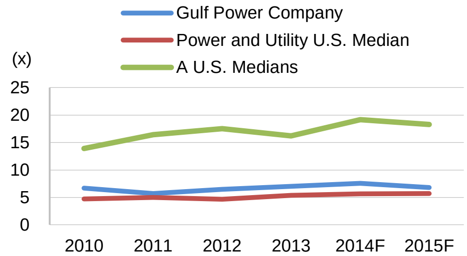
- Retail sales growth of 1.0% over 2014–2016.
- Retail rate increases in line with 2013 Rate Order.
- Capex of approximately $260 million in 2015 and approximately $180 million in 2016.

Leverage: Total Adj. Debt/ Op. EBITDAR



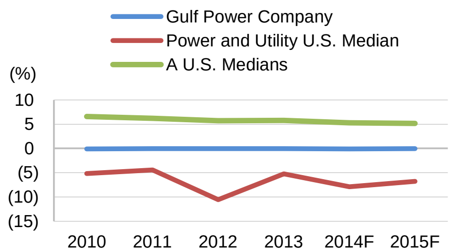
F – Forecast.
Source: Company data, Fitch.

Int. Coverage: Op EBITDA/ Gross Int. Exp.



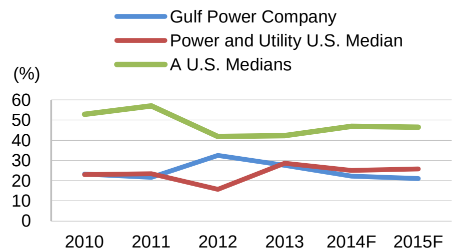
F – Forecast.
Source: Company data, Fitch.

FCF/Revenues



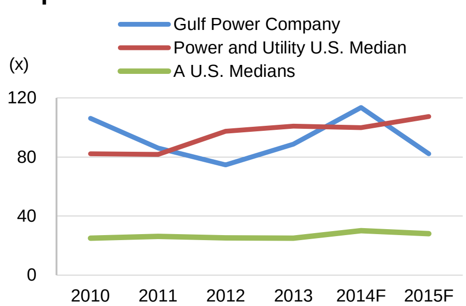
F – Forecast.
Source: Company data, Fitch.

FFO/Debt



F – Forecast.
Source: Company data, Fitch.

Capex/CFO



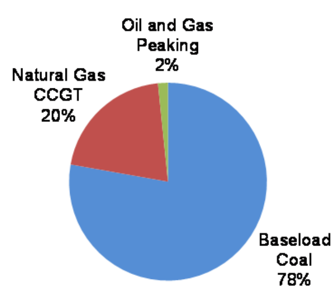
F – Forecast.
Source: Company data, Fitch.

Projected Environmental Capex

(USD Mil.)	2014	2015	2016
Environmental Capex	255	143	66

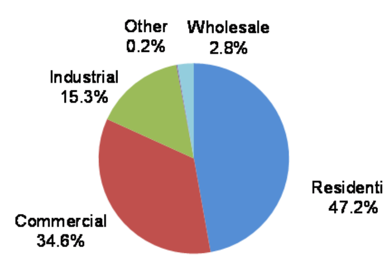
Source: Company data, Fitch.

2013 Generation Capacity Mix



Source: Company data, Fitch.

2013 MWh Sales by Customer Type



Source: Company data, Fitch.

Company Profile

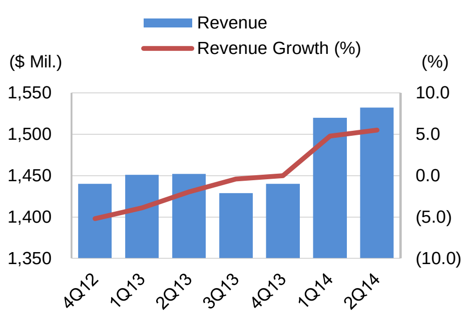
Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area in northwest Florida and to wholesale customers in the Southeast. It provides generated and purchased electricity, along with transmission and distribution thereof at retail in 71 communities in Northwest Florida (including Pensacola, Panama City, and Fort Walton Beach) and in wholesale to a nonaffiliated utility.

Gulf Power's electric sales growth is on a path of recovery after the sharp slowdown witnessed during the last recession. Large investment and job creation projects are underway throughout northwest Florida that should drive industrial and commercial sales growth. The unemployment rate in northwest Florida peaked in 2010 at almost 10%, but has dropped to more normal levels at approximately 5% as of December 2013. Population growth in Gulf Power's service territory is expected to be close to 1% annually.

Business Trends

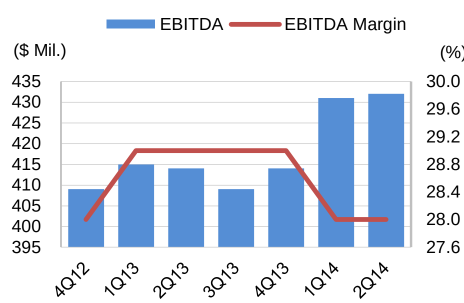
Gulf Power's sales mix consists of Residential at 47%, Commercial at 35%, industrial at 15% and Wholesale at 3%. Gulf Power's service territory has been affected by the housing market downturn, but the retail revenues are supported by diversity in its customer base that includes military bases. Revenue from the military bases currently represents approximately 41% of total industrial sector sales. Other major industries within Gulf Power's service territory are pulp & paper (16% of industrial sales) and chemicals (12% of the industrial mix).

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Gulf Power Company

($ Mil., As of Dec. 31)	2010	2011	2012	2013	LTM Ended 6/30/14
Fundamental Ratios (%)					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	5.0	4.5	5.2	5.6	5.8
FFO Fixed Charge Coverage (x)	4.6	4.3	6.0	5.5	5.3
Total Adjusted Debt/Operating EBITDAR (x)	3.5	3.7	3.3	3.3	3.2
FFO/Total Adjusted Debt	28.4	27.2	38.0	32.8	31.7
FFO Adjusted Leverage (x)	3.5	3.7	2.6	3.1	3.2
Common Dividend Payout	85.2	104.8	92.1	92.7	85.0
Internal Cash/Capital Expenditures	55.2	80.2	94.9	71.0	85.1
Capital Expenditures/Depreciation	236.4	249.2	222.0	196.6	215.8
ROE	11.7	9.5	10.9	10.3	11.1
Profitability					
Revenues	1,590	1,519	1,440	1,440	1,532
Revenue Growth (%)	22.1	(4.5)	(5.2)	0.0	5.5
Net Revenues	751	767	821	822	854
Operating and Maintenance Expense	280	312	315	310	319
Operating EBITDA	369	354	409	414	432
Operating EBITDAR	392	376	429	432	450
Depreciation and Amortization Expense	121	130	141	149	146
Operating EBIT	248	224	268	265	286
Gross Interest Expense	55	62	63	59	59
Net Income for Common	122	105	126	124	140
Oper. Maintenance Expense % of Net Revenues	37.3	40.7	38.4	37.7	37.4
Operating EBIT % of Net Revenues	33.0	29.2	32.6	32.2	33.5
Cash Flow					
Cash Flow from Operations	269	376	419	330	395
Change in Working Capital	(38)	83	(28)	(47)	29
Funds from Operations	307	293	447	377	366
Dividends	(111)	(116)	(122)	(122)	(127)
Capital Expenditure	(286)	(324)	(313)	(293)	(315)
FCF	**(128)**	**(64)**	**(16)**	**(85)**	**(47)**
Net Other Investment Cash Flow	(22)	(19)	(35)	(14)	(23)
Net Change in Debt	109	35	25	(1)	(26)
Net Equity Proceeds	52	52	42	93	54
Capital Structure					
Short-term Debt	93	115	127	136	139
Total Long-term Debt	1,224	1,235	1,246	1,233	1,246
Total Debt with Equity Credit	**1,317**	**1,350**	**1,373**	**1,369**	**1,385**
Total Adjusted Debt with Equity Credit	**1,379**	**1,406**	**1,410**	**1,406**	**1,422**
Total Hybrid Equity and Minority Interest	98	98	98	147	147
Total Common Shareholder's Equity	1,075	1,125	1,181	1,235	1,298
Total Capital	2,490	2,573	2,652	2,751	2,830
Total Debt/Total Capital (%)	52.9	52.5	51.8	49.8	48.9
Total Hybrid Equity and Minority Interest/Total Capital (%)	3.9	3.8	3.7	5.3	5.2
Common Equity/Total Capital (%)	43.2	43.7	44.5	44.9	45.9

IDR — Issuer Default Rating.
Source: Company reports.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Southern Company

Full Rating Report

Ratings

Long-Term IDR	A
Senior Unsecured	A
Short-Term IDR	F1
Commercial Paper	F1
Southern Company Funding Corp.	
Short-term Debt Rating	F1

IDR – Issuer Default Rating.

Rating Outlook

Local-Currency Long-Term Rating	Stable

Financial Data

Southern Company

($ Mil.)	LTM 6/30/14	12/31/13
Revenue	18,055	17,087
Operating EBITDAR	5,550	5,279
Revenue Growth (%)	6.87	3.33
FFO	6,094	5,945
FCF	(1,220)	(1,196)
FFO Fixed Charge Coverage (x)	6.57	6.38
Total Adjusted Debt	24,867	23,639
Total Adjusted Debt/Op. EBITDAR (x)	4.48	4.48
FFO Adjusted Leverage (x)	3.46	3.30

Related Research

A Bright Spot Before Summer Sluggishness (2Q14 Earnings Calls Wrap-Up) (September 2014)

Fitch Affirms Southern Company and Subsidiaries' Ratings (September 2014)

U.S. Utilities, Power and Gas Peer Study (What the Data Reveals) (September 2014)

Analysts

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Key Rating Drivers

Conservative Business Model: Fitch Ratings affirmed the Issuer Default Rating (IDR) and security ratings for Southern Company on Sept. 18, 2014. Southern Company's regulated subsidiaries derive predictable cash flows from low-risk utility businesses and generally supportive regulatory mechanisms. Its nonregulated generation subsidiary, Southern Power, follows a conservative business model of long-term sale contracts with creditworthy counterparties and minimal commodity exposure. At present, regulatory risk is subdued for Southern Company's utility subsidiaries, except Mississippi Power, given recent rate resolutions at Georgia Power, Alabama Power and Gulf Power.

Execution Risk at Vogtle: Since construction began, Georgia Power has increased the estimated capital cost by $381 million to $4.8 billion and extended the estimated in-service dates to fourth-quarter 2017 and fourth-quarter 2018 for Vogtle units 3 & 4, respectively. The Public Service Commission (PSC) stipulation that requires Georgia Power not to request any further revision to the costs or schedule till the first unit attains substantial completion induces regulatory uncertainty if costs escalate materially. The engineering, procurement and construction (EPC) contract is close to 100% fixed or firm; nevertheless, the utility is exposed to higher owner oversight and financing costs that would need to be recovered from ratepayers.

Concerns on Kemper: The project has faced significant cost overruns and schedule delays. Of the announced cost overruns, Mississippi Power does not intend to seek rate recovery for $1.65 billion of costs and Southern Company has committed to inject equity in Mississippi Power to meet this shortfall. In turn, Southern Company is funding the shortfall primarily by equity, which is a key factor that underpins its ratings and Stable Outlook. There remains uncertainty around further cost increases and schedule delays as the gasifier enters the start-up phase. It is Fitch's expectation that any future cost overruns will be similarly funded largely through equity by Southern Company such that the consolidated equity in the capital structure remains within the targeted range of 44%.

Credit Metrics to Weaken Modestly: Fitch expects Southern Company's FFO adjusted leverage to weaken to approximately 4.0x by 2016, reflecting the phase-out of bonus depreciation subsidies. Fitch forecasts Southern Company's FFO coverage ratios to remain strong at over 5.0x through 2016. Incorporated in the ratings is Fitch's expectation that Southern Company's financial measures will remain weak through the large capex cycle at Georgia Power, its largest subsidiary.

Rating Sensitivities

Upgrade Unlikely: The project execution risks associated with the Kemper and Vogtle projects and the resultant pressure on credit metrics makes positive rating actions.

Significant Time/Cost Overrun: Cost overruns at Kemper and/or Vogtle, if primarily debt-financed, and negative regulatory actions on the recovery of those costs will lead to negative rating actions.

Weaker than Expected Credit Metrics: A sustained weakness in FFO adjusted leverage to 4.25x or higher can lead to negative action on ratings.

Financial Overview

Liquidity and Debt Structure

Southern Company has substantial cash flow from operating activities and access to capital markets, including CP programs, which are backed by bank credit facilities, to meet liquidity needs. Southern Company and its subsidiaries had approximately $583 million of cash and cash equivalents as of June 30, 2014, and approximately $1.7 billion of the credit facilities were dedicated to providing liquidity support to the traditional operating companies' variable-rate pollution-control revenue bonds. Southern Company does not maintain a money pool or centralized cash management. Each regulated operating subsidiary, including Southern Power, issues its own debt and preferred securities, which is nonrecourse to the parent.

Southern Company Funding Corporation's (SCFC) sole activity is to issue CP on behalf of its utility operating subsidiaries. Southern Power and Southern Company are not eligible to borrow from SCFC.

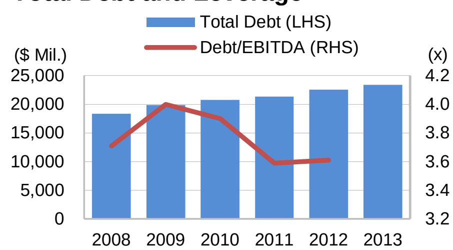
Debt Maturities and Liquidity

($ Mil., as of June 30, 2014)

2014	197
2015	2,954
2016	1,814
2017	1,131
After 2018	16,528
Cash and Cash Equivalents	583
Undrawn Committed Facilities	3,381

Source: Company data, Fitch.

Total Debt and Leverage

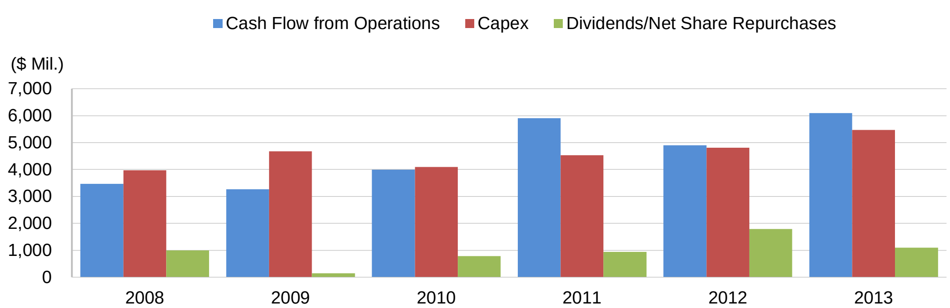


Source: Company data, Fitch.

Cash Flow Analysis

Southern Company's consolidated capex will remain elevated due to two large baseload generation projects being undertaken by its utility subsidiaries and environmental capex, requiring continuous access to capital markets for funding. Fitch does not anticipate any incremental debt at the parent company. Southern Company has raised approximately $1.3 billion in equity over 2013–14 to fund the cost overruns at the Kemper IGCC project that Mississippi Power is not planning to recover from ratepayers.

CFO and Cash Use



Source: Company data, Fitch.

Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis (December 2013)

Recovery Ratings and Notching Criteria for Utilities (November 2013)

Peer and Sector Analysis

Peer Group

Issuer	Country
A–	
MidAmerican Energy Company	United States
NextEra Energy, Inc.	United States
Wisconsin Energy Corp.	United States

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Sept. 18, 2014	A	Stable
April 7, 2014	A	Stable
Aug. 6, 2013	A	Stable
Aug. 22, 2012	A	Stable
Aug. 30, 2011	A	Stable
Dec. 22, 2010	A	Stable
Sept. 3, 2010	A	Negative
Sept. 4, 2009	A	Stable
Jan. 22, 2008	A	Stable
Aug. 10, 2006	A	Stable
Dec. 6, 2005	A	Stable
Aug. 24, 2005	A	Stable

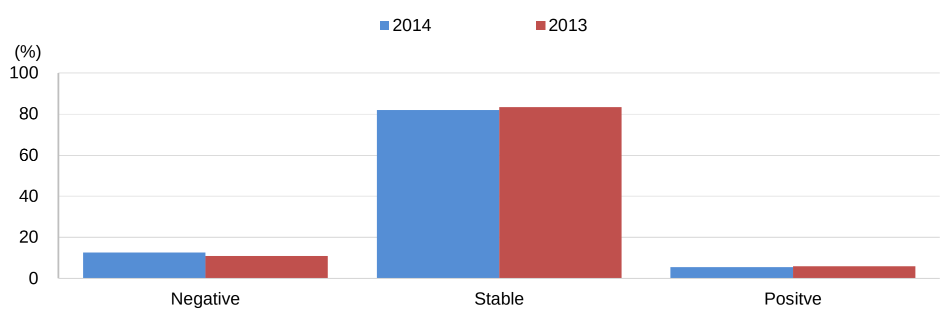
LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

	Southern Company	MidAmerican Energy Company	NextEra Energy, Inc.	Wisconsin Energy Corp.
LTM as of	6/30/14	06/30/14	06/30/14	06/30/14
Long-term IDR	A	A–	A–	A–
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Watch Negative
Financial Statistics ($ Mil.)				
Revenue	18,055.00	3,720.00	15,599.00	5,025.00
YoY Revenue Growth (%)	6.87	11.51	8.7	14.2
EBITDA	5,443.00	773.00	5,708.00	1,547.00
EBITDA Margin (%)	30.15	20.78	36.59	30.79
Free Cash Flow	(1,220.00)	(296.00)	(2,763.00)	223.00
Total Adjusted Debt	24,630.00	4,053.00	28,104.00	4,808.00
Cash and Cash Equivalents	583.00	647.00	622.00	33.00
Funds Flow from Operations	6,094.00	880.00	5,174.00	1,327.00
Capex	(5,560.00)	(1,131.00)	(6,767.00)	(697.00)
Net Equity Proceeds	845.00	—	1,323.00	(120.00)
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	5.92	4.66	4.32	6.14
Debt/FFO	4.04	4.61	5.43	3.62
Debt/EBITDA	4.53	5.24	4.92	3.11
FFO Interest Coverage	7.63	6.30	4.92	6.27
Capex/Revenues	(0.31)	(0.30)	(0.43)	(0.14)
Capex/Depreciation (%)	283.67	312.43	304.96	175.57
FCF/Total Debt with Equity Credit	(0.05)	(0.07)	(0.10)	0.05

IDR – Issuer Default Rating. YoY – Year over year.
Source: Company data, Fitch.

Sector Outlook Distribution



Source: Fitch.

Key Rating Issues

Conservative Business Model: Southern Company's ratings recognize the relatively stable and predictable cash generation of its operating subsidiaries and the financial support it receives from them in the form of dividends for the payment of corporate expenses, debt service, dividends to common stockholders, and for other business matters. Southern Company's regulated utility subsidiaries enjoy a relatively favorable regulatory framework in their service territories and exhibit limited commodity price risks due to the ability to recover fuel and purchased power through separate cost trackers. Its nonregulated generation subsidiary, Southern Power, follows a conservative business model by signing long-term sale contracts with creditworthy counterparties and has minimal commodity exposure via recovery of fuel costs through its power sales contracts. Southern Company provides equity funding to its subsidiaries for their long-term growth and to optimize their capital mix within a target range. The Stable Outlook reflects adequate liquidity, financial flexibility and easy access to capital markets during a period of high capital investment.

Favorable Rate Outcomes: At present, regulatory risk is subdued for Southern Company's utility subsidiaries, except Mississippi Power, given the recent rate resolutions at Georgia Power, Alabama Power and Gulf Power. Georgia Power's rate case outcome in December 2013, while modestly below Fitch's expectations, provides for three-year rate certainty and reflects an authorized return on equity (ROE) of 10.95% that is above the industry average. Alabama Power received a favorable outcome from the Alabama Public Service Commission regarding review of its Rate Stabilization and Equalization (RSE) mechanism in August 2013. Gulf Power received a constructive outcome in its 2013 rate case that authorized a continuation of its retail ROE midpoint of 10.25% with a range of plus or minus 100 basis points (bps).

Project Execution Risk at Vogtle: Georgia Power owns a 45.7% stake in the 2,200 MW Vogtle nuclear units 3 and 4, which are under construction. The Vogtle nuclear units have been recovering the financing costs on construction work in progress (CWIP) through a tracker since 2011. To date, the PSC has approved $2.6 billion in costs incurred on Vogtle units 3 and 4. The units are running behind the original PSC-approved schedule and have seen an escalation in capital costs. Since construction began, Georgia Power has increased the estimated in-service capital cost by $381 million to $4.8 billion and extended the estimated in-service dates to fourth-quarter 2017 and fourth-quarter 2018 for Vogtle units 3 and 4, respectively. Georgia Power and the other owners of the Vogtle 3 and 4 units are engaged in litigation with the contractors over increased construction costs related to this schedule change.

The PSC stipulation that requires Georgia Power not to request any further revision in the costs or the schedule of the Vogtle units until the first unit attains substantial completion induces regulatory uncertainty if costs escalate significantly. Fitch expects that any adjustments to the overall project costs will be deemed recoverable by the PSC. Significant project cost overruns that cannot be recovered in rates or unexpected long deferral periods for project cost recovery would be adverse credit factors. The current integrated project schedule from the EPC contractor runs through activities until the end of 2015. The company is working with the contractor to establish a comprehensive schedule of activities beyond 2015 to address concerns around project schedule raised by the PSC-appointed independent construction monitor. The EPC contract is close to 100% fixed or firm; nevertheless, the utility is exposed to higher owner oversight and financing costs that would need to be recovered from ratepayers.

Concerns on Kemper: Fitch's rating concerns for Southern Company include significant construction and regulatory risks associated with the 580 MW Kemper integrated gasification combined cycle (IGCC) plant being built by Mississippi Power. The Kemper IGCC project has faced significant overruns relative to its original project costs estimate. The project is now expected to cost $5.6 billion, of which $1.1 billion is subject to exemptions and exceptions from the regulatory cost cap. Of the remaining $4.5 billion, Mississippi Power does not intend to seek rate recovery for $1.65 billion of costs incurred above the $2.88 billion cost cap. Of the $1.65 billion, Southern Company has taken a $1.56 billion charge to income through its second-quarter 2014 financial results and would be reflecting the balance in its third-quarter 2014 results.

Fitch remains concerned with the possibility of continued escalation in capital costs and a further delay in the in-service date for the gasification system as the project approaches the critical start-up phase for the gasifier and its integration with the combined cycle turbines that were placed in service recently. The expected in-service date for the project was recently pushed back to the second half of 2015, from the previously scheduled date of second-quarter 2015. A further delay exposes the utility to additional costs of approximately $20 million per month or higher and potentially greater regulatory risk.

Southern Company has committed to inject equity in Mississippi Power to restore its capital structure and has financed its equity infusion into Mississippi Power through equity issuance. The funding of Kemper cost overruns primarily by equity is a key factor that underpins Southern Company's IDR of 'A' and Stable Outlook. It is Fitch's expectation that any future cost overruns at Kemper will be similarly funded largely through equity such that the consolidated equity in the capital structure remains within the targeted range of 44%.

High Environment Capex: Southern Company’s consolidated environmental compliance expenditures remain significant over Fitch's forecast period; the company is planning to spend approximately $3.2 billion over 2014–2016. All of Southern Company's regulated subsidiaries, with the exception of Georgia Power, have environmental trackers. Georgia Power has typically recovered environmental compliance-related costs through base rate case decisions.

Credit Metrics to Modestly Weaken: For the LTM ending June 30, 2014, FFO adjusted leverage stood at 3.5x, which includes the benefit of bonus depreciation. Fitch expects Southern Company's FFO adjusted leverage to weaken to approximately 4.0x by 2016, reflecting the phase-out of bonus depreciation subsidies. Fitch forecasts Southern Company's FFO coverage ratios to remain strong at over 5.0x through 2016. Incorporated in the ratings is Fitch's expectation that Southern Company's financial measures will remain weak through the large capex cycle at Georgia Power, its largest subsidiary.

Organizational Structure

Organizational Chart — Southern Company

($ Mil., As of June 30, 2014)

Southern Company
IDR: A

2.375% Sr. Unsecured Notes due 2015	400
1.950% Sr. Unsecured Notes due 2016	500
5.250% Sr. Unsecured Notes due 2043	500

Alabama Power Company
IDR: A

0.055% Sr. Unsecured Notes due 2015	400
5.200% Sr. Unsecured Notes due 2016	200
5.550% Sr. Unsecured Notes due 2017	200
5.500% Sr. Unsecured Notes due 2017	325
5.125% Sr. Unsecured Notes due 2019	200
3.375% Sr. Unsecured Notes due 2020	250
3.950% Sr. Unsecured Notes due 2021	200
5.875% Sr. Unsecured Notes due 2022	200
5.700% Sr. Unsecured Notes due 2033	250
5.600% Sr. Unsecured Notes due 2033	200
5.650% Sr. Unsecured Notes due 2035	250
6.125% Sr. Unsecured Notes due 2038	300
6.000% Sr. Unsecured Notes due 2039	500
5.500% Sr. Unsecured Notes due 2041	250
5.200% Sr. Unsecured Notes due 2041	250
4.100% Sr. Unsecured Notes due 2042	250
3.850% Sr. Unsecured Notes due 2042	350
Variable Rate Debt Payable to Affiliated Trusts due 2042	206
0.580% to 5.000% PCRBs due 2034	367
Variable Rate PCRBs due 2015	54
Variable Rate PCRBs due 2017	36
Variable Rate PCRBs due 2021–2038	694

Georgia Power Company
IDR: A

0.750% Sr. Unsecured Notes due 2015	400
0.625% Sr. Unsecured Notes due 2015	400
5.250% Sr. Unsecured Notes due 2015	250
Floating Rate Sr. Unsecured Notes due 2016	250
3.000% Sr. Unsecured Notes due 2016	250
Floating Rate Sr. Unsecured Notes due 2016	200
5.700% Sr. Unsecured Notes due 2017	450
5.400% Sr. Unsecured Notes due 2018	250
4.250% Sr. Unsecured Notes due 2019	500
2.850% Sr. Unsecured Notes due 2022	400
5.750% Sr. Unsecured Notes due 2023	125
5.800% Sr. Unsecured Notes due 2035	250
5.650% Sr. Unsecured Notes due 2037	100
5.950% Sr. Unsecured Notes due 2039	500
5.400% Sr. Unsecured Notes due 2040	600
4.750% Sr. Unsecured Notes due 2040	500
4.300% Sr. Unsecured Notes due 2042	1,100
4.300% Sr. Unsecured Notes due 2042	400
8.200% Sr. Unsecured Notes due 2048	100
Variable and Fixed Rate PCRBs due through 2052	1,680

50%

50%

Southern Electric Generating Company
IDR: A

2.200% Sr. Notes due 2018	100

Gulf Power Company
IDR: A–

4.900% Sr. Unsecured Notes due 2014	75
5.300% Sr. Unsecured Notes due 2016	110
5.900% Sr. Unsecured Notes due 2017	85
4.750% Sr. Unsecured Notes due 2020	175
3.100% Sr. Unsecured Notes due 2022	100
5.650% Sr. Unsecured Notes due 2035	60
5.100% Sr. Unsecured Notes due 2040	125
5.000% Sr. Unsecured Notes due 2043	90
5.750% Sr. Unsecured Notes due 2051	125
Other/PCRB (Fixed and Variable) and VRN due 2022–2049	296

Mississippi Power Company
IDR: A–

Promissory Floating Rate Note	220
Floating Rate Bank Loans due 2015	250
2.350% Sr. Unsecured Notes due 2016	300
Floating Rate Bank Loans due 2017	300
5.600% Sr. Unsecured Notes due 2017	35
5.550% Sr. Unsecured Notes due	125
20197.130% Plant Daniel Revenue Bonds due 2021	270
5.400% Sr. Unsecured Notes due 2035	30
4.750% Sr. Unsecured Notes due 2041	150
4.250% Sr. Unsecured Notes due 2042	450
Variable Rate PCRBs	81

Southern Power Company
IDR: BBB+

4.875% Sr. Unsecured Notes due 2015	525
2.450% Sr. Unsecured Notes due 2018	300
6.375% Sr. Unsecured Notes due 2036	200
5.150% Sr. Unsecured Notes due 2041	575
Other Long-term Notes	18

Other Subsidiaries

Southern Nuclear	NR
Southern Wireless, Inc.	NR
Southern Holdings	NR
Southern Renewable Energy	NR
Direct and Indirect Subsidiaries	NR

IDR – Issuer default rating. NR – Not rated.
Source: Company filings, Bloomberg, and Fitch Ratings.

Definitions

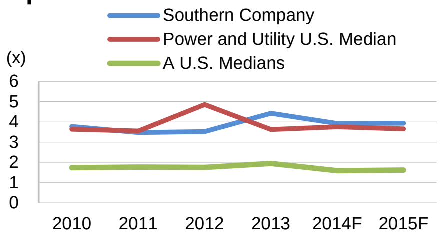
- Total Adjusted Debt/EBITDAR: Total balance sheet debt plus lease adjustment minus equity credit for hybrid instruments minus securitization debt divided by operating EBITDA plus gross rental expense minus securitization amortization
- Interest Cover: EBITDAR divided by gross interest paid plus preferred dividends
- FCF/Revenue: FCF after dividends divided by revenue
- FFO/Debt: FFO divided by total balance sheet debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock minus securitization debt

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecasts assumptions include:

- Moderate growth in sales across all utility subsidiaries.
- CWIP in rates for the Vogtle units 3 and 4.
- Rate increases at the utilities in line with the regulatory outcomes.
- No new generation projects at Southern Power except those acquired/completed in 2014.
- Investment tax credits included in FFO.

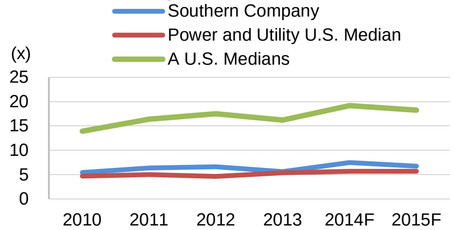
Key Metrics

Leverage: Total Adj. Debt/ Op. EBITDAR



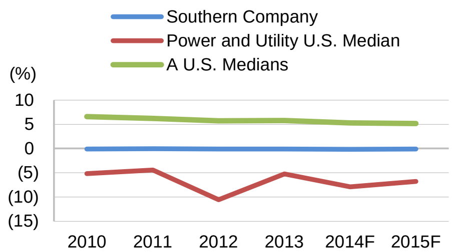
F – Forecast.
Source: Company data, Fitch.

Int. Coverage: Op EBITDA/ Gross Int. Exp.



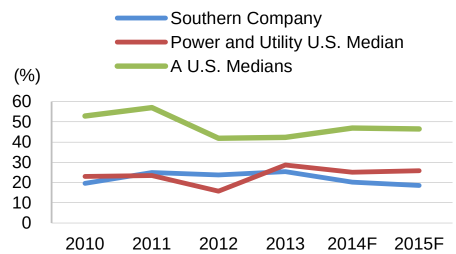
F – Forecast.
Source: Company data, Fitch.

FCF/Revenues



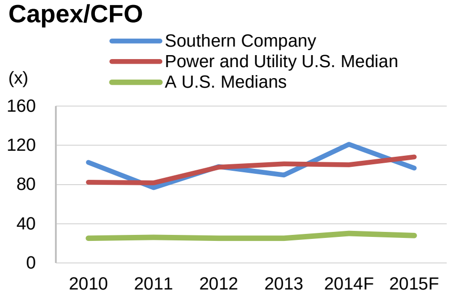
F – Forecast.
Source: Company data, Fitch.

FFO/Debt



F – Forecast.
Source: Company data, Fitch.

Capex/CFO



F – Forecast.
Source: Company data, Fitch.

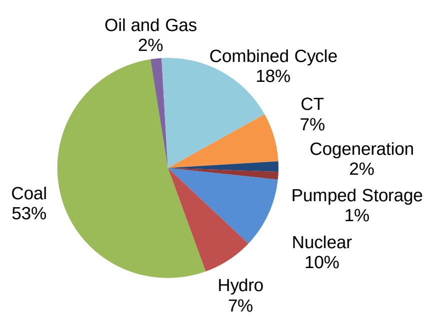
Projected Capex

($ Mil., 2014–2016)

New Generation	2.8
Environmental	3.2
T&D Growth	1.3
Nuclear Fuel	0.9
Maintenance	5.4
Southern Power	0.4
Other	1.0
Total Base Capex	**15.0**
Potential Southern Power Growth Projects	1.4

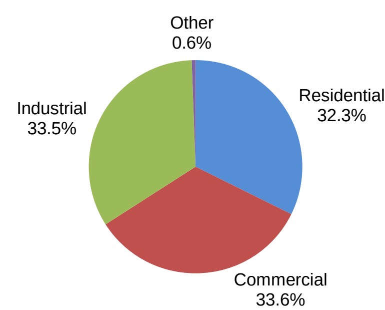
Source: Company data, Fitch.

Retail Generating Capacity Mix



Source: Company data, Fitch.

Territorial MWh Retail Sales Mix



Source: Company data, Fitch.

