ALABAMA POWER COMPANY
1983 ANNUAL REPORT

CUSTOMERS, OUR GREATEST CONCERN; EMPLOYEES, OUR GREATEST ASSET.

COVER

Throughout Alabama Power's service area, many customers and company employees have established special friendships. At Alabama Power, customers are our greatest concern. While it takes generating plants and technology to provide electricity, the real asset of our company is our employees.

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System Map . . . Inside Back Cover

Alabama Power Company is one of four 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., a consulting firm, and Southern Electric Generating Company, which is owned in equal shares by Alabama Power and Georgia Power companies.

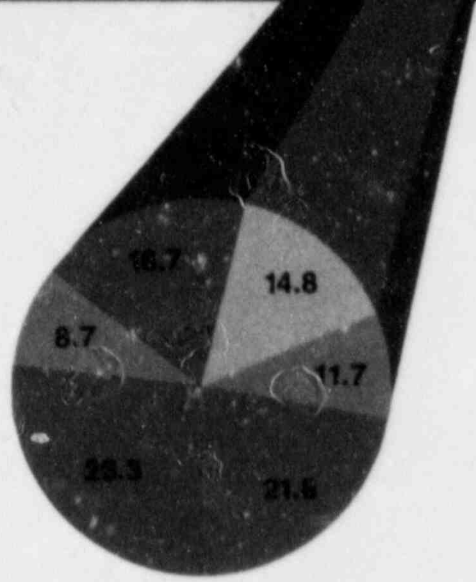
A copy of Form 10-K as filed with the Securities and Exchange Commission will be available to stockholders upon written request to Richard Bowron, secretary. A copy of the company's Financial and Statistical Review is also available on request.

Alabama Power

Alabama Power Company/600 North 18th Street/Post Office Box 2641/
Birmingham, AL 35291/Telephone 205/250-1000

DISTRIBUTION OF REVENUE DOLLAR* (PERCENT) 1983

- FEDERAL, STATE & LOCAL TAXES
- INTEREST CHARGES & PREFERRED STOCK DIVIDENDS
- EARNINGS AVAILABLE FOR COMMON DIVIDENDS & EARNINGS RETAINED IN BUSINESS
- OTHER OPERATION & MAINTENANCE
- FUEL & PURCHASED POWER
- DEPRECIATION & AMORTIZATION



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

COMPARATIVE HIGHLIGHTS

	1983	1982
	(Dollars in Thousands)	
Electric Energy Sales (Millions of kwh):		
Residential	9,176	9,153
All Other Retail	19,644	19,311
Wholesale	5,403	5,475
Total	34,223	33,939
Average Annual Use per Residential Customer (kwh)	10,400	10,466
Customers Served Directly at End of Year	1,015,203	1,001,832
Operating Revenues:		
Residential Sales	$ 629,478	$ 578,291
All Other Retail Sales	1,039,181	979,836
Wholesale Sales	190,104	189,345
Total from Sales of Energy	1,858,763	1,747,472
Other Revenues	16,845	16,673
Total	$1,875,608	$1,764,145
Operating Expenses:		
Fuel	$ 542,760	$ 540,878
Purchased and Interchanged Power, Net	(27,539)	17,042
Other	923,666	825,269
Total	$1,438,887	$1,383,189
Income before Interest Charges	$ 481,060	$ 409,527
Interest Charges (Before credit of $38,558,000 in 1983 and $51,796,000 in 1982 for allowance for debt funds used during construction and related income tax effect)	252,671	262,408
Dividends on Preferred Stock	37,936	36,658
Net Income after Dividends on Preferred Stock	229,011	162,257
Total Gross Utility Plant at End of Year	$6,549,618	$6,050,508
Gross Additions to Utility Plant During Year	522,140	459,437
Construction Work in Progress at End of Year	761,119	748,762

TO THE STOCKHOLDERS

We review the year 1983 with pride of accomplishment and draw confidence to face the challenges ahead. Alabama Power achieved financial stability during 1983 and, for the first time since 1976, regained the A rating on its first mortgage bonds. Contributing to the improvement in the company's financial condition was the new ratemaking approach adopted in November 1982 by the Alabama Public Service Commission. This concept establishes a range for the company's rate of return on end-of-period common equity and allows for small, periodic rate adjustments to keep the company within that range and also provides for rate increases to recognize new generating facilities being placed in service.

As anticipated, this concept had a stabilizing effect on retail electric rates. Since adoption of the rate stabilization procedure, a revenue increase of only 2 percent has been necessary to keep the company within the specified range of 13.5 to 15 percent. In June 1983, a 1.8 percent rate increase was allowed under the certificated new plant rate to reflect the commercial operation of Harris Dam.

Under this innovative program, rates will decrease by 1 percent effective with April 1984 billings. This will mark the first general reduction in retail rates by Alabama Power Company in some 20 years.

Coal continues to be the primary fuel source in a generation mix that also includes nuclear and hydroelectric power. In 1983, average operating availability for the system's fossil-fueled units was 90 percent.

Record hydroelectric generation and high performance levels by the Farley Nuclear Electric Generating Plant benefited customers with continued fuel savings during 1983. Both nuclear units operated above 90 percent availability between routine refueling outages, which represented an outstanding achievement, reflecting both the quality of the plant and the personnel who are responsible for its operation.

Sales of electricity to commercial and industrial customers recorded growth during 1983. As a further indication of the continuing economic recovery, U.S. Steel, one of the system's largest customers in the past, announced plans to reopen its steel-making operation in Birmingham, while also bringing on line its new seamless pipe facility, which represents an investment of $700 million.

Sales to utilities outside the Southern electric system are expected to grow as contracts to supply electricity from the Miller Electric Generating Plant to three Florida and Texas utilities take effect in 1984.

While the company continues to stress efficient energy use, our renewed marketing efforts promote a more balanced load through the Good Cents Home program, replacement of outdated heating applications with the more efficient heat pump and energy-efficient appliances.

The company's progress in 1983, achieved in the face of only the beginning of an economic recovery in Alabama, is a tribute to all the employees who work for Alabama Power and the Southern electric system. Their dedication to the goals of the enterprise continues to help improve the responsiveness of our organization and the quality of life throughout our service area.

Joseph M. Farley

Joseph M. Farley
President

March 8, 1984

MANAGEMENT CHANGES

The company's board of directors made several management changes in 1983.

William B. Hutchins III, Robert H. Haubein and Charlton B. McArthur were elected vice presidents; Travis J. Bowden was elected senior vice president; and Edward L. Addison and James H. Sanford were elected to the boarc directors.

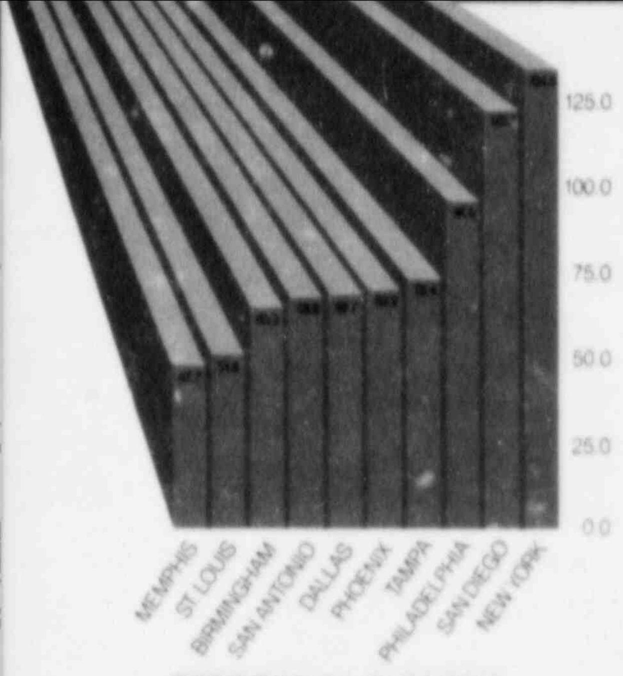
Mr. Bowden assumed responsibil for the financial operations of the company. Mr. Hutchins now has direct responsibilities pertaining to treasury, sales of securities, and financial planning.

Mr. McArthur assumed responsibility for the company's industrial development department, and Mr. Haubein was elected vice president of the Weste: n Division.

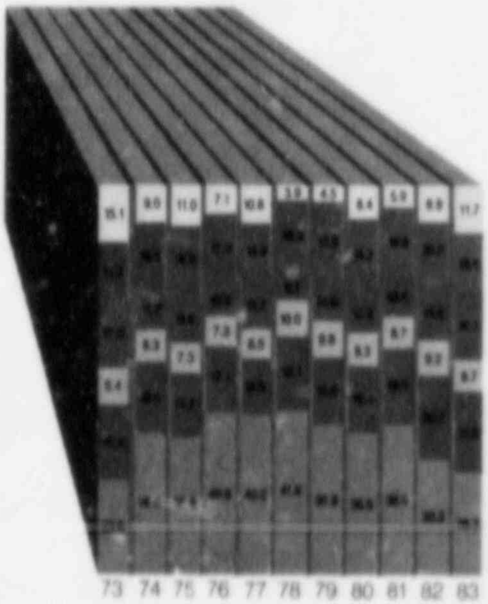
Mr. Addison is president and chief executive officer of The Southern Company, and Mr. Sanford is president of McQueen Smith Farms, Inc., of Prattville, Ala.

Edward L. Addison, left, and James H. Sanford were elected to the company's board of directors.

Management changes in 1983 included the election of (l to r) William B. Hutchins III, Robert H. Haubein and Charlton B. McArthur as vice presidents, and Travis J. Bowden as senior vice president.



RESIDENTIAL ELECTRIC BILLS FOR SELECTED U.S. CITIES FOR MONTHLY USE OF 1,000 KILOWATT-HOURS RATES IN EFFECT DECEMBER 1983
DOLLARS



DISTRIBUTION OF REVENUE DOLLAR* (1973-1983)
*INCLUDES ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AND OTHER INCOME, NET OF TAXES

- EARNINGS AVAILABLE FOR COMMON DIVIDENDS & EARNINGS RETAINED IN BUSINESS
- INTEREST CHARGES & PREFERRED STOCK DIVIDENDS
- FEDERAL, STATE & LOCAL TAXES
- DEPRECIATION & AMORTIZATION
- OTHER OPERATION & MAINTENANCE
- FUEL & PURCHASED POWER

RATES

During all of 1983, the new retail rate-making approach, Rate RSE (Rate Stabilization and Equalization) and Rate CNP (Certificated New Plant), was in effect for the company.

This concept, adopted by the Alabama Public Service Commission in November 1982, establishes a range of 13.5 to 15 percent on the company's rate of return on end-of-period common equity and allows for small, periodic rate adjustments to keep the company within that range. A rate increase under Rate RSE is warranted only if the return on end-of-period common equity falls below 13.5 percent. If the return exceeds 15 percent, the company is required to reduce rates. In September 1983, the Supreme Court of Alabama affirmed the orders of the commission adopting this approach.

In February 1983, a revenue increase of 2 percent became effective under Rate RSE. As a result of the return on end-of-period common equity being within the specified range, no adjustment up or down was required in October 1983 or January 1984. Under this plan, rates will decrease by 1 percent effective with April 1984 billings.

Rate CNP provides for rate adjustments which recognize the placing in service of new generating facilities. In June 1983, a 1.8-percent revenue increase was allowed as a result of placing Harris Dam in service. The project was the first certificated generating facility to be given recognition under Rate CNP.

On March 7, 1983, Alabama Power filed a wholesale rate increase request with the Federal Energy Regulatory Commission (FERC) estimated to increase revenues by $6.8 million annually. A settlement agreement providing for a $1.1-million annual increase to the company's electric cooperative customers was approved by the FERC in February 1984. The $4.6-million portion of the requested increase applicable to the company's municipal customers remains pending before the FERC.

