Alabama Power Company
1981 Annual Report

75th
anniversary
1906-1981

Cover

For 75 years, Alabama Power Company has been meeting the residential, commercial and industrial energy needs of Alabama. This annual report honors not only its pioneers but the many employees who have worked through the years to develop a network of electricity now serving almost three million people.

Alabama Power Company is one of the operating companies of The Southern Company. Others are Georgia Power Company, Gulf Power Company (serving northwest Florida) and Mississippi Power Company (serving southeast Mississippi). System affiliates also include Southern Company Services, Inc., which performs specialized services at cost for system companies upon request, Southern Electric International, Inc., an international consulting firm, and Southern Electric Generating Company, which is owned in equal shares by Alabama Power and Georgia Power companies.

CONTENTS

A copy of Form 10-K as filed with the Securities and Exchange Commission will be available to stockholders upon written request to Richard Bowron, secretary. A copy of the company's Financial and Statistical Review is also available on request.

Alabama Power

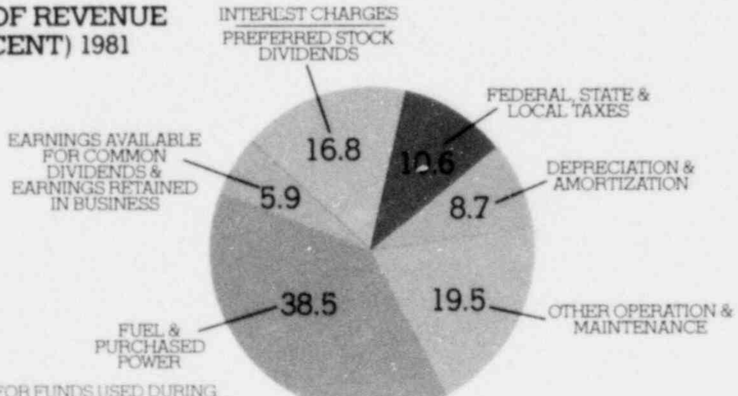
MEETING ALABAMA'S ENERGY NEEDS FOR 75 YEARS

Comparative Highlights

	1981	1980
	(Dollars Expressed in Thousands)	
Electric Energy Sales (millions of kwh):		
Residential	9,229	9,511
All Other Retail	20,369	20,141
Wholesale	4,171	3,866
Total	33,769	33,518
Average Annual Use Per Residential Customer (kwh)	10,621	11,041
Customers Served Directly at End of Year	996,200	986,082
Operating Revenues:		
Residential Sales	$ 518,730	$ 489,031
All Other Retail Sales	917,062	808,066
Wholesale Sales	145,740	114,931
Total from Sales of Energy	1,581,532	1,412,028
Other Revenues	12,490	9,969
Total	$1,594,022	$1,421,997
Operating Expenses:		
Fuel	$ 504,930	$ 439,488
Purchased and Interchanged Power, Net	144,916	124,163
Other	655,461	569,347
Total	$1,305,307	$1,132,998
Income Before Interest Charges	$ 335,642	$ 331,714
Interest Charges (Before credit of $46,849,000 in 1981 and $79,839,000 in 1980 for allowance for debt funds used during construction and related income tax effect)	246,611	250,836
Dividends on Preferred Stock	36,071	31,013
Net Income After Dividends on Preferred Stock	99,809	129,704
Total Utility Plant at End of Year	$5,609,959	$5,199,848
Gross Additions to Utility Plant During Year	437,587	411,813
Construction Work in Progress at End of Year	583,036	1,147,650

This annual report is submitted for the information of stockholders and is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities, except to the extent incorporated by reference in a prospectus.

DISTRIBUTION OF REVENUE DOLLAR* (PERCENT) 1981



*INCLUDES ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AND OTHER INCOME, NET OF TAXES

To The Stockholders

An unstable national economy and unresponsive utility rate regulation at the state level made 1981 another trying year for Alabama Power Company.

Earnings were most notably affected when Farley Nuclear Plant began serving customers in July without a corresponding reflection in our rates, and when the Alabama Public Service Commission issued its zero rate order in October. During the year, our return on average common equity dropped from a high of 13 percent to a year-end low of eight percent.

On three occasions we went to the securities market to sell first mortgage bonds. In January and October 1981, we sold $100 million principal amount of first mortgage bonds and an additional $75 million in April. In February, for the first time since December 1977, earnings coverages permitted the sale of $40 million of preferred stock. The proceeds from these sales and The Southern Company's investment of common equity capital enabled us to meet new construction and other corporate needs and to end the year free of short-term debt.

During 1981, Alabama Power continued to seek adequate rate levels. In response to the company's appeal of the APSC's zero rate order, in February 1982 the Supreme Court of Alabama allowed us to begin collecting a portion of the requested increase under bond, subject to refund. The company now awaits the Court's final ruling on the merits of the case.

One of the most important and beneficial energy developments in Alabama in the past decade was completion of agreements in February 1982 to sell power to two other southern utilities from the company's coal-fired Miller Steam Plant. As a major source of revenue beginning in 1984, the contracts will greatly benefit the customers of Alabama Power; and the construction of Plant Miller and mining of additional Alabama coal will directly create approximately 1,900 jobs in the state.

A primary goal of Alabama Power continues to be providing dependable electric service at a price producing a reasonable profit. Much work is yet to be done to regain the full financial stability necessary to achieve that goal. As the challenge continues, we are reminded again and again that Alabama Power Company's basic strength is its employees, who have enabled the company to progress and strive toward recovery. I express the appreciation of all of us for the help and support of Southern Company Services, Inc., personnel throughout the year.

Alabama Power remains committed to do its part to meet the demands for electricity within an ever-tightening web of regulation and restraints.

Joseph M. Farley

Joseph M. Farley
President

March 5, 1982

Management Changes

The company's board of directors made several management changes in 1981.

Kenneth L. Allums and H. Allen Franklin were elected senior vice presidents and Robert R. Todd was named vice president for construction.

Mr. Allums, formerly group vice president, continues his responsibilities for human resources, materials services, support services and security.

Mr. Franklin, formerly assistant to Executive Vice President W.O. Whitt, assumed responsibility for the operations services and fuel departments. He oversees system planning, operations, interconnection activities and the fuel procurement program.

Mr. Todd, formerly general manager-power plant construction, was assigned responsibility for all generating plant construction.

Assuming new management positions in 1981 were H. Allen Franklin (left) and Kenneth L. Allums (seated), senior vice presidents, and Robert R. Todd (right), vice president for construction.

Earnings

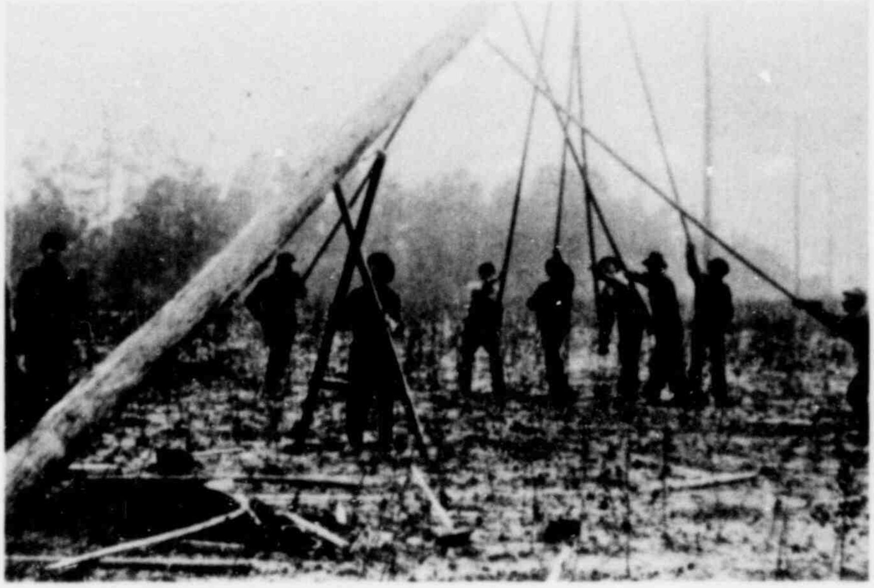
Net income for 1981, after preferred stock dividends, was $99.8 million, a decrease of $29.9 million from 1980. The decline is due in large part to the substantial additional investment in electric facilities, including the second unit of the Farley Nuclear Electric Generating Plant, increased operating and capital costs, and continued inflation, which had not been reflected in the company's rates at year-end.

The company's return on average common equity was 8.17 percent for the year ended December 31, 1981 compared with 11.61 percent for the year ended December 31, 1980.

Financing

During 1981, the company raised $315 million from the sale of first mortgage bonds and preferred stock. Proceeds from these sales were used to pay short-term debt and to meet new construction and other corporate needs. Sales of first mortgage bonds were made in January, April and October in principal amounts of $100 million, $75 million and $100 million, respectively. The sale of $40 million of preferred stock was completed in February—the first time the company was able to sell additional preferred stock since December 1977.

Unstable market conditions and interest rates, among the highest in recent history, characterized the financial markets in 1981. As a result, the interest and dividend rates for the securities sold during the year are significantly higher than have been incurred in previous years.



Pikes and a crossbar were the only tools available to set power poles in 1913.

By year-end, the company's earnings had dropped below the levels required by the indenture and charter for sales of additional first mortgage bonds and preferred stock. Adequate and timely rate increases are necessary in order to maintain a level of earnings sufficient to meet the earnings coverage requirements of the company's indenture and charter. Otherwise, the company will have to depend on short-term debt or seek alternative means of financing its construction and other requirements.

The major source of short-term funds is through lines of credit with banks. The company has credit lines of $292,065,000, of which $200 million represents commitments obtained under a revolving credit agreement with ten out-of-state banks that terminates September 30, 1982. The company's borrowings during 1981 peaked at $30.7 million in March, and there was no outstanding short-term debt at year-end.

Total interest expense for the year was $246.6 million. Dividends on preferred stock totaled $36.1 million.

Unstable market conditions and interest rates, among the highest in recent history, characterized the financial markets in 1981.

Rates

During 1981, Alabama Power continued to seek adequate rates for its product.

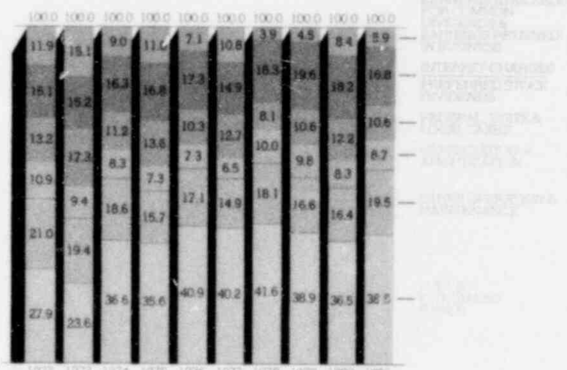
Under an Alabama Supreme Court order, Alabama Power, the Alabama Public Service Commission and a number of intervenors settled retail rate cases begun in 1978 and 1979, bringing about respective annual increases of $208 million and $80 million. On March 19, 1981, the company filed a request for an additional $324.9 million annually to provide a fair return on its investment, including the investment in its second nuclear unit, and to recognize the expected attrition in earnings which invariably affects a growing utility company under current economic conditions. Following extensive hearings, the Commission refused to grant any increase in rates, forcing the company to appeal to the Supreme Court of Alabama in October.

On February 12, 1982, the Court granted Alabama Power the right to collect a portion of the requested increase, subject to refund, pending a final ruling on the case. Accordingly, the company filed rates designed to produce $75 million additional revenue for the six-month period commencing October 16, 1981.

With the granting of the full amount of requested increases, the company's rates would remain below the national average.

In September 1981, the Federal Energy Regulatory Commission approved a

DISTRIBUTION OF REVENUE DOLLAR* (PERCENT) 1972-1981



*INCLUDES ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AND OTHER INCOME, NET OF TAXES

settlement agreement which resulted in a phased-in $18.7-million increase in wholesale electric rates for Alabama Power. The increase affected 15 municipal electric systems, 11 rural electric distribution cooperatives, and one airport and industrial authority served by the company.

During 1980 and 1981, the company presented testimony before the Alabama Public Service Commission which dealt with various issues addressed in the Public Utility Regulatory Policies Act of 1978. These issues included cost of service methodologies, rate design concepts, load management techniques, utility practice standards and lifeline rates. Generally, the Commission approved standards which were substantially similar to those contained in the Federal legislation, and did not order the company to make any significant modifications in its present practices. The Commission has not yet made a ruling concerning the issue of lifeline rates.

Planning

Providing dependable electric service at a price producing a reasonable profit and at reliability levels commensurate with the fairness of regulation continues to be a primary goal of Alabama Power.

Demand for electricity on Alabama Power's electric system reached its 1981 peak on July 24 at a level of 6.8 million kilowatts, representing a 5-percent decline when compared with the all-time peak established in 1980. This decrease was primarily due to slower economic growth during 1981 and to more moderate summer temperatures compared with the record heat wave in 1980. The company's peak demand in 1980 exceeded the 1979 level by 12.5 percent.

The company updates its long-range forecasts of electricity requirements at least annually to reflect the revised economic growth expected in the state over the next decade and the effects of price and conservation efforts on energy usage.

Alabama Power line crews working just before daybreak to restore electric service knocked out during an overnight storm.

Since the first few years of its operation, the company has been forecasting electricity requirements. As usage grew and forecasting became more sophisticated

These employees at Alabama Power's Huntsville office were using the latest business equipment available when this photograph was taken in 1923—manual typewriters and a hectograph machine for copying important documents. Memos were written in longhand.

and efficient, the company adapted its forecasting methods to reflect the most accurate data available.

Alabama Power uses several forecasting methods including an econometric model based on the relationship between numerous national and regional economic factors and electricity usage. Due to the importance of accurate load forecasts, the company places great emphasis on the techniques used to project growth.

Peak kilowatt demand for the next decade is now projected to average about 2.3 percent annually while energy usage is projected to grow at a slightly higher rate.

Alabama Power was developed initially as a hydroelectric and then as a coal system, tapping two of Alabama's abundant natural resources.