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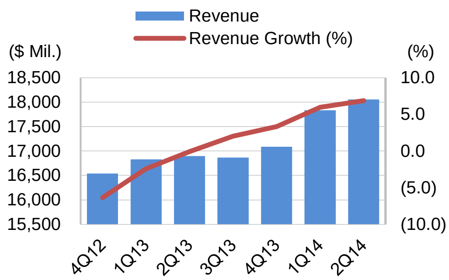
Company Profile

Southern Company is a utility holding company of four regulated and vertically integrated electric utilities that operate in Alabama, Georgia, Florida and Mississippi. Southern Power, the nonregulated generation company, sells electricity under long-term contracts, primarily to investment-grade counterparties, including affiliates. Other subsidiaries include Southern Nuclear, which provides nuclear plant operating services to Georgia Power and Alabama Power, and Southern Company Services, which provides system services to subsidiary companies. The state regulatory environment across Southern Company's regulated subsidiaries is generally constructive and provides reasonable ROE that is generally higher than the national average.

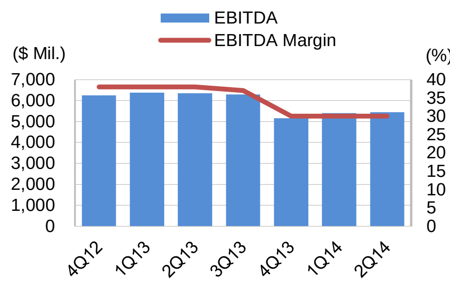
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Pension Analysis

Pension Analysis

	2013	2012
PBO (Under)/Over Funded Status ($ Mil.)	433	(747)
Pension Funded Analysis (%)	105.2	91.4
Estimated Pension Outflows/(FFO+Pension Contribution) (%)	3.9	5.2

Source: Company data, Fitch.

Financial Summary — Southern Company

($ Mil., As of Dec. 31)	2010	2011	2012	2013	LTM Ended 6/30/14
Fundamental Ratios (%)					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	4.7	5.5	5.8	5.1	5.4
FFO Fixed Charge Coverage (x)	4.3	5.5	5.6	6.4	6.6
Total Adjusted Debt/Operating EBITDAR (x)	3.9	3.5	3.6	4.5	4.5
FFO/Total Adjusted Debt	24.9	29.9	28.4	29.8	28.9
FFO Adjusted Leverage (x)	4.0	3.3	3.5	3.4	3.5
Common Dividend Payout	75.7	72.7	72.0	107.2	81.3
Internal Cash/Capital Expenditures	59.4	93.5	65.3	78.1	78.1
Capital Expenditures/Depreciation	270.4	263.8	269.3	287.5	283.7
ROE	12.7	13.0	13.1	8.8	11.9
Profitability					
Revenues	17,456	17,657	16,537	17,087	18,055
Revenue Growth (%)	10.9	1.2	(6.3)	3.3	6.9
Net Revenues	10,194	10,787	10,936	11,116	11,513
Operating and Maintenance Expense	4,010	3,938	3,791	3,846	3,930
Operating EBITDA	5,315	5,948	6,250	5,156	5,443
Operating EBITDAR	5,503	6,124	6,405	5,279	5,550
Depreciation and Amortization Expense	1,513	1,717	1,787	1,901	1,960
Operating EBIT	3,802	4,231	4,463	3,255	3,483
Gross Interest Expense	981	935	942	916	919
Net Income for Common	1,975	2,203	2,350	1,644	2,228
Oper. Maintenance Expense % of Net Revenues	39.3	36.5	34.7	34.6	34.1
Operating EBIT % of Net Revenues	37.3	39.2	40.8	29.3	30.3
Cash Flow					
Cash Flow from Operations	3,991	5,903	4,898	6,097	6,220
Change in Working Capital	(59)	573	(451)	152	126
Funds from Operations	4,050	5,330	5,349	5,945	6,094
Dividends	(1,561)	(1,666)	(1,758)	(1,828)	(1,880)
Capital Expenditure	(4,091)	(4,530)	(4,812)	(5,465)	(5,560)
FCF	**(1,661)**	**(293)**	**(1,672)**	**(1,196)**	**(1,220)**
Net Other Investment Cash Flow	(183)	322	(356)	(277)	(322)
Net Change in Debt	844	111	1,205	770	820
Net Equity Proceeds	772	723	(33)	725	845
Capital Structure					
Short-term Debt	1,297	859	825	1,482	1,817
Total Long-term Debt	19,458	20,470	21,716	21,920	22,813
Total Debt with Equity Credit	**20,755**	**21,329**	**22,541**	**23,402**	**24,630**
Total Adjusted Debt with Equity Credit	**21,201**	**21,728**	**22,903**	**23,639**	**24,867**
Total Hybrid Equity and Minority Interest	1,079	976	975	1,024	1,024
Total Common Shareholder's Equity	16,202	17,578	18,297	19,008	19,426
Total Capital	38,036	39,883	41,813	43,434	45,080
Total Debt/Total Capital (%)	54.6	53.5	53.9	53.9	54.6
Total Hybrid Equity and Minority Interest/Total Capital (%)	2.8	2.4	2.3	2.4	2.3
Common Equity/Total Capital (%)	42.6	44.1	43.8	43.8	43.1

IDR – Issuer Default Rating.
Source: Company reports.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 19 Feb 2015

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate Shelf	(P)Baa2
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A2
Pref. Stock	A3
Commercial Paper	P-1

Contacts

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Key Indicators

[1]**Southern Company (The)**

	9/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	6.9x	6.9x	6.7x	6.5x	5.2x
CFO pre-WC / Debt	22.4%	24.2%	24.1%	23.8%	20.8%
CFO pre-WC - Dividends / Debt	14.9%	16.7%	16.9%	16.7%	13.8%
Debt / Capitalization	44.4%	44.1%	45.8%	46.2%	47.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Latest Vogtle nuclear project costs and delays have weakened relative position at the Baa1 rating level

- Kemper IGCC project construction, legal and regulatory setbacks have added incremental credit pressure

- Generally credit supportive regulatory environments although heightened regulatory uncertainty in Mississippi

- Mostly contracted competitive generation subsidiary with growing renewable energy business outside of the Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa1 senior unsecured, stable outlook) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of four regulated utilities with ratings between A1 and Baa1 and a highly contracted Baa1 rated wholesale power company. Southern's risk profile has increased in recent years as a result of higher costs and material schedule delays on both its Georgia Power new nuclear and Mississippi Power new IGCC construction projects. The company is also pursuing a limited expansion into unregulated renewable generation outside the Southeast. Its regulated utilities operate in mostly credit supportive regulatory frameworks, including continued support in Georgia for the new Vogtle nuclear construction project. Although the Mississippi regulatory environment has been negatively affected by Kemper IGCC project issues, a cap on recoverable costs has largely insulated Mississippi ratepayers from the bulk of the dramatically higher costs associated with this project. However, a Mississippi Supreme Court decision on February 12, 2015, rolling back rate increases approved by the MPSC and implemented for the project thus far has negatively affected Mississippi Power's credit quality and heightened uncertainty over the amount and timing of the utility's ultimate cost recovery on the project.

DETAILED RATING CONSIDERATIONS

LATEST VOGTLE NUCLEAR PROJECT COSTS AND DELAYS HAVE WEAKENED RELATIVE POSITION AT THE Baa1 RATING LEVEL

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

The project has experienced significant delays and cost increases over the course of construction, which can be partly attributed to the large amount of "first of a kind" practices and technology being utilized. The project had been delayed by approximately 21 months from its originally expected start dates until additional delays were recently announced. On January 29, 2015, Georgia Power indicated that the contractors for the project, Westinghouse Electric LLC and CB&I / Stone & Webster, Inc., had revised their forecast for project completion by another 18 months, delaying the estimated in-service dates of Unit 3 (the first of the two units) to 2Q 2019 from 4Q 2017 and Unit 4 to 2Q 2020 from 4Q 2018. Although Georgia Power has not agreed to these changes and does not believe the revised forecast reflects potential mitigation efforts to alleviate the delay, Moody's assumes that the new schedule is more likely than not to be realized, and that additional schedule delays and cost increases over and above these are possible.

Moody's had anticipated additional delays and cost overruns at the Vogtle project since schedule changes were announced at the nearly identical Summer new nuclear project in South Carolina late last year and considering testimony of the Georgia Public Service Commission's (GPSC) independent monitor in November warning of likely delays. Even with these higher costs, the scale and scope of the project remains manageable for a utility the size of Georgia Power, particularly considering its position as part of the Southern system. Nevertheless, as Georgia

Power is one of the company's two largest utilities, the latest delays and cost increases have weakened both Georgia Power and Southern's relative position at their respective rating levels such that any additional adverse developments associated with the project could pressure both entities' ratings or rating outlooks.

Georgia Power estimates that the latest schedule delays will result in an increase in its capital costs of approximately $10 million per month and its financing costs of approximately $30 million per month, for a total cost increase of $720 million. The capital cost of Georgia Power's share of the project will now be in the range of $5 billion, up from $4.4 billion originally. Including the additional financing costs, the total cost of the project to Georgia Power will now be approximately $7.4 billion.

Georgia Power believes that, under the terms of its EPC agreement for the project, the contractors are responsible for any additional construction costs and mitigation efforts related to the latest delays and that it, along with its utility partners, are entitled to recover liquidated damages for delays from the original estimated completion dates. The company expects the contractors to contest these claims as has been the case with $425 million of previous project cost increases that are currently being litigated. As Moody's has noted before, the dearth of subsequent new nuclear construction projects in the US has diminished the incentive for the parties to the EPC agreement to cooperate or negotiate on disputed matters, with additional litigation highly likely.

Despite these setbacks, Georgia Power continues to enjoy strong regulatory support and good cost recovery provisions on the project. The utility earns a cash return on construction work in progress (CWIP) up to the previously certified capital cost through its Nuclear Construction Cost Recovery (NCCR) tariff. All ten of its semi-annual Vogtle Construction Monitoring (VCM) reports covering $2.6 billion of costs have been unanimously approved by the GPSC, although Moody's notes that this does not include a determination of prudence and the GPSC can subsequently disallow certain costs that it determines are imprudent. The eleventh VCM, which included $198 million of additional costs, was unanimously approved by the GPSC on February 19, 2015.

Georgia Power continues to be engaged in litigation with the construction consortium over $425 million of additional costs associated with changes to the design approved by the NRC related to the shield building and structural modules, as well as the delay in the timing of certain NRC approvals. Although the aggregate amount of the disputed costs by themselves are not significant enough to affect Georgia Power's rating or overall credit quality, we would view significant additional legal disputes between the company and the contractors as credit negative.

KEMPER IGCC PROJECT CONSTRUCTION, LEGAL, AND REGULATORY SETBACKS HAVE ADDED INCREMENTAL CREDIT PRESSURE

Southern subsidiary Mississippi Power has also experienced substantial cost overruns and schedule delays at its 582 MW integrated coal gasification combined cycle or IGCC plant under construction in Kemper County, Mississippi. The company originally estimated construction costs of $2.4 billion, net of government construction cost incentives for the capped portion of the project costs, and the Mississippi Public Service Commission (MPSC) agreed to an increased cap on recoverable costs of $2.88 billion. However, the construction estimate has been revised upward several times and was most recently increased to $4.93 billion ($6.17 billion in total, including peripheral items like the lignite mine and CO2 pipeline, which are excluded from the cost recovery cap), more than twice the original estimates.

To meet the utility's revenue requirements associated with the project, the MPSC approved a Rate Order in 2013 allowing a 15% increase in Mississippi Power's retail rates effective on 19 March 2013 and an additional 3% increase effective 1 January 2014, which together were to have increased the utility's revenues by $156 million annually beginning in 2014. However, in an adverse legal and regulatory development, on February 12, 2015, the Mississippi Supreme Court overturned the rate increase and ordered the MPSC to direct the company to refund approximately $257 million of revenues already collected through 12/31/14 to ratepayers. In short, the Court ruled that these rate increases could not be legally implemented without a finding of prudence on the part of the MPSC, and the MPSC has delayed a prudency determination on the project until after its completion, now scheduled for 2016. On February 19, 2015, the rating outlook of Mississippi Power was changed to negative from stable, reflecting the uncertainty over cost recovery that has arisen following this decision. The reversal of these rate increases will negatively affect Mississippi Power's financial coverage metrics, delay the timely recovery of approved costs associated with the plant, and increase the risk of consumer rate shock.

Mississippi Power has received capital contributions from Southern of $300 million in 2011, $700 million in 2012, $1.1 billion in 2013, and $450 million in 2014. In 2013, the utility announced cost increases totaling $1.2 billion, for which it and its parent company, Southern, took after-tax charges of $729 million. In 2014, the utility announced $868 million of additional cost increases with additional after-tax charges of $536 million. Total charges for the project thus far have been approximately $2 billion pre-tax or $1.3 billion after-tax, substantial amounts even for a company the size of Southern.

Mississippi Power has extended the in-service date of the plant several times (including the complicated gasification system) from its original May 2014 date to the first half of 2016. Because of the delay in the in-service date, the company lost $133 million of tax credits ($113 million net of Southern Mississippi Electric Power Association' co-ownership) that had been allocated by the IRS in 2014 under the condition that it was completed by the original May 2014 date. Furthermore, the utility may also not receive approximately $130 million to $160 million of bonus depreciation benefits that will need to be adjusted in its pending seven year rate plan settlement, which remains under discussion and subject to the final approval of the MPSC.

The Kemper project has been a substantial undertaking for a company the size of Mississippi Power. At its current $6.10 billion cost estimate, the plant is three times the company's total equity of $2.02 billion at 30 September 2014. Because of the project's size, the company's capital expenditures have increased to approximately $1.6 billion in both 2013 and 2014 compared to the $200 million range pre-Kemper. With construction of the plant largely complete, the company expects capital expenditures to decrease to $804 million and $324 million in 2015 and 2016, respectively, assuming no additional cost increases.

GENERALLY CREDIT SUPPORTIVE REGULATORY ENVIRONMENTS ALTHOUGH HEIGHTENED REGULATORY UNCERTAINTY IN MISSISSIPPI

Southern's rating is supported by the mostly credit supportive regulatory environments in the states in which it operates where each utility subsidiary has constructive relationships with its regulators and strong cost recovery provisions. The utilities operate under rate plans with authorized ROE levels that are at or above the average for electric utilities nationwide. There are several adjustment mechanisms in place to address rising costs and each jurisdiction allows the utilities to adjust rates prospectively based on expected fuel and purchased power costs.

Georgia Power, Southern's largest subsidiary, operates under a three year rate settlement ("2013 Alternate Rate Plan") implemented on 1 January 2014 that we view as credit supportive, particularly considering the additional annual rate increases associated with its ongoing nuclear construction program. Under the rate plan, the company increased its base rates by approximately $80 million effective 1 January 2014 and collected an additional $30 million in 2014 through its Environmental Compliance Cost Recovery (ECCR) and other tariffs, for a total rate increase of $110 million. Additional base rate and cost recovery tariff rate increases estimated to total $135 million in 2015 and $168 million in 2016 will also be implemented as part of the settlement. In total, rates will increase by $413 million over three years, compared to the company's original request of $482 million in the first year.

The settlement represents a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 31 December 2013, including its three year term. Under the 2013 Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10% to 12% from 10.25% to 12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery tariff.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has remained credit supportive despite some scrutiny of Alabama Power's return on equity and changes to the utility's long standing rate plan in 2013. At that time, Alabama Public Service Commission (APSC) voted to accept its staff recommendation for a change to the Rate RSE plan by moving to a weighted average cost of capital approach. The new Rate RSE eliminated the previous 13% to 14.5% ROE range and 45% allowed equity ratio and replaced them with an allowed weighted cost of equity ("WCE") range of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. The revised Rate RSE became effective in 2014 with substantially all of the other provisions of the Rate RSE remaining unchanged.

In December 2014, Alabama Power made its Rate RSE submission to the APSC for 2015 requesting a $256 million rate increase because its WCE fell below the approved range to 5.18%. Hearings were held in December and new rates took effect on January 1, 2015.

In Mississippi, the Supreme Court decision discussed above rolling back the Kemper project rate increases and the lack of a regulatory settlement on project cost recovery has heightened regulatory uncertainty in that state. A key question will be whether these adverse developments will lead to a permanent change in the regulatory framework or if it will return to the credit supportive construct that had existed previously. The MPSC capped recoverable plant construction costs on the plant at $2.88 billion, with none of the $2 billion of cost increases above that being recoverable from customers, which will mitigate the impact of project cost increases on Mississippi Power's regulators and ratepayers.

In February 2013, Mississippi Power filed a rate plan for the first seven years of the plant's operation, including revenue requirements for the years 2014 through 2020; however, that plan was never approved by the MPSC and will likely be revised given the schedule delays and cost increases that have occurred since it was filed. The company has been engaged in discussions with the Mississippi Public Utilities Staff in the hopes of reaching a global settlement that would incorporate both a revised rate plan and a prudency determination but have thus far been unsuccessful. For now, the MPSC had indicated that it will not consider or determine prudency until after the plant is placed in commercial operation and demonstrates its availability for a reasonable period, a credit negative regulatory development.

In December 2013, the Florida Public Service Commission unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continues its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

MOSTLY CONTRACTED COMPETITIVE GENERATION SUBSIDIARY WITH GROWING RENEWABLE ENERGY BUSINESS OUTSIDE OF THE SOUTHEAST

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. At 12/31/13, the company's generating capacity was 79% contracted over the next five years, although the average duration of the contracts has exhibited a declining trend in recent years. The company has also experienced lower energy margins, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

In recent years, Southern Power has begun to expand outside of its traditional Southeast regional focus, adding three new solar facilities in 2014, including the large 150 MW Solar Gen 2 facility in California. These projects bring the company's total solar generation portfolio to 460 MW, all contracted with major investor owned utilities. The company also has a 131 MW solar facility under development in Georgia that is expected to be in operation in 2016. Southern Power is also the owner and operator of the 100 MW Nacogdoches biomass-fueled generating facility in Texas. While currently modest compared to the rest of its business, significant additional investments in renewable energy outside of the Southeast has the potential to modestly increase Southern Power's overall business and operating risk profile.

Liquidity

Southern Company's liquidity profile is supported by the underlying cash flows of its four regulated electric operating subsidiaries and wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of 30 September 2014. Southern maintains a $1 billion five year credit facility at the parent company with an expiration date in 2018. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of 30 September 2014, Southern was in compliance with its financial covenant.

Southern had approximately $1.4 billion of cash on hand and $361 million of commercial paper outstanding on a consolidated basis as of 30 September 2014. We anticipate dividend contributions from its subsidiaries will be in the $2 billion range in 2015. In addition, Georgia Power could require equity contributions for the Vogtle project in 2015 as well.

Southern's utilities and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities were approximately $5.2 billion as of 30 September 2014 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $408 million expires in 2015, $530 million in 2016, $30 million in 2017, and $4.1 billion in 2018. Of these credit facilities, approximately $193 million have provisions allowing for term loans that can be executed by the relevant utility upon facility expiration.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $454 million as of 30 September 2014. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.3 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash. As of 30 September 2014, Southern had approximately $585 million of consolidated long-term debt maturities over the next twelve months, in addition to $1.8 billion of notes payable. Southern has also guaranteed the obligations of Mississippi Power with respect to a $225 million refundable deposit from Kemper IGCC plant co-owner Southern Mississippi Electric Power Association (SMEPA).

Rating Outlook

The stable rating outlook reflects Moody's view that delays and cost increases at the Vogtle nuclear and Kemper IGCC construction projects have thus far been manageable, although they have weakened the parent company's relative position at the Baa1 rating level. It also considers our expectation that subsidiary Georgia Power will continue to recover prudently incurred costs related to Vogtle on a timely basis, and that regulatory, political, public, and partner support for the Vogtle project will continue. The stable outlook is also supported by the credit supportive regulatory environments in Southern's other jurisdictions, largely offsetting heightened regulatory uncertainty in Mississippi.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries continue to experience setbacks on their major new construction projects. Ratings could be raised eventually if there is significant additional progress made on the construction of the Vogtle project with minimal additional cost increases or schedule delays, including resolution of pending and any future litigation with the construction consortium, such that subsidiary Georgia Power's rating is upgraded. An upgrade would also require resolution of the numerous questions surrounding the operation and cost recovery on the Kemper project and a sustained improvement in financial metrics, including CFO pre-W/C to debt above 22%, after adjusting for bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if Georgia Power or one or more of its other subsidiary's ratings are lowered; if there are additional delays or cost increases on the Vogtle nuclear project, and to a lesser extent the Kemper project; if there is material additional debt issued at the parent company level; if major new environmental or other costs are incurred that are not recovered in rates on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 2/19/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A

Factor 4 : Financial Strength (40%)					
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.6x	Aa		5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.9%	A		18% - 22%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.6%	Baa		11% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	45.0%	A		44% - 46%	Baa
Rating:					
Grid-Indicated Rating Before Notching Adjustment		A2			A3
HoldCo Structural Subordination Notching	-1	-1		-1	-1
a) Indicated Rating from Grid		A3			Baa1
b) Actual Rating Assigned		Baa1			Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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INVESTORS SERVICE

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MOODY'S INVESTORS SERVICE

Credit Opinion: Gulf Power Company

Global Credit Research - 07 Aug 2015

Florida, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Pref. Stock	Baa1
Parent: Southern Company (The)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2

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Key Indicators

[1]**Gulf Power Company**

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	**6.5x**	**6.2x**	**5.6x**	**7.8x**	**6.0x**
CFO pre-WC / Debt	**22.1%**	**21.2%**	**21.5%**	**29.5%**	**22.3%**
CFO pre-WC - Dividends / Debt	**14.6%**	**13.7%**	**13.9%**	**21.9%**	**14.9%**
Debt / Capitalization	**43.3%**	**43.4%**	**42.8%**	**45.5%**	**48.5%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Credit supportive regulatory environment with reasonable rate case settlement in place until 2017

- Cash flow coverage metrics are weak for its A2 credit rating after adjusting for bonus depreciation

- High environmental capital expenditures decline in 2016 and 2017, not including potential new EPA mandates

- Position as part of Southern Company system is credit positive

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves approximately 440,000 customers in a 7,500 square mile region and owns 2,583 megawatts of nameplate capacity, the majority of which are coal-fired baseload units. It operates within the Southern Company power pool.

SUMMARY RATING RATIONALE

Gulf Power's A2 senior unsecured debt rating reflects a credit supportive regulatory environment in Florida; a reasonable rate case settlement in place until 2017; cash flow coverage metrics that are weak for its A2 rating after adjusting for bonus depreciation; high capital expenditures for environmental compliance that decline in 2016 and 2017; and potential exposure to new EPA mandates. The rating also considers Gulf Power's position as part of the Southern Company corporate family, offsetting some of the risk associated with the utility's relatively small size, concentrated service territory, and exposure to storm related event risk.

DETAILED RATING CONSIDERATIONS

- Credit supportive regulatory environment with reasonable rate case settlement in place until 2017

In December 2013, the Florida Public Service Commission (FPSC) unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a generally credit supportive regulatory framework in Florida. The settlement allows the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015; and continued its authorized ROE level of 10.25% (the midpoint of range between 9.25% and 11.25%), slightly above the national average. The settlement includes an adjustment mechanism that would increase the authorized ROE to 10.5% if the 30 year US treasury bond yield increases by a predetermined amount. The utility can accrue a return similar to AFUDC on certain transmission upgrades from 2014 to 2017, and reduce depreciation expense and record a regulatory asset for cost of removal of up to $62.5 million to reach the midpoint of its authorized ROE. As part of the settlement, Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

Gulf Power benefits from several timely cost recovery provisions, including a FPSC approved fuel cost recovery mechanism that includes a true-up of actual fuel costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over or under recovery exceeds 10% of the projected annual fuel revenues for the period.

In addition, with utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting Gulf Power's credit quality in storm affected years. The company can petition for recovery of any storm damage costs in excess of its storm reserve to be collected through a storm surcharge. It would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

The FPSC has approved Gulf Power's purchase of renewable energy, including 120 MW of utility scale solar generation at three military installations for a term of 25 years beginning in 2016. The FPSC also approved the purchase of 178 MW of wind generation in central Oklahoma for a term of 20 years beginning in 2015. Purchases under these agreements will be for energy only and are expected to be recovered under the utility's fuel cost recovery clause.

- Cash flow coverage metrics are weak for its A2 credit rating after adjusting for bonus depreciation

Gulf Power's cash flow coverage metrics are weak for an A rating, after adjusting for high levels of bonus depreciation over the last few years, using the financial ratio parameters outlined in our ratings methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt has been in the 21% range for the last two fiscal years, on a Moody's adjusted basis, including the effects of bonus depreciation. Bonus depreciation increased cash flow by approximately $25 million in both 2013 and 2014. If the effect of bonus depreciation is excluded from the last two years' cash flows, we estimate this ratio would have been just under 20% for the 2013-2014 period, below the A rating range of 22%-30% under our methodology. Gulf Power expects the cash flow benefit of bonus depreciation to be significantly higher at between $65 and $70 million for the 2015 tax year due to the passage of the Tax Increase Prevention Act of 2014 (TIPA). We view bonus depreciation as a temporary acceleration of future cash flows and typically adjust for this extraordinary benefit when evaluating credit quality.

- High environmental capital expenditures decline in 2016 and 2017, not including potential new EPA mandates

In 2014, Gulf Power generated approximately two-thirds of its own power from coal, up from approximately 60% in each of the last two years, with the remaining coming from natural gas, in addition to a significant amount of predominantly gas fired purchased power. Because of its high reliance on coal fired generation, Gulf Power has faced substantial costs for environment compliance in recent years. The company is expected to spend $617 million from 2015 - 2017 on base level capital expenditures, including $204 million for environmental compliance. However, environmental capital expenditures are projected to decline from $127 million in 2015 to a $39 million in 2016 and $38 million in 2017.

These projected capital expenditures relate to existing statutes and regulations, and do not include costs for proposed water and coal combustion byproducts rules as well as pending EPA carbon rules. On 17 April 2015, the EPA published its Coal Combustion Residual (CCR) final rule, setting 15 October 2015 as the effective date. Based on initial estimates, Gulf Power recorded an incremental asset retirement obligation of approximately $75 million in the second quarter of 2015.

New mandates could again increase the level of environmental capital expenditures in the outer years, although there is still significant uncertainty over the final rules, regulations, and the implementation timeline. We believe regulated utilities with significant coal fired generation like Gulf Power will fare better than unregulated coal generators in meeting these obligations. Gulf Power's current rating and outlook incorporate the expectation that the utility will continue to recover its environmental expenditures as part of its rate proceedings, although there could be some regulatory lag.

- Position as part of Southern Company system is credit positive

Although Gulf Power is a relatively small utility, it benefits from being part of the much larger Southern Company system. Unlike the other three investor owned utilities in Florida with service territories in the peninsular part of the state with some electric transmission and gas pipeline constraints into and out of state, Gulf Power is highly interconnected with the rest of the Southern Company system and benefits from joint dispatch arrangements with its affiliate utilities. Several functions are handled centrally through Southern Company Services, enhancing efficiency at all of Southern's utilities, including Gulf Power.

Liquidity

Gulf Power maintains $275 million of unused bank credit facilities supporting a $200 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of 30 June 2015, the company had $114 million of commercial paper outstanding and $69 million of variable rate pollution control bonds backed by the facilities, leaving the company with $92 million of available credit facility capacity. As of 30 June 2015, of the $275 million of credit facilities, $20 million expires in 2015, $225 million in 2016, and $30 million in 2017. Of the company's credit facilities, $50 million contain provisions allowing for term loans that can be executed by the company at expiration. There is no material adverse change clause in any of these credit agreements, and some of the facilities include a 65% debt to capital covenant. As of 30 June 2015, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a downgrade. In the event of a downgrade to Baa3, Gulf Power had potential collateral requirements of $91 million as of 30 June 2015. If Gulf Power's credit rating is downgraded below investment grade, the utility's potential collateral requirement increases to $481 million. On 30 June 2015, Gulf Power had $44 million of cash, up slightly from $39 million at 31 December 2014. The company has no long-term debt coming due over the next twelve months, $40 million of short-term bank debt, and $46 million of fixed rate pollution control revenue bonds that are required to be remarketed over the 12 months ending 30 June 2016.

Rating Outlook

The stable rating outlook reflects our view that Gulf Power's regulatory environment, its rate settlement in place until 2017, and the ongoing cost recovery provisions in place in Florida are credit supportive. Although the utility's cash flow coverage metrics are below the parameters typically required for an A2 rating after adjusting for bonus depreciation, this is largely offset by the strong regulation, lack of significant new generation needs, and its position as part of the Southern Company system.

What Could Change the Rating - Up

An upgrade could be considered if the utility's regulatory environment and cost recovery provisions remain supportive, if capital expenditures moderate from currently high levels, and if cash flow coverage metrics show sustained improvement to levels more appropriate for its rating, including CFO pre-W/C to debt of at least 25%, after adjusting for the impact of bonus depreciation.

What Could Change the Rating - Down

Ratings could be downgraded if there are adverse political or regulatory developments in Florida that could negatively affect credit quality; if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage; or if cash flow coverage metrics continue to remain significantly below our guidelines for the A rating level, including CFO pre-working capital to debt below 22% for a sustained period.

Rating Factors

Gulf Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 8/3/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.3x	Aa	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	23.4%	A	20% - 23%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.8%	Baa	10% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	42.9%	A	40% - 42%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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MOODY'S INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 19 Aug 2015

Atlanta, Georgia, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A2
Pref. Stock	A3
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

	3/31/2015(L)	**12/31/2014**	**12/31/2013**	**12/31/2012**	**12/31/2011**
CFO pre-WC + Interest / Interest	**6.8x**	**6.6x**	**7.0x**	**6.9x**	**6.7x**
CFO pre-WC / Debt	**20.8%**	**20.5%**	**24.6%**	**24.5%**	**24.3%**
CFO pre-WC - Dividends / Debt	**13.8%**	**13.2%**	**16.9%**	**17.3%**	**17.1%**
Debt / Capitalization	**45.7%**	**44.9%**	**43.9%**	**45.5%**	**45.9%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Vogtle nuclear project has weakened position at the Baa1 rating level, with schedule delays and cost increases announced in January 2015

- Recent testimony on Twelfth Vogtle Construction Monitoring Report noted additional schedule slippage since January, a credit negative

- Heightened cost recovery risk on Kemper IGCC project with rate plan reversal, mandated refunds, partner exit, and lack of permanent rate recovery adding credit pressure

- Generally credit supportive regulatory environments except for the substantial regulatory uncertainty in Mississippi

- Mostly contracted competitive generation subsidiary with growing renewable energy business outside of the Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa2 senior unsecured, negative) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of three regulated utilities operating in credit supportive regulatory environments, while subsidiary Mississippi Power is operating under considerable regulatory uncertainty with its rating having been downgraded to Baa2 from Baa1 on 14 August 2015. Southern is also the parent of a stable, highly contracted wholesale power company, Southern Power. Southern's risk profile has increased in recent years as a result of higher costs and material schedule delays on both Georgia Power's Vogtle new nuclear and Mississippi Power's Kemper new IGCC construction projects. The company is also pursuing a significant expansion into unregulated renewable generation outside the Southeast.

DETAILED RATING CONSIDERATIONS

- Vogtle nuclear project cost increases and delays have weakened Southern's relative position at the Baa1 rating level

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

The project has experienced significant delays and cost increases over the course of construction, which can be partly attributed to the large amount of "first of a kind" practices and technology being utilized. The project had earlier been delayed by approximately 21 months from its originally expected start dates until additional delays were announced earlier this year. On 29 January 2015, Georgia Power announced that the contractors for the project, Westinghouse Electric LLC and CB&I/Stone & Webster, Inc., had revised their forecast for project completion by another 18 months, delaying the estimated in-service dates of Unit 3 (the first of the two units) to 2Q 2019 and Unit 4 to 2Q 2020, from 4Q 2017 and 4Q 2018, respectively. Although Georgia Power has not agreed to these changes and does not believe the revised forecast reflects potential mitigation efforts to alleviate the delay, Moody's assumes that the new schedule is more likely than not to be realized, and that additional schedule delays and cost increases over and above these are likely.

Georgia Power estimates that the latest schedule delays will result in an increase in its capital costs of approximately $246 million and its financing costs of approximately $568 million, for a total cost increase of $814 million. The capital cost of Georgia Power's share of the project will now be in the range of $5 billion, up from $4.4 billion originally. Including the additional financing costs, the total cost of the project to Georgia Power will now be approximately $7.5 billion.

Georgia Power believes that, under the terms of its EPC agreement for the project, the contractors are responsible for any additional construction costs and mitigation efforts related to the latest delays and that it, along with its utility partners, are entitled to recover liquidated damages for delays from the original estimated completion dates. The company expects the contractors to contest these claims as has been the case with of previous project cost increases that are currently being litigated. In June 2015, the contractors updated their estimated damages under the initial litigation and a subsequent amended counterclaim to an aggregate (based on Georgia Power's ownership interest) of approximately $714 million (in 2015 dollars). As Moody's has noted before, the dearth of new nuclear construction projects in the US has diminished the incentive for parties to the EPC agreement to cooperate or negotiate on disputed matters, with more litigation possible.