Alabama Power customers continued to benefit throughout 1983 from fuel savings resulting primarily from record hydroelectric generation and high performance levels by the Farley Nuclear Electric Generating Plant.

FINANCIAL REVIEW

Net income for 1983, after dividends on preferred stock, was $229 million, an increase of $66.8 million over 1982. The increase was due primarily to the more realistic rates in effect during the year, the company's continuing emphasis on cost controls and productivity, the overall efficiency and availability of the company's generating plants, and a lower rate of inflation.

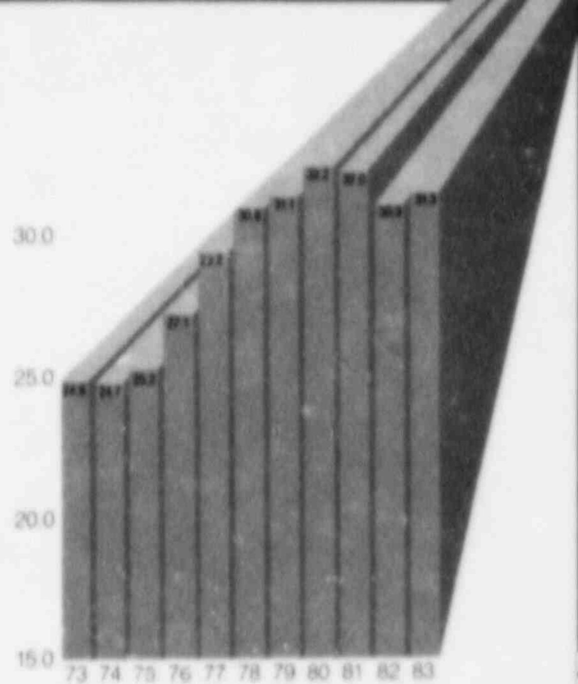
The company's return on average common equity increased from 12.62 percent for 1982 to 16.12 percent for 1983.

Additionally, at year's end, the interest and dividend coverage ratios under the mortgage indenture and corporate charter were 3.33 and 1.77, respectively. This indenture coverage is the highest since 1970. The minimum coverage ratios under the mortgage indenture and corporate charter for the issuance of additional first mortgage bonds and preferred stock are 2.0 and 1.5, respectively.

In September 1983, the company sold two million shares of Adjustable Rate Class A Preferred Stock with an initial dividend rate of 11.04 percent and stated capital of $25 per share. Net proceeds from the sale were used for the construction program and other financial requirements.

During 1983, internal funds supplied 65 percent of the company's requirements, thereby limiting the need for outside financing.

The company regained the A rating on its first mortgage bonds in September 1983 when Moody's Investors Service upgraded the ratings on the bonds to A3. This rating is the highest since 1976. Moody's also upgraded the company's preferred stock to baa2.



TOTAL TERRITORIAL ENERGY SALES
BILLIONS OF KWH

ELECTRIC SALES

In 1983, Alabama Power's commitment to marketing took on a new emphasis designed to encourage customer usage in off-peak hours. While the company continues to stress energy efficiency, our marketing efforts promote a more balanced load through the construction of Good Cents Homes and Apartments, the replacement of outmoded heating applications with the electric heat pump, and the use of other energy-efficient electric appliances and systems.

Total sales of electricity increased slightly from 33.9 billion kilowatt-hours in 1982 to 34.2 billion kilowatt-hours in 1983. The peak demand for 1983 was 7.0 million kilowatts reached on August 24. It compared with 6.3 million kilowatts in 1982, representing an 11.3-percent increase. The highest demand ever on the company's system was 7.2 million kilowatts during a record heat wave in 1980.

Residential and commercial sales increased .3 percent and 1.8 percent, respectively; industrial sales increased 1.7 percent. Wholesale and all other energy sales decreased 1.2 percent compared with 1982, primarily due to decreased sales to neighboring utilities.

Residential customers accounted for 27 percent of the company's total energy sales in 1983, commercial customers 17 percent and industrial customers 40 percent. Wholesale and all other energy sales accounted for the remaining 16 percent. By the year 2000, we anticipate that our residential, commercial, industrial and

Mitchell Dam near Verbena—second oldest of Alabama Power's 14 hydroelectric generating plants—has been undergoing major expansions to increase its capacity to 170,000 kilowatts. Three new generating units will replace three original units installed in 1923, with a net increase of 97,500 kilowatts of capacity. All modifications are expected to be completed in 1985.

Opposite: Agricultural engineer Jim Edwards instructs McAdory High School students during a storm window workshop in Jefferson County. Sponsored by Alabama Power, the conservation program teaches participants how to assemble the lightweight inner windows to fit their home's individual specifications.

wholesale customers will require an estimated 30.8 percent more electric energy than they are now using, a compound growth rate of 1.7 percent a year.

In 1983, more than 6,570 residential electric heating and heat pump installations were added to the company's system. Electric heat was installed in 69 percent of all new commercial buildings. Increased use of electric heat is important because it enables the company to utilize during the winter months facilities which have been built primarily to meet the high demand which usually occurs in the summer.

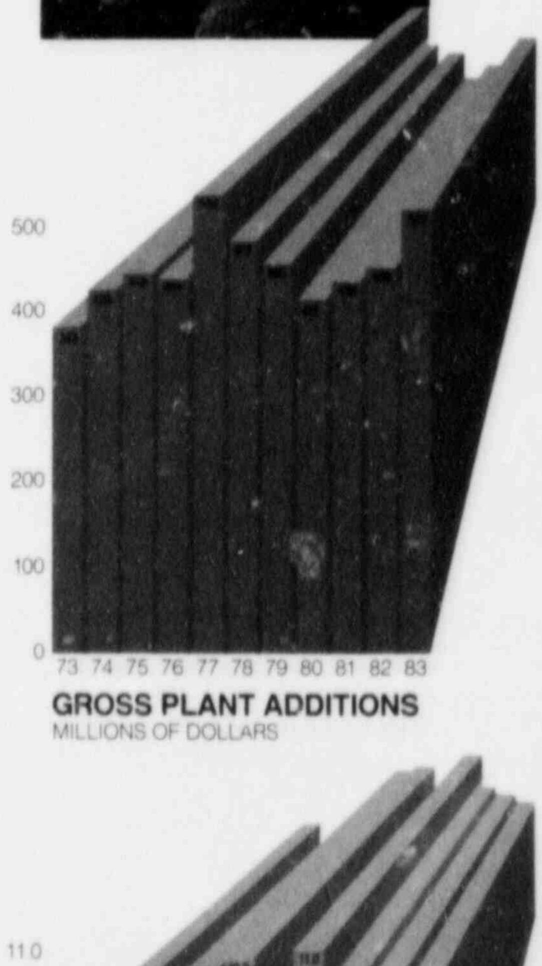
Alabama Power has a firm commitment to market electricity aggressively among all classes of customers—residential, commercial and industrial. Our marketing programs are designed to increase the company's revenues, improve its load factor, and promote and strengthen customer goodwill.

CONSTRUCTION

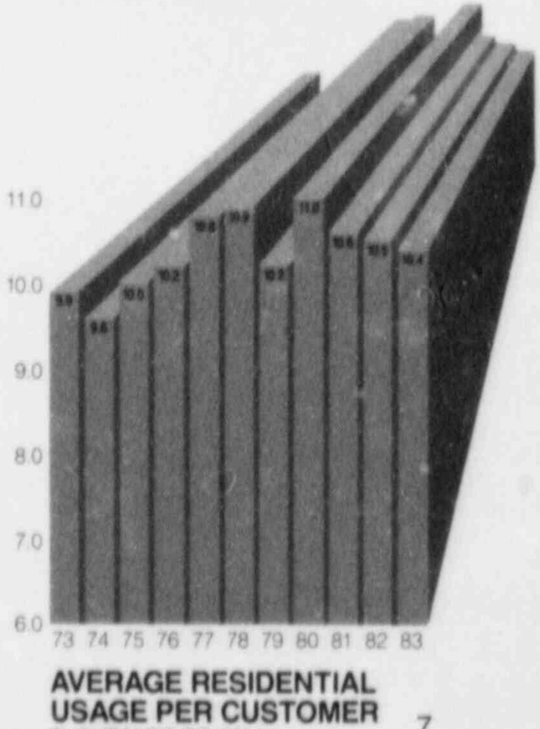
Construction on three 660,000-kilowatt units at the coal-fired Miller Electric Generating Plant continued to move forward during 1983. At year's end, Unit 2 was approximately 70 percent complete and scheduled for commercial operation in 1985; Units 3 and 4 were approximately 4 percent complete with projected commercial operation in 1989 and 1991, respectively.

Alabama Power contracted to sell generating capacity from the coal-fired Plant Miller to three off-system utilities over an approximate 10-year period. Under terms of agreements which begin in 1984, Gulf States Utilities in Beaumont, Texas, the Jacksonville (Florida) Electric Authority, and Florida Power & Light in Miami will purchase electricity from the plant. When the contracts expire, all Plant Miller units will be available to serve the needs of Alabama Power customers.

Redevelopment of Mitchell Dam is approximately 63 percent complete. When completed in 1985, the hydroelectric facility will have a net increase in installed capacity of 97,500 kilowatts.



GROSS PLANT ADDITIONS
MILLIONS OF DOLLARS



AVERAGE RESIDENTIAL USAGE PER CUSTOMER
THOUSANDS OF KWH

In conjunction with the emergency warning system for the Farley Nuclear Electric Generating Plant near Dothan, public communication assistant Allan McDonald discusses emergency notification radios with a family living near the plant. Alabama Power distributed radios to approximately 2,400 homes and businesses within a 10-mile radius of Plant Farley. In addition, sirens were installed in Ashford, Gordon and Columbia as a part of a dual warning system.

Opposite: Children at the Farley Visitors Center test their knowledge and skills with the "neutron gun" which demonstrates the creation of nuclear electric power by splitting a simulated atom with a beam of light. The exhibit is among many computer games and graphic displays at the visitors center.

The construction of Harris Dam on the Tallapoosa River was completed in 1983, and the 135,000-kilowatt, two-unit hydroelectric plant began commercial operation in April.

During the year, the company spent approximately $522 million for construction of generating plants, transmission and distribution lines, substations, and other facilities.

GENERATING RESOURCES

During 1983, the company achieved outstanding availability from its nuclear, fossil, and hydro generating plants. Availability is the percentage of time units are available to provide electricity.

Plant Farley Unit 2 completed 280 days of uninterrupted service during 1982 and 1983 until its routine refueling on September 16. Unit 1 has generated electricity 98.1 percent of the time since its last start-up date on March 30, 1983.

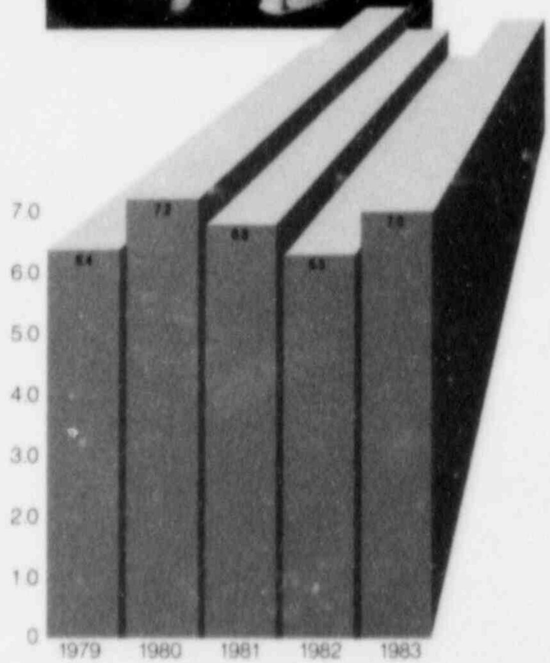
Availability of the company's fossil-fueled and hydro generating units was outstanding at 90.4 percent and 95.4 percent, respectively.