Generating Resources

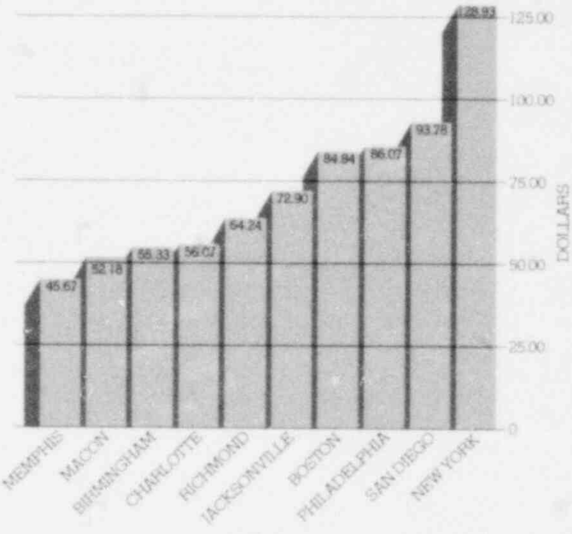
During 1981, 73 percent of Alabama Power's total energy production was supplied by coal and generated from seven fossil-fueled electric generating plants. Alabama mines supplied 85 percent of the approximately 11.9 million tons of coal purchased by the company last year through long-term contracts and spot-market purchases. At year-end, the company had 2.9 million tons on hand, a 116-day supply based on anticipated requirements.

Nuclear generation has become increasingly important to Alabama Power with the addition of the second 860-megawatt unit of Plant Farley during 1981. Nuclear power supplied about 18 percent of the company's 1981 energy generation, despite an electrical malfunction in the main turbine generator which required Unit 1 of Plant Farley to be taken out of service in September for the remainder of the year.

Due to extremely light rainfall in 1981, the company's 13 hydroelectric facilities generated only 9 percent of the total electricity produced during the year, 1.2 billion kilowatt-hours less than expected.

Alabama Power was developed initially as a hydroelectric and then as a coal system, tapping two of Alabama's abundant natural resources. The Army Corps of Engineers installed a few locks and dams along the Coosa River in the late 1800s and early 1900s, but it was Alabama Power Company that began where the government left off. Between 1912 and 1930, the company built three major dams on the Coosa River and two more on the Tallapoosa River. The company was well on the way to harnessing a major portion of

RESIDENTIAL ELECTRIC BILLS FOR SELECTED U.S. CITIES FOR MONTHLY USE OF 1,000 KILOWATT-HOURS, RATES IN EFFECT DECEMBER 1, 1981



Customer service representatives in Birmingham, Mobile and Montgomery are available around the clock, seven days a week, to answer questions about bills and supply other account information with the aid of computers.

the state's river system. In the late 1950s and early 1960s, the company completed the development of the Coosa River with construction of four additional dams and built three hydroelectric facilities on the Black Warrior River.

The installed generating capacity of the company, including 50 percent of Southern Electric Generating Company at Gaston Electric Generating Plant and 60 percent of the capacity of the Greene County Plant, totaled 8,485,675 kilowatts at the end of the year. Southern Electric Generating Company is owned equally by Alabama Power and Georgia Power companies, and the Greene County Plant is owned jointly by Alabama Power and Mississippi Power companies. Both the Greene County and Gaston plants are operated by Alabama Power.

Construction

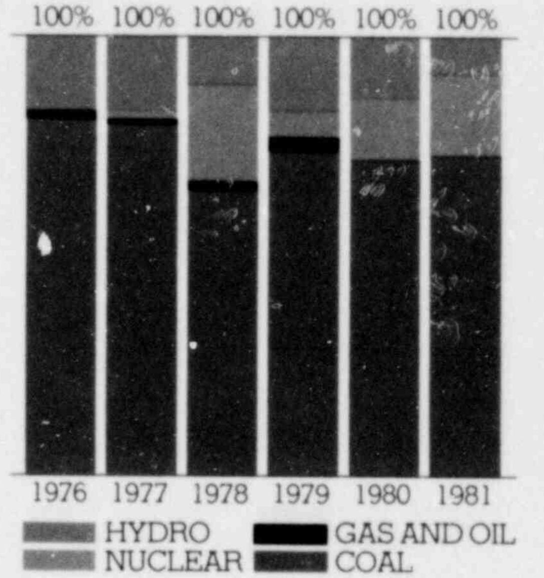
The problem of financing new plants is not unique to this decade. Many of the early years of Alabama Power were spent in search of capital to finance the development of hydroelectric power in Alabama. The young company's efforts to obtain adequate funds were in vain until one of its developers, James Mitchell, persuaded a London banking house to underwrite the ambitious early river development projects.

For the company to fulfill its obligation to provide adequate and reliable electric service to its present and future customers, it must construct new generating plants and make additions and improvements to existing plants and other facilities. During 1981, the company spent approximately $438 million for construction of transmission and distribution lines, substations,

For Alabama Power to fulfill its obligation . . . it must construct new generating plants and make improvements to existing plants and other facilities.

generating and other facilities. Over the next two years, Alabama Power expects to

PERCENT OF TOTAL KWH GENERATION

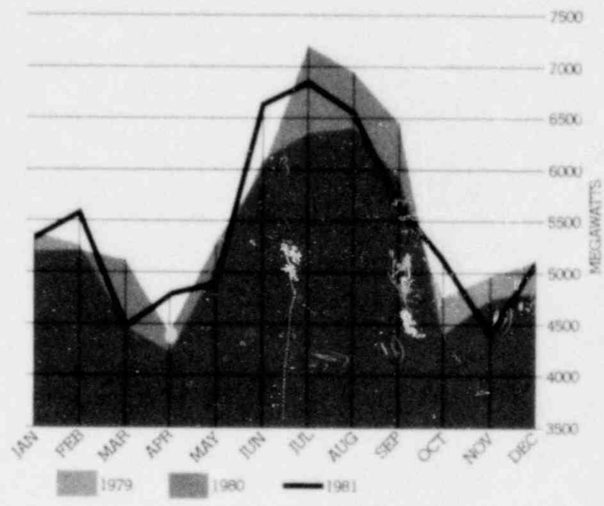


spend more than $1 billion on necessary construction.

Unit 2 of Plant Farley began commercial operation in July, completing the company's current nuclear construction program.

Construction of Harris Dam is about 68 percent complete with commercial operation scheduled for mid-1983. Planned commercial operation dates for Units 2, 3 and 4 of the Miller Electric Generating Plant are 1985, 1989 and 1991, respectively. Additional generating capacity is being installed at Mitchell Dam. The completion date is scheduled for 1985.

MONTHLY PEAK DEMAND



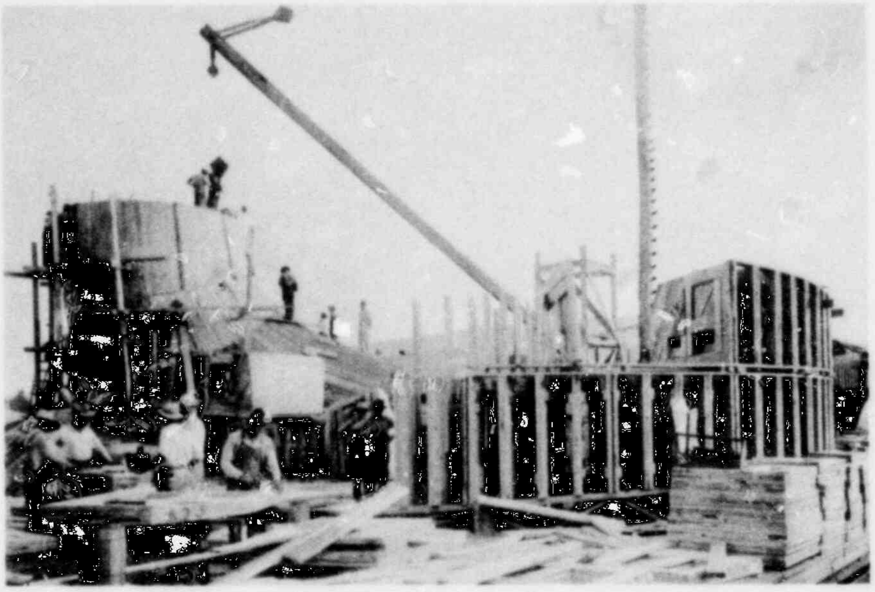
These homeowners are taking advantage of the company's free home energy audit to help reduce their power usage. A company energy specialist discusses a computer printout of suggestions for energy savings.

Despite a reduction in projected growth in energy usage during the 1980s, utilities cannot stop building altogether and continue to carry out their obligation to serve the public. The company has adjusted and revised its construction plans to reflect the lower growth rate projected for the next decade. But the difficulty of raising capital on reasonable terms and the inability to sell securities as a result of inadequate rates could force the company to delay further the completion dates for future generating plants.

System Operations

The company uses a complex array of computers, communications systems and experienced operating personnel to dispatch electricity to its customers from its generating plants.

Alabama Power and its sister utilities in The Southern Company—Georgia, Gulf and Mississippi Power companies—participate in a "power pooling" agreement in which the four utilities can supply power



Carpenters at Jordan Dam on the Coosa River near Wetumpka, photographed in 1927, built wooden forms used to pour concrete

to each other through an interconnected electric system in the most reliable and economical manner for their combined load requirements and maintenance program.

Alabama Power's generating plants include some that rank among the most efficient in the industry. Each plant has its own performance team that continually monitors and tests critical equipment to assure that each generating unit meets the efficiency level it was designed to achieve. Alabama Power is a leader in the use of computer applications and the most modern analytical techniques in the design and construction of generating plants.

Despite a reduction in projected growth in energy usage during the 1980s, utilities cannot stop building altogether.

Plant Farley was one of only two nuclear plants in the South rated "above-average" by the Nuclear Regulatory Commission in 1981. This is the most favorable rating used by the agency and is based upon overall performance of the plant, its staff and the company with respect to criteria established by the NRC.

The nuclear plant's second unit, which began commercial operation in July 1981, achieved superior operating performance during the initial six months of its generation, operating 98.5 percent of the time. For the year 1981, the unit achieved the highest availability rate of any Westinghouse plant in the world.

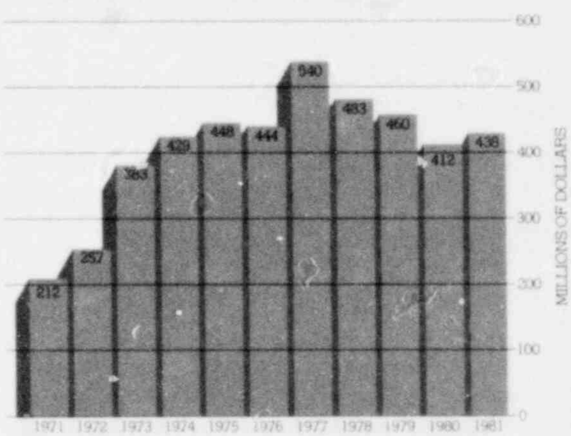
These efforts have helped save customers millions of dollars in fuel costs.

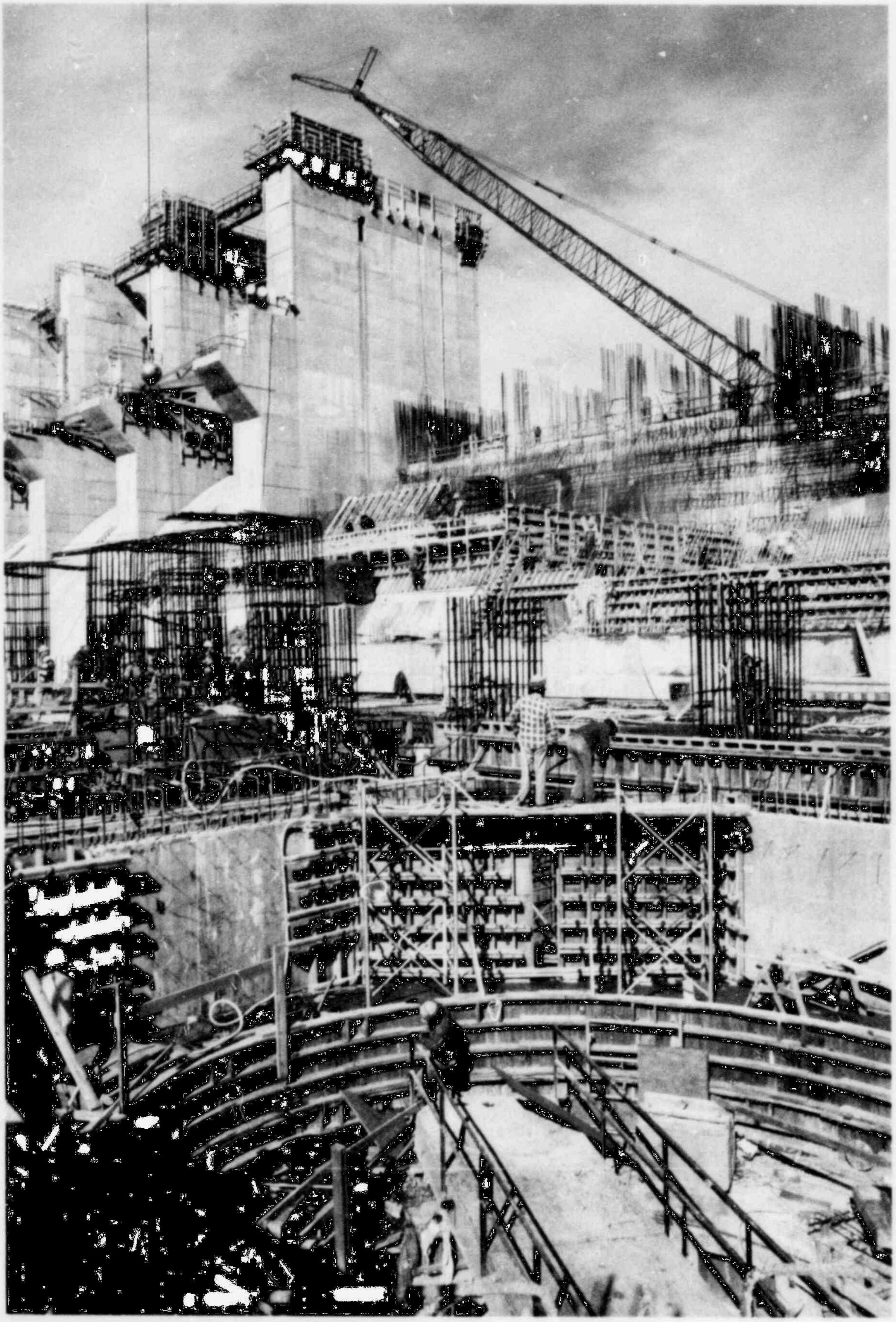
Research and Development

For 75 years Alabama Power has experimented with new methods and technologies to provide electricity in the most efficient and economical way. From the invention of the backwater suppressor by the company's chief engineer in the early 1920s, which kept floodwaters from interfering with power production at Mitchell Dam, to an experimental solar-energy office building in Montevallo, the company has spent millions of dollars and thousands of man-hours in research.