Despite these setbacks, Georgia Power continues to enjoy strong regulatory support and good cost recovery provisions on Vogtle. The utility earns a cash return on construction work in progress (CWIP) up to the previously certified capital cost through its Nuclear Construction Cost Recovery (NCCR) tariff. All eleven of its semi-annual Vogtle Construction Monitoring (VCM) reports covering $2.8 billion of costs have been unanimously approved by the GPSC, although Moody's notes that this does not include a determination of prudence and the GPSC can subsequently disallow certain costs that it deems imprudent.

Thus far, even with the higher costs, the scale and scope of the project has been manageable for a utility the size of Georgia Power, particularly considering its position as part of Southern. Nevertheless, as Georgia Power is one of the company's two largest utilities, the latest delays and cost increases have weakened both organization's relative position at their respective rating levels such that any additional adverse developments associated with the project could pressure their ratings or rating outlooks.

- Recent testimony on pending Vogtle Construction Monitoring Report (VCM) noted additional schedule slippage since January, a credit negative

In February 2015, the company filed its 12th Semi-Annual VCM with the Georgia Public Service Commission (GPSC), requesting that the commission verify and approve $169 million of Vogtle expenditures made during the second half of 2014. On 18 August 2015, the GPSC approved these costs, bringing the total cumulative costs approved on the project through the end of 2014 to approximately $2.96 billion. The company will file its 13th VCM report at the end of August 2015.

In a negative development, in testimony filed by Georgia Power on the VCM in May, company officials indicated that they have been disappointed with the construction contractor's performance under the newly revised schedule that was articulated in January. The contractor has missed several key milestones since January, including milestones related to critical-path or near-critical-path activities such as the assembly of the CA01 structural module, the delivery of shield building panels, and work on concrete outside containment. The contractor has also encountered difficulties in ensuring that new project vendors produce compliant, high-quality components in order to meet the revised project schedule.

Subsequent testimony in June by the GPSC staff's independent monitor reiterated many of these concerns, and noted that the some of the vendors providing critical sub-modules for the largely modular construction project have provided sub-modules with significant quality issues. His primary concern for each of the vendors is the ability to maintain quality while producing sub-modules in time to meet construction need dates. With construction of the new Vogtle units barely 25% complete, the appearance of material delays so soon after a revised schedule was submitted by the construction contractors in January is a credit negative development and an indication that further delays are likely.

- Heightened cost recovery risk on Kemper IGCC project with rate plan reversal, mandated refunds, partner exit and lack of permanent rate recovery adding credit pressure

Subsidiary Mississippi Power's rating has been downgraded several times since 2010, when it embarked on the construction of the complex and costly 582 MW Kemper integrated gasification combined cycle (IGCC) plant. The downgrades have reflected substantially higher than expected costs for the project, schedule delays, increased regulatory cost recovery risk following an adverse Supreme Court decision reversing previously implemented rates, the recent exit of its 15% partner in the project, South Mississippi Electric (SME), and high concentration, financial and liquidity risk associated with the generating asset. As a result, the utility's financial metrics have weakened considerably and are expected to remain lower than historical levels for several years. The continued support of and capital contributions from The Southern Company have been important to the maintenance of Mississippi Power's overall credit quality in the face of these challenges.

The company originally estimated construction costs of $2.4 billion, net of government construction cost incentives for the capped portion of the project costs, and the Mississippi Public Service Commission (MPSC) agreed to an increased cap on recoverable costs of $2.88 billion. However, the construction estimate has been revised upward several times and was most recently increased to $4.93 billion ($6.17 billion in total, including peripheral items like the lignite mine and CO2 pipeline, which are excluded from the cost recovery cap), more than twice the original estimates.

To meet the utility's revenue requirements associated with the project, the MPSC approved a Rate Order in 2013 allowing a 15% increase in Mississippi Power's retail rates effective on 19 March 2013 and an additional 3% increase effective 1 January 2014, which together were to have increased the utility's revenues by $156 million annually beginning in 2014. However, in an adverse legal and regulatory development, on 12 February 2015, the Mississippi Supreme Court overturned the rate increase and ordered the MPSC to direct the company to refund the revenues already collected to ratepayers. In short, the Court ruled that these rate increases could not be legally implemented without a finding of prudence on the part of the MPSC, and the MPSC has delayed a prudency determination on the project until after its completion, now scheduled for 2016. Mississippi submitted a refund plan to the MPSC in July.

On 7 July, pursuant to the Supreme Court ruling, the MPSC ordered the company to stop collecting the rates in place effective 20 July and submit a plan within 14 days for refunding $350 million of rates collected under the 2013 rate order.

On 10 July, immediately following the MPSC refund order, Mississippi Power filed for emergency interim rate relief and permanent rate relief on the portion of the plant that is currently in-service, including the combined cycle, transmission facilities, natural gas and water pipelines, and lignite mine. The company asked the MPSC to implement an 18% or $159 million rate increase, which would essentially replace the rate increase that had been overturned by the Supreme Court. The interim rates would be subject to refund until the company files for and the MPSC approves permanent rates, potentially later this year.

On 13 August, the MPSC approved the $159 million interim rate relief by a two to one margin, providing the utility with some limited, potentially refundable rate relief on the plant's in-service assets. However, there is still no permanent cost recovery plan in place for the Kemper plant. The lack of a unanimous decision on a utility's appeal for emergency financial relief is a particular credit concern. Under a scheduling order issued by the MPSC earlier this week, hearings on designating these interim rates as permanent, including determining the prudency of the costs incurred for the in-service assets, are scheduled for November with a final order to be issued by 8 December 2015.

- Generally credit supportive regulatory environments except for the substantial regulatory uncertainty in Mississippi

Southern's rating is supported by the mostly credit supportive regulatory environments in three of the four states in which it operates with constructive relationships with regulators and strong cost recovery provisions.

Georgia Power, Southern's largest subsidiary, operates under a three year rate settlement (the "2013 Alternate Rate Plan") implemented on 1 January 2014 that we view as credit supportive, particularly considering the additional annual rate increases associated with its ongoing nuclear construction program. Under the rate plan, the company increased its base rates by approximately $107 million effective 1 January 2015 and collected an additional $29 million in 2015 through its Environmental Compliance Cost Recovery (ECCR) and other tariffs, for a total rate increase of $136 million. An additional base rate and cost recovery tariff rate increase estimated to be $168 million in 2016 will also be implemented as part of the settlement. In total, rates will increase by $414 million over three years, compared to the company's original levelized request of $482 million in the first year.

The settlement represents a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 31 December 2013, including its three year term. Under the 2013 Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10% to 12% from 10.25% to 12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery tariff.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has remained credit supportive despite some scrutiny of Alabama Power's return on equity and changes to the utility's long standing rate plan in 2013. At that time, Alabama Public Service Commission (APSC) voted to accept its staff recommendation for a change to the Rate RSE plan by moving to a weighted average cost of capital approach. The new Rate RSE eliminated the previous 13% to 14.5% ROE range and 45% allowed equity ratio and replaced them with an allowed weighted cost of equity ("WCE") range of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. The revised Rate RSE became effective in 2014 with substantially all of the other provisions of the Rate RSE remaining unchanged.

In December 2014, Alabama Power submitted its 2015 Rate RSE submission to the APSC for a $181 million rate increase or 3.49% effective January 1, 2015, which included a performance based adder of .07%. Under the terms of the Rate RSE, the maximum increase for 2016 cannot exceed 4.51%. Alabama Power also increased rates by an additional 1.5% or $75 million annually to recover environmental costs under its Rate CNP Environmental, one of its cost recovery clauses.

In December 2013, the Florida Public Service Commission unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continued its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

- Mostly contracted competitive generation subsidiary with growing renewable energy business outside of the Southeast

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. At 31 December 2014, the company's generating capacity was 77% contracted over the next five years, with the average duration of the contracts exhibiting a declining trend in recent years. The company has also experienced lower energy margins, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

Southern Power is in the midst of a significant expansion plan into renewable energy outside of its traditional Southeast regional, natural gas generation focus. It acquired three new solar generating facilities in 2014, including the large 150 MW Solar Gen 2 facility in California. In the first half of 2015, it acquired all or part of two new solar facilities and its first wind energy facility, the 299-MW Kay Wind facility in Kay County, Oklahoma. The acquisition of the Kay Wind facility represents the company's first wind project and indicates a change in the company's view of wind, which it has not invested in historically. These projects bring the company's total renewable generation portfolio to 460 MW, all contracted with major investor owned utilities. The company is also in the process of constructing 403 MW of solar projects in Georgia that are expected to be in operation in late 2015 and 2016. Southern Power is also the owner and operator of the 100 MW Nacogdoches biomass-fueled generating facility in Texas. Significant additional investments in renewable energy outside of the Southeast have the potential to modestly increase Southern Power's business and operating risk profile.

Liquidity

Southern's liquidity profile is adequate, although it has a sizable $3.6 billion of long-term debt coming due over the twelve month period ending June 30, 2016. Liquidity is supported by the underlying cash flows of three of its four regulated electric operating subsidiaries and its wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of 30 June 2015.

Southern maintains a $1.25 billion five year credit facility at the parent company with an expiration date in 2020. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of 30 June 2015, Southern was in compliance with its financial covenant. Southern had approximately $813 million of cash on hand, $512 million of commercial paper outstanding, and $545 million of short-term debt on a consolidated basis as of 30 June 2015. We anticipate dividend contributions from its subsidiaries will be in the $2 billion range in 2015 and 2016.

Southern's utilities and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities were approximately $5.2 billion as of 30 June 2015 (with $1.9 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $239 million expire in 2015, $799 million in 2016, $30 million in 2017, and $4.1 billion in 2018. Of these credit facilities, approximately $198 million have provisions allowing for term loans that can be executed by the relevant utility upon facility expiration.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $488 million as of 30 June 2015. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.4 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash. As of 30 June 2015, Southern had $3.6 billion of consolidated long-term debt maturities over the next twelve months, up slightly from the $3.35 billion current portion of long-term debt due at 31 December 2014.

Rating Outlook

The stable rating outlook reflects Moody's view that delays and cost increases at the Vogtle and Kemper projects have thus far been manageable at the diversified parent company's current Baa1 rating level, although setbacks at both projects have weakened the parent's relative position at that rating. It also considers our expectation that subsidiary Georgia Power will continue to recover prudently incurred costs related to Vogtle on a timely basis, and that regulatory, political, public, and partner support for the Vogtle project will continue. The stable outlook is also supported by the diversity of cash flows from utilities in the credit supportive regulatory environments of Alabama and Florida, a growing wholesale power operation at Southern Power, largely offsetting the significant regulatory risk in Mississippi.

What Could Change the Rating - Up

An upgrade is unlikely while two of its utility subsidiaries continue to experience setbacks on their major new construction projects. Southern's ratings could be raised eventually if there is significant additional progress made on the construction of the Vogtle project with minimal additional cost increases or schedule delays, including resolution of pending litigation with the construction consortium, such that subsidiary Georgia Power's rating is upgraded. An upgrade would also require resolution of the substantial uncertainty surrounding the commercial operation of and permanent cost recovery on the Kemper plant and a sustained improvement in financial metrics, including CFO pre-W/C to debt above 22%, after adjusting for bonus depreciation.

What Could Change the Rating - Down

The ratings could be downgraded if Georgia Power or one or more of its other subsidiary's ratings are lowered; if there are additional delays or cost increases on the Vogtle nuclear project, and to a lesser extent the Kemper project; if there is material additional debt issued at the parent company level; if major new environmental or other costs are incurred that are not recovered in rates on a timely basis; or if consolidated metrics show a sustained decline, including CFO pre-W/C to debt below 18% for an extended period.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 8/17/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa

Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.9x	Aa	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.6%	A	18% - 22%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.4%	Baa	11% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	45.5%	Baa	44% - 46%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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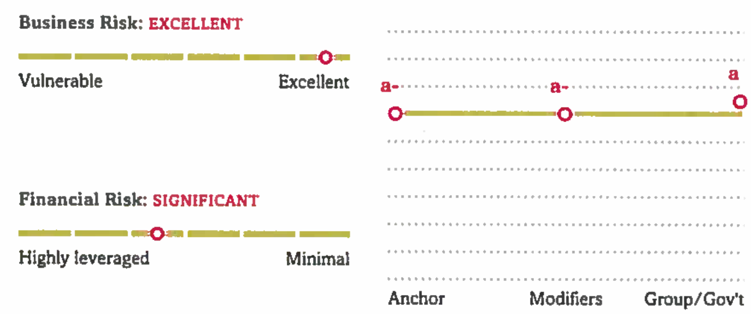
Gulf Power Co.



CORPORATE CREDIT RATING

A/Negative/A-1

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Regulated integrated electric utility operations benefiting from a generally constructive regulatory framework. • Medium-sized service territory with modest customer growth. • Lack of competition in regulated service territory.	• Robust credit protection measures benefit from regulatory mechanisms that provide for timely investment recovery. • Negative discretionary cash flow during most of the forecast period.

160186-OPC-POD-71-464

Outlook: Negative

The rating outlook on Gulf Power Co. reflects our rating outlook on its parent, Southern Co. The negative outlook on Southern and its utility subsidiaries reflects the potential for lower ratings if Mississippi Power Co. (MPC) is unable to maintain rates and its financial condition as the dispute over Kemper costs is sorted out through the appellate process. We could also lower ratings if unforeseen adverse developments at Vogtle result in further elevation of regulatory risk.

Downside scenario

We could lower ratings if the legal and regulatory challenges at MPC create cash flow fluctuations that are not alleviated by parent company actions. If the Vogtle schedule and cost forecast experience further deterioration such that substantially full cost recovery upon completion of the units becomes questionable, we would lower ratings in the absence of company actions to counteract the higher risk of future imprudence disallowances.

Upside scenario

Given the large planned capital spending program of almost $17 billion over the next three years and the increased construction and regulatory risk of the new nuclear and clean coal projects, we do not expect to raise the ratings over the next year. We could affirm the ratings and revise the outlook to stable if Southern were to successfully navigate the appeals process in Mississippi, so that current rates remain intact or are quickly restored, and make limited refunds.

Standard & Poor's Base-Case Scenario

Assumptions

- Gross margin growth in the low-single digits benefiting from periodic rate increases to maintain earned returns.
- Capital spending averaging about $200 million per year, largely for environmental compliance needs.

Key Metrics

	2014A	2015E	2016E
FFO/total debt (%)	21.5	19-21	22-24
Total debt/EBITDA (x)	3.6	3.3-3.5	3.0-3.2

FFO--Funds from operations. A--Actual. E--Estimate.

Business Risk: Excellent

We assess Gulf Power's business risk profile as "excellent," incorporating the benefits of operations under a generally constructive regulatory environment that enables the company to earn at or close to the allowed return, a midsized customer base that should experience moderate customer growth as the economy recovers, and a consistently good operating record for its owned generation fleet. Residential and commercial customers account for the majority of sales and revenues, providing a measure of stability to cash flows, and the company has no meaningful industrial exposure.

The regulatory environment for Gulf Power is generally constructive and supportive of credit quality, enabling the company to recover invested capital in a timely manner while earning adequate returns, and to recover capacity, fuel, and environmental compliance costs through riders. Recovery of transmission investments for the next few years will not begin until 2017, and in the meantime the company will accrue carrying costs.

Financial Risk: Significant

We view Gulf Power's financial risk profile as being in the "significant" category using the medial volatility financial ratio benchmarks, reflecting our base-case scenario that the company will maintain credit protection measures that remain in the upper end of the category. We expect the core ratios to weaken somewhat over the next few years as capital spending rises (leading to modestly higher debt levels) and as deferred tax benefits decline.

Liquidity: Adequate

We view Gulf Power's liquidity on a consolidated basis with that of Southern, given Gulf Power's group status as a core subsidiary. In our opinion, Southern's liquidity is "adequate" to cover its needs over the next 12 months. We expect that the company's liquidity sources will exceed its uses by 1.1x or more, the minimum threshold for an "adequate" designation under our criteria, and that the company will also meet our other criteria for such a designation. Southern has $5.2 billion in revolving credit facilities, with $513 million maturing in 2015, $530 million in 2016, $30 million in 2017, and $4.1 billion in 2018.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash from operations of about $5.5 billion. • Total credit facility of about $5.2 billion. • Availability of Department of Energy financing for Vogtle is factored into our assessment.	• Debt maturities of $4.1 billion. • Capital spending of at least $4.2 billion. • Common dividends of about $2 billion.

Other Credit Considerations

All modifiers are neutral and do not affect the anchor score.

Group Influence

Under our group rating methodology, we consider Gulf Power to be a core subsidiary of Southern Co., reflecting our view that it is highly unlikely to be sold and has a strong long-term commitment from senior management. There are no meaningful insulation measures in place and therefore we cap the 'A' issuer credit rating on Gulf Power at Southern Co.'s group credit profile.

Ratings Score Snapshot

Corporate Credit Rating

A/Negative/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : a-

- **Group credit profile:** a
- **Entity status within group:** Core (+1 notch from SACP)

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile: Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

MOODY'S
INVESTORS SERVICE

Credit Opinion: Southern Company (The)

Global Credit Research - 25 Aug 2015

Atlanta, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Georgia Power Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
Alabama Power Company	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A2
Pref. Stock	A3
Commercial Paper	P-1

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Key Indicators

[1]**Southern Company (The)**

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	6.8x	6.6x	7.0x	6.9x	6.7x
CFO pre-WC / Debt	20.8%	20.5%	24.6%	24.5%	24.3%
CFO pre-WC - Dividends / Debt	13.8%	13.2%	16.9%	17.3%	17.1%
Debt / Capitalization	45.7%	44.9%	43.9%	45.5%	45.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

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

Opinion

Rating Drivers

- Initially mostly debt financed acquisition of AGL will increase holding company debt and lower cash flow coverage metrics for several years

- Vogtle nuclear project has already weakened position at the Baa1 rating level, with schedule delays and cost increases announced in January 2015

- Recent testimony on Twelfth Vogtle Construction Monitoring Report noted additional schedule slippage since January, a credit negative

- Heightened cost recovery risk on Kemper IGCC project with rate plan reversal, mandated refunds, partner exit, and lack of permanent rate recovery adding credit pressure

- Generally credit supportive regulatory environments except for the substantial regulatory uncertainty in Mississippi

- Mostly contracted competitive generation subsidiary with growing renewable energy business outside of the Southeast

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa2 senior unsecured, negative) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

Recent Developments

On 24 August 2015, Southern announced that it had agreed to acquire AGL Resources, Inc. (AGL, unrated), an Atlanta based natural gas distribution company, for approximately $8 billion in cash. Southern expects the transaction to close in the second half of 2016. Following this announcement, Southern's rating outlook was changed to negative from stable.

The transaction would significantly increase the scale, scope, and diversity of Southern's predominantly electric generation business by adding one of the largest local natural gas distribution companies (LDC) in the country, with seven LDC's serving over 4.5 million customers in 7 states. Most notably, this includes Atlanta Gas Light Company in Georgia, providing opportunities for synergies and cost savings with Georgia Power.

SUMMARY RATING RATIONALE

Southern's Baa1 senior unsecured rating reflects its position as the parent company of three regulated utilities operating in credit supportive regulatory environments, while subsidiary Mississippi Power is operating under considerable regulatory uncertainty with its rating having been downgraded to Baa2 from Baa1 on 14 August 2015. Southern is also the parent of a stable, highly contracted wholesale power company, Southern Power. Southern's risk profile has increased in recent years as a result of higher costs and material schedule delays on both Georgia Power's Vogtle new nuclear and Mississippi Power's Kemper new IGCC construction projects. The company is also pursuing a significant expansion into unregulated renewable generation outside the Southeast.

DETAILED RATING CONSIDERATIONS

- Initially debt financed acquisition of AGL will increase holding company debt and lower cash flow coverage metrics for several years

The acquisition of AGL for $8 billion in cash will result in a significant increase in debt at the Southern holding company level at a time when its holding company debt has already been increasing, partly to support funding needs utility subsidiary Mississippi Power and portfolio growth at wholesale power subsidiary Southern Power. Although Southern intends to issue equity to finance the transaction over the longer term, leverage will remain elevated for several years.

The addition of nearly $8 billion of debt at the Southern holding company will increase parent company debt from under $3 billion currently (10% of total consolidated debt) to the $10-$11 billion range (around 25% of consolidated debt) at transaction closing, which will pressure cash flow coverage metrics. We project Southern's consolidated CFO pre-working capital to debt ratio could decline to the 15% range following the acquisition from 20% currently, a level that would be weak for its current rating and compared to most other Baa1 holding company peers.

Moreover, in AGL, Southern is acquiring an entity's whose financing subsidiary, AGL Capital Corporation (guaranteed by AGL), is rated Baa1, lower than three of Southern's four existing utility subsidiaries. AGL also exhibits lower financial coverage metrics than Southern, with AGL's CFO pre-working capital to debt expected to decline to the low to mid-teens from the mid to high teens as it issues debt to fund planned capital investments. The combination of higher debt, lower cash flow coverage ratios, and the acquisition of a lower rated entity will likely lead to a one notch downgrade of Southern on or before the closing date, which Southern estimates will be in the second half of 2016.

- Vogtle nuclear project cost increases and delays have weakened Southern's relative position at the Baa1 rating level

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

The project has experienced significant delays and cost increases over the course of construction, which can be partly attributed to the large amount of "first of a kind" practices and technology being utilized. The project had earlier been delayed by approximately 21 months from its originally expected start dates until additional delays were announced earlier this year. On 29 January 2015, Georgia Power announced that the contractors for the project, Westinghouse Electric LLC and CB&I/Stone & Webster, Inc., had revised their forecast for project completion by another 18 months, delaying the estimated in-service dates of Unit 3 (the first of the two units) to 2Q 2019 and Unit 4 to 2Q 2020, from 4Q 2017 and 4Q 2018, respectively. Although Georgia Power has not agreed to these changes and does not believe the revised forecast reflects potential mitigation efforts to alleviate the delay, Moody's assumes that the new schedule is more likely than not to be realized, and that additional schedule delays and cost increases over and above these are likely.

Georgia Power estimates that the latest schedule delays will result in an increase in its capital costs of approximately $246 million and its financing costs of approximately $568 million, for a total cost increase of $814 million. The capital cost of Georgia Power's share of the project will now be in the range of $5 billion, up from $4.4 billion originally. Including the additional financing costs, the total cost of the project to Georgia Power will now be approximately $7.5 billion.

Georgia Power believes that, under the terms of its EPC agreement for the project, the contractors are responsible for any additional construction costs and mitigation efforts related to the latest delays and that it, along with its utility partners, are entitled to recover liquidated damages for delays from the original estimated completion dates. The company expects the contractors to contest these claims as has been the case with of previous project cost increases that are currently being litigated. In June 2015, the contractors updated their estimated damages under the initial litigation and a subsequent amended counterclaim to an aggregate (based on Georgia Power's ownership interest) of approximately $714 million (in 2015 dollars). As Moody's has noted before, the dearth of new nuclear construction projects in the US has diminished the incentive for parties to the EPC agreement to cooperate or negotiate on disputed matters, with more litigation possible.

Despite these setbacks, Georgia Power continues to enjoy strong regulatory support and good cost recovery provisions on Vogtle. The utility earns a cash return on construction work in progress (CWIP) up to the previously certified capital cost through its Nuclear Construction Cost Recovery (NCCR) tariff. All eleven of its semi-annual Vogtle Construction Monitoring (VCM) reports covering $2.8 billion of costs have been unanimously approved by the GPSC, although Moody's notes that this does not include a determination of prudence and the GPSC can subsequently disallow certain costs that it deems imprudent.

Thus far, even with the higher costs, the scale and scope of the project has been manageable for a utility the size of Georgia Power, particularly considering its position as part of Southern. Nevertheless, as Georgia Power is one of the company's two largest utilities, the latest delays and cost increases have weakened both organization's relative position at their respective rating levels such that any additional adverse developments associated with the project could pressure their ratings or rating outlooks.

- Recent testimony on pending Vogtle Construction Monitoring Report (VCM) noted additional schedule slippage since January, a credit negative

In February 2015, the company filed its 12th Semi-Annual VCM with the Georgia Public Service Commission (GPSC), requesting that the commission verify and approve $169 million of Vogtle expenditures made during the second half of 2014. On 18 August 2015, the GPSC approved these costs, bringing the total cumulative costs approved on the project through the end of 2014 to approximately $2.96 billion. The company will file its 13th VCM report at the end of August 2015.

In a negative development, in testimony filed by Georgia Power on the VCM in May, company officials indicated that they have been disappointed with the construction contractor's performance under the newly revised schedule that was articulated in January. The contractor has missed several key milestones since January, including milestones related to critical-path or near-critical-path activities such as the assembly of the CA01 structural module, the delivery of shield building panels, and work on concrete outside containment. The contractor has also encountered difficulties in ensuring that new project vendors produce compliant, high-quality components in order to meet the revised project schedule.

Subsequent testimony in June by the GPSC staff's independent monitor reiterated many of these concerns, and noted that the some of the vendors providing critical sub-modules for the largely modular construction project have provided sub-modules with significant quality issues. His primary concern for each of the vendors is the ability to maintain quality while producing sub-modules in time to meet construction need dates. With construction of the new Vogtle units barely 25% complete, the appearance of material delays so soon after a revised schedule was submitted by the construction contractors in January is a credit negative development and an indication that further delays are likely.

- Heightened cost recovery risk on Kemper IGCC project with rate plan reversal, mandated refunds, partner exit and lack of permanent rate recovery adding credit pressure

Subsidiary Mississippi Power's rating has been downgraded several times since 2010, when it embarked on the construction of the complex and costly 582 MW Kemper integrated gasification combined cycle (IGCC) plant. The downgrades have reflected substantially higher than expected costs for the project, schedule delays, increased regulatory cost recovery risk following an adverse Supreme Court decision reversing previously implemented rates, the recent exit of its 15% partner in the project, South Mississippi Electric (SME), and high concentration, financial and liquidity risk associated with the generating asset. As a result, the utility's financial metrics have weakened considerably and are expected to remain lower than historical levels for several years. The continued support of and capital contributions from The Southern Company have been important to the maintenance of Mississippi Power's overall credit quality in the face of these challenges.

The company originally estimated construction costs of $2.4 billion, net of government construction cost incentives for the capped portion of the project costs, and the Mississippi Public Service Commission (MPSC) agreed to an increased cap on recoverable costs of $2.88 billion. However, the construction estimate has been revised upward several times and was most recently increased to $4.93 billion ($6.17 billion in total, including peripheral items like the lignite mine and CO2 pipeline, which are excluded from the cost recovery cap), more than twice the original estimates.

To meet the utility's revenue requirements associated with the project, the MPSC approved a Rate Order in 2013 allowing a 15% increase in Mississippi Power's retail rates effective on 19 March 2013 and an additional 3% increase effective 1 January 2014, which together were to have increased the utility's revenues by $156 million annually beginning in 2014. However, in an adverse legal and regulatory development, on 12 February 2015, the Mississippi Supreme Court overturned the rate increase and ordered the MPSC to direct the company to refund the revenues already collected to ratepayers. In short, the Court ruled that these rate increases could not be legally implemented without a finding of prudence on the part of the MPSC, and the MPSC has delayed a prudency determination on the project until after its completion, now scheduled for 2016. Mississippi submitted a refund plan to the MPSC in July.

On 7 July, pursuant to the Supreme Court ruling, the MPSC ordered the company to stop collecting the rates in place effective 20 July and submit a plan within 14 days for refunding $350 million of rates collected under the 2013 rate order.

On 10 July, immediately following the MPSC refund order, Mississippi Power filed for emergency interim rate relief and permanent rate relief on the portion of the plant that is currently in-service, including the combined cycle, transmission facilities, natural gas and water pipelines, and lignite mine. The company asked the MPSC to implement an 18% or $159 million rate increase, which would essentially replace the rate increase that had been overturned by the Supreme Court. The interim rates would be subject to refund until the company files for and the MPSC approves permanent rates, potentially later this year.

On 13 August, the MPSC approved the $159 million interim rate relief by a two to one margin, providing the utility with some limited, potentially refundable rate relief on the plant's in-service assets. However, there is still no permanent cost recovery plan in place for the Kemper plant. The lack of a unanimous decision on a utility's appeal for emergency financial relief is a particular credit concern. Under a scheduling order issued by the MPSC earlier this week, hearings on designating these interim rates as permanent, including determining the prudency of the costs incurred for the in-service assets, are scheduled for November with a final order to be issued by 8 December 2015.

- Generally credit supportive regulatory environments except for the substantial regulatory uncertainty in Mississippi

Southern's rating is supported by the mostly credit supportive regulatory environments in three of the four states in which it operates with constructive relationships with regulators and strong cost recovery provisions.

Georgia Power, Southern's largest subsidiary, operates under a three year rate settlement (the "2013 Alternate Rate Plan") implemented on 1 January 2014 that we view as credit supportive, particularly considering the additional annual rate increases associated with its ongoing nuclear construction program. Under the rate plan, the company increased its base rates by approximately $107 million effective 1 January 2015 and collected an additional $29 million in 2015 through its Environmental Compliance Cost Recovery (ECCR) and other tariffs, for a total rate increase of $136 million. An additional base rate and cost recovery tariff rate increase estimated to be $168 million in 2016 will also be implemented as part of the settlement. In total, rates will increase by $414 million over three years, compared to the company's original levelized request of $482 million in the first year.

The settlement represents a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 31 December 2013, including its three year term. Under the 2013 Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10% to 12% from 10.25% to 12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery tariff.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has remained credit supportive despite some scrutiny of Alabama Power's return on equity and changes to the utility's long standing rate plan in 2013. At that time, Alabama Public Service Commission (APSC) voted to accept its staff recommendation for a change to the Rate RSE plan by moving to a weighted average cost of capital approach. The new Rate RSE eliminated the previous 13% to 14.5% ROE range and 45% allowed equity ratio and replaced them with an allowed weighted cost of equity ("WCE") range of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. The revised Rate RSE became effective in 2014 with substantially all of the other provisions of the Rate RSE remaining unchanged.

In December 2014, Alabama Power submitted its 2015 Rate RSE submission to the APSC for a $181 million rate increase or 3.49% effective January 1, 2015, which included a performance based adder of .07%. Under the terms of the Rate RSE, the maximum increase for 2016 cannot exceed 4.51%. Alabama Power also increased rates by an additional 1.5% or $75 million annually to recover environmental costs under its Rate CNP Environmental, one of its cost recovery clauses.

In December 2013, the Florida Public Service Commission unanimously approved a settlement agreement in Gulf Power's most recent rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continued its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

Mostly contracted competitive generation subsidiary with growing renewable energy business outside of the Southeast

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to its lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. At 31 December 2014, the company's generating capacity was 77% contracted over the next five years, with the average duration of the contracts exhibiting a declining trend in recent years. The company has also experienced lower energy margins, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

Southern Power is in the midst of a significant expansion plan into renewable energy outside of its traditional Southeast regional, natural gas generation focus. It acquired three new solar generating facilities in 2014, including the large 150 MW Solar Gen 2 facility in California. In the first half of 2015, it acquired all or part of two new solar facilities and its first wind energy facility, the 299-MW Kay Wind facility in Kay County, Oklahoma. The acquisition of the Kay Wind facility represents the company's first wind project and indicates a change in the company's view of wind, which it has not invested in historically. These projects bring the company's total renewable generation portfolio to 460 MW, all contracted with major investor owned utilities. The company is also in the process of constructing 403 MW of solar projects in Georgia that are expected to be in operation in late 2015 and 2016. Southern Power is also the owner and operator of the 100 MW Nacogdoches biomass-fueled generating facility in Texas. Significant additional investments in renewable energy outside of the Southeast have the potential to modestly increase Southern Power's business and operating risk profile.

Liquidity

Southern's liquidity profile is adequate, although it has a sizable $3.6 billion of long-term debt coming due over the twelve month period ending June 30, 2016. Liquidity is supported by the underlying cash flows of three of its four regulated electric operating subsidiaries and its wholesale generation business; an unused bank credit facility at the parent company level; and a sufficient cash position as of 30 June 2015.

Southern maintains a $1.25 billion five year credit facility at the parent company with an expiration date in 2020. The credit facility provides liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility has a covenant which limits Southern's debt to capital (excluding trust preferred securities) to 65% and there are no material adverse change representations for new borrowings. As of 30 June 2015, Southern was in compliance with its financial covenant. Southern had approximately $813 million of cash on hand, $512 million of commercial paper outstanding, and $545 million of short-term debt on a consolidated basis as of 30 June 2015. We anticipate dividend contributions from its subsidiaries will be in the $2 billion range in 2015 and 2016.

Southern's utilities and Southern Power each maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities were approximately $5.2 billion as of 30 June 2015 (with $1.9 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $239 million expire in 2015, $799 million in 2016, $30 million in 2017, and $4.1 billion in 2018. Of these credit facilities, approximately $198 million have provisions allowing for term loans that can be executed by the relevant utility upon facility expiration.

Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $488 million as of 30 June 2015. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.4 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash. As of 30 June 2015, Southern had $3.6 billion of consolidated long-term debt maturities over the next twelve months, up slightly from the $3.35 billion current portion of long-term debt due at 31 December 2014.