Alabama Power continued to rely on a generation mix of coal, nuclear, and hydroelectric power for its power production in 1983. Fossil-fueled units on Alabama Power's system supplied 58.4 percent of the total energy production, and nuclear generation supplied 28.1 percent. Hydroelectric plants generated 13.5 percent of the total electricity produced during the year.

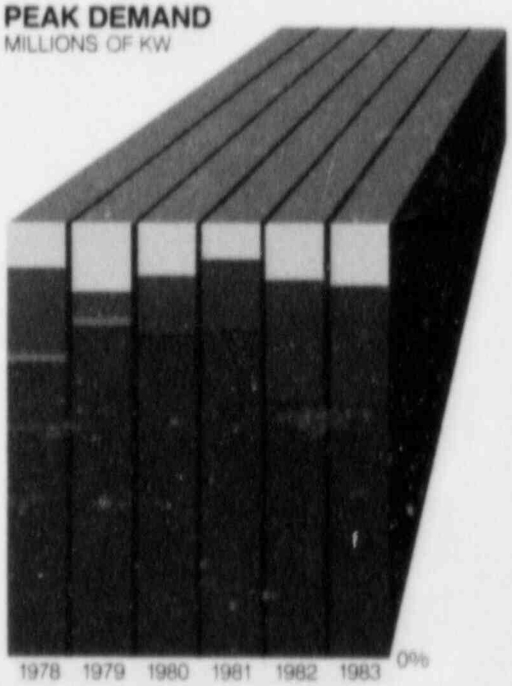
The company purchased 12,165,153 tons of coal in 1983, almost exclusively from Alabama mines. At year's end, the company had 4,272,926 tons of coal on hand, a 154-day supply based on anticipated requirements.

Ending 11 years of legal proceedings, the United States Supreme Court refused Alabama Power's request to review a 1981 order of the Nuclear Regulatory Commission requiring sale of an approximate 6 percent interest in Plant Farley to Alabama Electric Cooperative, Inc., of Andalusia, Ala. The two companies are continuing negotiations in an attempt to resolve issues relating to the terms of sale and future operations of the nuclear plant.

The installed generating capacity of the company totaled 8,628,675 kilowatts at year's end. This included 50 percent of Southern Electric Generating Company's capacity at Gaston Electric Generating Plant and 60 percent of the capacity of the Greene County Electric Generating Plant.



PEAK DEMAND
MILLIONS OF KW

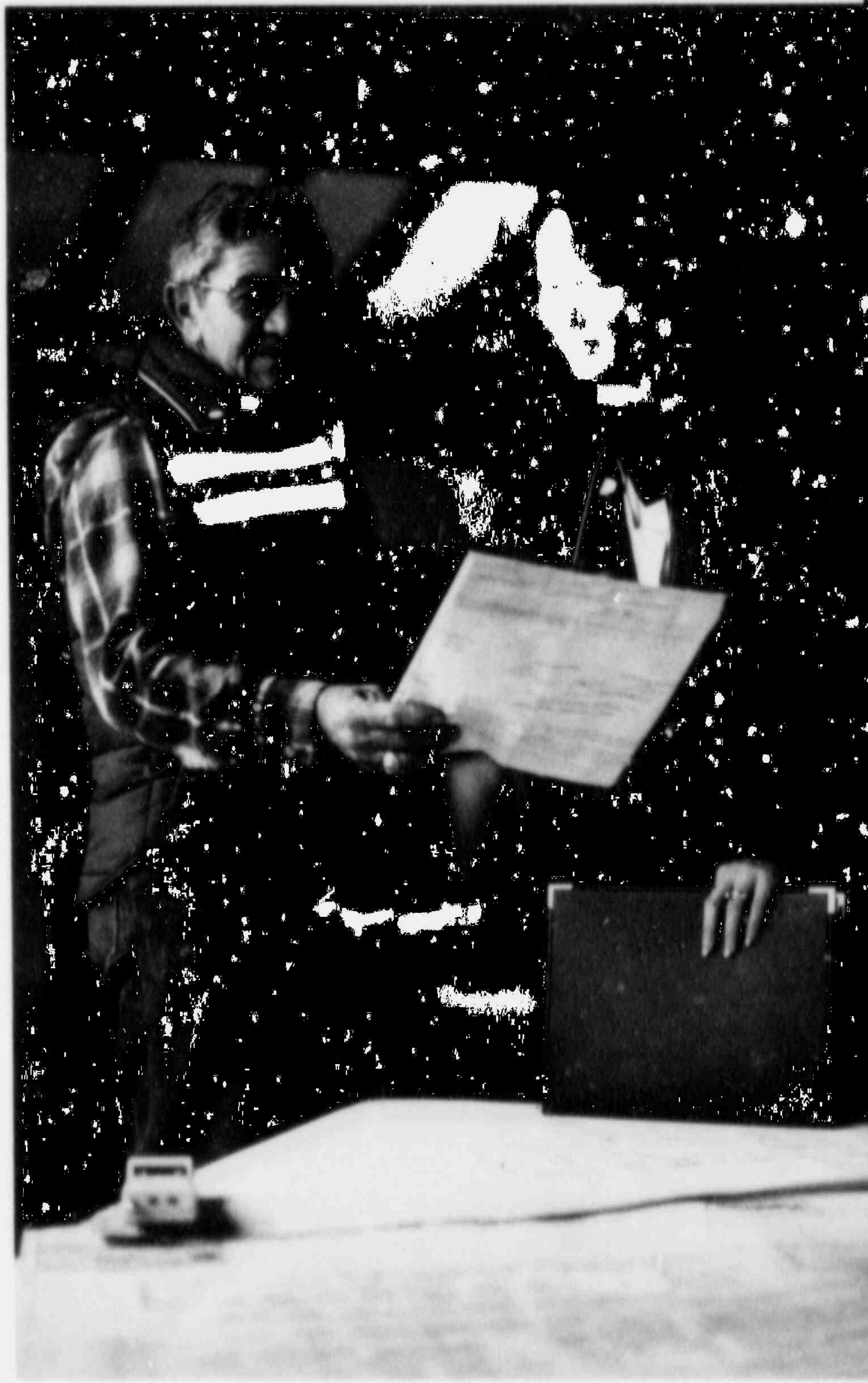


PERCENT OF TOTAL KWH GENERATION

HYDRO
GAS AND OIL
NUCLEAR
COAL

Marketing engineer Wanda Martin meets with a new commercial customer to discuss electrical engineering requirements for a restaurant under construction in west Mobile. By predetermining energy needs, Alabama Power can help a business or plant ensure energy efficiency from the first day of operation.

Opposite: Charlton McArthur, vice president, industrial development, meets with Kagechika Matano, Japanese consul general, to discuss Alabama Power's competitive energy costs. As a member of an Alabama delegation that traveled to Japan, McArthur also met with top Japanese business and industrial leaders.



INDUSTRIAL DEVELOPMENT

Since the 1920s, Alabama Power's extensive industrial development program has fostered industrial expansion and attracted new companies to the state. The results have been new businesses, new jobs, and a larger, stronger, and more diversified economic base in Alabama.

Industrial development continues to be a high priority for the company. Alabama Power's activities are closely coordinated with state agencies, local organizations, and corporate development staffs of other companies.

As the state's economy improved during the year, 483 industrial firms announced plans to locate or expand facilities in Alabama Power's service area, creating 9,052 jobs and an annual payroll of approximately $113 million. When these additions and expansions are in full operation, total investment for new and expanded industries announced in 1983 is expected to be approximately $1 billion.

An encouraging sign of this area's economic resurgence is the new United States Steel pipe mill at Fairfield Works. Considered by USS to be "a truly world-class pipe mill," it will be capable of shipping 600,000 tons of finished seamless pipe yearly. Its other products will be tubing, casing, standard seamless pipe and line pipe.

Don Erwin, materials services specialist, speaks to the Jasper Rotary Club. He is among 30 specially trained members of Alabama Power's Speakers Bureau. During 1983, company personnel made over 400 speeches on a wide range of topics.

Opposite: Research scientists continue to measure acidity levels of lakes in the Adirondack Mountains as a part of jointly sponsored research projects to determine the cause of acid rain. Current efforts include rain sampling, air quality studies and ongoing efforts to control smoke and particulate emissions from power plants.

RESEARCH AND DEVELOPMENT

The year 1983 marked the 10th anniversary of one of the most dramatic events in the country's energy history: the OPEC oil embargo. Throughout the energy turmoil of the past decade, Alabama Power provided efficient, economical electricity to its customers and searched for better ways to fulfill energy needs at the lowest possible cost and with minimal environmental impact.

During the same decade, Alabama Power pooled its research dollars with more than 450 other electric utilities across the country to support the work of the Electric Power Research Institute (EPRI).

Almost half of the company's 1983 contribution went to generation research to improve existing fossil-fueled and nuclear power generation systems. Approximately 83 percent of Alabama Power's generating capacity is fossil-fueled and nuclear.

Overall, about 1,500 active research projects are currently under EPRI's management, representing a funding authorization in excess of $1.9 billion for a five-year period.

Alabama Power also participates in an experimental coal research center near Wilsonville, Ala., sponsored by the Southern electric system and EPRI. Tests conducted during 1983 confirmed that 25 to 40 percent less hydrogen may be needed to convert raw coal into a clean-burning liquid fuel, thus lowering production costs for synthetic fuels.

EMPLOYEES

The company employed 9,917 people as of December 31, 1983 compared to 9,663 people a year earlier.

Employee participation in the savings plan and stock ownership plan increased significantly during 1983. The pension plan and insurance programs also provided a wide range of benefits to employees.

Alabama Power Company's commitment to employee safety in all aspects of its operation is illustrated by the excellent safety record achieved in 1983. The year was completed with an occupational injury and illness incidence rate of .46 for each 200,000 man-hours worked, well below the national average for the electric utility industry.

We sell electricity, but we offer our customers much more.

It may be an energy audit helping customers lower energy usage or a television cartoon informing children about electrical safety.

A program for senior citizens, Keep Cool and Safe, is especially helpful in summer by providing information on the dangers of heat stress. In partnership with the Alabama Commission on Aging, more than 9,000 special window vent locks were distributed in 1983.

Families facing energy-related crises without financial assistance can apply for help through the company's Project SHARE. More than 80,000 customers and employees have pledged contributions. Through Project SHARE, about 2,400 families received assistance in 1983. Administered by the American Red Cross, SHARE is the most successful utility-sponsored assistance program in the country.

Other programs also illustrate the company's concern for its customers: Centsable Budgeting helps customers levelize their monthly electric bills; Third-Party Notification, which notifies a third party of a disconnect notice; school programs that take information about electricity to the classroom; customer service centers to respond to customer inquiries around the clock; and audio tapes prepared especially for the blind.

We sell electricity, as well as meet our social responsibility to the customers we serve.

CUSTOMERS, OUR GREATEST CONCERN; EMPLOYEES, OUR GREATEST ASSET.

Top Left: Students from Abbeville and Rehobeth high schools compete in the 1983 ''Energy Bowl'' at the Farley Nuclear Visitors Center. The ''Energy Bowl'' offers students a fresh approach to energy issues through a quiz show format.

Bottom Left: Students attentively watch a test screening of ''Louie the Lightning Bug'' at The Discovery Place in Birmingham. The animated television character was developed for Alabama Power to convey to children the importance of electrical safety.

Top Right: Appliance repairman Mike Shouse inspects a malfunctioning clothes dryer in a customer's home as a curious onlooker stands ready to render assistance.

Bottom Right: Bill McKean, social service consultant with the American Red Cross, talks with a Project SHARE applicant in Birmingham. Funded by dollar-a-month contributions from Alabama Power customers and employees, SHARE is administered by Red Cross chapters throughout the company's service area.

A company's programs are planned and executed by dedicated employees. Employees are the backbone of an organization, in both the good and the bad times.