Alabama Power and the nation's other energy-supplying companies are supporting the work of the Electric Power Research Institute. Research projects include major efforts in solar, geothermal and nuclear fusion energy. The institute was funded in 1981 by the industry in the

GROSS PLANT ADDITIONS





With construction in progress, the Harris Dam and Electric Generating Plant is scheduled for completion in 1983. The 135 MW plant is located on the Tallapoosa River between Lineville and Wedowee in east central Alabama.

Alabama Power opened a New Industries division in 1921, using exhibits and films to educate northern businessmen about Alabama's abundant resources and power delivery system. The film advertised in this display, "King Cotton," was a popular attraction at Boston and Philadelphia textile shows.

amount of $218 million, including Alabama Power's share of $5.1 million.

Environmental Regulation

Alabama Power spent $8.8 million in capital expenditures during 1981 to comply with environmental regulations imposed on the company by various federal, state and local agencies. Such expenditures by Alabama Power since 1970 now exceed $366.7 million. An estimated additional $68.7 million will be required during the next three years to meet regulations now in effect or anticipated.

Alabama Power has been deeply concerned about environmental quality for many years. Long before pollution abatement became a national issue, the company was equipping its generating plants with pollution abatement devices.

The company is committed to compliance programs which meet all state and federal regulations, but will continue to oppose unreasonable environmental regulations which impose substantial costs on our customers without commensurate benefits.

During 1981, Alabama Power emphasized the benefits of conservation to customers as well as to the company.

Service to Customers and Area Growth

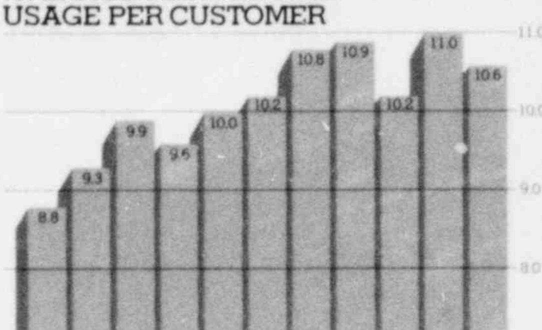
A decade ago, the simple solution to electric growth was to accelerate and expand the construction of electric facilities.

Despite public conservation efforts, the company's most recent long-range forecast projects an increase in electric territorial sales over the next decade of approximately 28 percent. To meet that growth, Alabama Power must combine conservation with a responsible construction program. Alabama Power is the supplier of electricity for a major portion of Alabama and, as a public utility, has an obligation to provide for both future and current needs of its customers.

Alabama Power emphasized during 1981 the benefits of conservation to customers as well as to the company. The Residential Conservation Service program was implemented as the centerpiece of a customer participatory program. It offers customers the opportunity to learn specific ways to conserve energy in their homes through a comprehensive, computerized home energy audit.

The company continued to encourage the construction of Good Cents Homes and the remodeling of existing homes to include energy-saving features and to promote highly energy-efficient air conditioners and other appliances as a means of reducing energy waste.

AVERAGE RESIDENTIAL USAGE PER CUSTOMER



Ideal Basic Industries' home Theodore, Alabama, is the site for the nation's largest dry process producing cement plant. Considered a model of environmental soundness and energy efficiency, the plant employs nearly 400 persons and is one of many industries brought into the state through the efforts of Alabama Power and the state development office.

Alabama Power, the Alabama Department of Energy and the Alabama Cooperative Extension Service are sponsoring an energy-management pilot program with the city of Roanoke to promote and implement energy-management concepts within an entire community.

During the 1920s, the company was among the first utilities in the country to begin an aggressive industrial development effort. A New Industries division was started within the company in 1921 to attract outside industries to the state.

During 1981, 474 industrial firms announced plans to locate or expand facilities in Alabama Power's service area, creating 14,000 new jobs and an estimated annual payroll of approximately $351 million. When these additions and expansions are in full operation, total investment for new and expanded industries announced in 1981 will be $3.3 billion.

Communication and Information

As electric usage and rates have risen during the past decade, the need for communication with employees and the public has also increased.

Alabama Power has expanded its public information activities to reach more customers with energy-saving messages and facts about the company's operations and activities.

In Alabama, just as throughout the nation, public utilities are recognizing that customer and employee concerns must be identified and addressed in a factual and timely manner.

During 1981, Alabama Power continued with an aggressive media relations program, a reorganized consumer affairs effort, educational services to the state's school systems, additional employee information programs and conservation and public information advertising.

The understanding of how a utility operates can only be achieved when employees and the public are fully informed on energy matters and the financial and regulatory situation facing the company.

The Employees

During the early years of Alabama Power, the skill and dedication of its founders were key factors in the company's growth and development.

Today, the same skill and dedication are found in the company's 9,661 employees. They are part of a group of men and women who have provided reliable electric service to this state for 75 years.

The company's ability to maintain and improve upon this past performance will depend in large measure on the skills and talents of the people who work for Alabama Power. During the year, about 30 percent of our employees received additional training through company-sponsored courses.

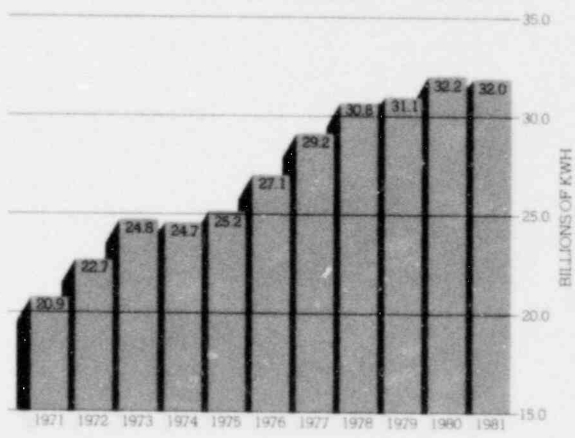
Highly specialized training programs for experienced workers have been developed to assure that design, construction and operating procedures meet or exceed all applicable standards.

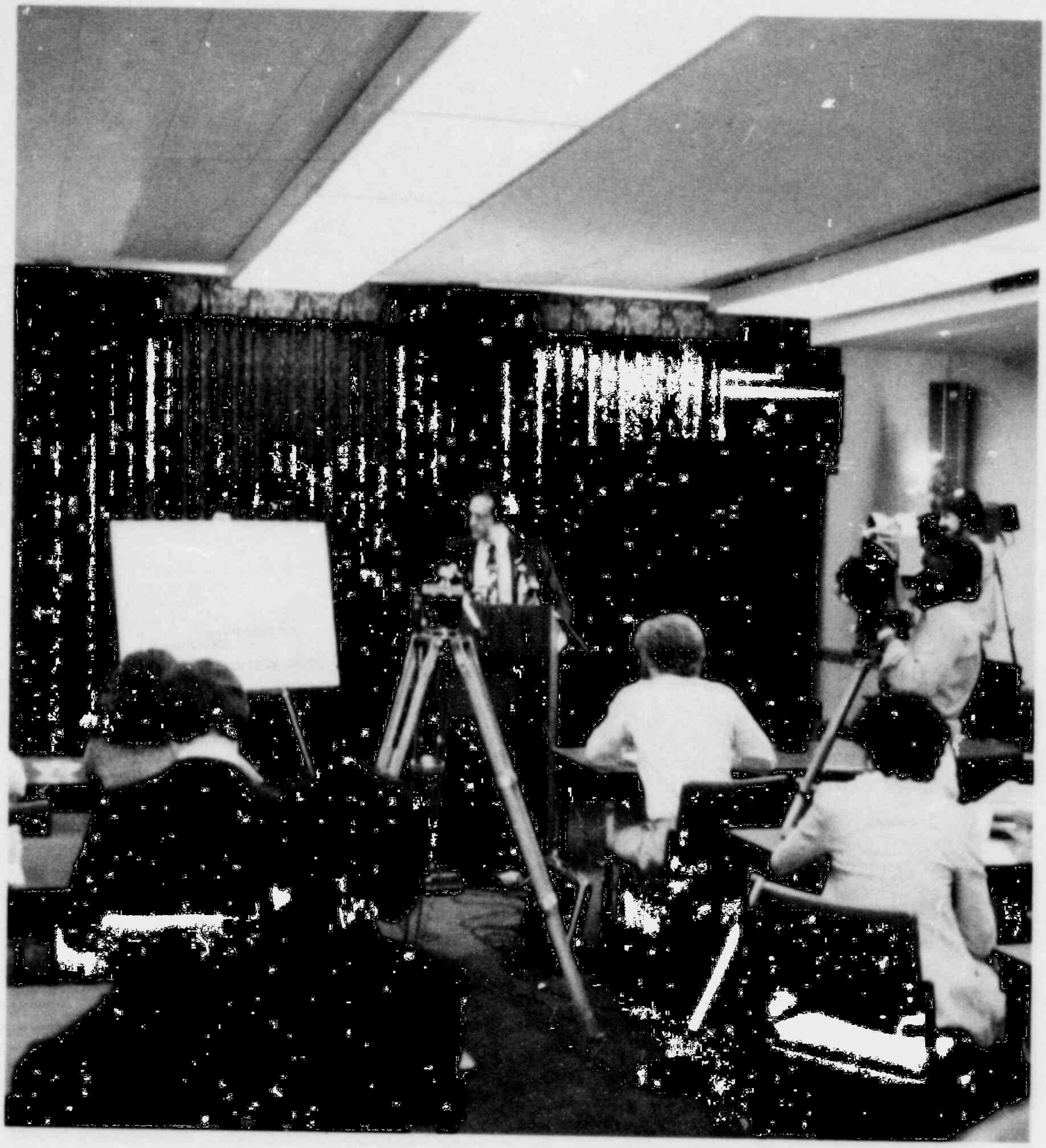
The emphasis on both classroom and hands-on training resulted in improvement of operating efficiency.

Many employees carry a tradition of service into their private lives. They serve as

Many employees carry a tradition of service into their private lives.

TOTAL TERRITORIAL ENERGY SALES





Alabama Power conducts periodic media briefings to inform the public and customers of company developments which affect them directly.

members of school boards and civic organizations and are involved with youth work, charity drives, church activities or other programs to improve their communities.

Employee participation in the savings plan and stock ownership plan reached record amounts during 1981. The pension plan and insurance programs also provided a wide range of benefits to employees.

Alabama Power Company's commitment to safety in all aspects of its operations is illustrated by the fact that not a single work-related fatality occurred among the company's employees during 1981. The year was completed with an occupational injury and illness rate of .57 for each 200,000 man-hours worked, well below the national average for the electric utility industry.

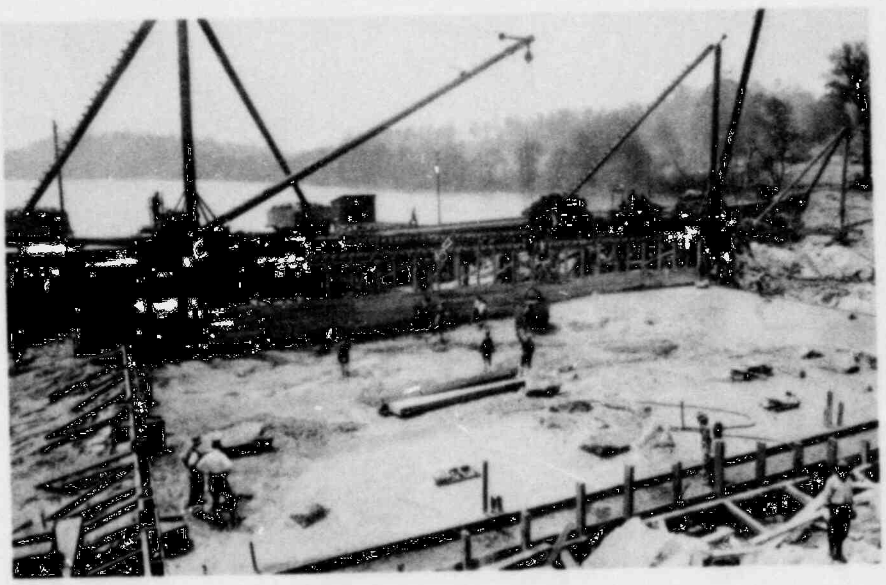
Meeting Alabama's Energy Needs for 75 Years

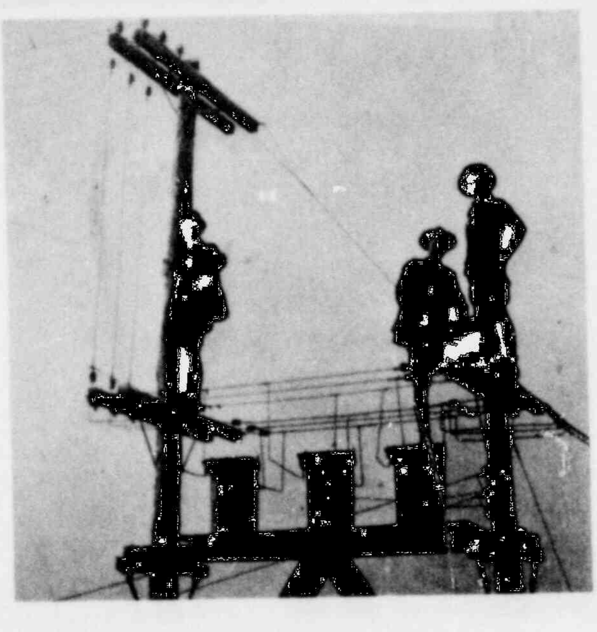
On December 4, 1906, William Patrick Lay signed the official papers of incorporation in Gadsden creating Alabama Power Company out of his land holdings along the Coosa River.