Rating Outlook

The negative outlook is driven by the significant increase in holding company debt that will be used to finance the AGL transaction. The additional $8 billion of debt will increase parent company debt to over 25% of total consolidated debt from 10% currently, pressuring cash flow coverage metrics. The combination of higher debt and lower metrics will likely lead to a one notch downgrade of Southern on or before the closing date, which Southern estimates will be in the third quarter of 2016.

What Could Change the Rating - Up

The negative outlook limits the prospects of an upgrade of Southern while the AGL acquisition is pending, particularly considering the higher leverage the transaction will entail. A ratings upgrade is also unlikely while two of its subsidiaries are engaged in major new construction projects.

What Could Change the Rating - Down

Southern's rating is likely to be lowered by one notch at or near the closing date of the AGL acquisition, assuming the transaction is financed as currently envisioned. Southern's rating could also be downgraded if Georgia Power or one or more of its other subsidiary's ratings are lowered; if there are additional delays or cost increases on the Vogtle nuclear project, and to a lesser degree the Kemper project; if major new environmental or other costs are incurred that are not recovered in rates; or if consolidated metrics show a sustained decline, including cash flow from operations pre-working capital to debt below 18% for an extended period.

Other Considerations

The 12-18 month forward view in the Regulated Electric and Gas Utilities Industry Methodology Grid below incorporates the AGL acquisition.

Rating Factors

Southern Company (The)

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 8/25/2015**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	Aa	Aa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.9x	Aa	4x - 5x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.6%	A	15% - 17%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	15.4%	Baa	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	45.5%	Baa	49% - 51%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	-1	-1	-2	-2
a) Indicated Rating from Grid		A3		Baa2
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

STANDARD & POOR'S RATINGS SERVICES
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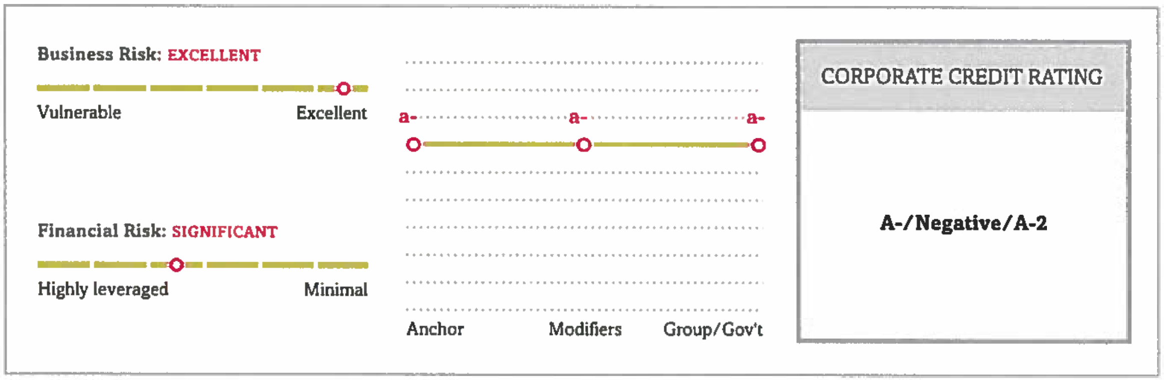
Southern Co.



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Regulated utility operations that span four states, serve a large and diverse customer base, and contribute to more than 90% of consolidated operating income. • Operations in jurisdictions with generally constructive regulatory environments providing for timely investment recovery and cash flow stability. • Planned merger with AGL Resources Inc. and two large construction projects at Georgia Power Co. and Mississippi Power Co. have elevated the risk profile. • Prudent and largely conservative financial risk management and generally effective management of regulatory risk.	• Large capital spending program that could pressure the financial profile. • Ongoing need for external financing. • Stable debt leverage. • High dividend payout ratio in light of planned capital spending program.

Outlook: Negative

The negative outlook on Southern Co. and its subsidiaries reflects our baseline projections that the organization's regulated electric utility and merchant power operations will continue generating sufficient cash flow to consistently achieve credit measures that support the "significant" financial risk profile assessment, including funds from operations (FFO) to debt of approximately 16%. We expect Southern's financial condition to erode slightly due to the AGL transaction as its large capital spending program, which includes construction of new nuclear plants in Georgia and an integrated gasification combined-cycle unit in Mississippi, peaks in 2015 and winds down over the rest of the decade.

Downside scenario

We could lower the ratings on Southern and its subsidiaries if the regulatory and plant construction issues at Georgia Power Co. (GPC) and Mississippi Power Co. (MPC) worsen and that risk, in conjunction with the AGL merger process, materializes in deterioration in credit measures, including FFO to debt consistently below 16%. Outsized growth at merchant power subsidiary Southern Power Co. could also eventually lead to a downgrade if it is substantial enough to change our view of the consolidated company's business risk.

Upside scenario

Given the AGL merger, the company's large planned capital spending program of almost $15 billion over the next three years, the elevated construction risk with nuclear and integrated gasification combined cycle (IGCC) projects, and the uncertainty over the ultimate ratemaking treatment of those projects, we would not expect to raise the ratings until those issues are resolved. The organization's core credit metrics would have to improve to a level that supports an "intermediate" financial risk profile, such as FFO to debt durably above 23%.

Standard & Poor's Base-Case Scenario

Assumptions

- Consolidated operating income grows in the mid-single digits, benefiting from incremental recovery of invested capital, recovery of financing costs and modest load growth.
- Consolidated capital ranges from $5 billion to $6.5 billion in the forecast period.
- Common dividends growth tracks earnings growth of about 4% to 5% annually.
- AGL Resources acquisition is completed in 2016.

Key Metrics

	2014A	2015E	2016E
FFO/debt (%)	19.3	16-17	15-16
Debt/EBITDA (x)	4.0	4.1-4.3	4.1-4.3

A--Actual. E--Estimate. FFO--Funds from operations.

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Business Risk: Excellent

We assess Southern's business risk profile as "excellent," incorporating operations in generally supportive regulatory environments due to effective management of regulatory risk. A large service territory spanning four states provides geographical and regulatory diversity, minimizing the effect of economic weakness or adverse regulatory decisions in any one state, and efficient operations provide competitively priced power across customer classes.

Challenges remain in the completion of construction and successful operation of the Kemper IGCC at Mississippi Power, now significantly delayed into 2016, and the two new nuclear units--Vogtle Units 3 and 4--at Georgia Power, in 2019 and 2020, respectively. The Kemper project has been particularly troublesome, with substantial cost increases and schedule delays that have migrated into unfavorable regulatory developments such as rate decreases, rate refunds, and uncertainty about future cost recoverability. While these developments have led to pre-tax impairments totaling about $2 billion, Southern has continued to provide financial support to Mississippi Power.

The new Vogtle units are also experiencing significant delays in their expected in-service dates as well as increased projected cost from about $6.1 billion at inception to $7.5 billion for its share of the plant. Project costs could increase further by over $400 million related to pending litigation among the co-owners of the project and the project contractor. In the event uncertified costs increase substantially or recovery becomes problematic, Georgia Power's and Southern's credit profile could weaken given the magnitude of the Vogtle project. Nevertheless, given the project's complexity, the delays and cost increases are not unexpected and have been managed well, benefiting from Georgia's constructive and transparent regulatory framework and the carefully crafted engineering, procurement, and construction contract.

The proposed acquisition of AGL offers a slight business risk improvement by adding very low-risk natural gas local distribution companies to the company's stable of regulated, integrated electric utility properties. However, we see added risk that the protracted pursuit of regulatory and other approvals could distract management at a critical time. Completing Kemper and getting the costs permanently into rates, and pressing on in the crucial halfway point for the nuclear construction, are challenging without the considerable diversion of senior management's time and attention for regulatory and integration efforts at AGL. Any missteps on those high-profile endeavors in the midst of the AGL merger process could pressure ratings.

Financial Risk: Significant

Southern's financial risk profile is "significant" using the medial volatility financial ratio benchmarks, reflecting our base-case scenario that with the AGL transaction the company will produce credit protection measures that will fall toward the lower end of the category, with FFO to debt of about 15% to 16% and debt to EBITDA that climbs above 4x. We project the company will issue equity every year to provide support to its financial profile. The financial profile will also benefit from regular rate increases over the next few years.

Liquidity: Adequate

We consider liquidity, measured on a consolidated basis, to be "adequate" under our corporate liquidity methodology. Projected liquidity sources exceed uses by more than 1.1x. The company's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending or sell assets, sound bank relationships, solid standing in credit markets, and generally prudent risk management also support our assessment of its liquidity as adequate.

Southern has $5.1 billion in revolving credit facilities. As of June 30, 2015, undrawn capacity was $4.1 billion.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash from operations of about $6.1 billion; and • Cash and credit facilities of about $6.2 billion.	• Debt maturities of about $4.9 billion; • Capital spending of at least $4.6 billion; and • Common dividends of about $2.2 billion.

Other Credit Considerations

Our assessment of all modifiers is neutral and does not affect the anchor score.

Group Influence

As a parent company with no insulated subsidiary, the group credit profile is equal to the stand-alone credit profile of 'a-'.

Ratings Score Snapshot

Corporate Credit Rating

A-/Negative/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : a-

- **Group credit profile:** a-

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
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- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Gulf Power Company

Full Rating Report

Ratings

Long-Term IDR	A–
Short-Term IDR	F1
Commercial Paper	F1
Senior Unsecured	A
Pollution Control Revenue Bonds	A
Preferred Securities	BBB+

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Gulf Power Company

($ Mil.)	LTM 3/31/15	2014
Adjusted Revenue	1,541	1,591
Operating EBITDAR	426	441
Cash Flow from Operations	282	343
Total Adjusted Debt	1,552	1,512
Total Capitalization	3,004	2,937
Capex/ Depreciation (%)	2.7	2.4
FFO Fixed-Charge Coverage (x)	5.1	5.0
FFO-Adjusted Leverage (x)	3.7	3.7
Total Adjusted Debt/EBITDAR (x)	3.6	3.4

Related Research

Fitch Downgrades Mississippi Power to 'BBB+'; Southern's Outlook Revised to Negative (June 2015)

U.S. Retail Electric Sales Dashboard (June 2015)

Off to a Good Start (1Q15 Earnings Calls Wrap-Up) (May 2015)

Analysts

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Key Rating Drivers

Rating Affirmed: Fitch Ratings affirmed the Issuer Default Rating (IDR) and security ratings for Gulf Power Company on June 5, 2015. The ratings and Stable Outlook reflect Fitch's view that the utility will continue to generate stable credit metrics over the next three years, driven by a constructive decision in the last rate case and gradual improvement in its service territory.

Constructive Regulation: The utility enjoys several rate riders that provide timely recovery of all prudent costs related to fuel, purchased power costs and environmental expenditures. While Gulf Power is dependent on coal-fired generation capacity that must comply with stringent emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs. A favorable turnaround in the regulatory climate in Florida is a key credit positive for Gulf Power.

Reasonable Rate Case Outcome: Gulf Power secured a constructive outcome in its last rate case, when the Florida Public Service Commission (PSC) approved a base rate increase of $35 million annually effective January 2014 and an additional $20 million in annual revenues effective January 2015 based on authorized return on equity (ROE) of 10.25%.

Improvement in Retail Sales: Gulf Power's service territory continues to see slow but steady improvement in the local economy, with economic indicators such as housing starts, employment and income growth all showing positive trends. The number of customers served continues to grow; however, customer usage trends have been unpredictable.

In first-quarter 2015, weather adjusted residential and commercial MWh sales fell by 5.2% and 2.0%, respectively, over the corresponding period in 2014, primarily due to drop in customer usage. Industrial sales decreased 2.5%, primarily due to increased customer co-generation. In contrast, for the full year 2014, weather-adjusted residential and commercial MWh sales grew by 1.3% and 0.1%, respectively, while industrial sales grew by 8.8%.

Credit Metrics: Fitch forecasts Gulf Power's adjusted debt/EBITDAR and FFO-adjusted leverage to be approximately 3.3x and 3.8x, respectively, in 2017, which is in line with its rating category.

Rating Sensitivities

Positive Rating Action: Future developments that may, individually or collectively, lead to a positive rating action include sustained FFO adjusted leverage lower than 3.0x.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include: unexpected negative regulatory developments in Florida; continued weakness in customer usage and a reversal of customer growth trends that results in significantly lower than expected sales; or sustained FFO-adjusted leverage weaker than 4.0x.

Financial Overview

Liquidity and Debt Structure

Gulf Power has adequate access to liquidity, in Fitch's view. The company has $275 million of credit facilities, which provide liquidity support to its commercial paper (CP) borrowings. As of March 31, 2015, $69 million of liquidity support was dedicated to funding potential purchase obligations related to variable-rate pollution control revenue bonds. Most of the credit facilities carry a 65% debt-to-capital covenant, and Gulf Power was well within the threshold. Gulf Power may also meet its short-term cash needs through a Southern Company subsidiary organized to issue and sell CP. Near-term debt maturities are manageable.

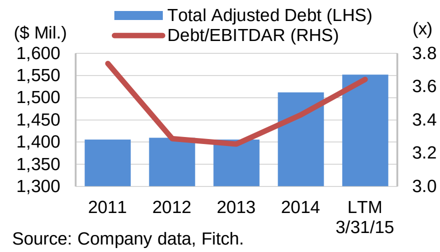
Debt Maturities and Liquidity

($ Mil., as of March 31, 2015)

2015	—
2016	110
2017	85
2018	—
Thereafter	1,175
Cash and Cash Equivalents	55
Undrawn Committed Facilities	55

Source: Company data, Fitch.

Total Debt and Leverage

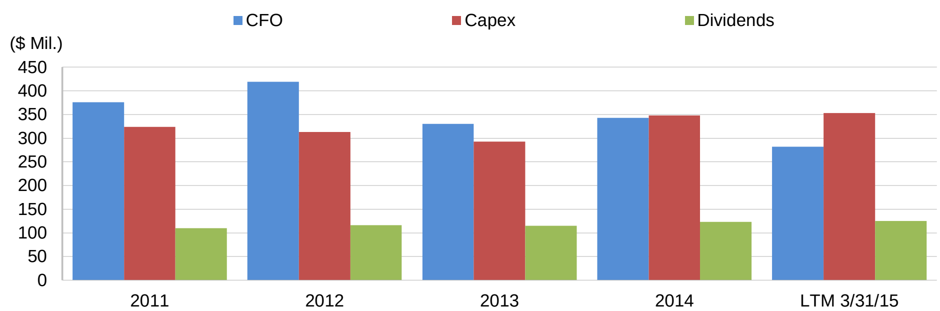


Source: Company data, Fitch.

Cash Flow Analysis

With the wind down of environmental compliance spending, Gulf Power's capex is expected to materially decrease over the next three years. Gulf Power plans to spend approximately $700 million in capex over 2015–2017. Over this period, Fitch expects the company to be at FCF break-even levels after capital investments and dividends, thus requiring negligible external financing.

CFO and Cash Use



Source: Company data, Fitch.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (March 2015)

Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis (November 2014)

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Peer and Sector Analysis

Peer Group

Issuer	Country
A	
Florida Power & Light Co.	United States
BBB+	
Duke Energy Florida, Inc.	United States
Tampa Electric Company	United States

Issuer Rating History

Date	LT IDR (FC)	Outlook/Watch
June 5, 2015	A–	Stable
Sept. 18, 2014	A–	Stable
April 7, 2014	A–	Stable
Aug. 6, 2013	A–	Stable
Aug. 22, 2012	A–	Stable
Aug. 30, 2011	A–	Stable
Sept. 3, 2010	A–	Stable
Sept. 4, 2009	A–	Stable
Jan. 22, 2008	A–	Stable
Aug. 10, 2006	A–	Stable
Dec. 6, 2005	A–	Stable
Aug. 16, 2005	A	Stable
April 13, 2004	A	Stable
Dec. 6, 2002	A	Stable
Jan. 22, 2001	A	Stable
July 1, 1996	A+	Stable
Nov. 23, 1993	A	Stable
Aug. 17, 1990	A–	Stable
Nov. 21, 1984	A+	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

	Gulf Power Company	Florida Power & Light Co.	Duke Energy Florida, Inc.	Tampa Electric Company
As of	3/31/15	3/31/15	3/31/15	3/31/15
IDR	A–	A	BBB+	BBB+
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)				
Operating EBITDAR/ (Gross Interest Expense + Rents)	5.84	9.62	6.05	6.95
FFO Fixed-Charge Coverage	5.15	9.24	5.67	6.18
Total Adjusted Debt/Operating EBITDAR	3.64	2.25	3.15	2.62
FFO/Total Adjusted Debt (%)	27.2	42.7	29.7	34.0
FFO-Adjusted Leverage	3.68	2.34	3.36	2.94
Common Dividend Payout (%)	89.3	101.4	63.3	96.2
Internal Cash/Capex (%)	41.9	69.1	87.7	49.7
Capex/Depreciation (%)	265.4	197.7	136.6	230.5
Return on Equity (%)	10.6	11.1	11.3	11.0
Financial Information ($ Mil.)				
Revenue	1,541	11,352	4,945	2,416
Revenue Growth (%)	1.4	6.2	5.8	1.6
EBITDA	412	4,253	1,634	816
Operating EBITDA Margin (%)	25.8	35.8	33.2	34.6
FCF	(205)	(862)	(92)	(360)
Total Adjusted Debt with Equity Credit	1,552	9,560	5,470	2,144
Cash and Cash Equivalents	55	28	10	15
Funds Flow from Operations	340	3,644	1,339	611
Capex	(353)	(2,789)	(747)	(703)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Constructive Regulation

The regulatory environment in Florida has improved significantly as compared to the contentious climate that existed in 2009–10. The utility enjoys several rate riders that provide timely recovery of all prudent costs related to fuel, purchased power costs and environmental expenditures. While Gulf Power is dependent on coal-fired generation capacity that must comply with stringent emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs.

On Dec 3, 2013, the PSC voted to approve a base rate increase for Gulf Power of $35 million effective January 2014 and an additional $20 million increase effective January 2015 based on an authorized ROE of 10.25%. The allowed retail ROE range is 9.25%–11.25%. Gulf Power has the ability to record credits to depreciation expense with an offset to a regulatory asset in amounts up to $62.5 million between January 2014 and June 2017; in any given month the credit may not exceed the amount necessary for the jurisdictional ROE to reach the authorized midpoint. Also, Gulf Power may not request a base rate increase to be effective until after June 2017 unless the retail ROE falls below the authorized ROE range and the $62.5 million credit is exhausted.

Improvement in Retail Sales

Gulf Power's service territory continues to see slow but steady improvement in the local economy, with indicators such as housing starts, employment and income growth all showing positive trends. The number of customers served continues to grow; however, customer usage trends have been unpredictable. In first-quarter 2015, weather-adjusted residential and commercial MWh sales fell by 5.2% and 2.0%, respectively, over the corresponding period in 2014, primarily due to drop in customer usage. Industrial sales decreased 2.5%, primarily due to increased customer co-generation. In contrast, for the full year 2014, weather-adjusted residential and commercial MWh sales grew by 1.3% and 0.1%, respectively, while industrial sales grew by 8.8%.

High Proportion of Coal in Fuel Mix

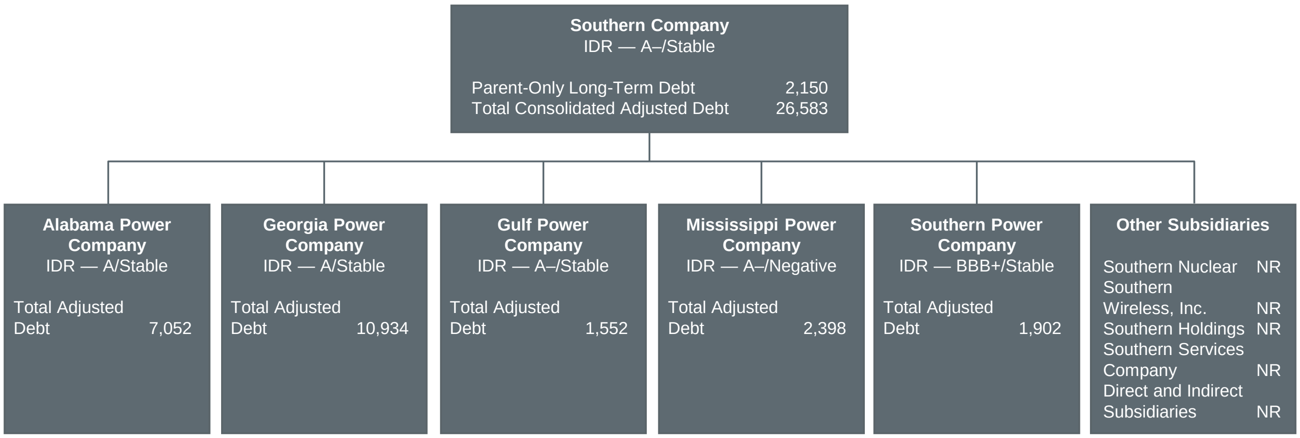
Gulf Power owns close to 2,700 MW of fossil electric generation capacity. The mix includes 78% coal, and the balance consists of natural gas- and oil-fired combined cycle and combustion turbines. Gulf Power has spent $1.8 billion in installing environmental controls through 2014. Two scrubbers are expected to be installed at Plant Daniel by 2016. Two additional selective catalytic reductions are expected to be installed by 2019. Plant Smith 1 and 2 (357 MW) will be retired by March 31, 2016. The net book value of these units was $80 million at Dec. 31, 2014; the company expects to recover the remaining book value as well as certain retirement costs through rates. Additionally, Plant Scholz (92 MW) ceased operation in April 2015. The total projected environmental capex is approximately $204 million over the next three years, which does not include any potential costs associated with EPA's proposed rules limiting carbon emissions from existing units. An environmental cost recovery clause allows Gulf Power to recover environmental investments and associated costs.

Credit Metrics

Gulf Power's credit metrics have shown steady improvement since 2011, led by two back-to-back rate cases in 2011 and 2013. For the LTM ended June 30, 2014, Gulf Power's adjusted debt/EBITDAR and FFO-adjusted leverage were at 3.6x and 3.7x, respectively. Fitch forecasts these ratios to be approximately 3.3x and 3.8x, respectively, in 2017, which is in line with its rating category.

Organizational Structure

Organizational and Debt Structure
($ Mil., As of March 31, 2015)



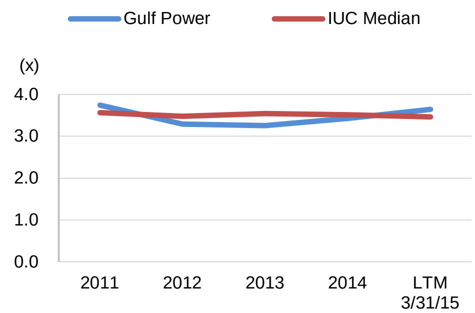
IDR – Issuer Default Rating. NR – Not rated.
Source: Company reports, Fitch analysis.

Key Metrics

Definitions

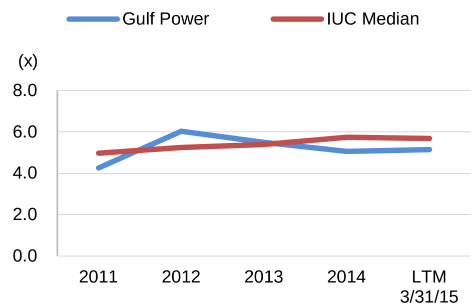
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Op. EBITDAR



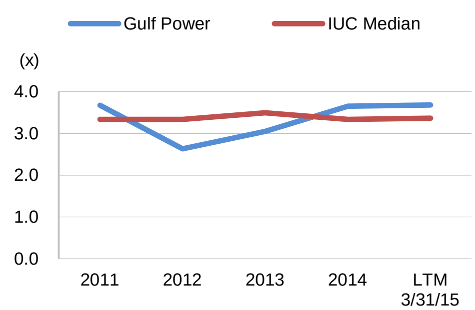
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



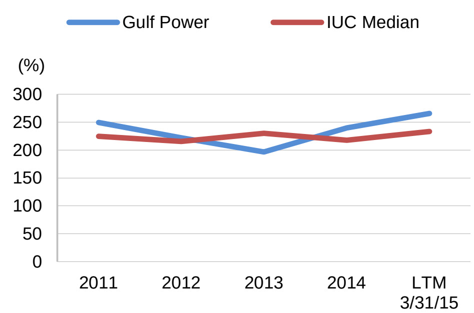
Source: Company data, Fitch.

FFO-Adjusted Leverage



Source: Company data, Fitch.

Capex/Depreciation



Source: Company data, Fitch.

Company Profile

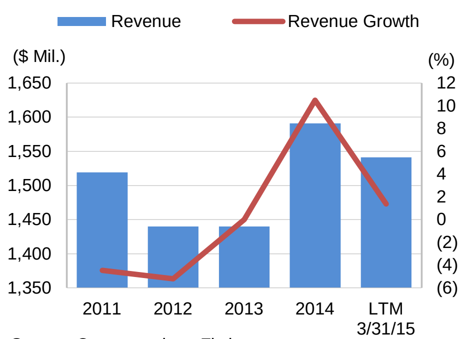
Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area in northwest Florida and to wholesale customers in the Southeast. It provides generated and purchased electricity, along with transmission and distribution thereof at retail in 71 communities in northwest Florida (including Pensacola, Panama City, and Fort Walton Beach) and in wholesale to a nonaffiliated utility.

Gulf Power's electric sales growth is on a path of recovery after the sharp slowdown witnessed during the last recession. Large investment and job creation projects are underway throughout northwest Florida that should drive industrial and commercial sales growth. The unemployment rate in northwest Florida peaked in 2010 at almost 10%, but has dropped to more normal levels at approximately 5% as of December 2014. Population growth in Gulf Power's service territory is expected to be close to 1% annually.

Business Trends

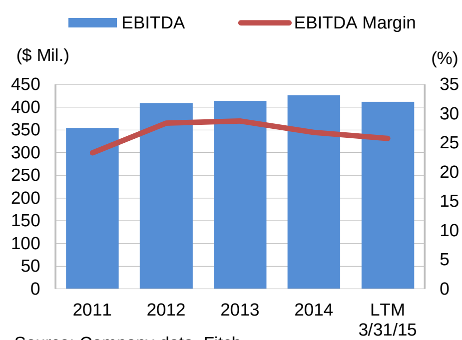
Gulf Power's sales mix consists of residential at 47%, commercial at 35%, industrial at 15% and wholesale at 3%. Gulf Power's service territory has been affected by the housing market downturn, but the retail revenues are supported by diversity in its customer base that includes military bases. Revenue from the military bases currently represents approximately 41% of total industrial sector sales. Other major industries within Gulf Power's service territory are pulp and paper (16% of industrial sales) and chemicals (12% of the industrial mix).

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Gulf Power Company

(IDR — A–/Stable) ($ Mil., as of March 31, 2015)	2011	2012	2013	2014	LTM Ended 3/31/2015
Fundamental Ratios (x)					
Operating EBITDAR/(Gross Interest Expense + Rents)	4.5	5.2	5.6	6.0	5.8
FFO Fixed-Charge Coverage	4.3	6.0	5.5	5.0	5.1
Total Adjusted Debt/Operating EBITDAR	3.7	3.3	3.3	3.4	3.6
FFO/Total Adjusted Debt (%)	27.2	38.0	32.8	27.4	27.2
FFO-Adjusted Leverage	3.7	2.6	3.1	3.7	3.7
Common Dividend Payout (%)	104.8	92.1	92.7	87.9	89.3
Internal Cash/Capex (%)	80.2	94.9	71.0	60.6	41.9
Capex/Depreciation (%)	249.2	222.0	196.6	240.0	265.4
Return on Equity (%)	9.5	10.9	10.3	11.0	10.6
Profitability					
Revenues	1,519	1,440	1,440	1,591	1,541
Revenue Growth (%)	(4.5)	(5.2)	—	10.5	1.4
Net Revenues	767	821	822	879	875
Operating and Maintenance Expense	312	315	310	342	351
Operating EBITDA	354	409	414	426	412
Operating EBITDAR	376	429	432	441	426
Depreciation and Amortization Expense	130	141	149	145	133
Operating EBIT	224	268	265	281	279
Gross Interest Expense	62	63	59	58	59
Net Income for Common	105	126	124	140	140
Operating Maintenance Expense % of Net Revenues	40.7	38.4	37.7	38.9	40.1
Operating EBIT % of Net Revenues	29.2	32.6	32.2	32.0	31.9
Cash Flow					
Cash Flow from Operations	376	419	330	343	282
Change in Working Capital	83	(28)	(47)	11	(58)
Funds from Operations	293	447	377	332	340
Dividends	(116)	(122)	(122)	(132)	(134)
Capex	(324)	(313)	(293)	(348)	(353)
FCF	**(64)**	**(16)**	**(85)**	**(137)**	**(205)**
Net Other Investment Cash Flow	(19)	(35)	(14)	(10)	(14)
Net Change in Debt	35	25	(1)	112	227
Net Equity Proceeds	52	42	93	54	23
Capital Structure					
Short-Term Debt	115	127	136	110	150
Total Long-Term Debt	1,235	1,246	1,233	1,370	1,370
Total Debt with Equity Credit	**1,350**	**1,373**	**1,369**	**1,480**	**1,520**
Total Adjusted Debt with Equity Credit	1,406	1,410	1,406	1,512	1,552
Total Hybrid Equity and Minority Interest	98	98	147	147	147
Total Common Shareholder's Equity	1,125	1,181	1,235	1,310	1,337
Total Capital	2,573	2,652	2,751	2,937	3,004
Total Debt/Total Capital (%)	52.5	51.8	49.8	50.4	50.6
Total Hybrid Equity and Minority Interest/Total Capital (%)	3.8	3.7	5.3	5.0	4.9
Common Equity/Total Capital (%)	43.7	44.5	44.9	44.6	44.5

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Southern Company

Full Rating Report

Ratings

Long-Term IDR	A
Short-Term IDR	F1
Senior Unsecured	A
Junior Subordinated	BBB+

IDR – Issuer Default Rating.

Rating Outlook

Rating Watch Negative

Financial Data

Southern Company

($ Mil.)	2Q15	2014
Adjusted Revenue	17,876	18,467
Operating EBITDAR	5,570	5,705
CFFO	5,852	5,815
Total Adjusted Debt	27,647	25,401
Total Capitalization	48,679	46,317
Capex/ Depreciation (%)	3.1	3.1
FFO Fixed-Charge Coverage (x)	5.8	5.6
FFO-Adjusted Leverage (x)	4.3	4.0
Total Adjusted Debt/EBITDAR (x)	5.0	4.5

Related Research

Fitch Places Southern on Negative Watch & AGL on Positive Watch Following Acquisition Announcement (August 2015)

Fitch Downgrades Mississippi Power to 'BBB+'; Southern's Outlook Revised to Negative (June 2015)

Southern Company - Ratings Navigator (March 2015)

Analysts

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Key Rating Drivers

Rating Watch Negative: Fitch Ratings placed Southern Company's (Southern) 'A' long-term Issuer Default Rating (IDR) on Rating Watch Negative following the announcement to acquire AGL Resources (AGL, BBB+/Rating Watch Positive) for $8 billion in cash.

Weakening Credit Metrics: Fitch expects pro forma credit metrics of the combined entity to meaningfully weaken in the short to medium term given the primarily debt-driven acquisition financing and a measured pace of deleveraging through 2019. Excluding benefits of any potential synergies, Fitch forecasts pro forma adjusted FFO leverage to be in the 4.5x–5.0x range and FFO fixed-charge coverage in the 4.50x–4.75x range.

Improved Business Profile: Southern gains tremendous scale and geographic diversity with the addition of AGL's predominant low-risk natural gas distribution businesses. The combination also lowers the contribution of its nonregulated, albeit conservatively managed, subsidiary Southern Power Company (Southern Power) in the overall business mix, and that of its utility subsidiary, Mississippi Power Company (Mississippi Power), which is undergoing significant stress related to the construction cost overrun and inadequate rate recovery for the Kemper Integrated Gasification Combined Cycle (IGCC) project.

Resolution of the Rating Watch: Fitch expects to resolve the Rating Watch either at or close to the transaction's completion, which will take approximately 12 months. The regulatory approval process and Southern's pace of equity issuance will be the key data points to monitor.

Monitoring the Generation Projects: Fitch will continue tracking the progress of Kemper and its successful completion — currently estimated in first half of 2016 — and the resolution of regulatory uncertainty in Mississippi. Fitch considers the recent litigation settlement with the engineering, procurement and construction (EPC) contractors, amendments to the EPC contract and other contractor changes related to Vogtle nuclear units 3 and 4 a favorable development.

Other Capital Needs at Southern: The capital needs at Southern have increased given Southern Power's recent acquisition of several renewable projects. Fitch expects Southern Power to continue funding its investments with 50%–55% debt.

Rating Sensitivities

Positive Rating Action: Future developments that may, individually or collectively, lead to positive rating action include a pace of deleveraging with FFO-adjusted leverage sustained at or below 4.0x.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include regulatory concessions for the AGL acquisition approval in excess of those assumed in the financial forecasts or a reduction in planned equity issuances. A significant time/cost overrun at Vogtle and/or Kemper projects that is primarily debt financed and negative regulatory actions on the recovery of those costs, and FFO-adjusted leverage weakening to 4.5x or higher could also lead to negative action.