Employees read meters, respond to thousands of customer inquiries, operate plants, install new services, process bills, repair machinery, perform energy audits, and yet find time to give of themselves in community projects, governmental bodies, and religious institutions.

A recent internal study found that hundreds of Alabama Power employees contribute personal time each week to activities and organizations, including hospitals, youth programs, local government boards, chambers of commerce, service clubs, and human service agencies.

Within the company, many employees actively participate in job-related professional organizations, often on their own time. For example, the company's employee-staffed Speakers Bureau made over 400 presentations in 1983 to groups ranging in size from 10 to 300.

There is a depth of commitment among our 9,917 employees. Our responsibility to communities and customers goes beyond meeting energy needs. The company and its employees invest their time, talents, and money in the social and economic well-being of Alabama.

CUSTOMERS, OUR GREATEST CONCERN; EMPLOYEES, OUR GREATEST ASSET.

Top Left: Cashier Deborah Farmer helps a customer with questions about her electric bill in the company's Wetumpka office.

Bottom Left: Customer accounting representative Cathy McAltine assists another inquiring customer by telephone at the new Tuscaloosa Customer Service Center. The company now has five service centers to handle customer inquiries around the clock.

Top Right: An Anniston line crewman prepares to switch on the power supply for a downtown business.

Bottom Right: Appliance service order analyst Alice Green stays active in the community as play therapist at The Children's Hospital in Birmingham. She is among hundreds of company employees who devote time to community service.


1983 FINANCIAL REPORT
FORD

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 recognition that cost of the system should not exceed 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)	1983	1982	1981	1980
Condensed Statements of Income:				
Operating Revenues	$1,875,608	$1,764,145	$1,594,022	$1,421,997
Operating Expenses:				
Operation and maintenance	941,966	940,262	978,075	816,243
Depreciation and amortization	169,231	169,753	147,581	127,840
Taxes other than income taxes	107,445	96,936	86,878	74,488
Federal and state income taxes	220,245	176,238	92,773	114,427
Total Operating Expenses	1,438,887	1,383,189	1,305,307	1,132,998
Operating Income	436,721	380,956	288,715	288,999
Other Income, Net	44,339	28,571	46,927	42,715
Income Before Interest Charges	481,060	409,527	335,642	331,714
Net Interest Charges	214,113	210,612	199,762	170,997
Dividends on Preferred Stock	37,936	36,658	36,071	31,013
Net Income After Dividends on Preferred Stock	$ 229,011	$ 162,257	$ 99,809	$ 129,704
Cash Dividends on Common Stock	$ 145,200	$ 130,700	$ 120,800	$ 115,300
Return on Average Common Equity (Percent)	16.12	12.62	8.17	11.61
Total Assets	$5,120,607	$4,683,358	$4,449,126	$4,244,932
Gross Property Additions	$ 522,140	$ 459,437	$ 437,587	$ 411,813
Capitalization:				
Common stock equity	$1,499,909	$1,340,890	$1,231,061	$1,211,417
Preferred stock	424,400	374,400	374,400	334,400
Preferred stock subject to mandatory redemption	38,034	42,234	43,789	47,500
Long-term debt	2,404,565	2,370,050	2,394,674	2,159,793
Total Capitalization	$4,366,908	$4,127,574	$4,043,924	$3,753,110
Kilowatthour Sales (In Thousands):				
Residential	9,176,413	9,153,173	9,229,255	9,510,609
Commercial	5,816,678	5,715,630	5,586,990	5,514,844
Industrial	13,688,096	13,460,193	14,651,012	14,499,375
Sales for resale	2,496,899	2,408,904	2,402,331	2,518,347
Other	138,901	134,811	131,117	127,582
Total Territorial Sales	31,316,987	30,872,711	32,000,705	32,170,757
Non-territorial sales	2,905,585	3,066,423	1,768,650	1,346,912
Total Kilowatthour Sales	34,222,572	33,939,134	33,769,355	33,517,669
Operating Revenues:				
Residential	$ 629,478	$ 578,291	$ 518,730	$ 489,031
Commercial	398,827	371,581	325,388	293,576
Industrial	631,440	600,219	584,030	507,784
Sales for resale	97,731	99,014	89,727	77,627
Other	8,914	8,036	7,644	6,706
Total Territorial Revenues	1,766,390	1,657,141	1,525,519	1,374,724
Non-territorial revenues	92,373	90,331	56,013	37,304
Total Revenues from Sales of Electricity	1,858,763	1,747,472	1,581,532	1,412,028
Other revenues	16,845	16,673	12,490	9,969
Total Operating Revenues	$1,875,608	$1,764,145	$1,594,022	$1,421,997
Customers (End of Year)	1,015,203	1,001,832	996,200	986,082
Employees (End of Year)	9,917	9,663	9,661	9,573
Average Revenues Per Kilowatthour Total Sales (Cents)	5.43	5.15	4.68	4.21
Average Cost of Fuel Per Net Kilowatthour Generated (Including SEGCO) (Cents)	1.74	1.80	1.84	1.61

1979	1978	1977	1976	1975	1974	1973
$1,163,623	$1,014,443	$ 968,693	$ 699,667	$ 631,250	$ 489,455	$ 396,841
700,647	655,384	594,880	461,504	362,041	300,718	185,372
123,075	109,315	69,938	57,692	51,394	45,523	40,605
74,592	63,737	47,887	45,584	38,147	34,370	30,241
58,759	25,080	89,161	36,577	58,342	26,426	44,076
957,073	853,516	801,866	601,357	509,924	407,037	300,294
206,550	160,927	166,827	98,310	121,326	82,418	96,547
40,775	44,892	57,436	95,552	75,012	55,383	33,780
247,325	205,819	224,263	193,862	196,338	137,801	130,327
158,666	131,697	83,101	115,053	101,609	72,843	55,472
31,219	31,219	23,886	22,385	16,947	15,964	9,766
$ 57,440	$ 42,903	$ 117,276	$ 56,424	$ 77,782	$ 48,994	$ 65,089
$ 54,000	$ 108,800	$ 94,900	$ 60,000	$ 60,000	$ 46,800	$ 45,800
5.82	4.46	12.82	7.18	11.60	8.61	13.89
$3,995,816	$3,717,638	$3,341,428	$2,886,941	$2,520,299	$2,142,355	$1,742,852
$ 459,533	$ 483,430	$ 540,076	$ 443,951	$ 447,966	$ 428,874	$ 383,114
$1,022,533	$ 952,648	$ 971,626	$ 858,300	$ 713,197	$ 628,415	$ 511,109
334,400	334,400	334,400	235,400	235,400	235,400	200,400
50,000	50,000	50,000	50,000	—	—	—
1,883,684	1,851,394	1,652,013	1,294,731	1,200,277	1,015,948	897,333
$3,290,617	$3,188,442	$3,008,039	$2,438,431	$2,148,874	$1,879,763	$1,608,842
8,679,417	9,088,856	8,804,755	8,135,215	7,743,609	7,321,419	7,344,878
5,207,513	5,282,746	5,121,461	4,793,698	4,611,863	4,306,750	4,194,288
14,629,581	13,799,043	12,845,489	11,872,717	10,742,325	10,992,118	10,867,180
2,461,078	2,479,439	2,346,603	2,134,011	2,020,406	1,954,525	2,330,717
126,729	125,177	120,556	117,377	111,313	104,989	97,097
31,104,318	30,775,261	29,238,864	27,053,018	25,229,516	24,679,801	24,834,160
6,286	342,302	615,423	544,327	420,868	552,995	—
31,110,604	31,117,563	29,854,287	27,597,345	25,650,384	25,232,796	24,834,160
$ 385,224	$ 351,644	$ 339,393	$ 248,306	$ 230,161	$ 178,949	$ 152,689
242,626	213,059	208,864	152,076	140,568	109,944	92,121
442,221	357,691	338,007	238,282	208,068	165,540	127,415
76,056	67,539	56,872	42,308	38,229	21,362	17,434
6,335	6,004	5,663	4,310	4,051	3,814	3,503
1,152,462	995,937	948,799	685,282	621,077	479,609	393,162
1,222	10,534	12,496	7,817	5,253	5,031	—
1,153,684	1,006,471	961,295	693,099	626,330	484,640	393,162
9,939	7,972	7,398	6,568	4,920	4,815	3,679
$1,163,623	$1,014,443	$ 968,693	$ 699,667	$ 631,250	$ 489,455	$ 396,841
976,200	961,440	938,576	921,208	898,658	882,706	863,272
9,038	9,695	8,813	8,164	7,870	7,948	7,693
3.71	3.23	3.22	2.51	2.44	1.92	1.58
1.56	1.22	1.20	1.06	1.08	0.79	0.43

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

RESULTS OF OPERATIONS

The company's financial performance improved significantly in 1983 compared to 1982 and 1981. Net income after dividends on preferred stock was $229 million in 1983, $162 million in 1982 and $100 million in 1981. Return on average common equity for 1983 was 16.1 percent compared to 12.6 percent in 1982 and 8.2 percent in 1981.

The increase in revenues in 1983 over 1982 is due primarily to more realistic retail rates and a small increase in total energy sales. The growth in retail revenues during 1983 reflects the implementation of rates which provide for periodic adjustments based upon the company's earned return on common equity (Rate RSE) as well as adjustments to recognize the placing of new generating facilities in service (Rate CNP). The increase in revenues in 1982 compared to 1981 and 1980 was attributable to a combination of rate increases, recovery of increased fuel and purchased energy costs through fuel and energy adjustment provisions contained in rate schedules, and small increases in energy sales. A 1 percent rate decrease under Rate RSE will become effective with April 1984 billings. The RSE and CNP retail rate-making concepts will not extend beyond January 1, 1985 without an affirmative vote of the APSC.

Total energy sales continued to grow in each period, with a significant growth occurring in sales to nonterritorial utilities in 1982 and 1981. Although there was a slight decrease in kilowatthour sales to nonterritorial utilities in 1983, the related revenues grew due to capacity charges which are not directly related to the level of energy sales. These sales are expected to increase as a result of long-term contracts for the sale of capacity and energy to neighboring utilities. Sales under the various agreements provided revenues of $92 million in 1983, $90 million in 1982 and $56 million in 1981. The average revenue per kilowatthour of total sales in 1983 was 5.43¢ as compared to 5.15¢ in 1982 and 4.68¢ in 1981.

Operating expenses continued to rise each year due to increases in operation and maintenance expenses which include offsetting reductions in purchased and interchanged power. Additional operation and maintenance expenses resulted from increased fuel expense and escalations in the cost of other operation expenses, which were minimized by the company's emphasis on cost control and productivity. Purchased and interchanged power expense has decreased significantly since 1981 as a result of increased nuclear and hydro power generation. The negative net purchased and interchanged power expense for 1983 indicates a net delivery of power. Increased nuclear generation occurred in 1983 and 1982 as a result of the placing in service of Plant Farley Unit 2 in July 1981 and the achievement of high levels of plant availability. Increased hydro power generation in 1983 and 1982 reflects favorable rainfall and the placing in service of Harris Dam in 1983. Nuclear power generation decreased in 1981 as compared to 1980 due to Unit 1 of Plant Farley being out of service for seven months and hydro power generation decreasing as a result of abnormally low rainfall. The decrease in 1981 of nuclear and hydro power generation contributed to the increase in purchased and interchanged power expense for 1981 as compared to 1980. Fuel cost per kilowatthour generated, including SEGCO, was 1.74¢ in 1983, 1.80¢ in 1982 and 1.84¢ in 1981. The decrease in the fuel cost per kilowatthour generated in 1983 and 1982, as compared to 1981, is indicative of a more favorable generation mix with increased nuclear generation, and a slight decrease in the overall cost of fuel consumed. The reduction of fuel cost per kilowatthour generated in 1983 was due also in part to an adjustment to nuclear fuel amortization concerning the disposal of spent nuclear fuel.