Today, almost 9,700 employees operate within Alabama Power's 44,500-square-mile area, carrying power along 50,000 miles of transmission and distribution lines within the state. The hydroelectric, nuclear and fossil-fueled generating plants deliver a steady supply of electricity to almost three million people who live within the company's service area.

Through the Great Depression and two world wars, the company continued to supply electricity to an ever-growing number of customers. Along the way, Alabama Power took the lead in several areas. The company initiated a New Industries division to attract outside industry to the state, began one of the first rural electrification programs and gave Alabamians their first home-based radio station.

Throughout those 75 years, many thousands of Alabamians have worked for Alabama Power helping to build a reliable and economical source of electricity. During this year, we honored the company's pioneers as well as the workers at whose hands those early plans and visions continue to take shape.





Workers pouring concrete near the powerhouse at Lay Dam's west bank in 1913.

Two line crewmen and their supervisor pose atop the finished product — newly installed transformers.

A 1920 manager's office in Anniston contained displays of the newest electric and gas appliances. Anniston still serves as the company's eastern division headquarters.

Report of Management

The management of Alabama Power Company has prepared and is responsible for the financial statements and related financial information included in this report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily include amounts that are based on best estimates and judgments with appropriate consideration to materiality. Financial information included elsewhere in this annual report is consistent with the financial statements.

The company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions of the company. Limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed the benefits derived. The company believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

Independent public accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

The Board of Directors pursues its responsibility for reported financial information through its Audit Committee, composed of directors who are not employees. The Audit Committee meets periodically with management, internal auditors and independent public accountants to assure that they are carrying out their responsibilities and to discuss auditing, internal control and financial reporting matters. Both internal auditors and independent public accountants periodically meet alone with the Audit Committee and have free access to the Committee at any time.

We believe that these policies and procedures provide reasonable assurance that our operations are conducted with a high standard of business conduct and that the financial statements reflect fairly the financial position, results of operations and sources of funds for gross property additions of the company.

Selected Financial Data

(Dollars In Thousands)	1981	1980	1979	1978
Condensed Statements of Income:				
Operating Revenues	$1,594,022	$1,421,997	$1,163,623	$1,014,443
Operating Expenses:				
Operation and maintenance	978,075	816,243	700,647	655,384
Depreciation and amortization	147,581	127,840	123,075	109,315
Taxes other than income taxes	86,878	74,488	74,592	63,737
Federal and state income taxes	92,773	114,427	58,759	25,080
Total operating expenses	1,305,307	1,132,998	957,073	853,516
Operating Income	288,715	288,999	206,550	160,927
Other Income, Net	46,927	42,715	40,775	44,892
Income Before Interest Charges	335,642	331,714	247,325	205,819
Net Interest Charges	199,762	170,997	158,666	131,697
Dividends on Preferred Stock	36,071	31,013	31,219	31,219
Net Income After Dividends on Preferred Stock	$ 99,809	$ 129,704	$ 57,440	$ 42,903
Cash Dividends on Common Stock	$ 120,800	$ 115,300	$ 54,000	$ 108,800
Return on Average Common Equity (Percent)	8.17	11.61	5.82	4.46
Total Assets	$4,880,490	$4,617,943	$4,292,736	$3,967,906
Gross Property Additions	$ 437,587	$ 411,813	$ 459,533	$ 483,430
Capitalization:				
Common stock equity	$1,231,061	$1,211,417	$1,022,533	$ 952,648
Preferred stock	374,400	334,400	334,400	334,400
Preferred stock subject to mandatory redemption	43,789	47,500	50,000	50,000
Long-term debt	2,394,674	2,159,793	1,883,684	1,851,394
Total	$4,043,924	$3,753,110	$3,290,617	$3,188,442
Kilowatthour Sales (In Thousands):				
Residential	9,229,255	9,510,609	8,679,417	9,088,856
Commercial	5,586,990	5,514,844	5,207,513	5,282,746
Industrial	14,651,012	14,499,375	14,629,581	13,799,043
Sales for resale	2,402,331	2,518,347	2,461,078	2,479,439
Other	131,117	127,582	126,729	125,177
Total territorial sales	32,000,705	32,170,757	31,104,318	30,775,261
Non-territorial sales	1,768,650	1,346,912	6,286	342,302
Total Kilowatthour Sales	33,769,355	33,517,669	31,110,604	31,117,563
Operating Revenues:				
Residential	$ 518,730	$ 489,031	$ 385,224	$ 351,644
Commercial	325,388	293,576	242,626	213,059
Industrial	584,030	507,784	442,221	357,691
Sales for resale	89,727	77,627	76,056	67,539
Other	7,644	6,706	6,335	6,004
Total territorial revenues	1,525,519	1,374,724	1,152,462	995,937
Non-territorial revenues	56,013	37,304	1,222	10,534
Total revenues from sales of electricity	1,581,532	1,412,028	1,153,684	1,006,471
Other revenues	12,490	9,969	9,939	7,972
Total Operating Revenues	$1,594,022	$1,421,997	$1,163,623	$1,014,443
Customers (End of Year)	996,200	986,082	976,200	961,440
Employees (End of Year)	9,661	9,573	9,038	9,695
Average Revenues Per Kilowatthour Total Sales (Cents)	4.68	4.21	3.71	3.23
Average Cost of Fuel Per Net Kilowatthour Generated (Cents)	1.84	1.61	1.56	1.20

1977	1976	1975	1974	1973	1972	1971
$ 968,693	$ 699,667	$ 631,250	$ 489,455	$ 396,841	$ 325,700	$ 278,325
594,880	461,504	362,041	300,718	185,372	167,471	139,422
69,938	57,692	51,394	45,523	40,605	37,253	32,216
47,887	45,584	38,147	34,370	30,241	24,950	19,146
89,161	36,577	58,342	26,426	44,076	20,327	22,265
801,866	601,357	509,924	407,037	300,294	250,001	213,049
166,827	98,310	121,326	82,418	96,547	75,699	65,276
57,436	95,552	75,012	55,383	33,780	16,682	12,638
224,263	193,862	196,338	137,801	130,327	92,381	77,914
83,101	115,053	101,609	72,843	55,472	42,709	33,157
23,886	22,385	16,947	15,964	9,766	9,027	4,808
$ 117,276	$ 56,424	$ 77,782	$ 48,994	$ 65,089	$ 40,645	$ 39,949
$ 94,900	$ 60,000	$ 60,000	$ 46,800	$ 45,800	$ 35,500	$ 31,300
12.82	7.18	11.60	8.61	13.89	10.12	11.37
$3,581,456	$3,081,349	$2,679,940	$2,271,061	$1,843,524	$1,490,754	$1,257,884
$ 540,076	$ 443,951	$ 447,966	$ 428,874	$ 383,114	$ 257,338	$ 212,157
$ 971,626	$ 858,300	$ 713,197	$ 628,415	$ 511,109	$ 426,809	$ 376,978
334,400	235,400	235,400	235,400	200,400	150,400	92,400
50,000	50,000	—	—	—	—	—
1,652,013	1,294,731	1,200,277	1,015,948	897,333	730,045	548,107
$3,008,039	$2,438,431	$2,148,874	$1,879,763	$1,608,842	$1,307,254	$1,017,485
8,804,755	8,135,215	7,743,609	7,321,419	7,344,878	6,656,760	6,106,810
5,121,461	4,793,698	4,611,863	4,306,750	4,194,288	3,797,751	3,394,637
12,845,489	11,872,717	10,742,325	10,992,118	10,867,180	10,278,181	9,725,873
2,346,603	2,134,011	2,020,406	1,954,525	2,330,717	1,922,452	1,552,178
120,556	117,377	111,313	104,989	97,097	93,493	88,941
29,238,864	27,053,018	25,229,516	24,679,801	24,834,160	22,748,637	20,868,439
615,423	544,327	420,868	552,995	—	104,303	145,470
29,854,287	27,597,345	25,650,384	25,232,796	24,834,160	22,852,940	21,013,909
$ 339,393	$ 248,306	$ 230,161	$ 178,949	$ 152,689	$ 126,355	$ 109,703
208,864	152,076	140,568	109,944	92,121	74,758	63,541
338,007	238,282	208,066	165,540	127,415	104,427	88,471
56,872	42,308	38,229	21,362	17,434	11,784	9,351
5,663	4,310	4,051	3,814	3,503	3,269	3,094
948,799	685,282	621,077	479,609	393,162	320,593	274,160
12,496	7,817	5,253	5,031	—	1,981	1,255
961,295	693,099	626,330	484,640	393,162	322,574	275,415
7,398	6,568	4,920	4,815	3,679	3,126	2,910
$ 968,693	$ 699,667	$ 631,250	$ 489,455	$ 396,841	$ 325,700	$ 278,325
938,576	921,208	898,658	882,706	863,272	835,017	807,862
8,813	8,164	7,870	7,948	7,693	6,947	6,394
3.22	2.51	2.44	1.92	1.58	1.41	1.31
1.21	1.05	1.07	0.79	0.44	0.41	0.36

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

The company's financial performance deteriorated in 1981 compared to 1980, although 1981 was a significant improvement over 1979. Net income after dividends on preferred stock totaled $99,809,000 in 1981, $129,704,000 in 1980 and $57,440,000 in 1979. Return on average common equity for 1981 was 8.2 percent compared to 11.6 percent in 1980 and 5.8 percent in 1979.

Increases in operating revenues in each period are attributable principally to rate increases, recovery of increased fuel and purchased power costs through fuel and energy adjustment provisions contained in rate schedules and increased energy sales in 1980 and 1981. Kilowatthour sales in 1979 were virtually the same as in 1978, compared to a 7.7 percent increase in 1980 over 1979 and an increase of 0.8 percent in 1981 over 1980. The increase in kilowatthour sales in 1981 was due primarily to the implementation of contracts finalized in 1980 for sales to neighboring utilities. The company's portion of these bulk sales amounted to 1.8 billion kilowatthours and revenues of $56 million in 1981, representing increases over 1980 of 31.7 percent and 50.6 percent, respectively. Sales increased in 1980 due to sales to neighboring utilities and an extended heat wave. The small decrease in 1979 and 1981 residential kilowatthour sales resulted primarily from conservation efforts by customers, and the 1981 decrease is also attributable to more moderate weather. Increased billings resulting from the recovery of increased fuel and purchased power costs and the results of rate increases have increased the average revenue per kilowatthour from 3.71¢ in 1979 to 4.21¢ in 1980 and 4.68¢ in 1981.

The rise in operation expenses occurring each year since 1978 resulted primarily from increased generation and escalations in the cost of fuel and other operation expenses, partially offset by reductions in purchased power for the years 1979 and 1980. Fuel cost per kilowatthour generated was 1.56¢ in 1979, 1.61¢ in 1980 and 1.84¢ in 1981. Purchased and interchanged power expenses declined in both 1979 and 1980, reflecting increased availability of generating capacity and increased economy and emergency energy sales to neighboring utilities. Although Unit No. 2 of the Farley Nuclear Plant was placed in service in July, 1981, purchased and interchanged power expenses increased 16.7 percent in 1981, compared to 1980, due, in part, to a decrease in hydro power generation of 39.7 percent, as a result of abnormally low rainfall, and Unit No. 1 of the Farley Nuclear Plant being out of service approximately seven months. Increases in other operation and maintenance expenses are largely due to escalating costs of labor, materials and services.

Increases in depreciation and amortization each year are due principally to the continued growth in depreciable plant in service. The composite straight-line depreciation rate was 3.5 percent in 1979, 3.4 percent in 1980 and 3.5 percent in 1981.

Fluctuations in income taxes resulted from changes in income before income taxes. Federal and state income tax provisions are detailed in Note 5 to the financial statements.

The allowance for funds used during construction represents the cost of capital charged to utility plant under construction which is not included in rate base. The equity portion of this credit represents non-cash income. In addition, the normalization of the income tax effect of the debt portion results in a non-cash charge. A significant portion of current cash flow results from the allowance of a return on and recovery through depreciation of previously capitalized amounts. The allowance for funds used during construction, net of income taxes, as a percent of net income after dividends on preferred stock was 102.0 percent in 1979, 57.1 percent in 1980 and 64.2 percent in 1981.

Inflation has a significant effect on the company due to the regulatory environment in which the company operates and the large investment (approximately 91 percent of total assets) in utility plant. See Note 14 to the financial statements for supplementary information concerning the approximate effects of inflation.

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by periodic rate increases or increases in sales), will adversely affect future earnings. Increases in sales in the future will be affected by the extent of energy conservation practiced by customers, the elasticity of demand, weather and the rate of economic growth in the company's service area. In recent years, earnings have tended to decline during periods following the full 12 months' realization of general rate increases and prior to receipt of further rate increases.

Financial Condition

The company's continuing construction program to build an energy supply network with a sufficient margin of reserve capacity to ensure an adequate, economical power supply, required the expenditure of $1.3 billion during the three years 1979 through 1981. As shown on the Statements of Sources of Funds for Gross Property Additions, the primary sources of funds for construction expenditures are sales of long-term debt, capital contributions from The Southern Company and internal sources.

The company's capitalization ratios have remained approximately the same in recent years, but the composite interest rate on long-term debt has increased from 8.3 percent at December 31, 1978 to 10.0 percent at December 31, 1981. As further evidence of the increasing cost of capital, the company's annual interest requirement on long-term debt has increased 54.3 percent since 1978.