Financial Overview

Liquidity and Debt Structure

Southern and its subsidiaries had approximately $0.8 billion of cash and cash equivalents as of June 30, 2015. Southern has substantial cash flow from operating activities and access to capital markets, with its commercial paper programs to meet liquidity needs. Each regulated operating subsidiary, including Southern Power, issues its own debt and preferred securities, which is nonrecourse to the parent. The amount of variable-rate pollution-control revenue bonds outstanding requiring liquidity support as of June 30, 2015 was approximately $1.9 billion.

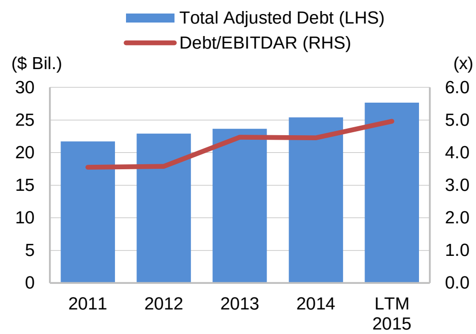
Debt Maturities and Liquidity

($ Mil., As of June 30, 2015)

2015	3,302
2016	1,814
2017	1,531
2018	850
Thereafter	18,268
Cash and Cash Equivalents	813
Undrawn Committed Facilities	4,146

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Southern is planning to acquire AGL for $8 billion in cash and will initially finance the acquisition with debt, but permanent financing is expected to include $3 billion of equity issuances that start in fourth-quarter 2015 and run through 2019. The proposed acquisition results in a meaningful increase in consolidated leverage compared with Southern's current and projected stand-alone financial condition. The rise in leverage is driven by the combination of the acquisition debt to be issued by Southern, the assumption of existing AGL consolidated debt and a measured pace of deleveraging to reach a permanent acquisition financing mix of 63% debt and 37% equity by 2019.

Cash Flow Analysis

Southern's consolidated capex will remain elevated due to two large baseload generation projects being undertaken by its utility subsidiaries and environmental capex, requiring continuous access to capital markets for funding. The capital needs at Southern have increased due to a significant portfolio expansion undertaken by Southern Power through several solar and wind acquisitions. Southern Power typically funds its investments with 50%–55% debt. The equity portion of the capex is generally funded by retained cash flows and/or equity infusion by the parent company.

Southern raised approximately $1.5 billion in equity over 2013–2014 to fund costs associated with the Kemper IGCC project. There are additional planned equity issuances through 2019 connected with the AGL acquisition. At the same time, Southern is planning to take on significant parent holding debt to finance the AGL acquisition.

Related Criteria

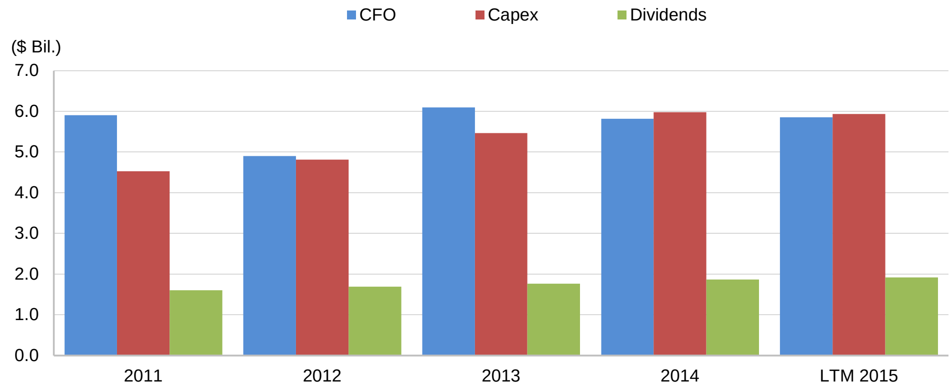
Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage (August 2015)

Recovery Ratings and Notching Criteria for Utilities (March 2015)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

CFO and Cash Use



Source: Company data, Fitch.

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB	
American Electric Power Company, Inc.	U.S.
BBB+	
Duke Energy Corporation	U.S.

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Aug. 24, 2015	A	RWN
June 5, 2015	A	Negative
Sept. 18, 2014	A	Stable
April 7, 2014	A	Stable
Aug. 6, 2013	A	Stable
Aug. 22, 2012	A	Stable
Aug. 30, 2011	A	Negative
Dec. 22, 2010	A	Stable
Sept. 3, 2010	A	Negative
Sept. 4, 2009	A	Stable
Jan. 22, 2008	A	Stable
Aug. 10, 2006	A	Stable
Dec. 6, 2005	A	Stable
Aug. 24, 2005	A	Stable
June 18, 2004	A	Stable
Dec. 6, 2002	A	Stable
Jan. 22, 2001	A	Stable
March 18, 1999	A	Stable
June 11, 2002	BBB	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
RWN – Rating Watch Negative.
Source: Fitch.

Peer Group Analysis

($ Mil.)	Southern Company	American Electric Power Company, Inc.	Duke Energy Corporation
As of	6/30/15	6/30/15	6/30/15
IDR	A	BBB	BBB+
Rating Outlook	RWN	Stable	Stable
Fundamental Ratios (x)			
Operating EBITDAR/(Gross Interest Expense + Rents)	5.3	4.6	4.3
FFO Fixed-Charge Coverage (x)	5.8	4.8	5.8
Total Adjusted Debt/Operating EBITDAR	5.0	3.8	4.4
FFO/Total Adjusted Debt (%)	23.3	27.5	22.3
FFO-Adjusted Leverage (x)	4.3	3.6	4.5
Common Dividend Payout (%)	89.7	59.1	101.0
Internal Cash/Capex (%)	65.1	74.2	74.3
Capex/Depreciation (%)	307.5	259.5	196.2
ROE (%)	10.8	10.2	6.9
Financial Information			
Revenue	17,876	16,584	23,006
Revenue Growth (%)	(1.0)	1.9	(9.4)
EBITDA	5,454	4,969	8,525
Operating EBITDA Margin (%)	36.8	33.4	36.2
FCF	(2,073)	(1,142)	(1,440)
Total Adjusted Debt with Equity Credit	27,647	19,851	38,827
Cash and Cash Equivalents	813	195	960
FFO	5,323	4,326	7,179
Capex	(5,937)	(4,433)	(6,046)

IDR – Issuer Default Rating. RWN – Rating Watch Negative.
Source: Company data, Fitch.

Key Rating Issues

Conservative Business Model

Southern's ratings recognize the relatively stable and predictable cash generation of its operating subsidiaries and the financial support it gets from them in the form of dividends for the payment of corporate expenses, debt service, dividends to common stockholders and other business matters. Southern's regulated utility subsidiaries enjoy a relatively favorable regulatory framework in their service territories and exhibit limited commodity price risks due to the ability to recover fuel and purchased power through separate cost trackers. Its nonregulated generation subsidiary, Southern Power, follows a conservative business model by signing long-term sale contracts with creditworthy counterparties, and has minimal commodity exposure via recovery of fuel costs through its power sales contracts. Southern provides equity funding to its subsidiaries for their long-term growth and to optimize their capital mix within a target range.

Rating Watch Negative

Fitch placed Southern's 'A' long-term IDR on Rating Watch Negative following the company's announcement that it would acquire AGL. Southern should benefit from the greater scale and diversity from the addition of AGL's predominantly low-risk natural gas distribution businesses. However, these benefits will be partially offset by the increase in the company's near-term leverage given the primarily debt-driven acquisition financing and a measured pace of deleveraging through 2019.

The proposed acquisition results in a meaningful increase in consolidated leverage compared with Southern's current and projected stand-alone financial condition. The rise in leverage is driven by the combination of the acquisition debt to be issued by Southern, the assumption of existing AGL consolidated debt and a measured pace of deleveraging to reach a permanent acquisition financing mix of 63% debt and 37% equity by 2019. Fitch expects consolidated cash flow leverage and fixed-charge coverage measures of the combined entity to meaningfully weaken in the short to medium term compared with Southern's stand-alone credit profile. Based on preliminary analysis and excluding benefits of any potential synergies, Fitch forecasts pro forma adjusted FFO leverage to be in the 4.5x–5.0x range and FFO fixed-charge coverage in the 4.50x–4.75x range over the forecast period.

Improved Business Profile

The acquisition of AGL meaningfully reduces Southern's risk profile, in Fitch's view. Fitch generally views gas distribution businesses as low risk and AGL's utilities are generally well managed, with numerous supportive regulatory mechanisms in place. AGL's rising investments in interstate pipelines carry moderately higher competitive market risks, but are offset to a large extent by long-term off-take agreements with creditworthy counterparties. While the nonregulated retail and wholesale businesses of AGL are volatile, the exposure is somewhat contained given these will be a small part of the combined company.

Southern gains tremendous scale and geographic diversity with this acquisition, and its inaugural pursuit of natural gas businesses can smooth out the earnings and cash flow of its predominantly summer peaking electric utilities. The combination also lowers the contribution of its nonregulated, albeit conservatively managed subsidiary Southern Power, in the overall business mix, as well as that of its utility subsidiary Mississippi Power, which is undergoing significant stress related to the construction cost overrun and inadequate rate recovery for the Kemper IGCC project.

Fitch's concerns primarily lie with Southern's first regulatory foray outside the southern states. Southern will add five new state regulatory jurisdictions, including some tough jurisdictions such as Illinois and New Jersey. Apart from AGL shareholders' approval, state regulatory approvals are required in Georgia, Illinois, New Jersey, Maryland and Virginia. The transaction is also subject to clearance under the Hart-Scott-Rodino Antitrust Improvements Act. Southern expects to close this deal in the third quarter of 2016.

High Project Execution Risk

Fitch's rating concerns for Southern include significant construction and regulatory risks associated with the two large baseload projects under construction — namely the 2,200-MW Vogtle nuclear units 3 and 4, in which Georgia Power Company (Georgia Power) owns a 45.7% stake, and the 580-MW Kemper IGCC plant being built by Mississippi Power. The Vogtle units are experiencing a significant delay in the construction schedule and the Georgia PSC has not been inclined to recertify the original costs or schedule until the first unit reaches substantial completion.

Vogtle Nuclear Units

The EPC contract is largely fixed. However, the utility is exposed to the owner's oversight and financing costs that will need to be recovered from ratepayers. Fitch expects any adjustments to the overall project costs will be deemed recoverable by the Georgia PSC.

Fitch views the resolution of the pending litigation between Vogtle owners and EPC contractors, changes in the EPC agreement, and the contractor changes announced on Oct. 27, 2015 by Westinghouse as positive developments for Georgia Power. Georgia Power and the other Vogtle owners have been involved in a long-standing dispute with EPC contractors regarding the costs associated with the delay constructing Vogtle units 3 and 4, whose timeline has slipped 39 months from the originally proposed April 2016 and April 2017 completion dates, respectively.

Based on its ownership interest, Georgia Power will pay approximately $350 million to resolve the pending litigation, versus the contractors' outstanding claims of $714 million related to the first 21 months of the construction delay. In return, Georgia Power was able to secure certain favorable amendments to the original EPC agreement that significantly limit the circumstances the contractors could claim as material changes to the nuclear regulatory law, thereby reducing the likelihood of future disputes. The modified EPC agreement also confirms the in-service dates as June 30, 2019 for Unit 3 and June 30, 2020 for Unit 4.

Fitch views Westinghouse's acquisition of the Stone & Webster nuclear construction business from Chicago Bridge & Iron Company N.V. (CB&I, not rated by Fitch) and the potential engagement of Flour Corporation (A–/Stable) as a subcontractor favorably. Now that Westinghouse has assumed the role of the primary contractor, Fitch's concerns regarding intercreditor disputes and CB&I's creditworthiness have diminished.

Kemper IGCC Project

The Kemper project has faced significant overruns relative to its original project cost estimate. The project is now expected to cost $6.4 billion, of which $1.3 billion is subject to exemptions and exceptions from the regulatory cost cap. Of the remaining $5.1 billion, Mississippi Power does not intend to seek rate recovery for $2.2 billion of costs incurred above the $2.88 billion cost cap.

With the project close to 94% complete, future cost increases may not be material. However, the project is entering a crucial phase of gasifier start-up and integration with the combined cycle units. Issues with start-up activities could delay the operational date — currently estimated as first-half 2016 — which exposes Mississippi Power to additional costs of approximately $25 million–$30 million per month and greater regulatory risk. If the revised in-service date for the Kemper IGCC project moves to after April 19, 2016, Mississippi Power will have to return approximately $234 million of Phase II investment tax credits that were received for the project to the IRS. Southern is expected to support Mississippi Power to refund this amount.

Positive Sales Trend

Southern's utilities have witnessed an improving trend in customer and electricity sales as its service territories continue to benefit from an economic rebound, and job and population growth. On a combined basis, customer count grew by 0.8% in 2014 and retail sales grew by 3.3%. Industrial sales exceeded expectations, with 3.3% gigawatt-hour sales growth in 2014, reflecting a rebound across most of the major industrial segments. Industrial sales have shown positive year-over-year growth for eight consecutive quarters. Residential sales are also trending above expectations, while commercial sales continue to be soft. Fitch's financial forecasts embed 0.5%–1.0% sales growth across most of Southern Company's utility subsidiaries.

High Environmental Capex

Fitch expects Southern's consolidated environmental compliance expenditures, the majority of which is being spent to meet the Mercury and Air Toxics Standards rule, to wind down after 2015. The company plans to spend approximately $2.1 billion on environmental capex over 2015–2017. All of Southern's regulated subsidiaries, with the exception of Georgia Power, have environmental trackers. Georgia Power has typically recovered environmental compliance-related costs through base rate case decisions.

Resolution of the Rating Watch

Fitch expects to resolve the Rating Watch either at or close to the completion of the AGL transaction, which will take approximately 12 months. The regulatory approval process and the pace of equity issuance by Southern will be the key data points to monitor. Fitch will continue to track the progress of the Kemper IGCC project, which includes its successful completion, currently estimated in first-half 2016. It will also monitor plant operations; the resolution of regulatory uncertainty in Mississippi, including an order on the permanent rate recovery for the in-service portion of the plant scheduled for early December 2015; and issuance of approximately $1 billion in securitization proceeds at Mississippi Power, which Fitch expects in early 2017.

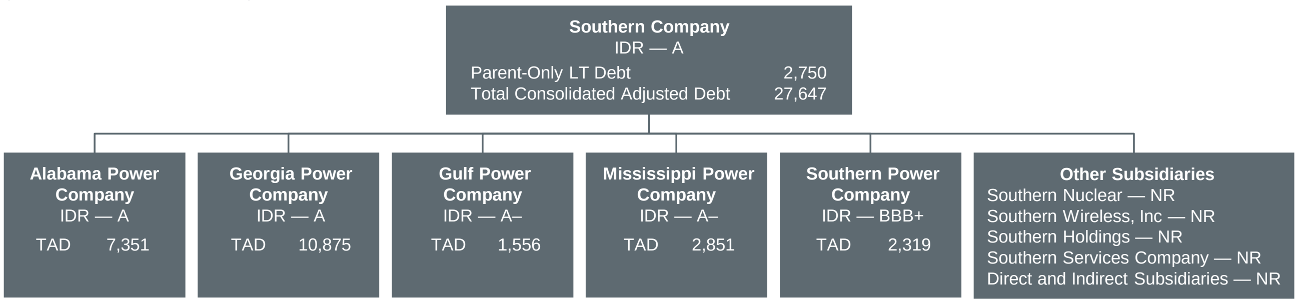
Fitch will also track the construction program of Vogtle units 3 and 4 based on the current costs and schedule, and the continuation of regulatory support in Georgia, as demonstrated through future Vogtle construction monitoring proceedings and the next general case to be filed in mid-2016.

Organizational Structure

There is strong linkage between the IDRs of Southern and each of its subsidiaries. The linkages stem primarily from strategic and operational drivers. Each subsidiary is important to Southern, and it will financially support its subsidiaries if it makes strategic sense. Each subsidiary has its own leadership and governance board and raises debt on its own account, but there is a common treasury that assists each subsidiary in capital market access. Legal ties are weak, as the parent typically does not guarantee the debt obligations of the subsidiaries.

Organizational and Debt Structure — Southern Company

($ Mil., As of June 30, 2015)



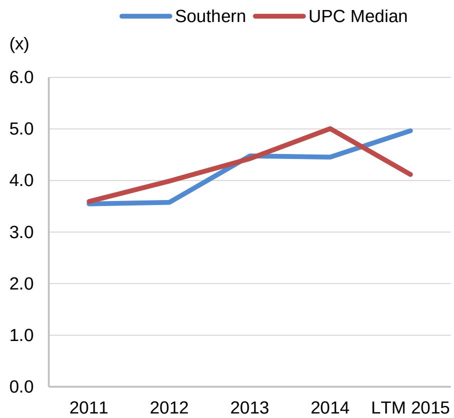
IDR – Issuer Default Rating. LT – Long-term. TAD – Total Adjusted Debt. NR – Not rated.
Source: Company reports, Fitch analysis.

Key Metrics

Definitions

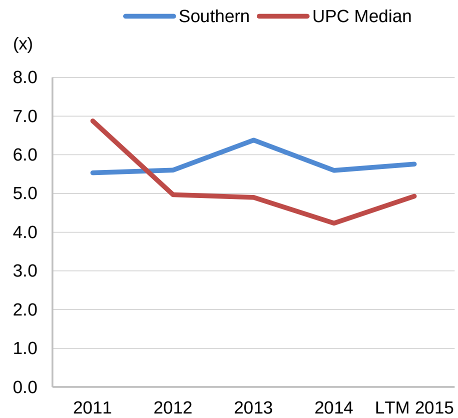
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Operating EBITDAR



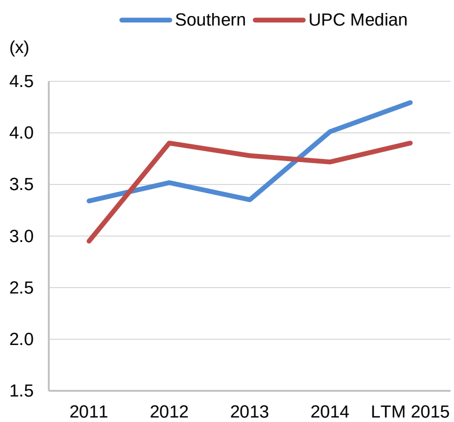
UPC – Utility parent company.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



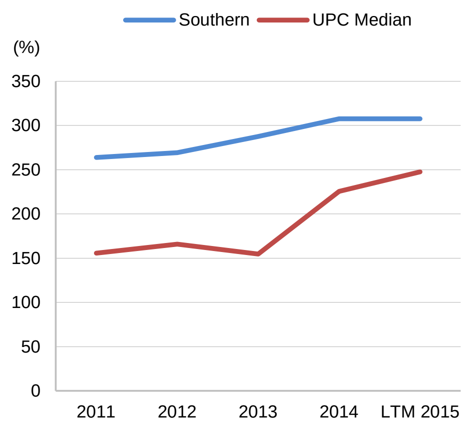
UPC – Utility parent company.
Source: Company data, Fitch.

FFO-Adjusted Leverage



UPC – Utility parent company.
Source: Company data, Fitch.

Capex/Depreciation



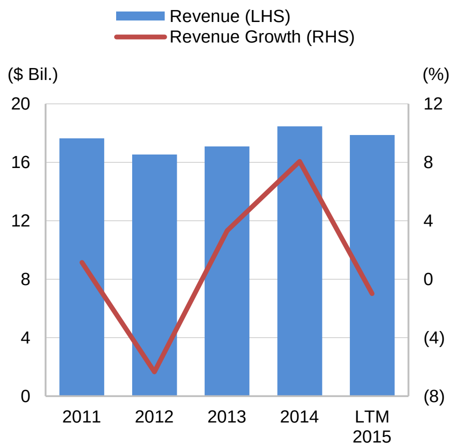
UPC – Utility parent company.
Source: Company data, Fitch.

Company Profile

Southern is a utility holding company of four regulated and vertically integrated electric utilities that operate in Alabama, Georgia, Florida and Mississippi. Southern Power, the nonregulated generation company, sells electricity under long-term contracts, primarily to investment-grade counterparties, including affiliates. Other subsidiaries include Southern Nuclear, which provides nuclear plant operating services to Georgia Power and Alabama Power, and Southern Company Services, which provides system services to subsidiary companies. The state regulatory environment across Southern's regulated subsidiaries has been generally constructive and provides a reasonable ROE that is generally higher than the national average. Regulatory risk has increased in Mississippi given the prolonged uncertainty regarding adequate and timely recovery on the Kemper construction costs.

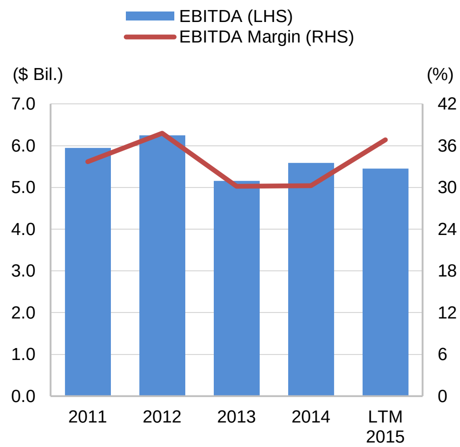
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Southern Company

($ Mil., As of June 30, 2015; IDR: A/Rating Watch Negative)	2011	2012	2013	2014	LTM 6/30/15
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	5.5	5.8	5.1	5.4	5.3
FFO Fixed-Charge Coverage (x)	5.5	5.6	6.4	5.6	5.8
Total Adjusted Debt/Operating EBITDAR (x)	3.5	3.6	4.5	4.5	5.0
FFO/Total Adjusted Debt (%)	29.9	28.4	29.8	24.9	23.3
FFO-Adjusted Leverage (x)	3.3	3.5	3.4	4.0	4.3
Common Dividend Payout (%)	72.7	72.0	107.2	95.1	89.7
Internal Cash/Capex (%)	93.5	65.3	78.1	64.9	65.1
Capex/Depreciation (%)	263.8	269.3	287.5	307.4	307.5
ROE (%)	13.0	13.1	8.8	10.0	10.8
Profitability					
Revenues	17,657	16,537	17,087	18,467	17,876
Revenue Growth (%)	1.2	(6.3)	3.3	8.1	(1.0)
Net Revenues	10,787	10,936	11,116	11,790	11,901
Operating and Maintenance Expense	3,938	3,791	3,846	4,354	4,571
Operating EBITDA	5,948	6,250	5,156	5,587	5,454
Operating EBITDAR	6,124	6,405	5,279	5,705	5,570
Depreciation and Amortization Expense	1,717	1,787	1,901	1,945	1,931
Operating EBIT	4,231	4,463	3,255	3,642	3,523
Gross Interest Expense	935	942	916	946	933
Net Income for Common	2,203	2,350	1,644	1,963	2,138
Operating Maintenance Expense % of Net Revenues	36.5	34.7	34.6	36.9	38.4
Operating EBIT % of Net Revenues	39.2	40.8	29.3	30.9	29.6
Cash Flow					
Cash Flow from Operations	5,903	4,898	6,097	5,815	5,852
Change in Working Capital	573	(451)	152	614	529
Funds from Operations	5,330	5,349	5,945	5,201	5,323
Dividends	(1,666)	(1,758)	(1,828)	(1,934)	(1,988)
Capex	(4,530)	(4,812)	(5,465)	(5,979)	(5,937)
FCF	**(293)**	**(1,672)**	**(1,196)**	**(2,098)**	**(2,073)**
Net Other Investment Cash Flow	322	(356)	(277)	(429)	(468)
Net Change in Debt	111	1,205	770	1,802	2,970
Net Equity Proceeds	723	(33)	725	801	77
Capital Structure					
Short-Term Debt	859	825	1,482	803	1,057
Total Long-Term Debt	20,470	21,716	21,920	24,281	26,273
Total Debt with Equity Credit	**21,329**	**22,541**	**23,402**	**25,084**	**27,330**
Total Adjusted Debt with Equity Credit	21,728	22,903	23,639	25,401	27,647
Total Hybrid Equity and Minority Interest	976	975	1,024	1,063	1,167
Total Common Shareholders' Equity	17,578	18,297	19,008	20,170	20,182
Total Capital	**39,883**	**41,813**	**43,434**	**46,317**	**48,679**
Total Debt/Total Capital (%)	53.5	53.9	53.9	54.2	56.1
Total Hybrid Equity and Minority Interest/Total Capital (%)	2.4	2.3	2.4	2.3	2.4
Common Equity/Total Capital (%)	44.1	43.8	43.8	43.5	41.5

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 February 2016

Update

Rate this Research

RATINGS

SOUTHERN COMPANY (THE)

Domicile	Atlanta, Georgia, United States
Long Term Rating	Baa1
Type	Senior Unsecured - Dom Curr
Date	05 Nov 2015
Outlook	Negative
Date	05 Nov 2015

Please see the ratings section at the end of this report for more information.

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Southern Company (The)

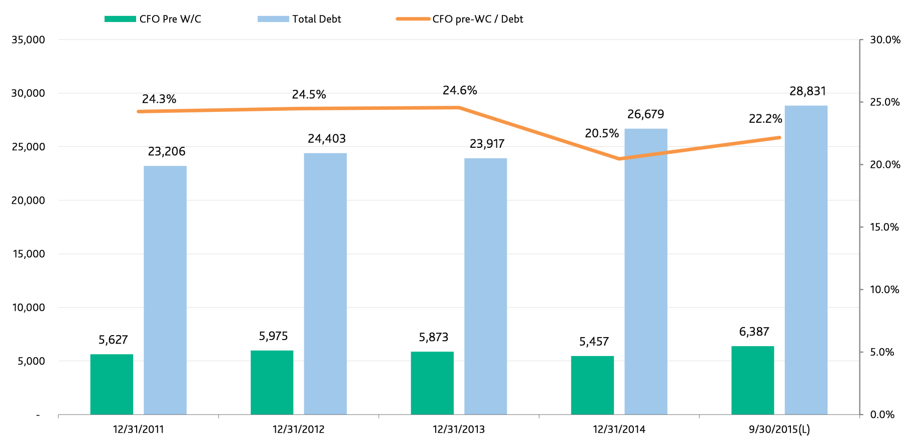
Regulated utility and wholesale power holding company

Summary Rating Rationale

The Southern Company's (Southern) Baa1 senior unsecured rating reflects its position as the parent company of three stable regulated utilities (Alabama Power, Georgia Power, and Gulf Power) operating in credit supportive regulatory environments and a growing, highly contracted wholesale power company, Southern Power.

Exhibit 1

Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Utility subsidiaries operate in credit supportive regulatory environments except for the significant regulatory uncertainty facing Mississippi Power

» Georgia Power settlement with EPC contractors on Vogtle nuclear project would reduce financial uncertainty if approved by the Georgia Public Service Commission

» Bonus depreciation extension will bolster utility cash flow and reduce financing requirements

» Mostly contracted wholesale power subsidiary will benefit from five year extension of renewable energy tax credits

Credit Challenges

» Mostly debt financed acquisition of AGL will increase parent company debt and pressure consolidated cash flow coverage metrics

» Delays and cost increases for the Vogtle construction project have weakened Southern's position at the Baa1 rating level

» Regulatory risk regarding the credit supportiveness of Mississippi regulators on cost recovery for the Kemper IGCC with two new commissioners taking office in January

» Adequate consolidated liquidity profile, although weak liquidity at Mississippi Power with $900 million of bank term loans maturing on April 1, 2016

Rating Outlook

The negative outlook on Southern's rating is prompted by the significant increase in holding company debt that will be used to finance the AGL transaction. The addition of approximately $8 billion of debt will increase parent company debt to over 25% of total consolidated debt from 10% currently, pressuring cash flow coverage metrics. Southern's position at the Baa1 rating level had already been weakened by cost increases and delays at its two major power plant construction projects.

Factors that Could Lead to an Upgrade

The negative outlook limits the prospects of an upgrade of Southern while the AGL acquisition is pending, particularly considering the higher leverage the transaction will entail. A ratings upgrade is also unlikely while two of its subsidiaries are engaged in major new plant construction projects.

Factors that Could Lead to a Downgrade

Southern's rating will likely be lowered by one notch at or before the closing date of the AGL acquisition, assuming the transaction is financed as expected. Southern's rating could also be downgraded if Georgia Power or one or more of its other subsidiary's ratings are lowered; if there are additional delays or cost increases on the Vogtle nuclear project, and to a lesser degree the Kemper project; if major new environmental or other costs are incurred that are not recovered in rates; or if consolidated metrics show a sustained decline, including cash flow from operations pre-working capital to debt below 18% for an extended period.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Southern Company (The)

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	9/30/2015(L)
CFO pre-WC + Interest / Interest	6.7x	6.9x	7.0x	6.6x	7.4x
CFO pre-WC / Debt	24.3%	24.5%	24.6%	20.5%	22.2%
CFO pre-WC – Dividends / Debt	17.1%	17.3%	16.9%	13.2%	15.2%
Debt / Capitalization	45.9%	45.5%	43.9%	44.9%	45.9%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

- Utility subsidiaries operate in credit supportive regulatory environments except for the significant regulatory uncertainty facing Mississippi Power

Southern's rating is supported by the credit supportive regulatory environments in three of the four states in which it operates with constructive relationships with regulators and strong cost recovery provisions.

Georgia Power, Southern's largest subsidiary, is in the third and final year of a three year rate settlement (the "2013 Alternate Rate Plan") implemented on 1 January 2014 that we view as credit supportive, particularly considering the additional annual rate increases associated with its ongoing nuclear construction program. Under the rate plan, the company increased its base rates by approximately $107 million effective 1 January 2015 and collected an additional $29 million in 2015 through its Environmental Compliance Cost Recovery (ECCR) and other tariffs, for a total rate increase of $136 million. An additional base rate and cost recovery tariff rate increase estimated to be $144 million in 2016 are also being implemented as part of the settlement. In total, rates will increase by $390 million over three years, compared to the company's original levelized request of $482 million in the first year.

The settlement represented a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 2013, including its three year term. Under the 2013 Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10% to 12% from 10.25% to 12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery tariff. We expect Georgia Power to file a new rate case later this year in anticipation of the expiration of the 2013 Alternate Rate Plan.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has been for the most part credit supportive. Rates are set under a Rate RSE (Rate Stabilization and Equalization) mechanism that establishes rates based on an allowed weighted cost of equity range (WCE) of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. Rate adjustments for any two-year period, when averaged together, cannot exceed 4.0% and any annual adjustment is limited to 5.0%.

In December 2013, the Florida Public Service Commission unanimously approved a settlement agreement in Gulf Power's last rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continued its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range.

- Georgia Power settlement with EPC contractors on Vogtle nuclear project would reduce financial uncertainty if approved by the Georgia Public Service Commission

On 27 October 2015, Georgia Power and other owners of the Vogtle project entered into a settlement agreement with the EPC Contractor intended to resolve a number of issues, including all of the litigation that had been pending between the owners and the contractor. In exchange for cash payments from Georgia Power ($350 million) and the other project owners, the parties agreed to drop all open claims related to the existing disputes as well as any future claims that could have been asserted under the EPC contracts until now; clarified the language related to what constitutes nuclear regulatory changes in law under the EPC contracts (which has been the source of many of the legal disputes); and improved provisions related to when delay-related liquidated damages would begin on the project.

In a separate but related agreement, Westinghouse Electric Company LLC (unrated) agreed to acquire Stone and Webster, one of the original construction contractors, from Chicago Bridge & Iron Co. N.V. (CB&I, unrated). The project owners had hoped that CB&I's 2013 acquisition of Stone and Webster would improve the quality and timely delivery of modules critical to each project's modular construction process. Instead, quality and delivery problems related to the modules have continued and CB&I is now being replaced. We view the removal of CB&I, the financially weaker of the two EPC contractors, as a positive development.

- Bonus depreciation provisions will bolster utility cash flow and reduce financing requirements

The 18 December 2015 omnibus spending bill passed by Congress extended bonus depreciation benefits, which Southern estimates will improve subsidiary cash flows by approximately $4 billion through 2020. These include tax benefits associated with both the Vogtle and Kemper projects, as well as for renewable energy and environmental compliance investments. These cash flow benefits could reduce rate increase requirements and lower the amount of Southern's consolidated debt and equity financing requirements over the next several years. Because of these additional cash flows, Southern has indicated that it no longer plans to issue the $1.6 billion of equity it had planned to between 2017 and 2019 to reduce debt incurred to financing the AGL acquisition.

- Mostly contracted wholesale power subsidiary will benefit from five year extension of renewable energy tax credits

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to the lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for the majority of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. At 31 December 2014, the company's generating capacity was 77% contracted over the next five years, with the average duration of the contracts exhibiting a declining trend in recent years. The company has also experienced lower energy margins in its gas business, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

Southern Power has been engaged in a significant expansion into renewable energy outside of its traditional Southeast regional, natural gas generation focus, which will benefit from the five year extension of renewable energy tax credits passed by Congress in December. In 2015, the company contracted for over 1,000 MW of wind and solar projects with an average contract life of approximately 22 years and currently has more than 1,800 MW of generating capacity ownership.