Depreciation and amortization increased in 1981 and 1982 over the respective preceding years, but decreased in 1983 as compared to 1982. While depreciation increased each year due to the continued growth in depreciable plant in service, amortization decreased for 1983 as compared to 1982 and 1981 due to amortization of the costs of a cancelled nuclear generating plant being completed in 1982. The composite straight-line depreciation rate was 3.5 percent in 1983, 3.6 percent in 1982 and 3.5 percent in 1981.

Variations in income tax expense resulted from fluctuations in income before income taxes. Taxes other than income taxes increased each year since 1980 because of higher revenue-related taxes as well as growth in property taxes.

The allowance for funds used during construction is the estimated debt and equity costs during the period of construction, of funds invested in the construction of plant which are not recovered from customers through current rates. While cash is not realized currently from such allowance, it is realized over the service life of the plant under the ratemaking process through increased revenues resulting from higher rate base and higher depreciation expense. The composite rate used to determine the amount of allowance, net of the income tax effect of the debt cost, was 9.0 percent in 1983, 8.4 percent in 1982 and 8.1 percent in 1981. The company accounts for the income tax effect of the debt cost as a charge to income tax expense associated with operations with a corresponding credit to allowance for debt funds used during construction. The allowance for funds used during construction, net of income taxes, as a percent of net income after dividends on preferred stock was 24.2 percent in 1983, 29.3 percent in 1982 and 64.2 percent in 1981.

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 energy sales), will adversely affect future earnings. Increases in future sales will be affected by the volume of energy sales to nonaffiliated utilities, 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. See Note 16 to the financial statements for supplementary information concerning the approximate effects of inflation.

FINANCIAL CONDITION

Liquidity—

Improvement in the company's short-term liquidity position is evidenced by the increase of cash and temporary cash investments to $144 million with no bank loans outstanding at the end of 1983. The company has arrangements with banks providing for $324 million of credit to meet short-term cash

needs. All of this credit may not be utilized without regulatory approval.

Capital Resources—
The company's continuing construction program to build an energy supply network with sufficient margin of reserve capacity to ensure an adequate, economical power supply, required the expenditure of $1.4 billion during the three years 1981 through 1983. The sources of funds for construction expenditures are internal sources, long-term debt, sales of preferred stock and capital contributions from The Southern Company.

The company's construction expenditures are estimated to total $2.0 billion for the three years 1984 through 1986. The construction program is subject to periodic review and revision and construction costs incurred and commercial operation dates may vary from estimates because of several factors, including new estimates of increased costs, revised load estimates and the cost of capital. In addition to the funds required for the construction program, approximately $52 million will be required through the end of 1986 in connection with maturities of first mortgage bonds and pollution control obligations and the mandatory redemption of preferred stock.

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 first mortgage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. Under the company's mortgage indenture and corporate charter, the bond and preferred stock coverages of the company at December 31, 1983 were 3.33 and 1.77, respectively. The minimum coverage ratios under the mortgage indenture and corporate charter for the issuance of additional first mortgage bonds and preferred stock are 2.0 and 1.5, respectively.

The company regained an A rating on its first mortgage bonds in 1983 when Moody's Investors Service upgraded the bond ratings to A3. This credit rating is the highest since 1976. Moody's also upgraded the rating on the company's preferred stock to baa2.

As a result of the improved financial performance during the period 1981 through 1983, the company continued to make progress toward meeting its long-term goal of increasing common equity as a percent of total capitalization. At year-end, this ratio reached 34.3 percent, compared to 32.5 percent and 30.4 percent for 1982 and 1981, respectively. Conversely, during the same period the long-term debt ratio decreased from 59.2 percent in 1981 to 55.1 percent at the end of 1983. However, the composite interest rate on long-term debt has increased from 9.7 percent at December 31, 1980 to 9.9 percent at December 31, 1983. As further evidence of the increasing cost of capital, the company's annual interest requirement on long-term debt has increased 15.1 percent since 1980.

Several bills currently before Congress concerning acid rain would make additional pollution control equipment compulsory for coal-fired electric power plants. The enactment of legislation mandating reductions in sulfur emissions in Alabama would substantially increase the company's capital requirements and operating costs.

The company is currently engaged in NRC-mandated negotiations to sell an ownership interest of approximately 6 percent in Plant Farley to Alabama Electric Cooperative, Inc. (AEC), and to provide transmission services to AEC and municipal electric distributors.

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, 1983 and 1982, 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, 1983. 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, 1983 and 1982, 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 10, 1984.

BALANCE SHEETS at December 31, 1983 and 1982

	1983	1982
	(In Thousands)	
Assets		
UTILITY PLANT (Notes 1, 3 and 10):		
Plant in service, at original cost	$5,376,313	$4,979,976
Less—Accumulated provision for depreciation	1,381,440	1,218,727
	3,994,873	3,761,249
Nuclear fuel, at amortized cost	217,793	143,767
Construction work in progress	761,119	748,762
	4,973,785	4,653,778
Less—Property-related accumulated deferred income taxes (Note 1)	584,322	491,264
	4,389,463	4,162,514
OTHER PROPERTY AND INVESTMENTS:		
Southern Electric Generating Company (Note 9)	18,003	16,400
Nonutility property, net	2,900	2,437
Miscellaneous	1,287	1,194
	22,190	20,031
CURRENT ASSETS:		
Cash (Note 4)	17,807	11,203
Temporary cash investments, at cost	126,415	14,009
Receivables—		
Customer accounts receivable	113,768	101,059
Other accounts and notes receivable	16,717	12,262
Affiliated companies	38,543	36,791
Accumulated provision for uncollectible accounts	(691)	(558)
Refundable federal income tax (Note 5)	13,710	22,173
Fossil fuel stock, at average cost	251,440	210,349
Materials and supplies, at average cost	43,741	26,154
Prepayments	24,333	27,900
Vacation pay deferred (Note 1)	18,123	—
	663,906	461,342
DEFERRED CHARGES:		
Debt expense, being amortized	6,847	6,948
Miscellaneous	38,201	32,523
	45,048	39,471
	$5,120,607	$4,683,358
Capitalization and Liabilities		
CAPITALIZATION (See accompanying statements):		
Common stock equity	$1,499,909	$1,340,890
Preferred stock	424,400	374,400
Preferred stock subject to mandatory redemption (Note 8)	38,034	42,234
Long-term debt	2,404,565	2,370,050
	4,366,908	4,127,574
CURRENT LIABILITIES:		
Long-term debt due within one year (Note 7)	85,550	59,821
Accounts payable—		
Affiliated companies	48,947	43,405
Other	180,055	101,458
Customer deposits	26,224	23,996
Taxes accrued—		
Federal and state income (Note 5)	38,625	27,483
Other	9,099	8,731
Interest accrued	65,906	65,241
Vacation pay accrued (Note 1)	18,123	—
Miscellaneous	26,759	40,537
	499,288	370,672
DEFERRED CREDITS, ETC.:		
Accumulated deferred investment tax credits (Note 5)	243,399	170,709
Miscellaneous	11,012	14,403
	254,411	185,112
COMMITMENTS AND CONTINGENT MATTERS (Notes 2, 3, 9, 10 and 12)		
	$5,120,607	$4,683,358

The accompanying notes are an integral part of these statements.

STATEMENTS OF CAPITALIZATION at December 31, 1983 and 1982

		Amount		Percent of Total	
		1983	1982	1983	1982
		(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		1,062,145	986,145		
Premium on preferred stock (Note 8)		1,904	1,807		
Earnings retained in the business (Note 11)		211,502	128,580		
Total		1,499,909	1,340,890	34.3%	32.5%
CUMULATIVE PREFERRED STOCK (Note 3):					
$1 par value, authorized 27,500,000 shares—$25 stated capital—outstanding 3,600,000 shares—					
15.68%		40,000	40,000		
Adjustable rate—11.04% at December 31, 1983 (Note 14)		50,000	—		
$100 par value, authorized 3,850,000 shares, outstanding 3,724,340 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—$37,671,000)		424,400	374,400	9.7	9.1
Subject to mandatory redemption (Note 8): 11.00% (annual dividend requirement—$4,184,000)		38,034	42,234	0.9	1.0
LONG-TERM DEBT (Note 3):					
First mortgage bonds—					
Maturity	Interest Rates				
May 1, 1983	$4\frac{1}{8}\%$	—	11,939		
March 1, 1984	$3\frac{1}{8}\%$	17,000	17,000		
June 1, 1985	$3\frac{1}{2}\%$	15,000	15,000		
March 1, 1986	$3\frac{1}{2}\%$	13,725	13,725		
May 1, 1987	$4\frac{5}{8}\%$	14,500	14,500		
October 1, 1987	$8\frac{5}{8}\%$	75,000	75,000		
January 1, 1988	$3\frac{7}{8}\%$	23,000	23,000		
1989 through 1993	$4\frac{3}{8}\%$ to $18\frac{1}{4}\%$	266,135	268,135		
1994 through 1998	$4\frac{5}{8}\%$ to 7%	139,763	139,763		
1999 through 2003	$7\frac{1}{2}\%$ to 9%	528,424	528,424		
2004 through 2008	$8\frac{3}{4}\%$ to $10\frac{7}{8}\%$	710,000	710,000		
2010 and 2011	$12\frac{5}{8}\%$ to $17\frac{3}{8}\%$	322,750	325,000		
Total first mortgage bonds		2,125,297	2,141,486		
Other long-term debt (Note 6)		380,933	304,916		
Unamortized debt premium (discount), net		(16,115)	(16,531)		
Total long-term debt (annual interest requirement—$247,826,000)		2,490,115	2,429,871		
Less amount due within one year (Note 7)		85,550	59,821		
Long-term debt, excluding amount due within one year		2,404,565	2,370,050	55.1	57.4
TOTAL CAPITALIZATION		$4,366,908	$4,127,574	100.0%	100.0%

The accompanying notes are an integral part of these statements.

STATEMENTS OF INCOME
for the Years Ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In Thousands)	
OPERATING REVENUES	$1,875,608	$1,764,145	$1,594,022
OPERATING EXPENSES:			
Operation—			
Fuel	542,760	540,878	504,930
Purchased and interchanged power, net	(27,539)	17,042	144,916
Other	262,354	232,952	192,502
Maintenance	164,391	149,390	135,727
Depreciation and amortization	169,231	169,753	147,581
Taxes other than income taxes	107,445	96,936	86,878
Federal and state income taxes (Note 5)	220,245	176,238	92,773
Total operating expenses	1,438,887	1,383,189	1,305,307
OPERATING INCOME	436,721	380,956	288,715
OTHER INCOME (EXPENSE):			
Allowance for equity funds used during construction (Note 1)	35,103	20,352	39,471
Income from subsidiary (Note 9)	3,088	2,412	2,531
Other, net	6,148	5,807	4,925
Income before Interest Charges	481,060	409,527	335,642
INTEREST CHARGES:			
Interest on long-term debt	246,246	250,806	239,858
Allowance for debt funds used during construction (Note 1)	(38,558)	(51,796)	(46,849)
Amortization of debt discount, premium and expense, net	985	936	871
Other interest charges	5,440	10,666	5,882
Net interest charges	214,113	210,612	199,762
NET INCOME	266,947	198,915	135,880
DIVIDENDS ON PREFERRED STOCK	37,936	36,658	36,071
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 229,011	$ 162,257	$ 99,809

STATEMENTS OF EARNINGS RETAINED IN THE BUSINESS
for the Years Ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In Thousands)	
Balance, beginning of period	$ 128,580	$ 97,023	$ 119,973
Add (deduct):			
Net income after dividends on preferred stock	229,011	162,257	99,809
Cash dividends paid on common stock	(145,200)	(130,700)	(120,800)
Preferred stock issuance expense	(889)	—	(1,959)
Balance, end of period (Note 11)	$ 211,502	$ 128,580	$ 97,023