At December 31, 1981, the company had $23,951,000 of cash and temporary cash investments and $292,065,000 of unused credit arrangements with banks to meet its short-term cash needs. (See Note 4 to the financial statements.) At the end of 1981, the company had no short-term bank loans outstanding as compared to a balance of $96,501,000 at the end of 1980.

The company's construction expenditures are estimated to total $1.7 billion for the three years 1982 through 1984. These construction programs are subject to revision because of factors such as granting of timely and adequate rate increases, new estimates of increased costs, revised load estimates and the availability and cost of capital. These factors have forced substantial reductions in construction programs in recent years, resulting in a combination of postponements and cancellations of generating units and other facilities. See Note 3 to the financial statements for further details. In addition to the funds required for the construction program, approximately $49,228,000 will be required through the end of 1984 in connection with maturities of first mortgage bonds, pollution control bonds and preferred stock subject to mandatory redemption.

It is anticipated that the funds required will be derived from sources in form and quantity similar to those used in the past. However, in order to issue additional long-term debt and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The ability to maintain these coverages and to generate adequate amounts of internal funds for construction is dependent on receiving adequate and timely rate increases to offset the continuing effect of inflation. Should the company be unable to obtain funds from external sources in amounts which, together with internally generated funds, will be adequate to carry out the present construction program, further delays and possible cancellations would be necessary.

On the basis of the requirements contained in the company's mortgage indenture and corporate charter, the bond and preferred stock coverages of the company at December 31, 1981 were 1.93 and 1.33, respectively. See Note 3 to the financial statements.

Auditors' Report

To the Board of Directors of
Alabama Power Company:

We have examined the balance sheets and statements of capitalization of ALABAMA POWER COMPANY (an Alabama corporation and a wholly owned subsidiary of The Southern Company) as of December 31, 1981 and 1980, and the related statements of income, earnings retained in the business, other paid-in capital and sources of funds for gross property additions for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Alabama Power Company as of December 31, 1981 and 1980, and the results of its operations and the sources of funds for gross property additions for the periods stated, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Birmingham, Alabama,
February 12, 1982.

Balance Sheets at December 31, 1981 and 1980

	1981	1980
	(In Thousands)	
Assets		
UTILITY PLANT (Notes 1 and 3):		
Plant in service and held for future use, at original cost	$4,771,723	$3,854,627
Less — Accumulated provision for depreciation	1,063,897	934,606
	3,707,826	2,920,021
Nuclear fuel, at amortized cost	143,541	131,442
Construction work in progress —		
Nuclear	18,927	684,945
Other	564,109	462,705
	4,434,403	4,199,113
OTHER PROPERTY AND INVESTMENTS:		
Southern Electric Generating Company (Note 9)	16,400	16,400
Nonutility property, net	2,564	2,372
Miscellaneous	1,104	993
	20,068	19,765
CURRENT ASSETS:		
Cash (Note 4)	4,400	13,429
Temporary cash investments, at cost	19,551	9,017
Receivables —		
Customer accounts receivable	94,515	90,745
Other accounts and notes receivable	10,632	7,132
Intercompany accounts	10,605	9,871
Accumulated provision for uncollectible accounts	(572)	(542)
Refundable federal income tax (Note 5)	25,000	20,000
Fossil fuel stock, at average cost	166,857	161,593
Materials and supplies, at average cost	24,087	21,734
Prepayments	28,952	24,871
	384,027	357,850
DEFERRED CHARGES:		
Cost of cancelled plant, being amortized (Note 1)	5,473	12,402
Debt expense, being amortized	7,343	6,878
Miscellaneous	29,176	21,935
	41,992	41,215
	$4,880,490	$4,617,943
Capitalization and Liabilities		
CAPITALIZATION (See accompanying statements):		
Common stock equity	$1,231,061	$1,211,417
Preferred stock	374,400	334,400
Preferred stock subject to mandatory redemption (Note 8)	43,789	47,500
Long-term debt	2,394,674	2,159,793
	4,043,924	3,753,110
CURRENT LIABILITIES:		
Notes payable to banks (Note 4)	—	96,501
Long-term debt due within one year (Note 7)	52,687	47,424
Accounts payable —		
Intercompany accounts	33,367	38,922
Other	90,520	108,294
Revenues to be refunded	—	11,978
Customer deposits	22,362	19,891
Taxes accrued —		
Federal and state income	25,268	22,645
Other	10,236	10,462
Interest accrued	65,382	54,061
Miscellaneous	12,974	11,707
	312,796	421,885
DEFERRED CREDITS, ETC.:		
Accumulated deferred income taxes	436,594	370,439
Accumulated deferred investment tax credits	67,407	53,030
Miscellaneous	19,769	19,479
	523,770	442,948
COMMITMENTS AND CONTINGENT MATTERS (Notes 3, 4, 9 and 11)		
	$4,880,490	$4,617,943

The accompanying notes are an integral part of these statements.

Statements of Capitalization at December 31, 1981 and 1980

		Amount		Percent of Total	
		1981	1980	1981	1980
		(In Thousands)			
COMMON STOCK EQUITY:					
Common stock, par value $40 per share, authorized 6,000,000 shares, outstanding 5,608,955 shares		$ 224,358	$ 224,358		
Other paid-in capital		908,145	866,145		
Premium on preferred stock (Note 8)		1,535	941		
Earnings retained in the business (Note 10)		97,023	119,973		
Total		1,231,061	1,211,417	30.4%	32.3%
CUMULATIVE PREFERRED STOCK (Note 3):					
$1 par value, authorized 27,500,000 shares— $25 stated value—1,600,000 shares outstanding—15.68%		40,000	—		
$100 par value, authorized 3,850,000 shares—					
Series					
4.20% to 4.52%		41,400	41,400		
4.60% to 4.92%		29,000	29,000		
5.96% to 8.04%		32,000	32,000		
8.16% to 9.44%		232,000	232,000		
Total (annual dividend requirement—$31,991,000)		374,400	334,400	9.3	8.9
Subject to mandatory redemption (Note 8): 11.00% (annual dividend requirement—$4,817,000)		43,789	47,500	1.1	1.3
LONG-TERM DEBT (Note 3):					
First mortgage bonds—					
Maturity	Interest Rates				
September 1, 1981	3¼%	—	15,000		
April 1, 1982	3⅜%	12,000	12,000		
May 1, 1983	4⅛%	11,939	11,939		
March 1, 1984	3⅛%	17,000	17,000		
June 1, 1985	3½%	15,000	15,000		
March 1, 1986	3½%	13,725	13,725		
1987 through 1991	3⅞% to 18¼%	352,457	152,457		
1992 through 1996	4⅜% to 6¼%	114,941	114,941		
1997 through 2001	6½% to 9%	217,924	217,924		
2002 through 2006	7½% to 10⅞%	648,500	648,500		
2007 through 2011	8¾% to 17⅜%	750,000	675,000		
Total first mortgage bonds		2,153,486	1,893,486		
Other long-term debt (Note 6)		311,060	329,066		
Unamortized debt premium (discount), net		(17,185)	(15,335)		
Total long-term debt (annual interest requirement—$249,132,000)		2,447,361	2,207,217		
Less amount due within one year (Note 7)		52,687	47,424		
Long-term debt, excluding amount due within one year		2,394,674	2,159,793	59.2	57.5
TOTAL CAPITALIZATION		$4,043,924	$3,753,110	100.0%	100.0%

The accompanying notes are an integral part of these statements.

Statements of Income for the Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In Thousands)	
OPERATING REVENUES	$1,594,022	$1,421,997	$1,163,623
OPERATING EXPENSES:			
Operation—			
Fuel	504,930	439,488	365,628
Purchased and interchanged power, net	144,916	124,163	124,929
Other	192,502	153,552	129,430
Maintenance	135,727	99,040	80,660
Depreciation and amortization	147,581	127,840	123,075
Taxes other than income taxes	86,878	74,488	74,592
Federal and state income taxes (Note 5)	92,773	114,427	58,759
Total operating expenses	1,305,307	1,132,998	957,073
OPERATING INCOME	288,715	288,999	206,550
OTHER INCOME:			
Allowance for equity funds used during construction (Note 1)	39,471	32,189	28,554
Income from subsidiary (Note 9)	2,531	2,466	2,425
Other, net	4,925	8,060	9,796
Income before interest charges	335,642	331,714	247,325
INTEREST CHARGES:			
Interest on long-term debt	239,858	184,557	163,343
Amortization of debt discount, premium and expense, net	871	593	610
Other interest charges	5,882	65,686	51,909
Allowance for debt funds used during construction (Note 1)	(46,849)	(79,839)	(57,196)
Net interest charges	199,762	170,997	158,666
NET INCOME	135,880	160,717	88,659
DIVIDENDS ON PREFERRED STOCK	36,071	31,013	31,219
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 99,809	$ 129,704	$ 57,440

Statements of Earnings Retained in the Business
for the Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In Thousands)	
Balance, beginning of period	$ 119,973	$ 105,569	$ 102,129
Add (deduct):			
Net income after dividends on preferred stock	99,809	129,704	57,440
Cash dividends paid on common stock	(120,800)	(115,300)	(54,000)
Preferred stock issuance expense	(1,959)	—	—
Balance, end of period (Note 10)	$ 97,023	$ 119,973	$ 105,569

Statements of Other Paid-In Capital
for the Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In Thousands)	
Balance, beginning of period	$ 866,145	$ 692,145	$ 625,700
Cash contribution to capital by parent company	42,000	174,000	66,445
Balance, end of period	$ 908,145	$ 866,145	$ 692,145

The accompanying notes are an integral part of these statements.

Statements of Sources of Funds for Gross Property Additions for the Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In Thousands)	
Net income	$135,880	$160,717	$ 88,659
Add (deduct) principal noncash items—			
Depreciation and amortization	198,106	160,669	137,275
Deferred income taxes, net	82,723	105,299	61,970
Deferred investment tax credits	29,400	10,700	—
Allowance for equity funds used during construction	(39,471)	(32,189)	(28,554)
	406,638	405,196	259,350
Less—			
Dividends on common stock	120,800	115,300	54,000
Dividends on preferred stock	36,071	31,013	31,219
	249,767	258,883	174,131
Decrease (increase) in net current assets, excluding long-term debt due within one year and notes payable to banks—			
Cash and temporary cash investments	(1,505)	(13,398)	8,742
Receivables	(7,974)	(3,944)	(14,915)
Refundable federal income taxes	(5,000)	(16,846)	(3,154)
Fossil fuel stock	(5,264)	(37,841)	3,932
Materials and supplies	(2,353)	(821)	(498)
Accounts payable	(23,329)	(11,662)	48,910
Revenues to be refunded	(11,978)	11,978	(2,547)
Interest accrued	11,321	4,968	4,734
Taxes accrued	2,397	19,646	(442)
Other, net	(343)	(14,010)	2,069
	(44,028)	(61,930)	46,831
Other, net includes allowance for equity funds used during construction	8,066	(3,242)	25,811
Total internal sources	213,805	193,711	246,773
External Sources—			
First mortgage bonds	275,000	250,000	—
Bonds retired	(15,000)	—	(18,433)
Preferred stock	40,000	—	—
Preferred stock reacquired (Note 8)	(3,711)	(2,500)	—
Capital contribution by parent company	42,000	174,000	66,445
Pollution control obligations, net	1,713	8,803	8,688
Obligations under capitalized leases	(19,719)	43,776	22,835
Increase (decrease) in notes payable to banks	(96,501)	(255,977)	133,225
Total external sources	223,782	218,102	212,760
Gross Property Additions (includes net allowance for funds used during construction in the amount of $64,070,000 in 1981, $74,110,000 in 1980 and $58,586,000 in 1979)	$437,587	$411,813	$459,533

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General—

The company is a wholly owned subsidiary of The Southern Company (SOUTHERN) which is the parent company of four operating companies and a system service company. The operating companies are engaged in the business of providing electric utility service in four southeastern states. Operating contracts among the companies, covering interconnection arrangements, interchange of electric power and joint ownership of generating facilities, are subject to regulation by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission (SEC). The system service company provides, at cost, technical and other specialized services, upon request, to the parent company and to each of the operating companies.

The parent company is registered as a holding company under the Public Utility Holding Company Act of 1935 (Holding Company Act), and it and its subsidiaries are subject to the regulatory provisions of the Holding Company Act. The company is also subject to regulation by the FERC and the Alabama Public Service Commission (APSC) and follows generally accepted accounting principles and the accounting policies and practices prescribed by the respective commissions.

Revenues—

Revenues, including those subject to refund, are included in income as billed monthly to customers on a cycle billing basis.

Fuel Costs—

Fuel costs are expensed as the fuel is consumed. The company's rates include fuel and net purchased energy adjustment clauses under which fuel and net purchased energy costs above or below certain base levels are billed, or credited to customers on a current basis. The cost of nuclear fuel, including the estimated cost of final disposition of spent fuel, is amortized to fuel expense based on the quantity of heat produced for generation of electric energy. Such amortization was $42,369,000 in 1981, $27,505,000 in 1980 and $8,500,000 in 1979.

Final disposition of spent fuel may require future adjustments to fuel expense. Pending final disposition, the company has sufficient installed storage capacity at Plant Farley for storage of spent fuel into 1993 and 1994 for Plant Farley Unit Nos. 1 and 2, respectively. The company plans to install higher capacity storage racks in Units No. 1 and No. 2 which will provide sufficient storage of spent fuel into 2007 and 2009, respectively. The company has applied to the Nuclear Regulatory Commission (NRC) for a license for the Unit No. 2 modification and plans a similar application for Unit No. 1.

Utility Plant—

Utility plant is stated at original cost. Such cost includes applicable administrative and general costs; payroll-related costs such as pensions, taxes and other fringe benefits; and allowance for funds used during construction.

The cost of maintenance, repairs and replacements of minor items of property is charged to maintenance expense accounts. The cost of replacements of property (exclusive of minor items of property) is charged to the utility plant accounts.