- Mostly debt financed acquisition of AGL will increase holding company debt and pressure consolidated cash flow coverage metrics

The acquisition of AGL Resources for $8 billion in cash will result in a significant increase in debt at the Southern holding company level at a time when its holding company debt has already been increasing, partly to support funding needs at utility subsidiary Mississippi Power and portfolio growth at Southern Power. The addition of nearly $8 billion of debt at the Southern holding company will increase parent company debt from under $3 billion currently (10% of total consolidated debt) to the $10-$11 billion range (around 25% of consolidated debt) at transaction closing before being reduced thereafter, which will pressure cash flow coverage metrics. We project Southern's consolidated CFO pre-working capital to debt ratio could decline to the 15% range following the acquisition from 20% currently, a level that would be weak for its current rating and compared to most other Baa1 holding company peers.

Moreover, in AGL, Southern is acquiring an entity's whose financing subsidiary, AGL Capital Corporation (guaranteed by AGL), is rated Baa1, lower than three of Southern's four existing utility subsidiaries. AGL also exhibits lower financial coverage metrics than Southern, with AGL's CFO pre-working capital to debt expected to decline to the low to mid-teens from the mid to high teens as it issues debt to fund planned capital investments. The combination of higher debt, lower cash flow coverage ratios, and the acquisition of a lower rated entity will likely lead to a one notch downgrade of Southern on or before the closing date, which Southern estimates will be in the second half of 2016.

- Delays, cost increases, and EPC contractor developments at the Vogtle construction projects have weakened Southern's position at the Baa1 rating level

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

The project has experienced significant delays and cost increases over the course of construction, which can be partly attributed to the large amount of "first of a kind" practices and technology being utilized. The project had earlier been delayed by approximately 21 months from its originally expected start dates until additional delays were announced last year. On 29 January 2015, Georgia Power indicated that the contractors for the project, Westinghouse Electric LLC and CB&I/Stone & Webster, Inc., had delayed their forecast for project completion by another 18 months, pushing out the estimated in-service dates of Unit 3 (the first of the two units) to 2Q 2019 and Unit 4 to 2Q 2020, from 4Q 2017 and 4Q 2018, respectively.

Georgia Power estimates that these schedule delays will result in an increase in its capital costs of approximately $246 million and its financing costs of approximately $568 million, for a total cost increase of $814 million. The capital cost of Georgia Power's share of the project will now be in the range of $5 billion, up from $4.4 billion originally. Including the additional financing costs, the total cost of the project to Georgia Power will now be approximately $7.5 billion. The EPC contractor settlement would add an additional $350 million to the project costs.

The project has also experienced adverse developments with regard to the EPC contractors. Toshiba Corporation (B2 CFR, on review for downgrade), which guarantees certain Westinghouse obligations under the contract, has been downgraded a number of times in recent months and is now rated well below investment grade. This has required Westinghouse to post letters of credit to Georgia Power and its co-owners.

In addition, Westinghouse has engaged Fluor Enterprises, Inc. (unrated), a subsidiary of The Fluor Corporation (A3 stable), as a new construction subcontractor at both projects, a potential risk as another new party is introduced into the complex project well into the construction process. Fluor is the third firm engaged since the projects began despite previous assurances from the project owners that both Stone and Webster and CB&I were up to the task.

Despite these setbacks, Georgia Power continues to enjoy strong regulatory support and good cost recovery provisions on Vogtle. The utility earns a cash return on construction work in progress (CWIP) up to the previously certified capital cost through its Nuclear Construction Cost Recovery (NCCR) tariff. All 13 of its semi-annual Vogtle Construction Monitoring (VCM) reports covering $3.1 billion of costs have been unanimously approved by the GPSC, although these approvals do not include a determination of prudence and the GPSC can subsequently disallow certain costs that it deems imprudent.

Thus far, even with the higher costs, the scale and scope of the project has been manageable for a utility the size of Georgia Power, particularly considering its position as part of Southern. Nevertheless, as Georgia Power is one of the company's two largest utilities, the delays and cost increases have weakened both organizations' relative position at their respective rating levels such that any additional adverse developments associated with the project could pressure their ratings or rating outlooks.

- Regulatory risk regarding the credit supportiveness of Mississippi regulators on cost recovery for the Kemper IGCC with two new commissioners taking office in January

Subsidiary Mississippi Power's rating (Baa3 senior unsecured, negative outlook) has been downgraded several times since 2010, when it embarked on the construction of the large, complex and costly 582 MW Kemper integrated gasification combined cycle (IGCC) plant. The most recent downgrade, to Baa3 from Baa2 on 5 November 2015 was prompted by the election of what we expect to be a less credit supportive Mississippi Public Service Commission (MPSC) at a time when the utility will be pursuing important rate recovery proceedings on the Kemper plant in 2016.

The Baa3 rating also reflects Mississippi Power's weak liquidity and financial condition, metrics that we expect to be below investment grade for at least one to two years, the potential forfeiture of $235 million of Phase II tax credits because of these delays, and Mississippi Power's high reliance on the Southern parent company for financial and liquidity support. The continued credit supportiveness of the MPSC through the implementation of some permanent rate relief this year, in conjunction with the continued financial and liquidity support from The Southern Company, will be important to the maintenance of Mississippi Power's current rating.

One of the key reasons Mississippi Power has maintained its investment grade rating despite the ongoing challenges at Kemper has been the substantial financial support provided by the parent company. This support has covered virtually all of the cost increases above the $2.88 billion cap approved by the MPSC for recovery, insulating Mississippi ratepayers from any additional rate pressure associated with the cost overruns and delays incurred at the plant. Mississippi Power received capital contributions from Southern of $299 million in 2011, $703 million in 2012, $1,077 million in 2013, $451 million in 2014, and $152 million during the first three quarters of 2015. Additional capital contributions may be forthcoming depending on whether there are additional cost increases or delays during the testing and start-up phase. Mississippi Power's position as part of the Southern Company is an important credit consideration that has helped mitigate the risk of such a large project.

Liquidity Analysis

Southern's liquidity profile is considered adequate, although the Southern organization has a sizable $2.6 billion of long-term debt coming due in 2016 and another $2.4 billion due in 2017. Liquidity is supported by the underlying cash flows of three of its four regulated electric operating subsidiaries and its wholesale generation business; several unused bank credit facilities at the parent company and subsidiary levels; and a sufficient cash position as of 30 September 2015.

Subsidiary Mississippi Power's liquidity position is very constrained and the subsidiary is highly reliant on the parent company for the maintenance of adequate liquidity. Southern has provided $370 million of customer refunds required by a Mississippi Supreme Court decision and will provide funds for the likely repayment of $235 million of tax credits if the Kemper plant is not in service by April. Moreover, Mississippi Power is reliant on short-term bank term loans for a portion of its long-term financing needs, with $900 million of these loans scheduled to mature on April 1, 2016. Southern is in the process of extending the bank loans, which the company expects to be completed in early March.

Southern maintains $2.25 billion of credit facilities at the parent company with an expiration date in 2020. These credit facilities provide liquidity support for Southern's commercial paper program and can be used for other short-term financing needs. The credit facility includes a covenant which limits Southern's debt to capital (excluding trust preferred securities, securitizations, and hybrid securities) to 70% and there are no material adverse change representations for new borrowings. As of 30 September 2015, Southern was in compliance with its financial covenant. Southern had approximately $1.4 billion of cash on hand and $740 million of commercial paper outstanding (of which $388 million was at the parent) as of 31 December 2015. We anticipate dividend contributions from its subsidiaries will be in the $2 billion range in 2016.

Each of Southern's utilities and Southern Power maintain their own bank facilities to support short-term liquidity needs. Consolidated unused credit facilities were approximately $6.4 billion as of 31 December 2015 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $410 million expire in 2016, $30 million in 2017, $1.7 billion in 2018, and $4.4 billion in 2020. Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $504 million as of 30 September 2015. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.3 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash.

On 30 September 2015, Southern entered into an $8.1 billion bridge facility to provide financing for the AGL merger in the event it cannot access the debt and/or equity markets at transaction close.

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa3 senior unsecured, negative) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook).

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Southern Company (The)				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 9/30/2015**		**Moody's 12-18 Month Forward View As of Date Published**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Aa	Aa	Aa	Aa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.0x	Aa	4.5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	22.5%	A	16% - 18%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15.2%	Baa	11% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	45.2%	Baa	49% - 51%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	-1	-1	-2	-2
a) Indicated Rating from Grid		A3		Baa2
b) Actual Rating Assigned				Baa1

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 9/30/2015(L)
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
SOUTHERN COMPANY (THE)	
Outlook	Negative
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate	Baa2
Commercial Paper	P-2
GEORGIA POWER COMPANY	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
ALABAMA POWER COMPANY	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A2
Pref. Stock	A3
Commercial Paper	P-1
SOUTHERN POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Preference Shelf	(P)Baa3
Commercial Paper	P-2
GULF POWER COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Subordinate Shelf	(P)A3
Pref. Stock	Baa1
MISSISSIPPI POWER COMPANY	
Outlook	Negative
Issuer Rating	Baa3
Senior Unsecured	Baa3
Pref. Stock	Ba2
SOUTHERN COMPANY FUNDING CORPORATION	
Outlook	Stable
Commercial Paper	P-2
ALABAMA POWER CAPITAL TRUST V	
Outlook	Stable
BACKED Pref. Stock	A2
SOUTHERN ELECT GENERATING CO	
Outlook	Stable
Issuer Rating	A2
Bkd Senior Unsecured	A1

Source: Moody's Investors Service

REPORT NUMBER 1017695

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
20 May 2016

Update

Rate this Research

RATINGS

Southern Company (The)

Domicile	Atlanta, Georgia, United States
Long Term Rating	Baa2
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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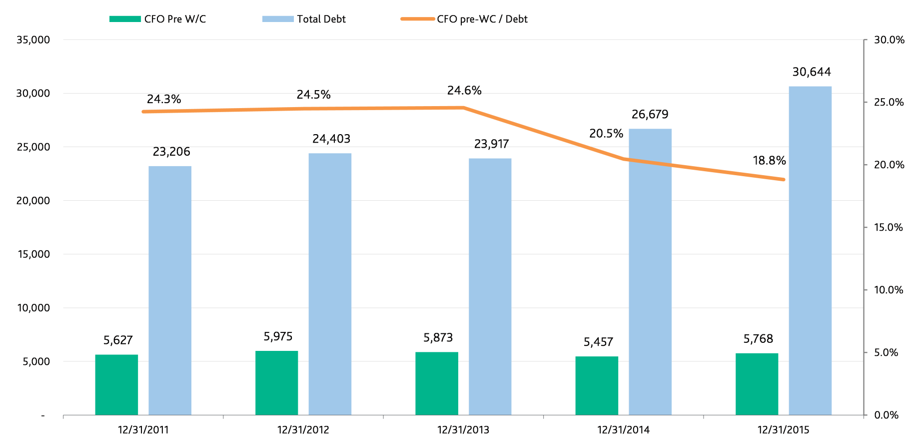
SOUTHERN COMPANY (THE)

Regulated utility and wholesale power holding company

Summary Rating Rationale

The Southern Company's (Southern) Baa2 senior unsecured rating reflects its position as the parent of three stable regulated utilities (Alabama Power, Georgia Power, and Gulf Power) operating with credit supportive regulation, another utility facing regulatory risk due to the Kemper IGCC plant (Mississippi Power), and a growing, highly contracted wholesale power company, Southern Power. Southern's rating was downgraded to Baa2 from Baa1 on 13 May 2016 due to the pending, primarily debt financed acquisition of AGL Resources.

Exhibit 1
Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Utility subsidiaries operate in mostly credit supportive regulatory environments except for the significant regulatory uncertainty facing Mississippi Power

» Continued strong regulatory support for Vogtle nuclear project, the potential for a prudence determination by the GPSC, and a recent settlement with EPC contractors support Georgia Power's rating and stable outlook

» Mostly contracted wholesale power subsidiary will benefit from five year extension of renewable energy tax credits

» Bonus depreciation extension will increase utility cash flow and lower financing requirements

Credit Challenges

» Mostly debt financed acquisition of AGL will increase parent company debt and pressure consolidated cash flow coverage metrics

» Lower Georgia Power metrics, the potential for additional delays and cost increases at the Vogtle project and the decline in the credit quality of Toshiba, have increased credit risk

» Regulatory uncertainty with regard to the credit supportiveness of Mississippi regulators on cost recovery for the Kemper IGCC with two new commissioners taking office in January

» Adequate consolidated liquidity profile, although weak liquidity at Mississippi Power with a high reliance on the parent

Rating Outlook

The stable rating outlook on Southern Company reflects the credit supportive regulatory environments in which three of its four regulated utilities operate, as well as credit supportive regulation at AGL; the scale and diversity of its sources of cash flow, which will increase following the AGL acquisition, and Moody's expectation that Southern will not increase parent company debt further from current elevated levels.

Factors that Could Lead to an Upgrade

Southern's rating could be upgraded if there is a substantial reduction of parent company debt levels; the Vogtle and Kemper plants reach commercial operation without significant additional delays or cost increases; if one or more of its major utilities is upgraded (Alabama Power, Georgia Power, or AGL going forward); or if consolidated credit metrics return to their previously strong levels, including CFO pre-working capital to debt in the 20% range.

Factors that Could Lead to a Downgrade

Southern's rating is well positioned at the Baa2 rating level but could be downgraded if there are material additional debt financed acquisitions; if there are additional delays or cost increases at the Vogtle nuclear project, and to a lesser degree the Kemper project; or if consolidated coverage metrics show a decline below the levels incorporated in our AGL acquisition projections, including cash flow from operations pre-working capital to debt below 15% for an extended period.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Southern Company (The)

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
CFO pre-WC + Interest / Interest	6.7x	6.9x	7.0x	6.6x	6.7x
CFO pre-WC / Debt	24.3%	24.5%	24.6%	20.5%	18.8%
CFO pre-WC – Dividends / Debt	17.1%	17.3%	16.9%	13.2%	13.3%
Debt / Capitalization	45.9%	45.5%	43.9%	44.9%	47.0%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

- Mostly debt financed acquisition of AGL will increase holding company debt and pressure consolidated cash flow coverage metrics

Southern's rating was downgraded to Baa2 stable from Baa1 on 13 May 2016 as a result of the anticipated primarily debt financed acquisition of AGL Resources (AGL, unrated). The acquisition of AGL for $8 billion in cash will result in a significant increase in debt at the Southern holding company level at a time when its holding company debt had already been increasing, partly to support funding needs at utility subsidiary Mississippi Power and for portfolio growth at Southern Power. The addition of nearly $8 billion of debt at the Southern holding company will increase parent company debt from approximately $4 billion currently (12-13% of total consolidated debt) to the $12 billion range (around 25% of consolidated debt) pressuring cash flow coverage metrics. We project Southern's consolidated CFO pre-working capital to debt ratio will fall to approximately 15% immediately following the acquisition, from the 20% range currently, and not recover to previous levels for several years.

The AGL acquisition comes at a time when Southern's credit quality and relative position at the previous Baa1 rating level had already been weakened by over $2 billion of pre-tax charges related to cost increases and delays at the Kemper Integrated Gasification Combined Cycle (IGCC) power plant at Mississippi Power. Southern continues to provide critical support to Mississippi Power, with $776 million of promissory notes outstanding to the utility to maintain its liquidity until a permanent Kemper cost plan is approved and implemented. In addition, Southern's largest utility, Georgia Power is in the midst of an expensive, multi-year new nuclear plant construction program at its Vogtle nuclear plant site that has experienced cost increases and delays, with commercial operation currently three years behind schedule.

For Southern, the addition of approximately $8 billion of debt at the parent company will eliminate an important credit advantage that had distinguished Southern from many of its peers; namely, the limited use of holding company leverage and higher financial flexibility at the parent company. With 25% of the company's total consolidated debt at the holding company level going forward, structural subordination will increase and financial flexibility will diminish. Although Southern still has a lower percentage of debt at the parent company than some other Baa rated peers like Duke Energy Corporation (Baa1 negative) which will be at around 35% following the Piedmont Natural Gas Company, Inc. (A2 stable) acquisition; Dominion Resources, Inc. (Baa2 stable) at approximately 48% after its acquisition of Questar Corporation (Prime-1, ratings on review for downgrade); and NextEra Energy, Inc. (Baa1 stable), which guarantees 33% of its total reported consolidated debt; it is no longer a material factor differentiating Southern from these companies.

In AGL, Southern is acquiring an entity whose financing subsidiary, AGL Capital Corporation (guaranteed by AGL), is rated Baa1 stable, lower than three of Southern's four existing utility subsidiaries. Although AGL provides Southern with regulatory and operational diversity, it will generate lower financial coverage metrics than Southern or any of its subsidiaries. AGL's CFO pre-working capital to debt is expected to decline to the low to mid-teens (from the mid to high teens historically) as it issues debt to fund planned capital investments, another reason for the recent downgrade of Southern.

- Utility subsidiaries operate in credit supportive regulatory environments except for the significant regulatory uncertainty facing Mississippi Power

Southern's rating is supported by the credit supportive regulatory environments in three of the four states in which it operates with constructive relationships with regulators and strong cost recovery provisions. The AGL acquisition will add additional, mostly credit supportive, regulatory environments and increase regulatory and geographic diversity.

Georgia Power, Southern's largest subsidiary, is in the third and final year of a three year rate settlement (the "2013 Alternate Rate Plan") implemented on 1 January 2014 that we view as credit supportive, particularly considering the additional annual rate increases associated with its ongoing nuclear construction program. Under the rate plan, the company increased its base rates by approximately $107 million effective 1 January 2015 and collected an additional $29 million in 2015 through its Environmental Compliance Cost Recovery (ECCR) and other tariffs, for a total rate increase of $136 million. An additional base rate and cost recovery tariff rate increase estimated to be $144 million in 2016 are also being implemented as part of the settlement. In total, rates will increase by $390 million over three years, compared to the company's original levelized request of $482 million in the first year.

The settlement represented a continuation of many of the provisions in Georgia Power's previous Alternate Rate Plan that had been in place through 2013, including its three year term. Under the 2013 Alternate Rate Plan, the allowed earned ROE range was reduced slightly to 10%-12% from 10.25%-12.25% with a sharing mechanism for earnings above this range. If Georgia Power's ROE is projected to fall below 10%, the company can request an Interim Cost Recovery Tariff.

As part of a Georgia regulatory settlement for the AGL acquisition, Georgia Power has extended this Alternate Rate Plan and agreed to keep base rates flat for three years. While bonus depreciation will help support Georgia Power's financial metrics over the next couple of years, the settlement will offset these benefits and pressure coverage metrics going forward. Georgia Power requested nearly $1 billion of rate relief three years ago and we had expected the utility to file a rate case in 2016. Moody's notes that the parent company's acquisition of AGL has had a more direct impact on Georgia Power than on any of Southern's other subsidiaries.

In Alabama, Southern's second largest jurisdiction, the regulatory environment has been, for the most part, credit supportive. Rates are set under a Rate RSE (Rate Stabilization and Equalization) mechanism that establishes rates based on an allowed weighted cost of equity range (WCE) of 5.75% to 6.21%, with an adjusting point of 5.98%. The company can earn an additional 7 basis points if it maintains an A credit rating from one rating agency or is in the top third of a customer value (or service quality) benchmark that the APSC utilizes. Rate adjustments for any two-year period, when averaged together, cannot exceed 4.0% and any annual adjustment is limited to 5.0%.

In Florida, the Florida Public Service Commission unanimously approved a settlement agreement in December 2013 resolving Gulf Power's last rate case that was consistent with our view of a credit supportive regulatory environment in that state. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015, and continued its authorized ROE level of 10.25% (the midpoint of the range between 9.25% and 11.25%). The settlement includes an adjustment mechanism that would increase the authorized ROE if the 30 year US treasury bond yield increases by a predetermined amount. Gulf Power may not file for a base rate increase to be effective until after June 2017, unless its actual retail ROE falls below the authorized ROE range. The utility may file a rate case later this year with new rates that would be effective after June 2017.

- Continued strong regulatory support for Vogtle nuclear project, the potential for a prudence determination by the GPSC, and a recent settlement with EPC contractors support Georgia Power's rating and stable outlook

Southern's largest utility subsidiary, Georgia Power, is in the midst of an expensive, multi-year construction program to add two new nuclear generating units, each representing 1,100 MW of capacity, to its existing Vogtle nuclear plant site near Waynesboro, Georgia. Georgia Power owns 45.7% of the new units, with the remainder owned by its current Vogtle partners: Oglethorpe Power Corporation (30%), Municipal Electric Authority of Georgia (22.7%), and the City of Dalton (1.6%).

Georgia Power earns a cash return on construction work in progress (CWIP) up to the previously certified capital cost through its Nuclear Construction Cost Recovery (NCCR) tariff. All 13 of its semi-annual Vogtle Construction Monitoring (VCM) reports covering $3.1 billion of costs have been unanimously approved by the GPSC, although these approvals do not include a determination of prudence and the GPSC can subsequently disallow certain costs that it deems imprudent.

Georgia Power's A3 rating and stable outlook were affirmed on 13 May 2016, reflecting the strong state regulatory support for the Vogtle new nuclear project, including the potential for a prudence determination of project costs by the Georgia Public Service Commission earlier than we had originally anticipated, and a recent settlement with the EPC contractors resolving long-term legal and other disputes that had plagued the project, including the removal of construction contractor Chicago Bridge & Iron. N.V. (unrated).

In exchange for cash payments from Georgia Power ($350 million) and the other project owners, the parties agreed to drop all open claims related to the existing disputes as well as any future claims that could have been asserted under the EPC contracts until now; clarified the language related to what constitutes nuclear regulatory changes in law under the EPC contracts (which has been the source of many of the legal disputes); and improved provisions related to when delay-related liquidated damages would begin on the project.

In a separate but related agreement, Westinghouse Electric Company LLC (unrated) agreed to acquire Stone and Webster, one of the original construction contractors, from Chicago Bridge & Iron Co. N.V. (CB&I, unrated). The project owners had hoped that CB&I's 2013 acquisition of Stone and Webster would improve the quality and timely delivery of modules critical to each project's modular construction process. Instead, quality and delivery problems related to the modules have continued and CB&I is now being replaced. We view the removal of CB&I, the financially weaker of the two EPC contractors, as a positive development.

- Lower Georgia Power metrics, the potential for additional delays and cost increases at the Vogtle project and the decline in the credit quality of Toshiba have increased credit risk

Georgia Power's cash flow coverage metrics have declined as the Vogtle project as proceeded, with CFO pre-working capital to debt falling from the 26%-27% range from 2011-2013 to around 22% for the last couple of years. The Vogtle project has also experienced significant delays and cost increases over the course of construction, which can be partly attributed to the large amount of "first of a kind" practices and technology being utilized. On 29 January 2015, Georgia Power indicated that the EPC contractors for the project had delayed their forecast for project completion by 18 months, pushing out the estimated in-service dates of Unit 3 (the first of the two units) to 2Q 2019 and Unit 4 to 2Q 2020, from 4Q 2017 and 4Q 2018, respectively, three years behind the original schedule.

Georgia Power estimates that these schedule delays will result in an increase in its capital costs of approximately $246 million and its financing costs of approximately $568 million, for a total cost increase of $814 million. The capital cost of Georgia Power's share of the project will now be in the range of $5.4 billion, up from $4.4 billion originally. Including the additional financing costs, the total cost of the project to Georgia Power will now be approximately $7.5 billion.

Other recent adverse developments include the precipitous decline in the credit quality of Toshiba Corporation (B3 negative), the parent company of EPC contractor Westinghouse Electric Company LLC (unrated) and the guarantor of certain Westinghouse obligations under the EPC contract. While Westinghouse has provided nearly $1 billion of letters of credit to Georgia Power to support its obligations under the contract since Toshiba was downgraded below investment grade last year, we believe that a financially constrained Toshiba parent company could make additional costs and/or disputes related to the EPC contract more difficult to resolve.

In addition, Westinghouse has engaged Fluor Enterprises, Inc. (unrated), a subsidiary of The Fluor Corporation (A3 stable), as a new construction subcontractor at both projects, a potential risk as another new party is introduced into the complex project well into the construction process. Fluor is the third firm engaged since the projects began despite previous assurances from the project owners that both Stone and Webster and CB&I were up to the task.

- Regulatory risk regarding the credit supportiveness of Mississippi regulators on cost recovery for the Kemper IGCC with two new commissioners having taken office in January

Subsidiary Mississippi Power's rating (Baa3 negative) has been downgraded several times since 2010, when it embarked on the construction of the large, complex and costly 582 MW Kemper integrated gasification combined cycle (IGCC) plant. The most recent downgrade, to Baa3 from Baa2 on 5 November 2015 was prompted by the election of what could be a less credit supportive Mississippi Public Service Commission (MPSC) at a time when the utility will be pursuing important, permanent rate recovery proceedings on the Kemper plant, potentially later this year.

The Baa3 rating also reflects Mississippi Power's weak liquidity and financial condition, metrics that we expect to be below investment grade for at least one to two years, and Mississippi Power's high reliance on the Southern parent company for financial and liquidity support. The continued credit supportiveness of the MPSC through the implementation of some permanent rate relief, in conjunction with the continued financial and liquidity support from Southern, will be important to the stabilization of Mississippi Power's rating outlook.

One of the key reasons Mississippi Power has maintained its investment grade rating despite the ongoing challenges at Kemper has been the substantial financial support provided by the parent company. This support has covered virtually all of the cost increases above the $2.88 billion cap approved by the MPSC for recovery, insulating Mississippi ratepayers from any additional rate pressure associated with the cost overruns and delays incurred at the plant. Mississippi Power received capital contributions from Southern of $299 million in 2011, $703 million in 2012, $1,077 million in 2013, $451 million in 2014, and $277 million in 2015. Additional capital contributions may be forthcoming depending on whether there are additional cost increases or delays during the testing and start-up phase. Mississippi Power's position as part of the Southern Company is an important credit consideration that has helped mitigate the risk of such a large project.

- Mostly contracted wholesale power subsidiary will benefit from five year extension of renewable energy tax credits

Southern Power, Southern's competitive generation business, has a comparatively higher level of business risk than Southern's core retail regulated utility subsidiaries due to the lack of regulated cost recovery provisions and because its primary operations are in the competitive wholesale power markets. However, Southern Power exhibits a lower business risk profile than other competitive wholesale generators as it has attempted to replicate a regulated business model by entering into long-term, fixed price contracts for most of its generation output with both unaffiliated wholesale purchasers as well as with Southern's regulated utilities. At 31 December 2015, the company's generating capacity was 75% contracted over the next five years, with the average duration of the contracts exhibiting a declining trend in recent years. The company has also experienced lower energy margins in its gas business, negatively affecting earnings. The market-based contracts under which its capacity is sold contain provisions that pass the costs of fuel and related transportation through to the wholesale energy purchasers.

Southern Power has been engaged in a significant expansion into renewable energy outside of its traditional Southeast regional, natural gas generation focus, which will benefit from the five year extension of renewable energy tax credits passed by Congress in December. In 2015, the company contracted for over 1,000 MW of wind and solar projects with an average contract life of approximately 22 years and currently has more than 1,800 MW of renewable generating capacity ownership.

- Bonus depreciation provisions will bolster utility cash flow and reduce financing requirements

The 18 December 2015 omnibus spending bill passed by Congress extended bonus depreciation benefits, which Southern estimates will improve subsidiary cash flows by approximately $4 billion through 2020. These include tax benefits associated with both the Vogtle and Kemper projects, as well as for renewable energy and environmental compliance investments. These cash flow benefits could reduce rate increase requirements and lower the amount of Southern's consolidated debt and equity financing requirements over the next several years. Because of these additional cash flows, Southern has indicated that it no longer plans to issue the $1.6 billion of equity it had planned to between 2017 and 2019 to reduce debt incurred to financing the AGL acquisition.

Liquidity Analysis

Southern's liquidity profile is adequate, although the Southern organization has a sizable $2.4 billion of long-term debt and $1.2 billion of notes payable coming due over the 12 month period ending 31 March 2017. The company has an additional $4.1 billion of long-term debt due in FY 2017 and FY 2018 combined. Liquidity is supported by the underlying cash flows of three of its four regulated electric operating subsidiaries and its wholesale generation business; several unused bank credit facilities at the parent company and subsidiary levels; and a sufficient cash position of about $750 million as of 31 March 2016.

Subsidiary Mississippi Power's liquidity position is very constrained and the subsidiary is highly reliant on the parent company for the maintenance of adequate liquidity. Southern has provided $370 million of customer refunds required by a Mississippi Supreme Court decision and $235 million for the repayment of tax credits because the Kemper plant was not in service by April 2016. Southern currently has $776 million of promissory notes outstanding to the utility. On 8 March 2016, Mississippi Power entered into a two year, unsecured term loan agreement with a group of banks, $900 million of which was borrowed. The utility has the right to borrow the remaining $300 million on or before October 15, 2016, when $300 million of its senior notes are schedule to mature.

Southern maintains $2.25 billion of credit facilities at the parent company with expiration dates in 2018 ($1 billion) and 2020 ($1.25 billion). These credit facilities provide liquidity support for it's commercial paper program and can be used for other short-term financing needs. The credit facility includes a covenant which limits Southern's debt to capital (excluding trust preferred securities, securitizations, and hybrid securities) to 70% and there are no material adverse change representations for new borrowings. As of 31 March 2016, Southern was in compliance with its financial covenant and had $757 million of commercial paper outstanding.

Each of Southern's utilities and Southern Power maintain their own bank facilities to support their short-term liquidity needs. Consolidated unused credit facilities were approximately $6.5 billion as of 31 March 2016 (with $1.8 billion providing liquidity support to the utilities' pollution control revenue bonds). Of these credit facilities, $390 million expires in 2016, $40 million in 2017, $1.7 billion in 2018, and $4.4 billion in 2020. Southern and its subsidiaries maintain contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a ratings downgrade. In the event of an unsecured rating downgrade of certain subsidiaries to Baa3, the maximum collateral requirements would be $511 million as of 31 March 2016. If credit ratings are downgraded to below investment grade, the potential maximum collateral requirement would be $2.3 billion. Generally, collateral could be provided by a Southern guaranty, letter of credit, or cash.

On 30 September 2015, Southern entered into an $8.1 billion bridge facility to provide financing for the AGL acquisition in the event it cannot access the debt and/or equity markets at transaction close. On 19 May 2016, Southern announced a permanent debt financing of up to $8.5 billion for the AGL acquisition, which is scheduled to close on 24 March 2016, terminating the bridge facility.

Corporate Profile

Based in Atlanta, GA, The Southern Company (Southern) is a utility holding company that owns four vertically integrated regulated utilities: Georgia Power Company (A3 senior unsecured, stable outlook), Alabama Power Company (A1 senior unsecured, stable outlook), Mississippi Power Company (Baa3 senior unsecured, negative) and Gulf Power Company (A2 senior unsecured, stable outlook) with an operating footprint across the Southeast. The company is also engaged in competitive electricity generation through Southern Power Company (Baa1 senior unsecured, stable outlook). Southern is in the process of acquiring Atlanta based AGL Resources, Inc., the parent company of AGL Capital (Baa1 senior unsecured, stable outlook), with closing expected later this year.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Southern Company (The)				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 12/31/2015**		**Moody's 12-18 Month Forward View As of Date Published**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Aa	Aa	Aa	Aa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.7x	Aa	4x - 5x	A
b) CFO pre-WC / Debt (3 Year Avg)	21.0%	Baa	15% - 17%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	14.3%	Baa	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	45.5%	Baa	49% - 51%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-1	-1	-2	-2
a) Indicated Rating from Grid		Baa1		Baa2
b) Actual Rating Assigned				Baa2

1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 12/31/2015(L)
[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
SOUTHERN COMPANY (THE)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2
GEORGIA POWER COMPANY	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate Shelf	(P)Baa1
Preference Stock	Baa2
SOUTHERN POWER COMPANY	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Preference Shelf	(P)Baa3
Commercial Paper	P-2
ALABAMA POWER COMPANY	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Jr Subordinate Shelf	(P)A2
Pref. Stock	A3
Commercial Paper	P-1
GULF POWER COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Subordinate Shelf	(P)A3
Pref. Stock	Baa1
MISSISSIPPI POWER COMPANY	
Outlook	Negative
Issuer Rating	Baa3
Senior Unsecured	Baa3
Pref. Stock	Ba2
SOUTHERN COMPANY FUNDING CORPORATION	
Outlook	Stable
Commercial Paper	P-2
ALABAMA POWER CAPITAL TRUST V	
Outlook	Stable
BACKED Pref. Stock	A2
SOUTHERN ELECT GENERATING CO	
Outlook	Stable
Issuer Rating	A2
Bkd Senior Unsecured	A1

Source: Moody's Investors Service

REPORT NUMBER 1028157

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
5 August 2016

Update

Rate this Research

RATINGS

Gulf Power Company

Domicile	Florida, United States
Long Term Rating	A2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Gulf Power Company

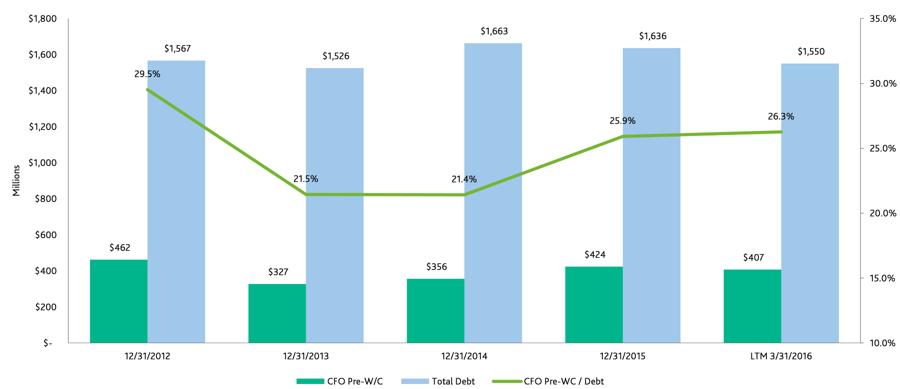
Regulated utility subsidiary of The Southern Company

Summary Rating Rationale

Gulf Power's A2 senior unsecured debt rating reflects a credit supportive regulatory environment in Florida; a reasonable rate settlement in place through June 2017; cash flow coverage metrics that have been slightly weak for its A2 rating after adjusting for bonus depreciation; and declining capital expenditures following the completion of several environmental compliance projects. The rating also considers Gulf Power's position as part of the Southern Company corporate family, offsetting some of the risk associated with the utility's relatively small size, concentrated service territory, and exposure to storm related event risk.