STATEMENTS OF OTHER PAID-IN CAPITAL
for the Years Ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In Thousands)	
Balance, beginning of period	$ 986,145	$ 908,145	$ 866,145
Cash contribution to capital by parent company	76,000	78,000	42,000
Balance, end of period	$1,062,145	$ 986,145	$ 908,145

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, 1983, 1982 and 1981

	1983	1982	1981
		(In Thousands)	
FUNDS FROM OPERATIONS:			
Net income	$266,947	$198,915	$135,880
Add (deduct) principal noncash items—			
Depreciation and amortization	224,656	238,664	198,977
Deferred income taxes, net	115,343	66,474	82,723
Deferred investment tax credits	105,200	118,200	29,400
Allowance for equity funds used during construction	(35,103)	(20,352)	(39,471)
	677,043	601,901	407,509
Less—			
Dividends on common stock	145,200	130,700	120,800
Dividends on preferred stock	37,936	36,658	36,071
Net funds provided from operations	493,907	434,543	250,638
FUNDS FROM FINANCINGS AND CAPITAL CONTRIBUTIONS:			
First mortgage bonds—			
Total issues	—	—	275,000
Less retirements	16,189	12,000	15,000
Net issues (retirements)	(16,189)	(12,000)	260,000
Preferred stock	50,000	—	40,000
Preferred stock reacquired (Note 8)	(4,200)	(1,555)	(3,711)
Capital contributions from parent company	76,000	78,000	42,000
Proceeds from pollution control obligations, net	10,140	3,240	1,713
Increase (decrease) in other long-term debt, net	65,877	(9,384)	(19,719)
Decrease in interim obligations	—	—	(96,501)
Net funds provided from financings and capital contributions	181,628	58,301	223,782
FUNDS PROVIDED (REQUIRED) BY OTHER SOURCES:			
Decrease (increase) in temporary cash investments	(112,406)	5,542	(10,534)
Decrease (increase) in other net current assets (excluding notes payable and long-term debt due within one year)	12,729	(40,592)	(24,313)
Other, net (including allowance for equity funds used during construction)	(53,718)	1,643	(1,986)
Net funds provided (required) by other sources	(153,395)	(33,407)	(36,833)
GROSS PROPERTY ADDITIONS (including allowance for funds used during construction in the amounts of $55,349,000 in 1983, $47,549,000 in 1982 and $64,070,000 in 1981)	$522,140	$459,437	$437,587

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, a system service company, and Southern Electric International, Inc. (SEI). The operating companies provide electric utility service in four southeastern states. Contracts among the companies, covering interconnection arrangements, interchange of electric power and joint ownership of generating facilities, are regulated 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 SOUTHERN and to each of the operating companies. SEI markets to utilities and industrial concerns the technical expertise of the Southern electric system in planning and operating electric power facilities.

SOUTHERN 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 regulated by the FERC and the Alabama Public Service Commission (APSC) and follows generally accepted accounting principles and complies with the accounting policies and practices prescribed by the respective commissions.

Revenues—

Revenues 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 recovers fuel costs and net purchased energy costs through fuel cost recovery mechanisms which provide for adjustments as necessary to reflect increases or decreases in such costs.

Subsequent to April 7, 1983, the enactment date of the Nuclear Waste Policy Act of 1982, the charges to nuclear fuel expense include the amortization of the cost of nuclear fuel and a charge, equal to one mill per kilowatthour of nuclear generation, for permanent disposal of spent fuel. Prior to April 7, 1983, the cost of nuclear fuel, including the estimated cost of permanent disposal of spent fuel, was amortized to fuel expense based on the quantity of heat produced for generation of electric energy. Such amortization was $57,467,000 in 1983, $61,947,000 in 1982 and $42,369,000 in 1981.

Pending permanent disposition of the spent fuel, sufficient storage capacity is presently available at Plant Farley for storage of spent fuel into 1992 and 2010 for Unit Nos. 1 and 2, respectively. The company has received a license from the Nuclear Regulatory Commission (NRC) to install higher capacity storage racks at Plant Farley Unit No. 1, which will provide sufficient storage of spent fuel into 2007.

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 benefits and the estimated cost of funds used during construction. The cost of maintenance, repairs and replacements of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Allowance for Funds Used During Construction—

This allowance is the estimated debt and equity costs during the period of construction, of funds invested in the construction of plant which are not recovered from customers through current revenues. While cash is not realized currently from such allowance, it is realized over the service life of the plant under the ratemaking process through increased revenues resulting from higher rate base and higher depreciation expense. The composite rate used to determine the amount of allowance, net of the income tax effect of the debt cost, was 9.0 percent in 1983, 8.4 percent in 1982 and 8.1 percent in 1981. The company accounts for the income tax effect of the capitalized debt cost as a charge to income tax expense associated with operations and a corresponding credit to allowance for debt funds used during construction.

Depreciation—

Depreciation of the original cost of depreciable utility plant in service is provided using composite straight-line rates which approximated 3.5 percent in 1983, 3.6 percent in 1982 and 3.5 percent in 1981, and includes a factor to provide for the expected cost of decommissioning nuclear facilities. This cost, based on decommissioning promptly after the unit is taken out of service, is currently 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.

Pension Costs—

The company has a defined benefit, 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 $30,963,000 in 1983, $28,165,000 in 1982 and $25,592,000 in 1981. Of these amounts, $20,682,000 in 1983, $18,961,000 in 1982 and $16,829,000 in 1981 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:

	1983	1982
	(In Thousands)	
Actuarial present value of accumulated plan benefits—		
Vested	$202,556	$175,751
Nonvested	3,402	3,291
Total	$205,958	$179,042
Weighted average rates of return assumed in determining actuarial present value of accumulated plan benefits	8%	8%
Net assets available for benefits	$305,849	$218,717

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. The unfunded prior service cost under the plan and supplemental contracts amounted to approximately $82,980,000 at December 31, 1983 and is being amortized over a period of approximately 15 years.

Income Taxes—

The company provides deferred income taxes for all income tax timing differences as permitted by the appropriate regulatory agencies. Investment tax credits utilized are deferred and amortized over the average lives of the related property. Provisions for property-related deferred income taxes reflect consumption of part of the value of the plant and equipment to which they relate. Consequently, the related accumulated deferred income taxes is a valuation reserve deducted from the plant investment in the Balance Sheets. Other deferred income taxes are included in taxes accrued. The company is included in the consolidated federal income tax return of SOUTHERN (See Note 5).

Vacation Pay—

The company's employees earn their vacation in one year and take it in the subsequent year. In order to recognize properly this liability, the company in 1983 recorded $18,123,000 as Vacation pay accrued in the Balance Sheets. A corresponding asset representing chargeable amounts is listed as Vacation pay deferred in the Balance Sheets. In 1984, approximately 64 percent of the cost of vacations will be expensed and the balance will be charged to construction and other accounts.

2. RATE MATTERS:

In November 1982, the APSC adopted retail rates which provide for periodic adjustments based upon the company's earned return on common equity. The rates also provide for adjustments to recognize the placing of new generating facilities in service. On September 16, 1983, the Supreme Court of Alabama affirmed the orders of the APSC adopting the new rates. A 2 percent revenue increase was made effective in February 1983, and a 1.8 percent revenue increase went into effect in June 1983, which recognized the commercial operation of Harris Dam. No adjustment was required in October 1983 or January 1984.

On March 7, 1983, the company filed with the FERC a wholesale rate request to increase revenues by approximately $6,800,000 annually. The FERC allowed the new rates to be placed into effect, subject to refund on October 6, 1983. Such new rates increased operating revenues and net income by approximately $1,108,000 and $582,000, respectively, in 1983. A settlement agreement providing for a $1.1 million annual increase to the company's electric cooperative customers was approved by the FERC in February 1984. The $4.6 million portion of the requested increase applicable to the company's municipal customers remains pending before the FERC.

3. CONSTRUCTION PLAN, FINANCING AND FUEL COMMITMENTS:

Construction Plan—

The company's estimated gross property additions, as of October 1983 amounted to $697 million in 1984, $631 million in 1985 and $643 million in 1986. These estimates include allowance for funds used during construction, net of income taxes. 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 several factors including new estimates of increased costs, revised load estimates and the cost of capital.

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.

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, 1983, were 3.33 and 1.77, respectively.

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 most cases, such contracts contain provisions for price escalations, minimum production levels and other financial commitments. 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:

At December 31, 1983, the company had lines of credit with banks totaling approximately $324,382,000 of which $200,000,000 represents commitments obtained under revolving credit agreements with banks outside its service area. These commitments currently terminate April 30, 1987. The agreements require the payment of a commitment fee based upon the unused portion of the commitments which, in the case of eight of the agreements and at the option of the

company, may be offset in whole or in part by the maintenance of balances with the respective bank.

Arrangements with respect to the $124,382,000 remaining lines of credit expire at various times during 1984 and in certain cases 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 banks averaging approximately $5,552,000 in 1983 and $7,591,000 in 1982.

5. INCOME TAXES:

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

	1983	1982	1981
	(In Thousands)		
Total provision for income taxes:			
Federal—			
Currently payable (refundable)	$ (9,984)	$(17,675)	$(17,791)
Deferred—			
Current year	111,413	89,065	86,681
Reversal of prior years (credit)	(3,163)	(26,562)	(9,100)
Deferred investment tax credits	105,200	118,200	29,400
	203,466	163,028	89,190
State—			
Currently payable	10,899	12,078	1,959
Deferred—			
Current year	7,450	5,747	5,816
Reversal of prior years (credit)	(357)	(1,776)	(674)
	17,992	16,049	7,101
Total	221,458	179,077	96,291
Less income taxes charged to other income	1,213	2,839	3,518
Federal and state income taxes charged to operations	$220,245	$176,238	$ 92,773

The company received a federal income tax refund of $8,977,000 for the year ended December 31, 1982, and has accrued a refund of federal income taxes for 1983 of $12,537,000. The company has also recorded a federal income tax refund of $1,173,000 as final settlement for the year ended December 31, 1977. These refunds are due to the company's utilization of investment tax credits in SOUTHERN's consolidated tax return and the settlement of the Internal Revenue Service audit for the year 1977.

The provision for deferred income taxes results primarily from the company's tax deduction for accelerated methods of depreciation and other write-offs of property costs, as provided for by the income tax laws, being significantly greater than the book depreciation of such costs. Other deferred income taxes are provided for certain costs or revenues that are recognized for income tax purposes in different periods than for book purposes. Income taxes deferred in prior years are reversed (credited) to income when book depreciation of property costs exceeds the related tax deductions or when other timing differences reverse.

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

	1983	1982	1981
Effective federal income tax rate as reported	43.3%	45.0%	39.6%
Reductions in tax expense resulting from statutory exclusions from taxable income—			
Equity component of the allowance for funds used during construction	3.4	2.6	8.1
Other	1.7	1.0	1.3
Effective federal income tax rate before effect of timing differences	48.4	48.6	49.0
Current provision for reversal of prior years' timing differences not previously recognized for accounting and ratemaking purposes—			
Difference in depreciation basis and rates	(2.2)	(2.6)	(3.0)
Other	(0.2)	—	—
Statutory federal income tax rate	46.0%	46.0%	46.0%

Deferred investment tax credits are amortized over the life of the related property with such amortization applied as a credit to reduce depreciation in the Statements of Income. These credits amounted to $6,818,000 in 1983, $2,226,000 in 1982 and $1,699,000 in 1981. At December 31, 1983, investment tax credits totaling approximately $148,000,000 expiring at various times during 1997 and 1998, 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, 1983	December 31, 1982
	(In Thousands)	
Obligations incurred in connection with the sale of tax-exempt pollution-control revenue bonds by public authorities—		
December 1, 1983, 7.85%	$ —	$ 500
December 1, 1984, 8%	3,500	3,500
December 1, 1995 and 2004 (due serially), 9% and 9¼%	18,700	18,700
2003-2013, 6% to 9½%	198,450	175,950
Less funds on deposit with trustees	31,421	19,561
	189,229	179,089
Capitalized lease obligations and other long-term debt—		
Nuclear fuel	134,369	100,597
Vehicles	10,624	12,674
Office buildings	10,174	10,314
Equipment and other	2,927	2,242
Nuclear fuel disposal fee	33,610	—
	191,704	125,827
	$380,933	$304,916

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 obligations 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 percent. At the end of 1983, $18,471,000 was outstanding at a rate of 10.80 percent under such lease. Two other arrangements provide for the payment of interest at varying times dependent on options selected by the company from types of loans available under the arrangements. Principal amounts outstanding at the end of 1983 were $22,667,000 and $93,231,000 with effective rates, including applicable fees, averaging 10.75 percent and 10.62 percent, respectively. Principal payments are required under the 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, 1983, the interest rate was 11.30 percent for vehicles and 9.5 percent for office buildings.