Allowance for Funds Used During Construction—

The allowance for funds used during construction represents the estimated debt and equity costs of capital funds which are applicable to utility plant while under construction. The composite rate used to determine the amount of the allowance, net of the income tax effect of capitalized debt cost, was 8.1% in 1981, 8.3% in 1980 and 8.1% in 1979. The company accounts for the income tax effect of capitalized debt cost as a charge to income tax expense associated with operations with a corresponding credit to allowance for debt funds used during construction.

Depreciation and Amortization—

Depreciation of the original cost of depreciable utility plant in service is provided using composite straight-line rates which approximated 3.5% in 1981, 3.4% in 1980 and 3.5% in 1979, and includes a factor to provide for the expected cost of decommissioning nuclear facilities. The cost of decommissioning, based on decommissioning promptly after the unit is taken out of service, is estimated at approximately $37,000,000 per unit at Plant Farley. This estimate will be adjusted periodically considering changing price levels and technology. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with its cost of removal, less salvage, is charged to the accumulated provision for depreciation.

The construction of Plant Barton was cancelled in 1977. Obligations related to equipment design and engineering and termination of contracts applicable to this plant amounted to approximately $34,000,000. The company has received regulatory approval to amortize and recover these costs as an operating expense, ratably over a five-year period. Such amortization is included in "Depreciation and amortization" and amounted to $6,958,000 in 1981, $7,071,000 in 1980 and $7,145,000 in 1979.

Pension Costs—

The company has a trusteed and non-contributory pension plan which covers substantially all regular employees. The policy of the company is to fund each year's accrued pension cost for the plan which amounted to $25,592,000 in 1981, $14,849,000 in 1980 and $13,111,000 in 1979. Of these amounts, $16,829,000 in 1981, $9,466,000 in 1980 and $8,712,000 in 1979 were charged to operating expenses, and the balance was charged to construction and other accounts. Accumulated pension benefit information as of the valuation dates (January 1 of each year) follows.

	1981	1980
	(In Thousands)	
Actuarial present value of accumulated plan benefits—		
Vested	$152,780	$130,322
Nonvested	3,220	6,946
Total actuarial present value of accumulated plan benefits	$156,000	$137,268
Weighted average rates of return assumed in determining actuarial present value of accumulated plan benefits	8%	5%
Net assets available for benefits	$191,055	$154,373

The actuarial present value of accumulated plan benefits was determined on the basis of accrued benefits as of January 1, of the respective years, whereas the plan is funded based on the premise that the plan will continue in existence, which requires that future events be considered. Amendments to the plan in 1981 liberalized retirement benefits, including increased terminal pay formulas, and expanded benefits to employees. A net increase of $78,865,000 in the accrued liability with respect to past service under the plan resulted from the amendments. The 1981 contributions to the pension plan increased $10,743,000 of which $7,285,000 was attributable to past service and $3,458,000 was attributable to current service. The unfunded prior service cost under the plan and supplemental contracts amounted to approximately $90,752,000 at December 31, 1981 and is being amortized over a period of approximately 15 years.

Income Taxes—

The company provides deferred income taxes for substantially all income tax timing differences as permitted by the appropriate regulatory agencies. The company is included in the consolidated federal income tax return of SOUTHERN (see Note 5).

2. RATE MATTERS:

On March 19, 1981, the company filed a retail rate request with the APSC to increase revenues by approximately $324,900,000 annually based on the twelve months ended November 30, 1980. On October 16, 1981, the APSC issued an order denying any part of the rate request.

On February 12, 1982, the Supreme Court of Alabama granted the company the right to collect a portion of the requested increase, subject to refund, pending final determination of the company's appeal to such court. Pursuant to such order, the company has filed rates designed to produce $75-million additional revenues for the six-month period commencing October 16, 1981.

On January 18, 1982, the company filed a wholesale rate increase request with the FERC estimated to increase wholesale revenues by $9,400,000 annually based on the test year ended December 31, 1982. As required by the settlement agreement between the company and its wholesale customers in the most recent wholesale case, the company has requested that the FERC suspend the operation of the new rates until May 1, 1982.

The outcome of these pending rate proceedings cannot now be determined.

3. CONSTRUCTION PLAN, FINANCING AND FUEL COMMITMENTS:

Construction Plan—

The company's estimated gross property additions, as of October, 1981, amount to $545,321,000 in 1982, $556,842,000 in 1983 and $588,281,000 in 1984.

The construction program is subject to periodic review and revision, and actual construction costs incurred and commercial operation dates may vary from estimates because of factors such as granting of timely and adequate rate increases, new estimates of increased costs, revised load estimates and the availability and cost of capital. These factors forced substantial reductions in the company's construction program in recent years, resulting in a combination of postponements and cancellations of generating units and other facilities.

On February 10, 1975, a break occurred at the company's Bouldin Dam causing extensive damage and resulting in the removal from service of the hydroelectric generating facilities (225,000 kilowatts) at the dam. The facilities at the dam were returned to service in late 1980. Litigation against one of the contractors responsible for construction is still pending.

Financing—

The ability of the company to carry out its construction plan depends on the amount of funds generated internally and the funds it can raise by external financing. The company's primary sources of external financing are sales of first mortgage bonds and preferred stock to the public, receipt of additional paid-in capital from SOUTHERN, sale of pollution-control revenue bonds by public authorities and leasing of nuclear material.

Paid-in capital is planned to be provided, to the extent possible, by SOUTHERN from the sale of additional common stock in amounts and at times not yet determined; however, there is no assurance that SOUTHERN can continue to sell additional shares of its common stock in the amounts and with the frequency that would be required to provide funds for the company's construction program.

In order to issue additional first mortgage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The most restrictive of these provisions require for the issuance of additional first mortgage bonds that before-income-tax earnings, as defined, cover pro forma annual interest charges on outstanding first mortgage bonds at least twice; and for issuance of additional preferred stock, that gross income available for interest cover pro forma annual interest charges and preferred stock dividends at least one and one-half times. These coverages, for first mortgage bonds and for preferred stock for the year ended December 31, 1981, were 1.93 and 1.33, respectively.

The company's ability to obtain funds from external sources

and generate adequate amounts of internal funds which will enable it to finance its construction program is dependent on receiving adequate and timely rate increases (see Note 2). Should the company be unable to obtain funds from external sources in amounts which, together with internally generated funds, would be adequate to carry out the present construction program, further delays and possible cancellations would be necessary.

Fuel Commitments—

To supply a portion of the fuel requirements of its generating plants, the company has entered into various long-term commitments for the procurement of fossil and nuclear fuels. In some cases, such contracts contain provisions for price escalations and minimum production levels. In addition, contracts with certain coal contractors require reimbursement or purchase, at net book value, of the investments in mines or equipment upon termination of the contract. Additional commitments for coal and for nuclear fuel will be required in the future to supply the company's fuel needs.

4. NOTES PAYABLE TO BANKS:

The size of the company's construction program necessitates from time to time substantial amounts of short-term unsecured borrowings. Under the provisions of its charter, the company's preferred stockholders have approved an increase in the amount of securities representing short-term unsecured indebtedness, which it may have outstanding until January 1, 1987, from 10% of secured indebtedness and other capital to 20% thereof. At December 31, 1981, such 20% limitation amounted to approximately $827,419,000. Pursuant to the provisions of the Holding Company Act and based on year-end capitalization, the company may have approximately $141,426,000 of short-term debt outstanding at any one time without approval of the SEC. At December 31, 1981, the company had lines of credit with banks totaling approximately $292,065,000 of which $200,000,000 represents commitments obtained under a revolving credit agreement with a group of ten banks outside its service area, terminating September 30, 1982. The agreement contains: (1) restrictions which among other things, (a) limit the amount of certain types of additional indebtedness which the company may incur, and (b) require that a substantial portion of the proceeds from sales of properties or securities, with certain exceptions, be applied to repayment of the notes, and (2) requirements for the payment of a commitment fee. This and other fees amounted to $1,539,000 in 1981, $6,356,000 in 1980 and $6,693,000 in 1979.

Arrangements with respect to the $92,065,000 remaining lines of credit expire at various times during 1982 and provide for average annual compensating balances. Because the arrangements are based on an average balance, the company does not consider any of its cash balances to be restricted as of any specific date. Including compensating balances, the company has maintained operating account balances in these banks averaging approximately $6,441,000 in 1981 and $9,858,000 in 1980.

5. INCOME TAXES:

A detail of the total federal and state income tax provisions is set forth below:

	1981	1980	1979
		(In Thousands)	
Federal—			
Currently (refundable)	$(21,257)	$ (4,678)	$ (3,154)
Deferred	86,637	110,871	68,540
Deferred in prior years (credit)	(9,093)	(10,091)	(10,178)
Deferred investment tax credits	29,400	10,700	—
	85,687	106,802	55,208
State—			
Currently payable	1,946	3,151	—
Deferred	5,814	5,205	4,259
Deferred in prior years (credit)	(674)	(731)	(708)
	7,086	7,625	3,551
Total applicable to operations	92,773	114,427	58,759
Income taxes applicable to other income	3,518	(1,273)	(1,864)
Total income taxes	$ 96,291	$113,154	$ 56,895

The company received a federal income tax refund of $10,750,000 for the year ended December 31, 1980, and has accrued a refund of federal income taxes of $25,000,000 at December 31, 1981, attributable to the company's utilization of investment tax credits in SOUTHERN's consolidated income tax return for 1981.

The provision for deferred income taxes results from the company's tax deduction of accelerated depreciation and other write-offs of property costs, as provided for by the income tax laws, being significantly greater than the straight-line depreciation of such costs. Income taxes deferred in prior years are credited to income when straight-line depreciation of those property costs exceeds the related tax deductions.

The total provision for federal income tax as a percent of income before income tax was less than the statutory federal income tax rate for the following reasons:

	1981	1980	1979
Effective federal income tax rate as reported	39.6%	39.6%	37.7%
Reductions in tax expense resulting from statutory exclusions from taxable income—			
Equity component of the allowance for funds used during construction	8.1	5.6	9.2
Other	1.3	2.3	1.9
Effective federal income tax rate before effect of timing differences	49.0	47.5	48.8
Timing differences not normalized for accounting and rate-making purposes—			
Using different depreciation bases and rates than are used for book purposes, net	(3.0)	(1.8)	(3.0)
Other	—	0.3	0.2
Federal income tax statutory rate	46.0%	46.0%	46.0%

Investment tax credits utilized in the consolidated tax return are allocated to the members of the SOUTHERN system generating such credits. Deferred investment tax credits are amortized over the life of the property which gave rise to the credits. Such amortization is applied as a credit to reduce depreciation in the Statements of Income and amounted to $1,699,000 in 1981, $1,687,000 in 1980 and $1,713,000 in 1979. At December 31, 1981, investment tax credits totaling approximately $265,000,000, expiring at various times from 1994 to 1996, have not been utilized and are available to reduce federal income taxes payable in future years.

6. OTHER LONG-TERM DEBT:

Details of other long-term debt are as follows:

	December 31, 1981	December 31, 1980
	(In Thousands)	
Obligations incurred in connection with the sale of tax exempt pollution-control revenue bonds by public authorities—		
December 1, 1981, 7.55%	$ —	$ 500
December 1, 1982, 7.70%	500	500
December 1, 1983, 7.85%	500	500
December 1, 1984, 8%	3,500	3,500
December 1, 1995 and 2004 (due serially), 9% to 9⅛%	18,700	18,700
2003-2010, 6% to 9½%	175,950	175,950
Less funds on deposit with trustee	23,301	25,514
	175,849	174,136
Capitalized lease obligations—		
Nuclear fuel	108,519	130,340
Vehicles	15,028	12,913
Office buildings	10,440	10,556
Other	1,224	1,121
	135,211	154,930
	$311,060	$329,066

Pollution-control obligations represent installment purchases of pollution-control facilities financed by funds derived from sales by public authorities of revenue bonds. The company is required to make annual payments sufficient for the authorities to meet principal and interest requirements of such bonds. With respect to $32,500,000 of such pollution-control obligations, the company has authenticated and delivered to the trustees a like principal amount of first mortgage bonds as security for its obligation under the installment purchase agreements. No principal or interest on these first mortgage bonds is payable unless and until a default occurs on the installment purchase agreements.

The company has capitalized leased nuclear material and recorded the related lease obligations. One arrangement provides for the payment of interest monthly, in advance, based on the commercial paper rate, as defined, plus 1.5% (13.75% at December 31, 1981). The other arrangement provides for the payment of interest at the time of each extension of credit at an interest rate based on the secondary market bid discount rate for time certificates of deposit, plus certain additional charges (approximately 14.07% at December 31, 1981). Principal payments are required under both arrangements based on the cost of fuel burned.

The company has also capitalized certain vehicle, office building, equipment and other leases. Monthly principal payments plus interest are required, and at December 31, 1981, the interest rate was 14.25% for vehicles, 9.5% for office buildings and the composite interest rate for other leases was 18.14%.

The net book value of capitalized leases included in utility plant in service was $134,208,000 and $154,238,000 at December 31, 1981 and 1980, respectively. The estimated aggregate annual maturity of the company's capitalized lease obligations through 1986 is as follows: $40,187,000 in 1982, $38,716,000 in 1983, $28,611,000 in 1984, $13,561,000 in 1985 and $2,805,000 in 1986.

7. LONG-TERM DEBT DUE WITHIN ONE YEAR:

A summary of the sinking fund requirement and scheduled maturities of long-term debt within one year are as follows:

	1981	1980
	(In Thousands)	
Bond sinking fund requirement	$23,824	$21,014
Less:		
Portion to be satisfied by bonding property additions	23,824	21,014
First mortgage bond maturities	12,000	15,000
Other long-term debt	40,687	32,424
	$52,687	$47,424

The annual first mortgage bond sinking fund requirement due on June 1 is one percent of the aggregate amount of bonds, other than refunding bonds, authenticated prior to January 1 of each year. This requirement may be satisfied by the deposit of cash or reacquired bonds or by the delivery of bonds specifically authenticated for such purposes against unfunded property additions. The 1982 sinking fund requirement was satisfied by delivery of bonds against unfunded property additions.

8. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

The 11% preferred stock is subject to a cumulative sinking fund requiring the company to redeem annually or purchase 25,000 shares ($2,500,000) of the stock commencing January 1, 1981. The company has the option to double the number of shares redeemed in any one year beginning January 1, 1986. The stock is redeemable for sinking fund purposes at $100 per share, plus accrued dividends to the date of redemption. During 1981, the company reacquired 37,110 shares of which 25,000 shares were used to satisfy the 1982 sinking fund requirement and the remaining shares will be used to satisfy future years' requirements. The gains on reacquisition of $594,000 in 1981 and $480,000 in 1980 are included with premium on preferred stock as shown in the Statements of Capitalization.

9. INVESTMENT IN JOINTLY OWNED FACILITIES:

The company and one of its affiliates, Georgia Power Company (GEORGIA), own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO), which owns electric generating units with a total rated capacity of 1,019,680 kilowatts, together with associated transmission facilities. The capacity of these units is sold equally to the company and GEORGIA under a contract expiring in 1994 which, in substance, requires payments sufficient to provide for the operating expenses, taxes and debt service, including a return on investment, whether or not SEGCO has any capacity and energy available. The company's share of such amounts totaled $76,576,000 in 1981, $68,882,000 in 1980 and $64,849,000 in 1979, and is included in "Purchased and interchanged power, net" in the Statements of Income.

In addition, the company has guaranteed unconditionally the obligation of SEGCO under an installment sale agreement for the purchase of certain pollution-control facilities at SEGCO's generating units, pursuant to which $17,400,000 principal amount of pollution-control revenue bonds have been issued. GEORGIA has agreed to reimburse the company for the pro-rata portion of such obligation corresponding to its then proportionate ownership of stock of SEGCO if the company is called upon to make such payment under its guaranty.

At December 31, 1981, the capitalization of SEGCO consisted of $32,800,000 of equity and $45,715,000 of long-term debt on which the annual interest requirement is $2,957,000. Through December 31, 1981, SEGCO has paid dividends equal to its net income.

The company and one of its affiliates, Mississippi Power Company, own as tenants in common in the proportions of 60% and 40%, respectively, a 500,000 kilowatt steam-electric generating plant in Greene County, Alabama. The plant was placed in service in 1965 and the company's investment at December 31, 1981 amounted to $54,752,000. The company's share of expenses is included in the corresponding operating expense accounts in the Statements of Income.

10. DIVIDEND RESTRICTIONS:

The company's charter contains provisions which prohibit the payment of cash common dividends (except those paid concurrently with the receipt of a cash capital contribution in like amount) in cases where retained earnings are not at least equal to two times annual dividends on the outstanding Preferred Stock and Class A Preferred Stock. At December 31, 1981, this restriction amounted to $73,616,000. In addition, various series of the company's outstanding first mortgage bonds are entitled to the benefits of covenants restricting the payment of cash dividends on common stock. However, under the terms of such covenants, the entire amount of earnings retained in the business at December 31, 1981 is available for the payment of cash common dividends.

11. NUCLEAR INSURANCE:

Under the Price-Anderson Act, the company maintains agreements of indemnity with the NRC which, together with private insurance, cover third-party liability arising from an nuclear incident occuring at the company's nuclear power plant. The Act limits public liability claims that could arise from a single nuclear incident to $560,000,000. Each reactor at the company's nuclear plant is insured against this liability to a maximum of $160,000,000 by private insurance (the maximum amount presently available) and the remainder is provided by indemnity agreements with the NRC. In the event of a nuclear

incident involving any commercial nuclear facility in the country, a company could be assessed up to $5,000,000 per incident for each licensed reactor operated by it, but not more than $10,000,000 to be paid in a calendar year. On the basis of its ownership of two reactors in service, the company could be assessed a maximum of $10,000,000 for any such incident, but not more than $20,000,000 to be paid in any one year.

The company is a member of Nuclear Mutual Limited, a mutual insurer established to provide insurance coverage against property damage to members' nuclear generating facilities. The company is subject to a retrospective premium adjustment in the event that losses exceed accumulated funds. The present maximum assessment for the company is limited to $46,000,000.

Also, the company is a member of Nuclear Electric Insurance Limited, a mutual insurer which provides insurance to cover, separately, (a) the extra cost incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant and (b) property damage to nuclear generating facilities in excess of $500,000,000. The company is insured against increased costs of replacement power in the amount of up to $2,300,000 per week (starting 26 weeks after the outage) for one year and up to $1,150,000 per week for the second year. Under each policy, the company is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer under that policy. The present maximum assessments for the company are limited to approximately $16,000,000 under the replacement power policy and $9,000,000 under the property damage policy.

12. ASSETS SUBJECT TO LIEN:

The company's mortgage, as amended and supplemented, securing the first mortgage bonds issued by the company, constitutes a direct first lien on substantially all of the company's fixed property and franchises.

13. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1981 and 1980 are as follows:

	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
		(In Thousands)	
1981			
First	$395,128	$73,108	$33,686
Second	365,949	55,783	14,671
Third	457,932	96,713	46,084
Fourth	375,013	63,111	5,368
1980			
First	$297,639	$62,129	$22,043
Second	302,226	56,391	12,982
Third	457,313	94,374	57,526
Fourth	364,819	76,105	37,153

14. SUPPLEMENTARY INFORMATION CONCERNING THE EFFECTS OF CHANGING PRICES (UNAUDITED):

The following supplementary information concerning the effects of changing prices is presented in accordance with the general concepts set forth in Financial Accounting Standards Board Statement No. 33, as modified to reflect the economic effects imposed on the company by regulatory authorities. It should be viewed as an estimate of the approximate effects of inflation, rather than a precise measure.

Constant dollar amounts represent historical cost stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect changes in specific prices of plant from the date the plant was acquired to the present. They differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than the general rate of inflation. The current cost of plant was determined by indexing each major class of plant using the Handy-Whitman Index of Public Utility Construction Costs. Current cost does not necessarily represent the replacement cost of existing productive capacity because the utility plant is not expected to be replaced precisely in kind.

The accumulated provision for depreciation for current cost was developed by applying, for each major class of plant, the same percentage relationship that existed between gross plant and accumulated provision for depreciation on a historical basis to the adjusted plant data. Depreciation expense for both methods was determined by applying the current depreciation rates to the respective indexed plant amounts reduced by the amortization of investment tax credits which were first adjusted to average 1981 dollar amounts by year of addition.

Increases in the cost of electric generating fuel are recoverable in revenues through operation of fuel cost recovery mechanisms. Such increases effectively are receivables from customers. Therefore, such increases are not included in income but instead are treated as monetary assets. Income tax expense was not adjusted because only historical costs are deductible for income tax purposes.

Holding assets such as receivables, prepayments and inventory, results in a loss of purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, holding monetary liabilities, primarily long-term debt, results in a gain because the payment in the future will be made with nominal dollars having less purchasing power. The company has a net gain due to the significant amounts of long-term debt outstanding.

Under the ratemaking prescribed by the regulatory commissions to which the company is subject, only the historical cost of plant is recoverable in revenues and depreciation, and plant in rate base is limited to original cost. Therefore, the cost of plant stated in terms of constant dollars or current cost that varies from the historical cost of plant is not presently recoverable in rates as depreciation. The amount of this variance that accrued as a result of inflation in the current year is reflected as an adjustment to net recoverable cost. While the use of debt financing reduced the effect of this loss on the common stockholder, earnings were not adequate to offset the erosion in the purchasing power of its investment.

Statement of Income Adjusted for Changing Prices

for the Year Ended December 31, 1981

	Constant Dollar	Current Cost
	(In Thousands of Average 1981 Dollars)	
Income applicable to common stockholder, as reported	$ 99,809	$ 99,809
Erosion of common stockholder's equity because of changing prices:		
Cost in excess of the original cost of productive facilities not recoverable in rates as depreciation—		
Reportable as an additional provision for depreciation	131,242	171,513
Reportable as a reduction to net recoverable cost	196,193	117,499
	327,435	289,012
Excess of the general level of prices ($686,879) in the current year over increase in specific price changes ($648,456)*	—	38,423
Offsetting effect of debt financing	(229,933)	(229,933)
Net erosion of common stockholder's equity	97,502	97,502
Income applicable to common stockholder, as adjusted** (including the effect of debt financing)	$ 2,307	$ 2,307

*At December 31, 1981, current cost of property, plant and equipment, net of accumulated depreciation, was $9.1 billion, and historical cost or net cost recoverable through depreciation was $4.3 billion.

**Adjusted income applicable to the common stockholder would be a loss of $31.4 million on a constant dollar basis and a loss of $71.7 million on a current cost basis if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

	1981	1980	1979	1978	1977
			(In Thousands)		
Operating Revenues:					
Historical cost	$1,594,022	$1,421,997	$1,163,623	$1,014,443	$ 968,693
As adjusted*	1,594,022	1,564,197	1,454,529	1,410,076	1,453,040
Income (loss) applicable to common stockholder:					
Historical cost	$ 99,809	$ 129,704	$ 57,440		
As adjusted for the net erosion of common stockholder's equity*	2,307	10,637	(75,465)		
Common stockholder's investment (net assets), at year-end:					
Historical cost	$1,231,061	$1,211,417	$1,022,533	$ 952,648	$ 971,626
As adjusted*	1,194,129	1,271,988	1,206,589	1,276,548	1,418,574
Excess of the general level of prices over increase in specific price changes*	$ 38,423	$ 120,210	$ 323,614		
Effect of debt financing*	$ 229,933	$ 335,947	$ 398,195		
Return on average common equity:					
Historical	8.17%	11.61%	5.82%		
As adjusted for the net erosion of common stockholder's equity*	0.19%	0.95%	(7.64)%		
Cash dividends declared:					
Historical cost	$ 120,800	$ 115,300	$ 54,000	$ 108,800	$ 94,900
As adjusted*	120,800	126,830	67,500	151,232	142,350
Average consumer price index	272.4	246.8	217.4	195.4	181.5

*Adjusted amounts represent average 1981 dollars.

General Officers

Joseph M. Farley, President

Elmer B. Harris, Executive Vice President

Jesse S. Vogtle, Executive Vice President

William O. Whitt, Executive Vice President

Kenneth L. Allums, Senior Vice President

Fred L. Clayton, Jr., Senior Vice President

H. Allen Franklin, Senior Vice President

John D. Jones, Senior Vice President

Bob Andrews, Vice President, Human Resources

S. H. Booker, Vice President, Energy Services

Travis J. Bowden, Vice President, Finance and Treasurer

Stephen E. Bradley, Vice President, Public Information

Rayford F. Davis, Vice President, Power Delivery

R. E. Huffman, Vice President, Operations Services

R. P. McDonald, Vice President, Nuclear Generation

Jackson W. Minor, Vice President and Comptroller

G. Thornton Nelson, Vice President, Industrial Development

Ollie D. Smith, Vice President, Corporate Real Estate

Robert R. Todd, Vice President, Construction

Alvin W. Vogtle, Jr., Vice President

J. T. Young, Vice President, Fossil/Hydro Generation

Richard A. Bowron, Secretary

Charles M. Deason, Assistant Comptroller

Ernest E. Glass, Jr., Assistant Comptroller

Dale W. Oliver, Assistant Comptroller

Robert C. Ford, Assistant Secretary and Assistant Treasurer

E. Ray Perry, Assistant Secretary and Assistant Treasurer

Dorothy L. Essig, Assistant Secretary

John H. Snyder, Assistant Secretary

William B. Hutchins, III, Assistant Treasurer

W. L. Sanders, Jr., Assistant Treasurer

William L. Smith, Assistant Treasurer

Division Officers

W. D. Bolton, Vice President, Anniston

John B. Byars, Jr., Vice President, Eufaula

Hugh P. Foreman, Vice President, Montgomery

William L. McDonough, Vice President, Mobile

A. C. Rogers, Jr., Vice President, Tuscaloosa

H. H. Turner, Jr., Vice President, Birmingham

Transfer Agents

Alabama Power Company
600 North 18th Street
Birmingham, Alabama 35291

Chemical Bank
55 Water Street
New York, New York 10041
(For the 8.72% Preferred Stock and the 15.68% Class A Preferred Stock)

Continental Stock Transfer & Trust Company
19 Rector Street
New York, New York 10006
(All series except 8.72% Preferred Stock and the 15.68% Class A Preferred Stock)

Registrars

The First National Bank of Birmingham
Birmingham, Alabama 35288

Citibank, N.A.
New York, New York 10015

Chemical Bank
New York, New York 10041
(For the 8.72% Preferred Stock and the 15.68% Class A Preferred Stock)

All executive officers are full-time employees of the company with the exception of Mr. Alvin W. Vogtle, Jr., The Southern Company; and Mr. Robert C. Ford and Mr. E. Ray Perry, Southern Company Services, Inc.

Standing (left to right): Ernest F. Ladd, Jr., T. Massey Bedsole, Fred Morgan Clark, Frank M. Moody, Elmer B. Harris, John C. Webb IV, James C. Inzer, Jr., D. H. Morris, III, Alvin W. Vogtle, Jr., Jesse S. Vogtle, and Howard Mudd.

Seated (left to right): William O. Whitt, Frank A. Plummer, Crawford T. Johnson, III, Joseph M. Farley, William J. Rushton, III, John W. Woods, Emil Hess and G. Thornton Nelson.

Not Pictured: S. Eason Balch.