Exhibit 1

Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt
($ in millions)



Source: Moody's Financial Metrics

Credit Strengths

» Credit supportive regulatory environment with reasonable rate settlement in place through June 2017

» Declining capital expenditures as some environmental projects have been completed

» Position as part of the Southern Company system is credit positive

160186-OPC-POD-71-525

Credit Challenges

» Cash flow coverage metrics slightly weak for A2 rating after adjusting for bonus depreciation

» Relatively small size, concentrated service territory, and exposure to storm related event risk

» Some regulatory uncertainty with rate settlement expiring in 2017

Rating Outlook

The stable rating outlook reflects our view that Gulf Power's regulatory environment, rate settlement, and ongoing cost recovery provisions in Florida are all credit supportive. Although there is some regulatory uncertainty as the utility's rate settlement expires in 2017, we expect continued reasonable and credit supportive regulation going forward. Although cash flow coverage metrics have historically been slightly below the parameters typically required for an A2 rating after adjusting for bonus depreciation, this is largely offset by the consistent and predictable regulation, lack of significant new generation needs, and benefits from being part of the Southern Company system.

Factors that Could Lead to an Upgrade

An upgrade could be considered if the utility's regulatory environment and cost recovery provisions improve further, if capital expenditures continue to moderate from recently high levels, and if cash flow coverage metrics show a sustained improvement to levels that are strong for its rating, including CFO pre-W/C to debt of at least 25%, after adjusting for the impact of bonus depreciation.

Factors that Could Lead to a Downgrade

Ratings could be downgraded if there are adverse political or regulatory developments in Florida that negatively affect credit quality; if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage; or if cash flow coverage metrics fall significantly below our guidelines for the A rating level, including CFO pre-working capital to debt materially below 22% for a sustained period.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Gulf Power Company

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	7.7x	7.4x	6.3x	5.6x	7.8x
CFO pre-WC / Debt	26.3%	25.9%	21.4%	21.5%	29.5%
CFO pre-WC – Dividends / Debt	17.6%	17.8%	13.9%	13.9%	21.9%
Debt / Capitalization	40.1%	41.4%	43.4%	42.8%	45.5%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

- Credit supportive regulatory environment with reasonable rate settlement in place through June 2017

Gulf Power is operating under a settlement agreement unanimously approved by the Florida Public Service Commission (FPSC) in December 2013 that was consistent with our view of a generally credit supportive regulatory framework in Florida. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015; and continued its authorized ROE level of 10.25% (the midpoint of range between 9.25% and 11.25%), slightly above the national average. The settlement includes an adjustment mechanism that would increase the authorized ROE to 10.5% if the 30 year US treasury bond yield increases by a predetermined amount, a formulaic-like mechanism that is a significant credit positive. The utility can accrue a return similar to AFUDC on certain transmission upgrades from 2014 to 2017, and reduce depreciation expense and record a regulatory asset for cost of removal of up to $62.5 million to reach the midpoint of its authorized ROE. As of 31 March 2016, Gulf Power had recognized $34.1 million of reductions to depreciation expense.

Gulf Power benefits from several timely cost recovery provisions, including a FPSC approved fuel cost recovery mechanism that includes a true-up of actual fuel costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over or under recovery exceeds 10% of the projected annual fuel revenues for the period.

The FPSC has approved Gulf Power's purchase of renewable energy, including 120 MW of utility scale solar generation at three military installations for a term of 25 years beginning in 2016. The FPSC also approved the purchase of 178 MW of wind generation in central Oklahoma for a term of 20 years that began in 2015. Purchases under these agreements are for energy only and are expected to be recovered under the utility's fuel cost recovery clause. In 2016, the FPSC also approved a 1MW Community Solar Pilot Program to be located within its service territory near Milton, Florida.

- Declining capital expenditures as some environmental projects have been completed

Gulf Power has traditionally generated a significant amount of power from coal, with the remaining coming from natural gas, as well as predominantly gas fired purchased power. Because of its historically high reliance on coal fired generation, Gulf Power has faced substantial costs for environment compliance in recent years. Over the last three years, the utility spent $436 million on environmental compliance projects, including $116 million in 2015, $227 million in 2014, and $143 million in 2013. In contrast, over the next three years (2016-2018), the utility expects to spend $117 million on environmental compliance, less than one-third the amount of the previous three year period. Overall capital expenditures are expected to total $215 million in 2016, $197 million in 2017, and $176 million in 2018, down from a high of $348 million in 2014.

These projected capital expenditures relate to existing statutes and regulations and do not include potential new EPA carbon rules. New mandates could again increase the level of environmental capital expenditures in the outer years, although there is still significant uncertainty over the final rules, regulations, and the implementation timeline. We believe regulated utilities with significant coal fired generation like Gulf Power will fare better than unregulated coal generators in meeting these obligations. Gulf Power's current rating and outlook incorporate the expectation that the utility will continue to recover its environmental expenditures as part of its rate proceedings, although there could be some regulatory lag.

- Position as part of the Southern Company system is credit positive

Although Gulf Power is a relatively small utility, it benefits from being part of the much larger Southern Company system. Unlike the other three investor owned utilities in Florida with service territories in the peninsular part of the state with some electric transmission and gas pipeline constraints into their service territories, Gulf Power is highly interconnected with the rest of the Southern Company system and benefits from joint dispatch arrangements with its affiliate utilities. In addition, several functions are handled centrally through Southern Company Services, enhancing efficiency at all of Southern's utilities, including Gulf Power.

- Cash flow coverage metrics have been weak for its A2 credit rating after adjusting for bonus depreciation

Gulf Power's cash flow coverage metrics have weak for an A2 rating, after adjusting for high levels of bonus depreciation over the last few years, using the financial ratio parameters outlined in our ratings methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt was in the 21% range in 2013 and 2014 before increasing to 26% in 2015, on a Moody's adjusted basis, including the effects of bonus depreciation. Bonus depreciation increased cash flow by approximately $25 million in both 2013 and 2014, but by a much more substantial $105 million in 2015. If the impact of bonus depreciation is excluded from these cash flows, we estimate this ratio would have been in the 20% range over the last three years, below the A rating range of 22%-30% under our methodology. Gulf Power expects the cash flow benefit of bonus depreciation to be approximately $27 million for the 2016 tax year.

- Relatively small size, concentrated service territory, and exposure to storm related event risk

Gulf Power is a relatively small utility with a concentrated service territory along the Gulf Coast of northwestern Florida, making it vulnerable to storm related event risk. However, as with other utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting Gulf Power's credit quality in storm affected years. The company can petition for recovery of any storm damage costs in excess of its storm reserve to be collected through a storm surcharge. It would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

- Some regulatory uncertainty with rate settlement expiring in 2017

As part of the current rate settlement, Gulf Power agreed not to file for a base rate increase to be effective before June 2017, unless its actual retail ROE falls below the authorized ROE range. Although there is some regulatory uncertainty as the rate settlement approaches expiration, we expect continued reasonable and credit supportive regulation in the state going forward.

Liquidity Analysis

Gulf Power maintains $280 million of unused bank credit facilities supporting a $200 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of 31 March 2016, the company had $56 million of commercial paper outstanding and $82 million of variable rate pollution control bonds backed by the facilities, leaving the company with $142 million of available credit facility capacity. As of 31 March 2016, of the $280 million of credit facilities, $75 million expires in 2016, $40 million in 2017, and $165 million in 2018. Of the company's credit facilities, $45 million contain provisions allowing for term loans that can be executed by the company at expiration. There is no material adverse change clause in any of these credit agreements, and some of the facilities include a 65% debt to capital covenant. As of 31 March 2016, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a downgrade. In the event of a downgrade to Baa3, Gulf Power had potential collateral requirements of $78 million as of 31 March 2016. If Gulf Power's credit rating is downgraded below investment grade, the utility's potential collateral requirement increases to $428 million. On 31 March 2016, Gulf Power had $48 million of cash, down from $74 million at 31 December 2015. The company has $110 long-term debt coming due on 1 December 2016 and $33 million of fixed rate pollution control revenue bonds that are required to be remarketed over the 12 months ending 31 March 2017.

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves approximately 450,000 customers in a 7,500 square mile region and owns 2,583 megawatts of nameplate capacity, the majority of which are coal-fired baseload units. It operates within the Southern Company power pool.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Gulf Power Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2016**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.6x	Aa	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	24.0%	A	20% - 23%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	16.0%	Baa	10% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	41.3%	A	38% - 42%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
GULF POWER COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Pref. Stock	Baa1
Preference Stock	Baa1
Other Short Term	VMIG 1
PARENT: SOUTHERN COMPANY (THE)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Source: Moody's Investors Service

REPORT NUMBER 1035523

MOODY'S
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INVESTORS SERVICE

CREDIT OPINION
15 August 2016

Update

Rate this Research

RATINGS

Gulf Power Company

Domicile	Florida, United States
Long Term Rating	A2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Gulf Power Company

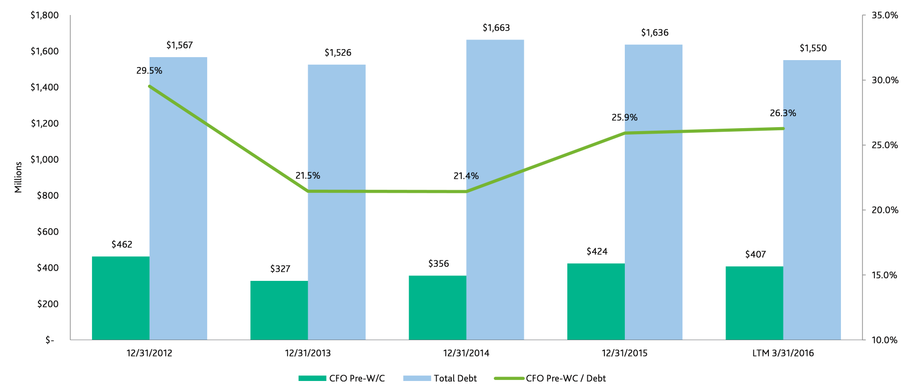
Regulated utility subsidiary of The Southern Company

Summary Rating Rationale

Gulf Power's A2 senior unsecured debt rating reflects a credit supportive regulatory environment in Florida; a reasonable rate settlement in place through June 2017; some regulatory uncertainty with upcoming rate case filing expected in October 2016; cash flow coverage metrics that have been slightly weak for its A2 rating after adjusting for bonus depreciation; and declining capital expenditures following the completion of several environmental compliance projects. The rating also considers Gulf Power's position as part of the Southern Company corporate family, offsetting some of the risk associated with the utility's relatively small size, concentrated service territory, and exposure to storm related event risk.

Exhibit 1

Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt
($ in millions)



Source: Moody's Financial Metrics

Credit Strengths

» Credit supportive regulatory environment with reasonable rate settlement in place through June 2017

» Declining capital expenditures as some environmental projects have been completed

» Position as part of the Southern Company system is credit positive

160186-OPC-POD-71-531

Credit Challenges

» Some regulatory uncertainty with an estimated $115 to $125 million base rate case filing expected in October 2016, representing a 9% to 10% increase in retail revenues

» Cash flow coverage metrics slightly weak for A2 rating after adjusting for bonus depreciation

» Relatively small size, concentrated service territory, and exposure to storm related event risk

Rating Outlook

The stable rating outlook reflects our view that Gulf Power's regulatory environment, rate settlement, and ongoing cost recovery provisions in Florida are all credit supportive. Although there is some regulatory uncertainty as the utility's rate settlement expires in 2017, we expect continued reasonable and credit supportive regulation going forward. Although cash flow coverage metrics have historically been slightly below the parameters typically required for an A2 rating after adjusting for bonus depreciation, this is largely offset by the consistent and predictable regulation, lack of significant new generation needs, and benefits from being part of the Southern Company system.

Factors that Could Lead to an Upgrade

An upgrade could be considered if the utility's regulatory environment and cost recovery provisions improve further, if capital expenditures continue to moderate from recently high levels, and if cash flow coverage metrics show a sustained improvement to levels that are strong for its rating, including CFO pre-W/C to debt of at least 25%, after adjusting for the impact of bonus depreciation.

Factors that Could Lead to a Downgrade

Ratings could be downgraded if there are adverse political or regulatory developments in Florida that negatively affect credit quality; if the outcome of the utility's upcoming rate case is not credit supportive; if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage; or if cash flow coverage metrics fall significantly below our guidelines for the A rating level, including CFO pre-working capital to debt materially below 22% for a sustained period.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Gulf Power Company

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	7.7x	7.4x	6.3x	5.6x	7.8x
CFO pre-WC / Debt	26.3%	25.9%	21.4%	21.5%	29.5%
CFO pre-WC – Dividends / Debt	17.6%	17.8%	13.9%	13.9%	21.9%
Debt / Capitalization	40.1%	41.4%	43.4%	42.8%	45.5%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

- Credit supportive regulatory environment with reasonable rate settlement in place through June 2017

Gulf Power is operating under a settlement agreement unanimously approved by the Florida Public Service Commission (FPSC) in December 2013 that was consistent with our view of a generally credit supportive regulatory framework in Florida. The settlement allowed the utility to increase base rates by $35 million in 2014 and an additional $20 million in 2015; and continued its authorized ROE level of 10.25% (the midpoint of range between 9.25% and 11.25%), slightly above the national average. The settlement includes an adjustment mechanism that would increase the authorized ROE to 10.5% if the 30 year US treasury bond yield increases by a predetermined amount, a formulaic-like mechanism that is a significant credit positive. The utility can accrue a return similar to AFUDC on certain transmission upgrades from 2014 to 2017, and reduce depreciation expense and record a regulatory asset for cost of removal of up to $62.5 million to reach the midpoint of its authorized ROE. As of 31 March 2016, Gulf Power had recognized $34.1 million of reductions to depreciation expense.

Gulf Power benefits from several timely cost recovery provisions, including a FPSC approved fuel cost recovery mechanism that includes a true-up of actual fuel costs, a projection of future costs, and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over or under recovery exceeds 10% of the projected annual fuel revenues for the period.

The FPSC has approved Gulf Power's purchase of renewable energy, including 120 MW of utility scale solar generation at three military installations for a term of 25 years beginning in 2016. The FPSC also approved the purchase of 178 MW of wind generation in central Oklahoma for a term of 20 years that began in 2015. Purchases under these agreements are for energy only and are expected to be recovered under the utility's fuel cost recovery clause. In 2016, the FPSC also approved a 1MW Community Solar Pilot Program to be located within its service territory near Milton, Florida.

- Declining capital expenditures as some environmental projects have been completed

Gulf Power has traditionally generated a significant amount of power from coal, with the remaining coming from natural gas, as well as predominantly gas fired purchased power. Because of its historically high reliance on coal fired generation, Gulf Power has faced substantial costs for environment compliance in recent years. Over the last three years, the utility spent $436 million on environmental compliance projects, including $116 million in 2015, $227 million in 2014, and $143 million in 2013. In contrast, over the next three years (2016-2018), the utility expects to spend $117 million on environmental compliance, less than one-third the amount of the previous three year period. Overall capital expenditures are expected to total $215 million in 2016, $197 million in 2017, and $176 million in 2018, down from a high of $348 million in 2014.

These projected capital expenditures relate to existing statutes and regulations and do not include potential new EPA carbon rules. New mandates could again increase the level of environmental capital expenditures in the outer years, although there is still significant uncertainty over the final rules, regulations, and the implementation timeline. We believe regulated utilities with significant coal fired generation like Gulf Power will fare better than unregulated coal generators in meeting these obligations. Gulf Power's current rating and outlook incorporate the expectation that the utility will continue to recover its environmental expenditures as part of its rate proceedings, although there could be some regulatory lag.

- Position as part of the Southern Company system is credit positive

Although Gulf Power is a relatively small utility, it benefits from being part of the much larger Southern Company system. Unlike the other three investor owned utilities in Florida with service territories in the peninsular part of the state with some electric transmission and gas pipeline constraints into their service territories, Gulf Power is highly interconnected with the rest of the Southern Company system and benefits from joint dispatch arrangements with its affiliate utilities. In addition, several functions are handled centrally through Southern Company Services, enhancing efficiency at all of Southern's utilities, including Gulf Power.

- Some regulatory uncertainty with an estimated $115 to $125 million base rate case filing expected in October 2106, representing a 9% to 10% increase in retail revenues

On 12 August 2016, Gulf Power notified the FPSC that it intends to file for a base rate increase of approximately $115 to $125 million in October 2016, with new rates to be effective in July 2017. With the utility generating total retail revenues of $1.249 billion in 2015, such a rate change would represent an approximate 9% to 10% revenue increase if approved. This would be the utility's first base rate filing since 2013, which resulted in a rate stipulation and settlement agreement. As part of that settlement, Gulf Power agreed not to file for a base rate increase to be effective before July 2017, unless its actual retail ROE falls below the authorized ROE range.

In its notice to the FPSC, Gulf Power cited increasing capital investments, including transmission and distribution infrastructure modernization; slower than forecasted customer growth and a decline in usage per customer; and updated depreciation rates and recoverable lives for its depreciable assets. Gulf Power is proposing the projected twelve months ending 31 December 2017 as the test year for the rate case. The proposed test year capital structure reflects an increased level of common equity and an increase in the FPSC approved return on common equity (ROE). The utility expects to make the filing between 11 October 2016 and 28 October 2016.

- Cash flow coverage metrics have been weak for its A2 credit rating after adjusting for bonus depreciation

Gulf Power's cash flow coverage metrics have weak for an A2 rating, after adjusting for high levels of bonus depreciation over the last few years, using the financial ratio parameters outlined in our ratings methodology. Cash flow from operations pre-working capital (CFO pre-W/C) to debt was in the 21% range in 2013 and 2014 before increasing to 26% in 2015, on a Moody's adjusted basis, including the effects of bonus depreciation. Bonus depreciation increased cash flow by approximately $25 million in both 2013 and 2014, but by a much more substantial $105 million in 2015. If the impact of bonus depreciation is excluded from these cash flows, we estimate this ratio would have been in the 20% range over the last three years, below the A rating range of 22%-30% under our methodology. Gulf Power expects the cash flow benefit of bonus depreciation to be approximately $27 million for the 2016 tax year.

- Relatively small size, concentrated service territory, and exposure to storm related event risk

Gulf Power is a relatively small utility with a concentrated service territory along the Gulf Coast of northwestern Florida, making it vulnerable to storm related event risk. However, as with other utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting Gulf Power's credit quality in storm affected years. The company can petition for recovery of any storm damage costs in excess of its storm reserve to be collected through a storm surcharge. It would then be able to petition for full and permanent recovery of all costs. Securitization legislation for the recovery of storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization of past storm costs.

Liquidity Analysis

Gulf Power maintains $280 million of unused bank credit facilities supporting a $200 million commercial paper program (issued through Southern Company Capital Funding Corporation, a Southern Company subsidiary organized to issue and sell commercial paper for its utility subsidiaries). In addition, a portion of its bank facilities are dedicated to providing liquidity support for outstanding variable rate pollution control revenue bonds. As of 30 June 2016, the company had $87 million of commercial paper outstanding and $82 million of variable rate pollution control bonds backed by the facilities, leaving the company with $111 million of available credit facility capacity. As of 30 June 2016, of the $280 million of credit facilities, $75 million expires in 2016, $40 million in 2017, and $165 million in 2018. Of the company's credit facilities, $45 million contain provisions allowing for term loans that can be executed by the company at expiration. There is no material adverse change clause in any of these credit agreements, and some of the facilities include a 65% debt to capital covenant. As of 30 June 2016, the company was in compliance with this covenant.

Gulf Power maintains some contracts for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management that could require collateral in the event of a downgrade. In the event of a downgrade to Baa3 and/or BBB-, Gulf Power had potential collateral requirements of $137 million as of 30 June 2016. If Gulf Power's credit rating is downgraded below investment grade, the utility's potential collateral requirement increases to $526 million. On 30 June 2016, Gulf Power had $46 million of cash, down from $74 million at 31 December 2015. In May 2016, Gulf Power entered into a $100 million 11-month floating rate bank loan bearing interest based on one-month LIBOR, proceeds of which were used to repay existing debt and for working capital and other general corporate purposes. The company has $110 long-term debt coming due on 1 December 2016, $85 million of long-term debt coming due on 15 June 2017, and $21 million of fixed rate pollution control revenue bonds that are required to be remarketed over the 12 months ending 30 June 2017.

Corporate Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility subsidiary of The Southern Company that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves approximately 450,000 customers in a 7,500 square mile region and owns 2,583 megawatts of nameplate capacity, the majority of which are coal-fired baseload units. It operates within the Southern Company power pool.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Gulf Power Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2016**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.6x	Aa	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	24.0%	A	20% - 23%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	16.0%	Baa	10% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	41.3%	A	38% - 42%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
GULF POWER COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Pref. Stock	Baa1
PARENT: SOUTHERN COMPANY (THE)	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Source: Moody's Investors Service

REPORT NUMBER 1038766

MOODY'S
INVESTORS SERVICE

Southern Company

Full Rating Report

Ratings

Long-Term IDR	A–
Short-Term IDR	F1
Senior Unsecured	A–
Junior Subordinated	BBB

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Southern Company

($ Mil.)	LTM 6/30/16	2015
Adjusted Revenue	17,393	17,489
Operating EBITDAR	7,002	6,807
Cash Flow from Operations	6,299	6,215
Total Adjusted Debt	40,280	29,234
Total Capitalization	62,108	50,219
Capex/ Depreciation (%)	257.5	237.2
FFO Fixed-Charge Coverage (x)	6.0	6.8
FFO-Adjusted Leverage (x)	5.7	4.2
Total Adjusted Debt/EBITDAR (x)	5.8	4.3

Related Research

Fitch Downgrades Various Non-FI Corporates' S-T Ratings (October 2016)

Fitch Downgrades Southern Co. to 'A–'; Outlook Stable (May 2016)

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Key Rating Drivers

Improved Business Profile: The recently completed acquisition of Southern Company Gas (GAS) has improved Southern Company's risk profile, in Fitch Ratings' view. Fitch generally views gas distribution businesses as low risk and GAS's utilities are generally well managed with numerous supportive regulatory mechanisms. GAS's rising investments in interstate pipelines carry moderately higher competitive market risks, but these are offset to a large extent by long-term offtake agreements with creditworthy counterparties.

Meaningful Increase in Leverage: The GAS acquisition resulted in a meaningful increase in Southern Company's consolidated leverage and deterioration in credit metrics over the short to medium term. Fitch forecasts adjusted FFO leverage to jump to 5.1x in 2017 and gradually improve to 4.7x by 2019. FFO fixed-charge coverage is expected to be in the 4.5x–5.0x range over 2016–2019. As a result, Fitch downgraded Southern Company's ratings one notch in May.

Shift in Growth Strategy: Fitch anticipates a shift in Southern Company's growth strategy toward long-term contracted, "utility-like" investments in renewable energy projects and natural gas infrastructure. Fitch views this as neutral to ratings as long as the contracts are structured with strong creditworthy counterparties, long term in duration, and have no volumetric or commodity risk, minimal execution risk, and balanced debt and equity funding.

Elevated Project Construction Risk: Fitch's rating concerns for Southern Company include significant construction and regulatory risks associated with the ongoing construction of Vogtle nuclear units 3 and 4 and the Kemper project. Risks related to Vogtle have abated somewhat with the recent settlement with the Georgia Public Service Commission (PSC) staff regarding prudency of currently forecast project costs. Kemper is undergoing start-up testing with commercial operations expected by the end of November.

Significant Growth at Southern Power: Southern Power Co. has recently made several project acquisitions and is on target to invest approximately $4.5 billion in 2016. Long-term contracts with creditworthy counterparties, a balanced mix of debt and equity to finance growth capex and management's intent to limit the earnings contribution from Southern Power to approximately 10%–15% of the consolidated entity mitigate any rating pressure.

Rating Sensitivities

Positive Rating Action: Future developments that may, individually or collectively, lead to positive rating action include FFO-adjusted leverage sustained at or below 4.0x; commercial operations at Kemper without any further material escalation in capital costs; and no material cost and schedule overrun for Vogtle and costs above $5.68 billion deemed recoverable by the Georgia PSC.

Negative Rating Action: Developments that may, individually or collectively, lead to a negative rating action include significant time/cost overrun at the Vogtle and/or Kemper projects that are primarily debt financed and negative regulatory actions on the recovery of those costs; primarily debt-financed growth strategy at Southern Power or GAS; and failure to reduce FFO-adjusted leverage to below 4.7x by 2019.

Financial Overview

Liquidity and Debt Structure

As of June 30, 2016, Southern Company and its subsidiaries had approximately $1.9 billion of cash and cash equivalents and approximately $8.0 billion of restricted cash, which was subsequently used to complete the acquisition of GAS. In addition, Southern Company had approximately $6.4 billion of unused committed credit arrangements with banks. This excludes credit arrangements at GAS, because the acquisition was not completed as of June 30. A portion of unused credit with banks is allocated to provide liquidity support to the utility subsidiaries' variable rate pollution control bonds and CP programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of June 30, 2016 was approximately $1.9 billion. Approximately $478 million of CP borrowings and $125 million of short-term debt was outstanding as of June 30, 2016.

GAS maintains two separate unsecured revolving credit facilities at GAS Capital Corp. of $1.3 billion and at Nicor Gas of $700 million, which support the CP programs and general corporate needs. The Nicor Gas credit facility can only be used for the working capital needs of Nicor Gas. The credit facilities expire in November 2018 for GAS Capital and December 2018 for Nicor Gas. Both facilities have a financial covenant that requires GAS and Nicor Gas to maintain a total debt/total capitalization ratio of no more than 70% at the end of any fiscal month. CP outstanding at GAS Capital and Nicor Gas totaled $20 million and $94 million, respectively, as of June 30, 2016.

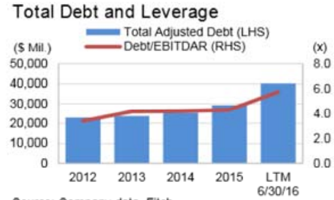
Debt Maturities and Liquidity

($ Mil., As of June 30, 2016)

2016	1,550
2017	2,457
2018	3,582
2019	2,400
2020	1,553
Thereafter	22,594
Cash and Cash Equivalents	1,897
Undrawn Committed Facilities	5,128

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

Cash Flow Analysis

Southern Company's consolidated capex will remain elevated due to construction capex for the Vogtle units 3 and 4, natural gas pipeline capex at GAS and renewable investments at Southern Power, requiring continuous access to capital markets for funding. The equity portion of the capex at subsidiaries is generally funded by retained cash flows and/or equity infusion by the parent company. Southern Company expects to spend approximately $10.1 billion in consolidated capex in 2016. Additionally, $9.9 billion of acquisitions have been completed in the first half of 2016. Southern Company has raised approximately $12 billion of debt and $1.4 billion in equity in the first half of 2016 and is expected to raise additional $2.6 billion of senior debt, $750 million of junior debt and $2.0 billion of equity in the second half of the year.

Related Criteria

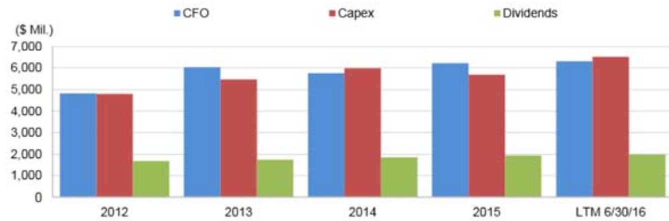
Criteria for Rating Non-Financial Corporates (September 2016)

Parent and Subsidiary Rating Linkage (Fitch's Approach to Rating Entities within a Corporate Group Structure) (August 2016)

Recovery Ratings and Notching Criteria for Utilities (March 2016)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

CFO and Cash Use



Source: Company data, Fitch.

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB+	
Duke Energy Corporation	U.S.
BBB	
American Electric Power Company, Inc.	U.S.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
Sept. 27, 2016	A–	Stable
May 12, 2016	A–	Stable
Aug. 24, 2015	A	RWN
June 5, 2015	A	Negative
Sept. 18, 2014	A	Stable
April 7, 2014	A	Stable
Aug. 6, 2013	A	Stable
Aug. 22, 2012	A	Stable
Aug. 30, 2011	A	Stable
Dec. 22, 2010	A	Stable
Sept. 3, 2010	A	Negative
Sept. 4, 2009	A	Stable
Jan. 22, 2008	A	Stable
Aug. 10, 2006	A	Stable
Dec. 6, 2005	A	Stable
Aug. 24, 2005	A	Stable
June 18, 2004	A	Stable
Dec. 6, 2002	A	Stable
Jan. 22, 2001	A	Stable
March 18, 1999	A	—

LT IDR – Long-term Issuer Default Rating. FC – Foreign currency. RWN – Rating Watch Negative.
Source: Fitch.

Peer Group Analysis

($ Mil.)	Southern Company	Duke Energy Corporation	American Electric Power Company, Inc.
As of	6/30/16	6/30/16	6/30/16
IDR	A–	BBB+	BBB
Outlook	Rating Outlook Stable	Rating Outlook Negative	Rating Outlook Stable
Fundamental Ratios (x)			
Operating EBITDAR/ (Gross Interest Expense + Rents)	6.2	4.4	4.4
FFO Fixed-Charge Coverage	6.0	3.8	4.7
Total Adjusted Debt/Operating EBITDAR	5.8	4.6	4.3
FFO/Total Adjusted Debt (%)	17.6	18.7	24.7
FFO-Adjusted Leverage	5.7	5.4	4.0
Common Dividend Payout (%)	84.7	65.7	54.7
Internal Cash/Capex (%)	65.8	63.5	61.0
Capex/Depreciation (%)	257.5	200.1	281.0
Return on Equity (%)	10.9	6.6	11.1
Financial Information			
Revenue	17,393	23,017	15,318
Revenue Growth (%)	(2.7)	0.0	(7.4)
EBITDA	6,866	9,242	4,747
Operating EBITDA Margin (%)	39.5	40.2	31.0
FCF	(2,225)	(2,700)	(1,733)
Total Adjusted Debt with Equity Credit	40,280	44,310	21,839
Readily Available Cash	1,897	676	247
Funds Flow from Operations	5,939	6,107	4,253
Capex	(6,514)	(7,398)	(4,612)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Improved Business Profile

The GAS acquisition significantly improves Southern Company's risk profile, in Fitch's view. Fitch generally views gas distribution businesses as low risk and GAS's utilities are generally well managed with numerous supportive regulatory mechanisms. GAS's rising investments in interstate pipelines carry moderately higher competitive market risks, but these are offset to a large extent by long-term offtake agreements with creditworthy counterparties. Management is focused on its core utility and utility-like businesses and has set a target that nearly 80% of EBIT will come from regulated utilities and contracted pipeline businesses by 2019. The remainder of consolidated EBIT would be contributed by the company's retail and wholesale segments. While GAS's nonregulated retail and wholesale businesses are volatile, the exposure is somewhat contained given these will be a small part of the combined company.

Southern Company gains tremendous scale and geographic diversity with this acquisition and its inaugural pursuit of natural gas businesses can smooth out earnings and cash flow of its predominantly summer-peaking electric utilities. The combination also lowers the contribution of its nonregulated, albeit conservatively managed, Southern Power Company in the overall business mix as well as that of Mississippi Power Company, which is undergoing significant stress related to the construction cost overrun for the Kemper IGCC project.

GAS recently closed on its acquisition of a 50% equity interest in Southern Natural Gas Company (SNG; BBB+/Stable) from Kinder Morgan, Inc. (KMI; BBB–/Stable) for approximately $1.4 billion. Fitch views GAS's investment in SNG as part of a continued strategic effort to expand its existing natural gas pipeline investments. The SNG system fits strategically with GAS's distribution service territories and the locations of Southern Company's gas-fired generating plants. SNG's revenue and cash flow profile is supported by long-term capacity reservation contracts with primarily investment-grade counterparties.