The net book value of capitalized leases included in utility plant in service was $142,321,000 and $117,531,000 at December 31, 1983 and 1982, respectively.

The company entered into a contract with the Department of Energy (DOE) for the disposal of spent nuclear fuel. Under the terms of the contract, DOE will provide disposal facilities beginning in 1998. Pursuant to the contract, a one-time fee applicable to spent nuclear fuel used for nuclear generation prior to April 7, 1983 is owed by the company. Such fee amounts to $33,610,000 and is payable to DOE under one of the following three options, to be selected by the company prior to June 13, 1985: (1) single payment prior to June 30, 1985 with no interest; (2) single payment prior to the first delivery of spent nuclear fuel to the disposal facility, with interest at U.S. Treasury obligations rates accruing from April 7, 1983 to date of payment or (3) forty quarterly payments with the last such payment occurring not later than the date of first delivery, with interest at U.S. Treasury obligations rates on the unpaid balance accruing from April 7, 1983. This $33,610,000 is not reflected in the following long-term amounts due.

The estimated aggregate annual maturities of the company's other long-term debt through 1988 are as follows: $64,300,000 in 1984, $43,524,000 in 1985, $26,652,000 in 1986, $8,020,000 in 1987 and $7,254,000 in 1988.

7. LONG-TERM DEBT DUE WITHIN ONE YEAR:

First mortgage bonds maturing in 1984 and 1983 amount to $17,000,000 and $11,939,000, respectively. Other long-term debt maturing in 1984 and 1983 amount to $64,300,000 and $47,882,000, respectively, and consists primarily of capitalized nuclear fuel lease obligations.

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, amounting to $24,261,000 in 1984 and $24,063,000 in 1983, may be satisfied by the deposit of cash, reacquired bonds, the delivery of bonds specifically authenticated for such purpose against unfunded property additions, or a combination thereof. The 1984 sinking fund requirement is to be satisfied by the deposit of cash for the redemption of $4,250,000 principal amount of bonds in February 1984 and the delivery of a bond against unfunded property additions. The 1983 sinking fund requirement was satisfied by the deposit of cash, the reacquisition of $4,250,000 outstanding bonds, and the delivery of a bond specifically authenticated for such purpose.

8. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

The 11 percent preferred stock is subject to a cumulative sinking fund requiring the company to redeem or purchase annually 25,000 shares ($2,500,000) of the stock. 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. The company reacquired 42,000 shares in 1983, 15,550 shares in 1982 and 37,110 shares during 1981. The shares reacquired during 1983, together with shares reacquired in 1982, were used to satisfy the 1984 sinking fund requirement and the remaining 19,660 shares will be used toward satisfaction of the 1985 requirement. The gains on reacquisition of $97,000 in 1983, $272,000 in 1982 and $594,000 in 1981 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, interest expense and a return on equity, whether or not SEGCO has any capacity and energy available. The company's share of such amounts totaled $79,531,000 in 1983, $73,290,000 in 1982 and $76,576,000 in 1981 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 $26,000,000 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, 1983, the capitalization of SEGCO consisted of $36,006,000 of equity and $51,858,000 of long-term debt on which the annual interest requirement is $4,043,000. Through December 31, 1982, SEGCO paid dividends equal to its net income. In 1983, SEGCO paid dividends totaling $2,970,000 on net income of $6,176,000.

The company and one of its affiliates, Mississippi Power Company, own as tenants in common in the proportions of 60 percent and 40 percent, 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, 1983 amounted to $55,733,000. The company's share of expenses is included in the corresponding operating expense accounts in the Statements of Income.

10. POSSIBLE SALE OF AN INTEREST IN UTILITY PLANT:

An order of an Appeal Board of the NRC in an antitrust review resulted in conditions being imposed on the NRC licenses for Plant Farley which require the company to sell an ownership interest of approximately 6 percent in Plant Farley to Alabama Electric Cooperative, Inc. (AEC), and to provide transmission services to AEC and municipal electric distributors. The company is engaged in negotiations with AEC for such sale.

11. DIVIDEND RESTRICTIONS:

The company's charter contains provisions which restrict the payment of common dividends. Currently, the most restrictive of these provisions prohibit the payment of cash dividends on common stock (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. This restriction amounted to $83,710,000 at December 31, 1983. 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, 1983 is available for the payment of cash dividends on common stock.

12. NUCLEAR INSURANCE:

Under the Price-Anderson Act (Act), the company maintains agreements of indemnity with the NRC which, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the company's nuclear power plant. The Act limits to $580,000,000 public liability claims that could arise from a single nuclear incident. 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 currently 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, the 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 any 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 (NML), a mutual insurer established to provide property damage insurance in an amount up to $500,000,000 for members' nuclear generating facilities. The company is subject to a retrospective premium adjustment in the event that losses exceed accumulated funds. The company's maximum assessment is limited to approximately $55,000,000 per policy year.

Additionally, the company has property damage policies which currently provide coverage up to $520,000,000 for losses in excess of the $500,000,000 NML coverage. This excess insurance is provided by Nuclear Electric Insurance

Limited (NEIL), a mutual insurer, and American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters. These policies cover both decontamination and debris removal, as well as excess property damage. NEIL also covers the extra costs which would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. The company is insured against increased costs of replacement power in an amount up to $2,500,000 per week (starting 26 weeks after the outage) for one year and up to $1,250,000 per week for the second year. Under each of the NEIL policies, members are subject to assessments if losses exceed the accumulated funds available to the insurer under that policy. The present maximum assessments for the company for property damage would be $9,800,000 and approximately $15,200,000 under the replacement power policy per policy year in each case.

13. 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.

14. ADJUSTABLE RATE PREFERRED STOCK:

The company issued 2,000,000 shares of Adjustable Rate Class A Preferred Stock (1983 Series) in September 1983, with a stated capital of $25 per share. The applicable dividend rate (rounded to the nearest integral multiple of .16 percent) for each dividend period, determined in advance of such period, will be (a) .79 percent less than (b) the highest of the per annum three month U.S. Treasury Bill Rate, the U.S. Treasury Ten Year Constant Maturity Rate and the U.S. Treasury Twenty Year Constant Maturity Rate. However, the applicable dividend rate for any dividend period shall in no event be less than 7.20 percent per annum or greater than 13.28 percent per annum. The dividend rate at December 31, 1983 was 11.04 percent per annum and is 11.36 percent per annum for the first quarter of 1984.

15. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1983 and 1982 are as follows:

	Operating Revenues	Operating Income	Net Income after Dividends on Preferred Stock
		(In Thousands)	
1983			
First	$441,022	$ 99,807	$49,637
Second	414,922	97,006	42,338
Third	581,491	143,427	91,242
Fourth	438,173	96,481	45,794
1982			
First	$434,578	$ 96,996	$40,644
Second	403,733	84,576	26,214
Third	506,882	114,898	61,265
Fourth	418,952	84,486	34,134

16. 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 costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the 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 1983 dollar amounts by year of addition.

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

Under the ratemaking prescribed by the regulatory commissions to which the company is subject, only the historical cost of plant is recoverable in revenues as 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 reflected in rates charged to customers. The amount of this variance in the current year is reflected as an adjustment to net recoverable cost.

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. While the use of debt financing reduced the effect of the loss on the common stockholder, earnings were not adequate to offset the erosion in the purchasing power of their investment.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES
for the Year Ended December 31, 1983

	Constant Dollar	Current Cost
	(In Thousands of Average 1983 Dollars)	
Income applicable to common stockholder, as reported	$229,011	$229,011
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	173,124	192,250
Reportable as an adjustment to net recoverable cost	3,964	(43,981)
	177,088	148,269
Excess of the general level of prices ($369,069) in the current year over increase in specific price changes ($340,250)*	—	28,819
Offsetting effect of debt financing	(120,272)	(120,272)
Net erosion of common stockholder's equity	56,816	56,816
Income applicable to common stockholder, as adjusted** (including the effect of debt financing)	$172,195	$172,195

*At December 31, 1983, current cost of property, plant and equipment, net of accumulated depreciation, was $9.7 billion, and historical cost or net cost recoverable through depreciation was $4.8 billion.

**Adjusted income applicable to the common stockholder would be $56 million on a constant dollar basis and $37 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.

	1983	1982	1981	1980	1979
			(In Thousands)		
Operating Revenues:					
Historical cost	$1,875,608	$1,764,145	$1,594,022	$1,421,997	$1,163,623
As adjusted*	1,875,608	1,817,069	1,753,424	1,720,616	1,594,164
Income (loss) applicable to common stockholder:					
Historical cost	$ 229,011	$ 162,257	$ 99,809	$ 129,704	$ 57,440
As adjusted for the net erosion of common stockholder's equity*	172,195	115,273	2,538	11,701	(82,710)
Common stockholder's investment (net assets), at year-end:					
Historical cost	$1,499,909	$1,340,890	$1,231,061	$1,211,417	$1,022,533
As adjusted*	1,469,911	1,367,708	1,304,925	1,393,130	1,329,293
Excess of the general level of prices over (less than) increase in specific price changes*	$ 28,819	$ (5,628)	$ 42,265	$ 132,231	$ 354,681
Effect of debt financing*	$ 120,272	$ 123,349	$ 252,926	$ 369,541	$ 436,422
Return on average common equity:					
Historical	16.12%	12.62%	8.17%	11.61%	5.82%
As adjusted for the net erosion of common stockholder's equity*	12.14%	8.63%	.19%	.86%	(6.06)%
Cash dividends declared:					
Historical cost	$ 145,200	$ 130,700	$ 120,800	$ 115,300	$ 54,000
As adjusted*	145,200	134,621	132,880	139,513	73,980
Average consumer price index	298.4	289.1	272.4	246.8	217.4

*Adjusted amounts represent average 1983 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
Travis J. Bowden, Senior Vice President
Fred L. Clayton, Jr., Senior Vice President
H. Allen Franklin, Senior Vice President[1]
John D. Jones, Senior Vice President
Edward L. Addison, Vice President[2]
Bob Andrews, Vice President, Human Resources
S. H. Booker, Vice President, Marketing
Stephen E. Bradley, Vice President, Corporate Communication
Rayford F. Davis, Vice President, Power Delivery
R. S. Hardigree, Vice President, Corporate Planning
R. E. Huffman, Vice President, Electric System Operations
William B. Hutchins, III, Vice President and Treasurer
Charlton B. McArthur, Vice President, Industrial Development
R. P. McDonald, Vice President, Nuclear Generation
Jackson W. Minor, Vice President and Comptroller
G. Thornton Nelson, Vice President, Industrial Development[3]
Ollie D. Smith, Vice President, Corporate Real Estate
Robert R. Todd, Vice President, Construction
Alvin W. Vogtle, Jr., Vice President[4]
J. T. Young, Vice President, Fossil/Hydro Generation
Richard A. Bowron, Secretary
Charles M. Deason, Assistant Comptroller
Ernest E. Glass, Jr., Assistant Comptroller
Jerry L. Harris, 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
W. L. Sanders, Jr., Assistant Treasurer[5]
William L. Smith, Assistant Treasurer

DIVISION OFFICERS

W. D. Bolton, Vice President, Anniston
John B. Byars, Jr., Vice President, Eufaula
Robert H. Haubein, Jr., Vice President, Tuscaloosa[6]
William L. McDonough, Vice President, Mobile
A. C. Rogers, Jr., Vice President, Tuscaloosa[7]
H. H. Turner, Jr., Vice President, Birmingham
Clyde H. Wood, Vice President, Montgomery

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% and Adjustable Rate [1983 Series] Class A Preferred Stock)

Continental Stock Transfer & Trust Company
72 Reade Street
New York, New York 10007
(All series except 8.72% and Adjustable Rate [1983 Series] Class A Preferred Stock)

REGISTRARS

AmSouth Bank, N.A.
Birmingham, Alabama 35288

Chemical Bank
New York, New York 10041
(For the 8.72% and Adjustable Rate [1983 Series] Class A Preferred Stock)

Continental Stock Transfer & Trust Company
72 Reade Street
New York, New York 10007
(All series except 8.72% and Adjustable Rate [1983 Series] Class A Preferred Stock)

All executive officers are full-time employees of the company with the exception of Edward L. Addison, The Southern Company; and Robert C. Ford and E. Ray Perry, Southern Company Services, Inc.