Directors

Joseph M. Farley, Birmingham (1965)†
President

Frank M. Moody, Tuscaloosa (1956)
Chairman of the Board
The First National Bank of Tuskaloosa
Commercial Banking

D. H. Morris, III, Enterprise (1956)
President
FabricsAmerica Division
Bama Mill
Allied Products Corporation
Manufacturer and Finisher of Textile Products

T. Massey Bedsole, Mobile (1963)*
Partner
Hand, Arendall, Bedsole, Greaves & Johnston
Attorneys

Howard Murfee, Prattville (1963)
Chairman of the Board
McQueen Smith Farms, Inc.
Diversified Farmers and Ginners

James C. Inzer, Jr., Gadsden (1965)**
Partner
Inzer, Suttle, Swann & Stivender, P.A.
Attorneys

Alvin W. Vogtle, Jr., Atlanta (1968)
President
The Southern Company
Electric Utility Holding Company

Crawford T. Johnson, III, Birmingham (1969)†
President
Coca-Cola Bottling Company United, Inc.
Bottlers of Soft Drinks

G. Thornton Nelson, Birmingham (1969)†
Vice President

Frank A. Plummer, Montgomery (1969)
Chairman of the Board
First Alabama Bancshares, Inc.
Multibank Holding Company

S. Eason Balch, Birmingham (1970)
Partner
Balch, Bingham, Baker, Hawthorne, Williams & Ward
Attorneys

William J. Rushton, III, Birmingham (1970)†
President
Protective Corporation
Sales and Service of Life and Health Insurance

John W. Woods, Birmingham (1973)†
Chairman of the Board
AmSouth Bancorporation
Multibank Holding Company

Ernest F. Ladd, Jr., Mobile (1974)
Chairman Emeritus
Merchants National Bank of Mobile
Commercial Banking

Emil Hess, Birmingham (1975)†
Chairman of the Board
Parisian, Inc.
Apparel

Fred Morgan Clark, Eufaula (1977)*
Senior Vice President and Director
United Federal Savings and Loan Association
Financial Service of Savings and Loan Association

John C. Webb, IV, Demopolis (1977)*
President
Webb Lumber Company, Inc.
Wholesale Lumber

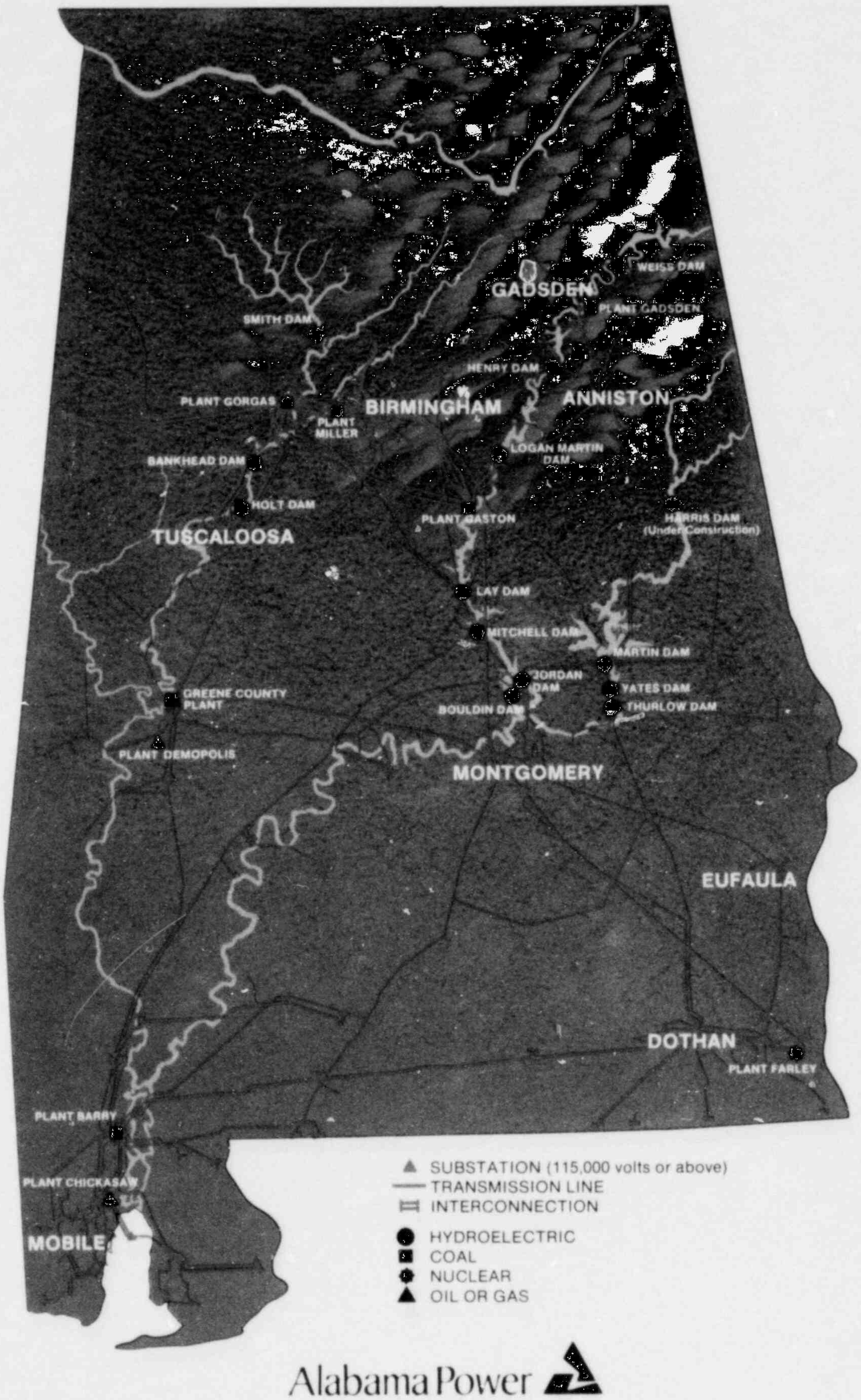
Jesse S. Vogtle, Birmingham (1979)
Executive Vice President

William O. Whitt, Birmingham (1979)†
Executive Vice President

Elmer B. Harris, Birmingham (1980)
Executive Vice President

* Audit Committee member
** Audit Committee alternate member
† Executive Committee member

Years in parentheses indicate date of election.



Alabama Power

the southern electric system

ALABAMA POWER COMPANY

Balance Sheets

	March 31 1982	March 31 1981
Assets and Other Debits	(Thousands of dollars)	
Utility Plant	$5,429,746	$5,089,730
Accumulated provision for depreciation	(1,106,375)	(967,406)
Nuclear fuel	288,953	225,385
Accumulated provision for amortization	(120,616)	(66,129)
Net utility plant	4,491,708	4,281,580
Nonutility property (net)	2,564	2,392
Investment in subsidiary companies	17,495	17,403
Other investments and special funds	13	12
Total other property and investments	20,072	19,807
Cash and marketable securities	12,225	20,898
Working funds and special deposits	681	666
Receivables less provision for uncollectibles	174,625	120,831
Fuel stock	205,470	167,542
Other materials and supplies	25,457	22,110
Prepayments	68,178	58,683
Total current assets	486,636	390,730
Deferred debits	86,279	81,219
Total assets and other debits	$5,084,695	$4,773,336
Liabilities and Credits		
Common capital stock	$ 224,358	$ 224,358
Preferred capital stock	416,825	421,900
Premium on preferred capital stock	461	461
Gain on cancellation of reacquired preferred capital stock	1,333	479
Miscellaneous paid-in capital	918,145	881,145
Earnings retained in the business	106,668	117,098
Total proprietary capital	1,667,790	1,645,441
Long-term debt-Bonds	2,153,486	1,993,486
Other Long-term debt	329,925	323,176
Unamortized premium and discount (net)	(16,974)	(15,838)
Total capitalization	4,134,227	3,946,265
Notes payable	42,840	30,700
Accounts payable	120,775	163,796
Customer deposits	22,568	20,231
Taxes accrued	52,409	39,386
Interest accrued	73,228	57,269
Other current liabilities	29,619	22,517
Total current liabilities	341,439	333,899
Accumulated deferred income taxes	488,440	413,501
Accumulated deferred investment tax credits	83,699	56,236
Other deferred credits	33,136	21,642
Total deferred credits	605,275	491,379
Injuries and damage reserve	3,754	1,793
Total liabilities and other credits	$5,084,695	$4,773,336

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

This statement reflects the usual accounting practices of the Company on the basis of interim figures and is subject to audit and end of year adjustments.

ALABAMA POWER COMPANY

Statements of Income

	Twelve Months Ended March 31 1982	1981
	(Thousands of Dollars)	
Operating revenues -		
Sales of electricity	$1,620,548	$1,508,950
Other operating revenues	12,923	10,537
Total operating revenues	1,633,471	1,519,487
Operating expenses -		
Operation	811,008	792,702
Maintenance	146,983	105,065
Total operation and maintenance expenses	957,991	897,767
Depreciation and amortization	157,655	129,074
Taxes other than income taxes	94,114	73,760
Income taxes	111,109	118,908
Total operating expenses	1,320,869	1,219,509
Total electric operating income	312,602	299,978
Steam heat operating income	483	272
Total operating income	313,085	300,250
Other income and deductions -		
Allowance for funds used during construction-Other	31,888	38,000
Other income	12,641	8,823
Other income deductions	1,017	607
Taxes	3,514	(149)
Total other income and deductions	39,998	46,365
Income before interest charges	353,083	346,615
Interest charges -		
Interest on long-term debt	246,232	199,419
Amortization of debt discount, expense and premium (net)	920	658
Other interest expense	6,326	46,788
Total interest charges	253,478	246,865
Allowance for funds used during construction -		
Borrowed - Credit	(23,131)	(38,410)
Income tax effect - AFUDC - Borrowed - Credit	(20,921)	(34,741)
Net interest charges	209,426	173,714
Net income	143,657	172,901
Dividends on preferred stock	36,890	31,554
Net income after dividends on preferred stock	$ 106,767	$ 141,347

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

ALABAMA POWER COMPANY

Statements of Retained Earnings

	Twelve Months Ended March 31	
	1982	1981
	(Thousands of Dollars)	
Balance at first of period	$117,098	$ 99,613
Add (deduct):		
Net income after dividends on preferred stock	106,767	141,347
Cash dividends on common stock	(117,100)	(122,000)
Preferred capital stock expense	(97)	(1,862)
Balance at end of period	$106,668	$117,098

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

ALABAMA POWER COMPANY

Statement of Sources of Funds for Gross Property Additions

	Twelve Months Ended March 31 1982	Twelve Months Ended March 31 1981
	(Thousands of Dollars)	
SOURCES		
Net income	$143,657	$172,901
Less - Dividends on common stock	117,100	122,000
Dividends on preferred stock	36,890	31,554
	(10,333)	19,347
Add (deduct) principal noncash items -		
Depreciation and amortization	214,604	154,439
Deferred income taxes, net	84,400	102,507
Deferred investment tax credits	42,627	14,384
Allowance for equity funds used during construction	(31,888)	(38,000)
	299,410	252,677
Decrease (increase) in net current assets, other than long-term debt due within one year and notes payable to banks -		
Cash and temporary cash investments	8,673	(7,171)
Receivables	(53,808)	(27,134)
Materials and supplies	(41,275)	(20,657)
Accounts payable	(45,300)	15,705
Taxes accrued	13,023	17,545
Interest accrued	15,959	1,775
Other, net	2,223	(27,433)
	(100,505)	(47,370)
Other, net*	21,540	(1,962)
Total funds from internal sources	$220,445	$203,345
Sales of securities -		
First mortgage bonds	$175,000	$350,000
Less - bonds retired	15,000	-
Preferred stock	-	40,000
Less - preferred stock redeemed	5,075	-
	154,925	390,000
Capital contributions by The Southern Company	37,000	156,000
Pollution control obligations, net	2,014	6,107
Sales of property, net book value	49	73
Obligations under capitalized leases	4,735	36,536
Increase (decrease) in interim obligations	12,140	(363,296)
Total funds from external sources	210,863	225,420
GROSS PROPERTY ADDITIONS	$431,308	$428,765

* Includes allowance for equity funds used during construction.

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

Alabama Power Company
Notes to Financial Statements

March 31, 1982

Alabama Power Company's (ALABAMA) charter contains provisions which prohibit the payment of cash common dividends (except those paid concurrently with the receipt of a cash capital contribution in like amount) in cases where retained earnings are not at least equal to two times the annual preferred stock dividends which currently amount to $73,315,900.00.

The financial statements for the twelve months ended March 31, 1982 include increased revenues, subject to refund, in the amount of $71,976,000 which after deducting applicable taxes result in a net income effect of $37,793,000. On March 19, 1981, ALABAMA filed a retail rate request with the Alabama Public Service Commission (APSC) to increase revenues by approximately $324,900,000 annually based on the twelve months ended November 30, 1980. On October 16, 1981, the APSC issued an order denying any part of the rate request. On February 12, 1982, the Supreme Court of Alabama granted ALABAMA the right to collect a portion of the requested increase, subject to refund pending final determination of ALABAMA's appeal to such court. Pursuant to such order, ALABAMA filed rates which have been estimated to produce approximately $176 million additional revenues for the twelve-month period commencing October 16, 1981. ALABAMA then filed, on March 9, 1982, a retail rate request with the APSC seeking a $129 million annual increase in addition to the $324.9 million increase requested in March, 1981.

On January 18, 1982, ALABAMA filed a wholesale rate increase request with the Federal Energy Regulatory Commission (FERC) estimated to increase wholesale revenues by $9.4 million annually based on the test year ending December 31, 1982. In accordance with ALABAMA's request, which was required by the settlement agreement between ALABAMA and its wholesale customers in the most recently completed wholesale case, the FERC suspended the effective date of the new rates until May 1, 1982, subject to refund pending final determination of such case.

ALABAMA POWER COMPANY

Internal Cash Flow for
Joseph M. Farley Nuclear Power Station
(Dollars in Thousands)

	1981 Actual	1982 Projections
Net Income After Taxes	$135,880	$ 31,838
Less Dividends Paid	(156,871)	(57,660)
Retained Earnings	(20,991)	(25,822)
Adjustments:		
Depreciation and Amortization	198,106	262,913
Deferred Income Taxes and Investment Tax Credits	112,123	67,277
Allowance for Funds Used During Construction (Gross)	(86,320)	(69,628)
Total Adjustments	223,909	260,562
Internal Cash Flow	$202,918	$234,740
Average Quarterly Cash Flow	$ 50,730	$ 58,685
Percentage Ownership in all Operating Nuclear Units:		
Joseph M. Farley Units 1 and 2		100%
Maximum Total Contingent Liability		$20,000