Meaningful Increase in Leverage

The acquisition of GAS has resulted in a meaningful increase in Southern Company's consolidated leverage. FFO-adjusted leverage and FFO fixed-charge coverage are expected to meaningfully weaken in the short to medium term. Fitch forecasts pro forma adjusted FFO leverage to jump to 5.1x in 2017 and gradually improve to 4.7x by 2019. Pro forma FFO fixed-charge coverage is expected to be in the 4.5x–5.0x range over 2016–2019. Fitch would like to see the FFO-adjusted leverage improve and sustain below the 4.5x level before considering any upward migration of ratings.

Significant Growth at Southern Power

Fitch views Southern Power's fast-growing renewable business as neutral to ratings at this time. The extension of bonus depreciation and federal subsidies for wind and solar projects and a strong interest from both utility and nontraditional offtakers is expected to result in a significant growth of renewable power generation in the U.S. Southern Power has made several project acquisitions in recent months and is on target to invest approximately $4.5 billion in 2016. Long-term contracts with creditworthy counterparties, a balanced mix of debt and equity to finance the growth capex and management's intent to limit the earnings contribution from Southern Power to approximately 10%–15% of the combined entity mitigate any rating pressure at this time.

Constructive Settlement for Vogtle Nuclear Units

Fitch views the recent agreement reached by Georgia Power Company with the Georgia PSC staff regarding Vogtle Units 3 and 4 as constructive. While the settlement leads to a modest negative impact to Georgia Power's credit metrics over our forecast period, the certainty achieved as to the recovery of project costs that have materially escalated above the original certified amount is a key positive.

The settlement establishes reasonableness and prudence of currently estimated costs and schedule, plus a contingency. The settlement establishes prudence of approximately $3.3 billion in costs that have been incurred through year-end 2015 and already approved through the 14th Vogtle Construction Monitoring (VCM) proceedings. In addition, the costs arising from December's settlement with the project's engineering, procurement and construction (EPC) contractors of approximately $350 million are deemed prudent. Furthermore, currently estimated project costs of $5.44 billion plus a contingency of $240 million are presumed reasonable and prudent. The burden of proof shall be on the party challenging such costs.

The settlement does not prescribe a cost cap, which is a material positive. If project costs exceed $5.68 billion, Georgia Power will have the burden of proof to show that cost overruns are prudent and eligible for recovery in rates. The largely fixed nature of the EPC contract and recent amendments to the contract somewhat mitigate the risk of significant project escalation and litigation costs.

However, a cut in currently established authorized ROE and stiff reductions in ROE for cost and schedule overruns until the units are in service ensure that customers' share of any potential overruns is minimized. The ROE was reduced to 10.0% from 10.95%, for the purpose of calculating both the nuclear construction cost recovery (NCCR) tariff on the certified amount of $4.418 billion and the allowance funds used during construction (AFUDC) on costs above the certified amount and up to the project costs of $5.44 billion. Georgia Power's average cost of long-term debt will be used as the ROE to calculate AFUDC on amounts over $5.44 billion. If Georgia Power's authorized ROE, currently 10.95%, is changed in a future rate case, the ROE for NCCR and AFUDC calculations will change to the new ROE less 95 bp.

The settlement assumes that the Vogtle units 3 and 4 will be placed into retail base rates on Dec. 31, 2020 or the commercial operational date (COD), whichever is later. If the COD is later than Dec. 31, 2020, the ROE used to calculate the NCCR will be reduced by an additional 300 bp and the ROE used to calculate AFUDC will be Georgia Power's average cost of long-term debt until COD.

Kemper Project Nears Completion

Kemper is undergoing start-up testing with commercial operations expected by the end of November. Recently the plant reached an important milestone of producing electricity using a combination of clean syngas and natural gas. The combustion turbine generators have been operational since 2014 and the gasifier has been operating since September 2016. The next steps include the continued operation of gasifier "A" to support production of electricity using clean syngas, as well as the successful restart of gasifier "B" and the generation of electricity using clean syngas from gasifier "B," all of which are scheduled to occur by the end of October.

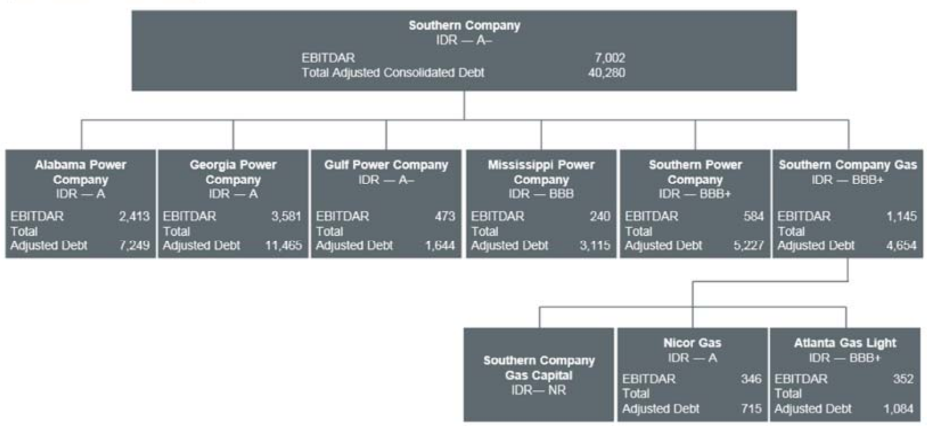
The project is expected to cost approximately $6.89 billion, of which Mississippi Power does not intend to seek rate recovery for $2.58 billion of costs incurred above the $2.88 billion cost cap. As of Aug. 31, 2016, the company had spent $6.59 billion on the project. Any extension of the in-service date beyond Nov. 30, 2016 is estimated to result in additional base costs of approximately $25 million to $35 million per month, AFUDC costs of approximately $14 million per month, as well as carrying costs and operating expenses on Kemper IGCC assets placed in service and consulting and legal fees of approximately $3 million per month. However, additional costs may be required for remediation of any further equipment and/or design issues identified.

Although Mississippi Power has secured a $126 million permanent rate increase for the in-service portion of the Kemper plant, significant regulatory uncertainties remain for the recovery of the remainder of the project costs in rates. Per the last rate order, dated Dec. 3, 2015, Mississippi Power is required to file a rate case within 18 months. Fitch believes the rate case timing will be contingent upon a successful and sustained commercial operation of the plant. As the project enters its critical phase of integration of the gasifier with the combined cycle turbines, Fitch continues to be concerned with the possibility of a further delay in schedule and the resultant cost creep.

Organizational Structure

There is strong linkage between the Issuer Default Ratings of Southern Company and each of its subsidiaries. The linkages stem primarily from strategic and operational drivers. Each subsidiary is important to Southern, and it will financially support its subsidiaries if it makes strategic sense. Each subsidiary has its own leadership and governance board and raises debt on its own account, but there is a common treasury that assists each subsidiary in capital market access. Legal ties are weak, as the parent typically does not guarantee the debt obligations of the subsidiaries.

Organizational and Debt Structure — Southern Company
($ Mil., As of June 30, 2016)



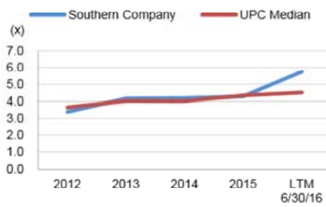
IDR – Issuer Default Rating. NR – Not rated.
Source: Company filings, Fitch.

Key Metrics

Definitions

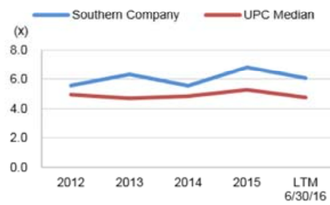
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance-sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Op. EBITDAR



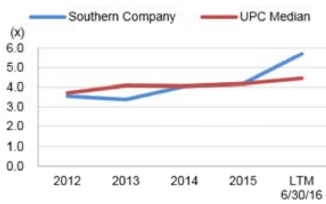
UPC – Ultimate parent company.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



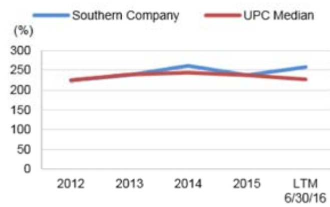
UPC – Ultimate parent company.
Source: Company data, Fitch.

FFO-Adjusted Leverage



UPC – Ultimate parent company.
Source: Company data, Fitch.

Capex/Depreciation



UPC – Ultimate parent company.
Source: Company data, Fitch.

Company Profile

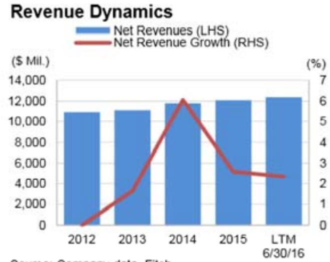
Southern Company is a utility holding company of four regulated and vertically integrated electric utilities that operate in Alabama, Georgia, Florida and Mississippi. Southern Company recently closed on its acquisition of GAS, whose primary subsidiaries are six gas distribution utilities, serving 4.5 million customers in Illinois, Georgia, New Jersey, Virginia, Tennessee, Florida and Maryland. Nicor Gas in Illinois is GAS's largest local distribution company by number of customers. GAS's wholesale services segment provides natural gas asset management for all GAS utilities except Nicor Gas, and engages in wholesale gas marketing and trading activities. The retail segment markets gas commodity and services primarily in Georgia and Illinois, and offers repair and maintenance programs in Illinois. The midstream operations consist of natural gas storage facilities and pipeline assets.

Southern Power, the nonregulated generation company, sells electricity under long-term contracts, primarily to investment-grade counterparties, including affiliates. Other subsidiaries include Southern Nuclear, which provides nuclear plant operating services to Georgia Power and Alabama Power Company, and Southern Company Services, which provides system services to subsidiary companies.

The state regulatory environment across Southern Company's regulated subsidiaries has been generally constructive and provides a reasonable ROE that is generally higher than the national average. Regulatory risk has increased in Mississippi given the prolonged uncertainty regarding adequate and timely recovery on Kemper construction costs.

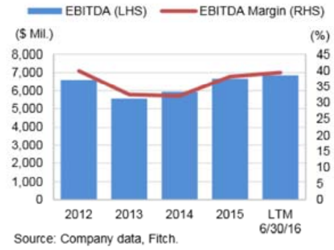
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

Financial Summary — Southern Company

($ Mil., As of June 30, 2016, IDR — A–/Rating Outlook Stable)	2012	2013	2014	2015	LTM 6/30/16
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	6.2	5.5	5.7	7.0	6.2
FFO Fixed-Charge Coverage (x)	5.5	6.3	5.5	6.8	6.0
Total Adjusted Debt/Operating EBITDAR (x)	3.4	4.2	4.2	4.3	5.8
FFO/Total Adjusted Debt (%)	28.1	29.5	24.7	24.0	17.6
FFO-Adjusted Leverage (x)	3.6	3.4	4.1	4.2	5.7
Common Dividend Payout (%)	70.1	103.0	91.9	80.9	84.7
Internal Cash/Capex (%)	65.3	78.1	64.9	74.9	65.8
Capex/Depreciation (%)	224.3	237.8	260.8	237.2	257.5
Return on Equity (%)	12.7	8.7	9.8	11.2	10.9
Profitability					
Revenues	16,537	17,087	18,467	17,489	17,393
Revenue Growth (%)	(6.3)	3.3	8.1	(5.3)	(2.7)
Net Revenues	10,936	11,116	11,790	12,094	12,379
Operating and Maintenance Expense	(3,791)	(3,846)	(4,354)	(4,416)	(4,399)
Operating EBITDA	6,608	5,553	5,935	6,677	6,866
Operating EBITDAR	6,763	5,676	6,053	6,807	7,002
Depreciation and Amortization Expense	(2,145)	(2,298)	(2,293)	(2,395)	(2,530)
Operating EBIT	4,463	3,255	3,642	4,282	4,336
Gross Interest Expense	(942)	(916)	(946)	(840)	(990)
Net Income for Common	2,415	1,710	2,031	2,421	2,374
Operating Maintenance Expense % of Net Revenues	(34.7)	(34.6)	(36.9)	(36.5)	(35.5)
Operating EBIT % of Net Revenues	40.8	29.3	30.9	35.4	35.0
Cash Flow					
Cash Flow from Operations	4,833	6,031	5,747	6,215	6,299
Change in Working Capital	(451)	152	614	236	360
Funds from Operations	5,284	5,879	5,133	5,979	5,939
Dividends	(1,693)	(1,762)	(1,866)	(1,959)	(2,010)
Capex	(4,812)	(5,465)	(5,979)	(5,680)	(6,514)
FCF	(1,672)	(1,196)	(2,098)	(1,424)	(2,225)
Net Other Investment Cash Flow	(187)	(268)	(454)	110	(7,967)
Net Change in Debt	1,205	770	1,802	3,998	12,370
Net Equity Proceeds	(33)	725	801	(271)	1,523
Capital Structure					
Short-Term Debt	825	1,482	803	1,376	1,372
Total Long-Term Debt	21,529	21,734	24,105	27,216	38,092
Total Debt with Equity Credit	22,541	23,402	25,084	28,194	39,224
Total Adjusted Debt with Equity Credit	22,903	23,639	25,401	29,234	40,280
Total Common Shareholders' Equity	19,379	20,139	21,301	22,100	22,742
Total Capital	40,838	42,410	45,293	50,219	62,108
Total Debt/Total Capital (%)	54	54	54	55	62
Common Equity/Total Capital (%)	46	46	46	44	37

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

FitchRatings

Gulf Power Company

A Subsidiary of Southern Company
Full Rating Report

Ratings

Long-Term IDR	A–
Short-Term IDR	F1
Commercial Paper	F1
Senior Unsecured	A
Pollution Control Revenue Bonds	A
Preference Securities	BBB+

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Summary

Gulf Power Company

($ Mil.)	LTM 3/31/16	2015
Adjusted Revenue	1,461	1,483
Operating EBITDAR	467	456
Cash Flow from Operations	504	451
Total Adjusted Debt	1,634	1,557
Total Capitalization	2,859	2,800
Capex/ Depreciation (%)	107.6	154.6
FFO Fixed-Charge Coverage (x)	6.1	6.1
FFO-Adjusted Leverage (x)	3.5	3.3
Total Adjusted Debt/EBITDAR (x)	3.5	3.4

Related Research

Fitch Downgrades Southern Co. to 'A–'; Outlook Stable (May 2016)

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Key Rating Drivers

Rating Affirmed: Fitch Ratings affirmed the Issuer Default Rating (IDR) and security ratings for Gulf Power Company on May 12, 2016. The ratings and Stable Outlook reflect Fitch's view that the utility will continue to generate stable credit metrics over the next three years, driven by a constructive decision in the last rate case and gradual improvement in its service territory.

Constructive Regulation: The utility enjoys several rate riders that provide timely recovery of all prudent costs related to fuel, purchased power costs and environmental expenditures. While Gulf Power is dependent on coal-fired generation capacity that must comply with stringent emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs. A favorable turnaround in the regulatory climate in Florida is a key credit positive for Gulf Power.

Reasonable Rate Case Outcome: Gulf Power secured a constructive outcome in its last rate case, when the Florida Public Service Commission (PSC) approved a base rate increase of $35 million annually effective January 2014 and an additional $20 million in annual revenues effective January 2015 based on authorized return on equity (ROE) of 10.25%. The company may not request a base rate increase to be effective until after June 2017 unless the retail ROE falls below the authorized range and $62.5 million depreciation credit from the last rate case is exhausted.

Improvement in Usage: Gulf Power's service territory continues to see slow but steady improvement in the local economy, with indicators such as housing starts, employment and income growth all showing positive trends. The number of customers served continues to grow, although customer usage trends have been unpredictable. In first-quarter 2016 weather-adjusted residential and commercial MWh sales increased by 2.8% and 0.1%, respectively, over the corresponding period in 2015, primarily due to customer growth and higher usage per customer. Industrial sales increased 7.1%, primarily due to decreased customer co-generation.

Credit Metrics: Fitch forecasts Gulf Power's adjusted debt/EBITDAR and FFO-adjusted leverage to be approximately 3.3x and 3.6x, respectively, in 2018, which is in line with its rating category.

Rating Sensitivities

Positive Rating Action: An upgrade of Gulf Power is not likely over the next 12–18 months.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include unexpected negative regulatory developments in Florida; weakness in customer usage and a reversal of customer growth trends that results in significantly lower than expected sales; or sustained FFO-adjusted leverage weaker than 4.0x.

FitchRatings

Financial Overview

Liquidity and Debt Structure

Gulf Power has adequate access to liquidity, in Fitch's view. The company has $280 million of credit facilities, which provide liquidity support to its commercial paper (CP) borrowings. As of March 31, 2016 $82 million of liquidity support was dedicated to funding potential purchase obligations related to variable-rate pollution control revenue bonds. Most of the credit facilities carry a 65% debt/capital covenant, and Gulf Power was well within the threshold. Gulf Power may also meet its short-term cash needs through a Southern Company subsidiary organized to issue and sell CP. Near-term debt maturities are manageable.

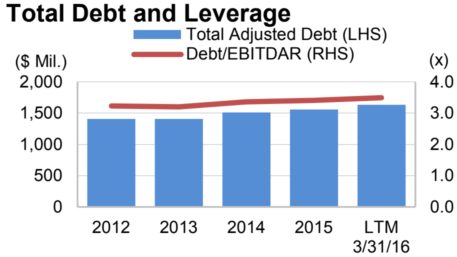
Debt Maturities and Liquidity

($ Mil., As of March 31, 2016)

2016	110
2017	85
2018	—
2019	—
2020	175
Thereafter	824
Cash and Cash Equivalents	48
Undrawn Committed Facilities	280

Source: Company data, Fitch.

Total Debt and Leverage

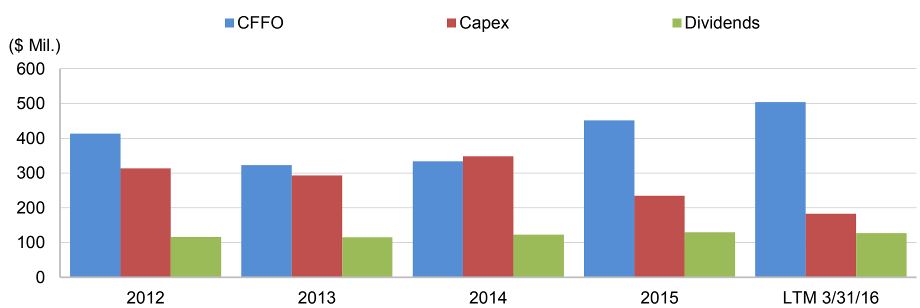


Source: Company data, Fitch.

Cash Flow Analysis

With the wind down of environmental compliance spending, Gulf Power's capex is expected to materially decrease over the next three years. Gulf Power plans to spend approximately $600 million in capex over 2016–2018. Fitch expects the company to be FCF positive after capital investments and dividends, thus requiring negligible external financing.

CFFO and Cash Use



Source: Company data, Fitch.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (March 2016)

Corporate Rating Methodology- Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure (August 2015)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

Peer Group

Issuer	Country
A	
Duke Energy Carolinas, LLC	U.S.
BBB+	
Duke Energy Florida, LLC	U.S.
A	
Florida Power & Light Co.	U.S.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
May 12, 2016	A–	Stable
June 5, 2015	A–	Stable
Sept. 18, 2014	A–	Stable
April 7, 2014	A–	Stable
Aug. 6, 2013	A–	Stable
Aug. 22, 2012	A–	Stable
Aug. 30, 2011	A–	Stable
Sept. 3, 2010	A–	Stable
Sept. 4, 2009	A–	Stable
Jan. 22, 2008	A–	Stable
Aug. 10, 2006	A–	Stable
Dec. 6, 2005	A–	Stable
Aug. 16, 2005	A	Stable
April 13, 2004	A	Stable
Dec. 6, 2002	A	Stable
Jan. 22, 2001	A	Stable
July 1, 1996	A+	Stable
Nov. 23, 1993	A	Stable
Aug. 17, 1990	A–	Stable
Nov. 21, 1984	A+	Stable

LT IDR – Long-term Issuer Default Rating. FC – Foreign currency.
Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

($ Mil.)	Gulf Power Company	Duke Energy Carolinas, LLC	Duke Energy Florida, LLC	Florida Power & Light Co.
As of	3/31/16	3/31/16	3/31/16	3/31/16
IDR	A–	A	BBB+	A
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)				
Operating EBITDAR/ (Gross Interest Expense + Rents)	6.8	6.7	6.1	10.6
FFO Fixed-Charge Coverage	6.1	6.0	6.4	9.7
Total Adjusted Debt/Operating EBITDAR	3.5	2.9	3.6	2.5
FFO/Total Adjusted Debt (%)	28.9	30.6	29.5	37.3
FFO-Adjusted Leverage	3.46	3.27	3.40	2.68
Common Dividend Payout (%)	85.2	94.4	58.7	95.1
Internal Cash/Capex (%)	145.9	75.2	93.9	53.4
Capex/Depreciation (%)	107.6	142.2	255.4	266.7
Return on Equity (%)	10.0	9.4	11.7	11.6
Financial Information				
Revenue	1,461	7,068	4,915	11,333
Revenue Growth (%)	(5.2)	(2.5)	(0.6)	(0.1)
EBITDA	453	3,295	1,570	4,443
Operating EBITDA Margin (%)	31.0	46.6	31.9	39.2
FCF	194	(464)	(378)	(1,945)
Total Adjusted Debt with Equity Credit	1,634	9,680	5,853	10,899
Readily Available Cash	48	17	12	31
Funds Flow from Operations	394	2,462	1,453	3,651
Capex	(183)	(1,944)	(1,175)	(3,840)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Constructive Regulation

The regulatory environment in Florida has improved significantly as compared with the contentious climate that existed in 2009–2010. The utility enjoys several rate riders that provide timely recovery of all prudent costs related to fuel, purchased power costs and environmental expenditures. While Gulf Power is dependent on coal-fired generation capacity that must comply with stringent emissions standards, the fuel and environmental recovery clauses promote timely recovery of associated costs.

On Dec. 3, 2013 the PSC voted to approve a base rate increase for Gulf Power of $35 million effective January 2014 and an additional $20 million increase effective January 2015 based on an authorized ROE of 10.25%. The allowed retail ROE range is 9.25%–11.25%. Gulf Power has the ability to record credits to depreciation expense with an offset to a regulatory asset in amounts up to $62.5 million between January 2014 and June 2017; in any given month the credit may not exceed the amount necessary for the jurisdictional ROE to reach the authorized midpoint. Also, Gulf Power may not request a base rate increase to be effective until after June 2017 unless the retail ROE falls below the authorized ROE range and the $62.5 million credit is exhausted.

Improvement in Retail Sales

Gulf Power's service territory continues to see slow but steady improvement in the local economy, with indicators such as housing starts, employment and income growth all showing positive trends. The number of customers served continues to grow, although customer usage trends have been unpredictable. In first-quarter 2016 weather-adjusted residential and commercial MWh sales increased by 2.8% and 0.1%, respectively, over the corresponding period in 2015, primarily due to customer growth and higher usage. Industrial sales increased 7.1%, primarily due to decreased customer co-generation. In contrast, for full-year 2015 weather-adjusted residential MWh sales fell by 1.0%, while commercial sales grew 0.3%, and industrial sales fell by 2.8%.

High Proportion of Coal in Fuel Mix

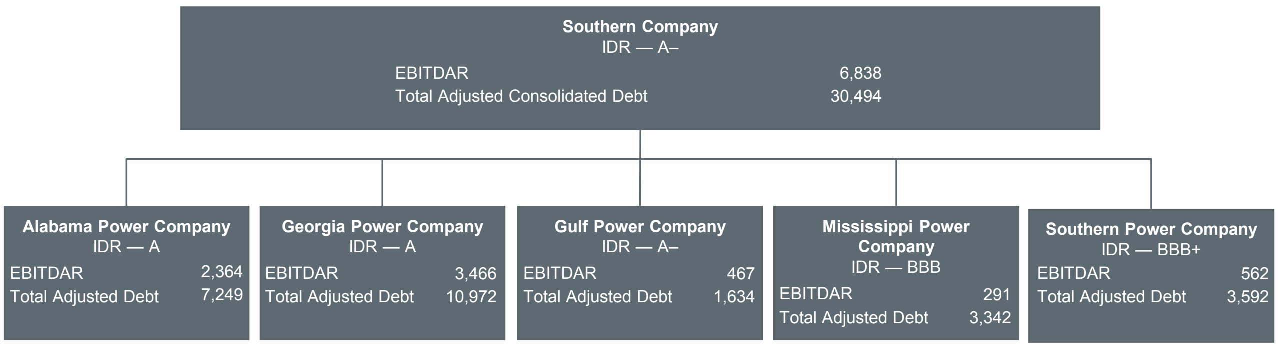
In 2015, Gulf Power retired all 92 MW of coal-fired capacity at Plant Scholz. These retirements were followed by the retirement of all 357 MW of coal-fired capacity at Plant Smith. Considering these retirements and including capacity from its landfill gas facility and power purchase agreements, Gulf Power's generation capacity as of July 2016 totals 3,141 MW. The mix includes 51% coal, and the balance consists of the above mentioned natural gas and renewable generation resources. Gulf Power has spent $1.9 billion in installing environmental controls through 2015. Two scrubbers are expected to be installed at Plant Daniel by 2023. Two additional selective catalytic reductions are expected to be installed by 2019. The total projected environmental capex is approximately $117 million over the next three years, which does not include any potential costs associated with the Environmental Protection Agency's proposed rules limiting carbon emissions from existing units. An environmental cost recovery clause allows Gulf Power to recover environmental investments and associated costs.

Credit Metrics

Gulf Power's credit metrics have shown steady improvement since 2011, led by two back-to-back rate cases in 2011 and 2013. Fitch forecasts Gulf Power's adjusted debt/EBITDAR and FFO-adjusted leverage ratios to be approximately 3.3x and 3.6x, respectively, in 2018, which is in line with its rating category.

Organizational Structure

Organizational and Debt Structure — Gulf Power Company
($ Mil., As of March 31, 2016)



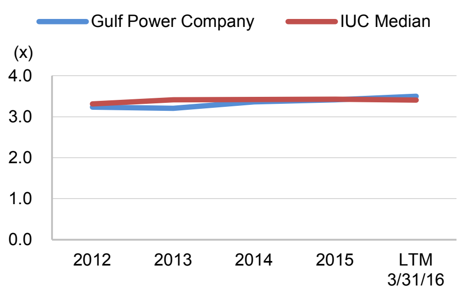
IDR – Issuer Default Rating.
Source: Company filings, Fitch.

Key Metrics

Definitions

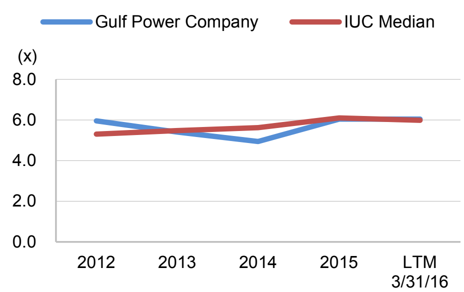
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Op. EBITDAR



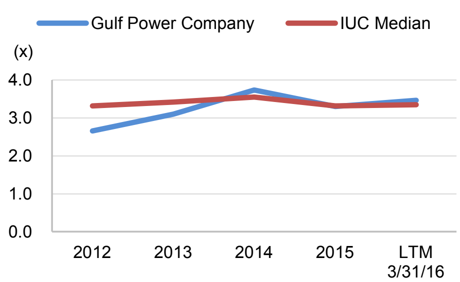
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



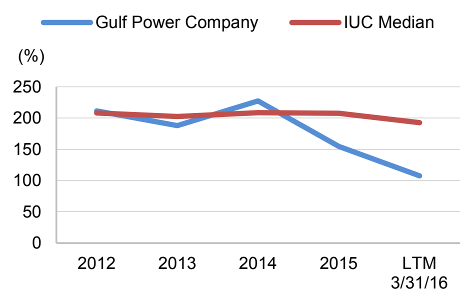
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO-Adjusted Leverage



IUC – Integrated utility companies.
Source: Company data, Fitch.

Capex/Depreciation



IUC – Integrated utility companies.
Source: Company data, Fitch.

FitchRatings

Company Profile

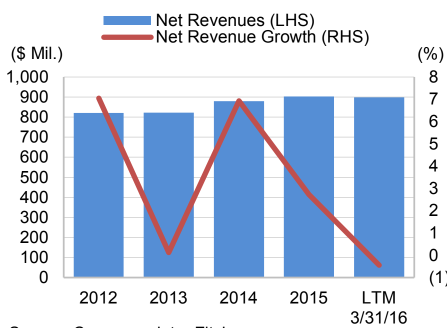
Gulf Power operates as a vertically integrated utility providing electricity to retail customers within its traditional service area in northwest Florida and to wholesale customers in the Southeast. It provides generated and purchased electricity, along with transmission and distribution at retail in 71 communities in northwest Florida (including Pensacola, Panama City and Fort Walton Beach) and in wholesale to a nonaffiliated utility.

Gulf Power's electric sales growth is on a path of recovery after the sharp slowdown witnessed during the last recession. Large investment and job creation projects are underway throughout northwest Florida that should drive industrial and commercial sales growth. The unemployment rate in northwest Florida peaked in 2010 at almost 10%, but has dropped to more normal levels at approximately 4.5% as of December 2015. Population growth in Gulf Power's service territory is expected to be close to 1.7% annually over 2015–2018.

Business Trends

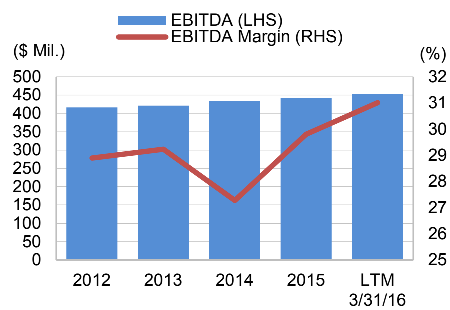
Gulf Power's sales mix consists of residential at 47%, commercial at 35%, industrial at 15% and wholesale at 3%. Gulf Power's service territory has been affected by the housing market downturn, but the retail revenues are supported by diversity in its customer base that includes military bases. Revenue from the military bases currently represents approximately 40% of total industrial sector sales. Other major industries within Gulf Power's service territory are oil and gas (16% of industrial sales), pulp and paper (11%), and chemicals (12%).

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

FitchRatings

Financial Summary — Gulf Power Company

($ Mil., As of March 31, 2016, IDR — A–/Rating Outlook Stable)	2012	2013	2014	2015	LTM 1Q16
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	5.3	5.7	6.2	6.6	6.8
FFO Fixed-Charge Coverage (x)	6.0	5.4	4.9	6.1	6.1
Total Adjusted Debt/Operating EBITDAR (x)	3.2	3.2	3.4	3.4	3.5
FFO/Total Adjusted Debt (%)	37.6	32.3	26.8	30.3	28.9
FFO-Adjusted Leverage (x)	2.7	3.1	3.7	3.3	3.5
Common Dividend Payout (%)	87.9	87.1	82.6	82.8	85.2
Internal Cash/Capex (%)	103.8	87.0	57.5	112.3	145.9
Capex/Depreciation (%)	211.5	187.8	227.5	154.6	107.6
Return on Equity (%)	10.3	9.6	10.2	10.5	9.9
Profitability					
Revenues	1,440	1,440	1,591	1,483	1,461
Revenue Growth (%)	(5.2)	—	10.5	(6.8)	(5.2)
Net Revenues	821	822	879	903	899
Operating and Maintenance Expense	(315)	(310)	(342)	(354)	(338)
Operating EBITDA	416	421	434	442	453
Operating EBITDAR	436	439	449	456	467
Depreciation and Amortization Expense	(148)	(156)	(153)	(152)	(170)
Operating EBIT	268	265	281	290	283
Gross Interest Expense	(63)	(59)	(58)	(55)	(55)
Net Income for Common	132	132	149	157	149
Operating Maintenance Expense % of Net Revenues	(38.4)	(37.7)	(38.9)	(39.2)	(37.6)
Operating EBIT % of Net Revenues	32.6	32.2	32.0	32.1	31.5
Cash Flow					
Cash Flow from Operations	413	323	334	451	504
Change in Working Capital	(28)	(47)	11	57	110
Funds from Operations	441	370	323	394	394
Dividends	(116)	(115)	(123)	(130)	(127)
Capex	(313)	(293)	(348)	(235)	(183)
FCF	(16)	(85)	(137)	86	194
Net Other Investment Cash Flow	(36)	(17)	(12)	(47)	(52)
Net Change in Debt	25	(1)	112	(28)	(153)
Net Equity Proceeds	42	93	54	24	4
Capital Structure					
Short-Term Debt	127	136	110	142	56
Total Long-Term Debt	1,246	1,233	1,370	1,303	1,303
Total Debt with Equity Credit	1,373	1,369	1,480	1,445	1,506
Total Adjusted Debt with Equity Credit	1,410	1,406	1,512	1,557	1,634
Total Common Shareholders' Equity	1,279	1,382	1,457	1,502	1,500
Total Capital	2,554	2,604	2,790	2,800	2,859
Total Debt/Total Capital (%)	52	50	50	49	53
Common Equity/Total Capital (%)	48	50	50	51	52

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.