[1] Resigned effective May 27, 1983 to become Executive Vice President, Southern Company Services, Inc.
[2] Effective November 1, 1983
[3] Retired March 31, 1983
[4] Retired October 31, 1983
[5] Retired July 31, 1983
[6] Effective August 1, 1983
[7] Retired July 31, 1983

DIRECTORS

Joseph M. Farley, Birmingham (1965)†
President

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

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

Howard Murfee, Prattville (1963)[1]
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)[2]
Former Chairman of the Board
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)[2]
Former Vice President

Frank A. Plummer, Montgomery (1969)[1]
Chairman of the Board
First Alabama Bancshares, Inc.
Multibank Holding Company

S. Eason Balch, Birmingham (1970)
Partner
Balch Bingham Baker Ward Smith Bowman & Thagard
Attorneys

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

John W. Woods, Birmingham (1973)†
Chairman and CEO
AmSouth Bancorporation
Multibank Holding Company

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

Whit Armstrong, Enterprise (1982)*
President
The Citizens Bank
Enterprise

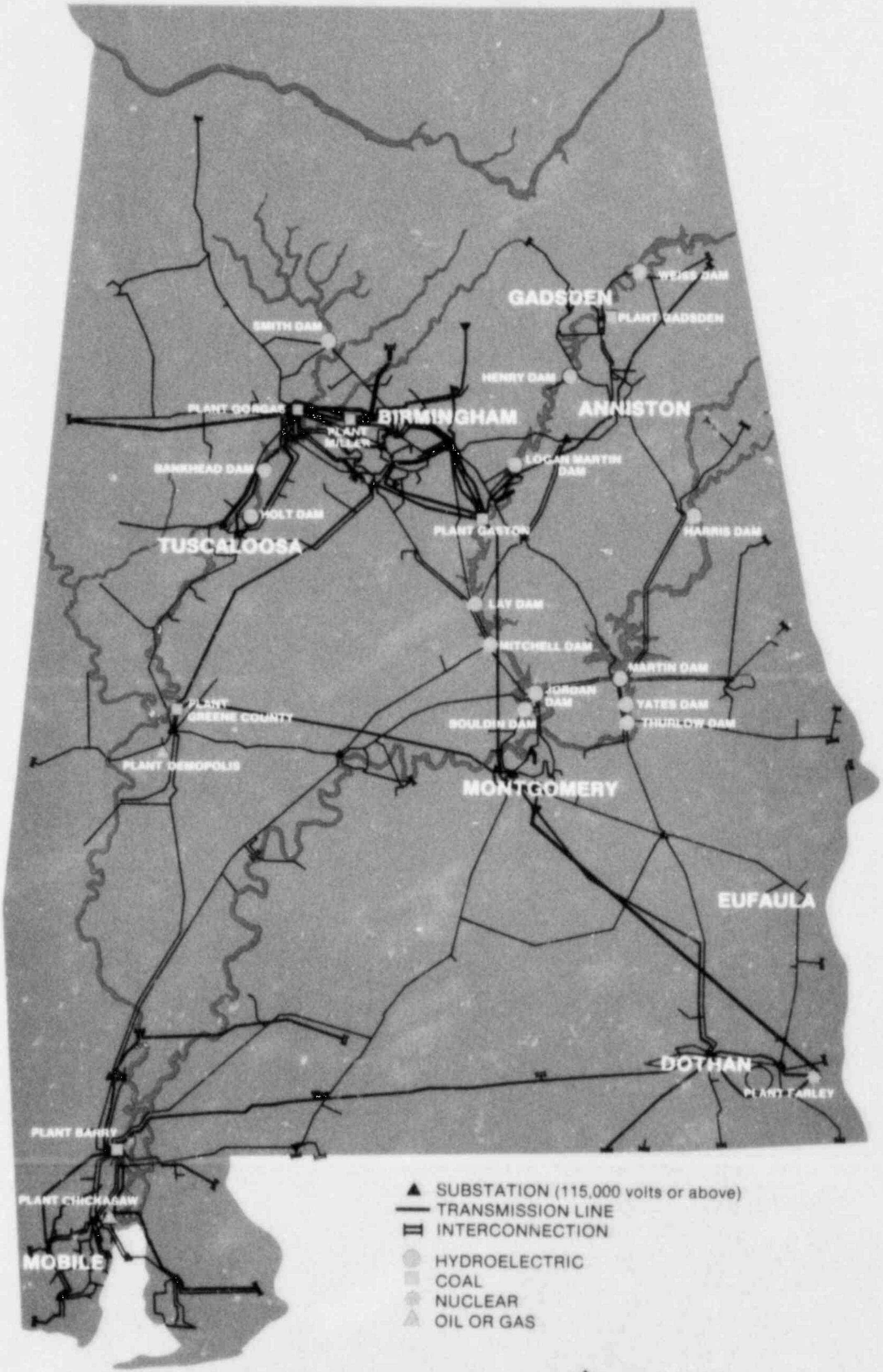
Robert H. Radcliff, Jr., Mobile (1982)*
Chairman of the Board
Radcliff Marine Services, Inc.

Edward L. Addison, Atlanta (1983)[3]
President
The Southern Company
Electric Utility Holding Company

James H. Sanford, Prattville (1983)[4]
President
McQueen Smith Farms, Inc.
Diversified Farmers and Ginners

* Audit Committee member
** Audit Committee alternate member
† Executive Committee member
1 Retired April 22, 1983
2 Advisory Director
3 Effective November 1, 1983
4 Effective August 1, 1983

Years in parentheses indicate date of election.



Alabama Power

the southern electric system

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
STATEMENT OF INCOME
(Stated in Thousands of Dollars)

	3 Months Ended March 31, 1984
OPERATING REVENUES	$495,063
Operation Expenses -	
Fuel	144,044
Purchased and Interchanged Power, Net	1,076
Other Operations	68,588
Maintenance Expenses	50,275
Depreciation and Amortization	43,704
Taxes Other Than Income Taxes	31,796
Income Taxes	
Federal	3,019
State	2,918
Deferred Federal-Net	17,761
Deferred State-Net	1,384
Investment Tax Credit	25,741
Total Income Taxes	50,823
TOTAL OPERATING EXPENSES	390,306
OPERATING INCOME	104,757
Allowance for Funds Used During Construction - Equity	8,830
Dividends from Southern Electric Generating Co.	801
Other Income less Income Deductions	2,666
INCOME BEFORE INTEREST CHARGES	117,054
Interest on Long-Term Debt	61,650
Other Interest Charges	1,260
Allowance for Funds Used During Construction - Debt	(5,363)
Income Tax Effect on Debt Portion of Allowance for Funds Used During Construction	(4,850)
NET INCOME	64,357
Dividends on Preferred Stock	10,457
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 53,900

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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

BALANCE SHEET
(Stated in Thousands of Dollars)

ASSETS

	AT MARCH 31, 1984
Utility Plant:	
Plant in service and held for future use, at original cost	$5,399,212
Accumulated provision for depreciation	1,428,102
	3,971,110
Nuclear fuel, at amortized cost	218,396
Construction work in progress	839,217
	5,028,723
Less: Property-related accumulated deferred income taxes	600,273
	4,428,450
Other Property and Investments	20,956
Current Assets:	
Cash	8,426
Temporary cash investments, at cost	80,228
Receivables	154,191
Accumulated provision for uncollectible accounts	(730)
Refundable federal income tax	4,937
Fossil fuel stock, at average cost	253,007
Materials and supplies, at average cost	46,570
Prepayments	54,447
	601,076
Deferred Charges	70,127
	$5,120,609

CAPITALIZATION AND LIABILITIES

Capitalization:	
Common equity	$1,538,643
Preferred stock -	
Not subject to mandatory redemption	424,400
Subject to mandatory redemption	37,224
Long-term debt	2,400,049
Total Capitalization	4,400,316
Current Liabilities:	
Notes payable to banks	-
Preferred stock sinking fund requirement	-
Long-term debt due within one year	61,326
Accounts payable	186,952
Customer deposits	26,536
Taxes accrued	53,343
Tax collections payable	4,586
Interest accrued	73,150
Dividends accrued or declared	2,490
Miscellaneous	31,126
	439,509
Deferred Credits, Etc.:	
Accumulated deferred investment tax credits	266,856
Miscellaneous	13,928
	280,784
	$5,120,609

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ALABAMA POWER COMPANY

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

	1983 Actual	1984 Projections
Net Income After Taxes	$266,947	$255,093
Less Dividends Paid	183,136	206,304
Retained Earnings	83,811	48,789
Adjustments:		
Depreciation and Amortization	224,656	257,730
Deferred Income Taxes and Investment Tax Credits	220,543	186,712
Allowance for Funds Used During Construction (Gross)	(73,661)	(99,667)
Total Adjustments	371,538	344,775
Internal Cash Flow	$455,349	$393,564
Average Quarterly Cash Flow	$113,837	$ 98,391
Percentage Ownership in all Operating Nuclear Units:		
Joseph M. Farley Units 1 and 2		100%
Maximum Total Contingent Liability		$ 20,000

Alabama Power Company
600 North 18th Street
Post Office Box 2641
Birmingham, Alabama 35291
Telephone 205 250-2905

William B. Hutchins, III
Vice President and Treasurer

50-348/364

Alabama Power
the southern electric system

April 26, 1984

Mr. Jerome Saltzman
Chief, Antitrust and Indemnity Group
Nuclear Reactor Regulation
Nuclear Regulatory Commission
Washington, D. C. 20555

Dear Mr. Saltzman:

Enclosed is the annual submission of Alabama Power Company with respect to the retrospective premium guarantee required under the Price-Anderson Act, as amended, applicable to its Joseph M. Farley Nuclear Plant. We have elected to satisfy this guarantee requirement by submitting annual certified financial statements and cash projections, showing that a cash flow can be generated and would be available for payment of retrospective premiums up to $20,000,000 within three months after submission of the statement. In this connection, enclosed are the following:

1. 1983 Annual Report which includes financial statements for the calendar year 1983, together with the report on such statements by Arthur Andersen & Co., independent public accountants:

2. Unaudited Financial Statements for the quarter ended March 31, 1984:

3. Cash Flow Projections for the period January 1, 1984 through December 31, 1984, showing that cash flow for $20,000,000 can be generated and would be available for payment of retrospective premiums within three months after submission of the statement.

Please acknowledge receipt of the enclosures by signing and returning a copy of this letter.

Yours very truly,

William B. Hutchins, III

William B. Hutchins, III

WBHIII/sts

Enclosures

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