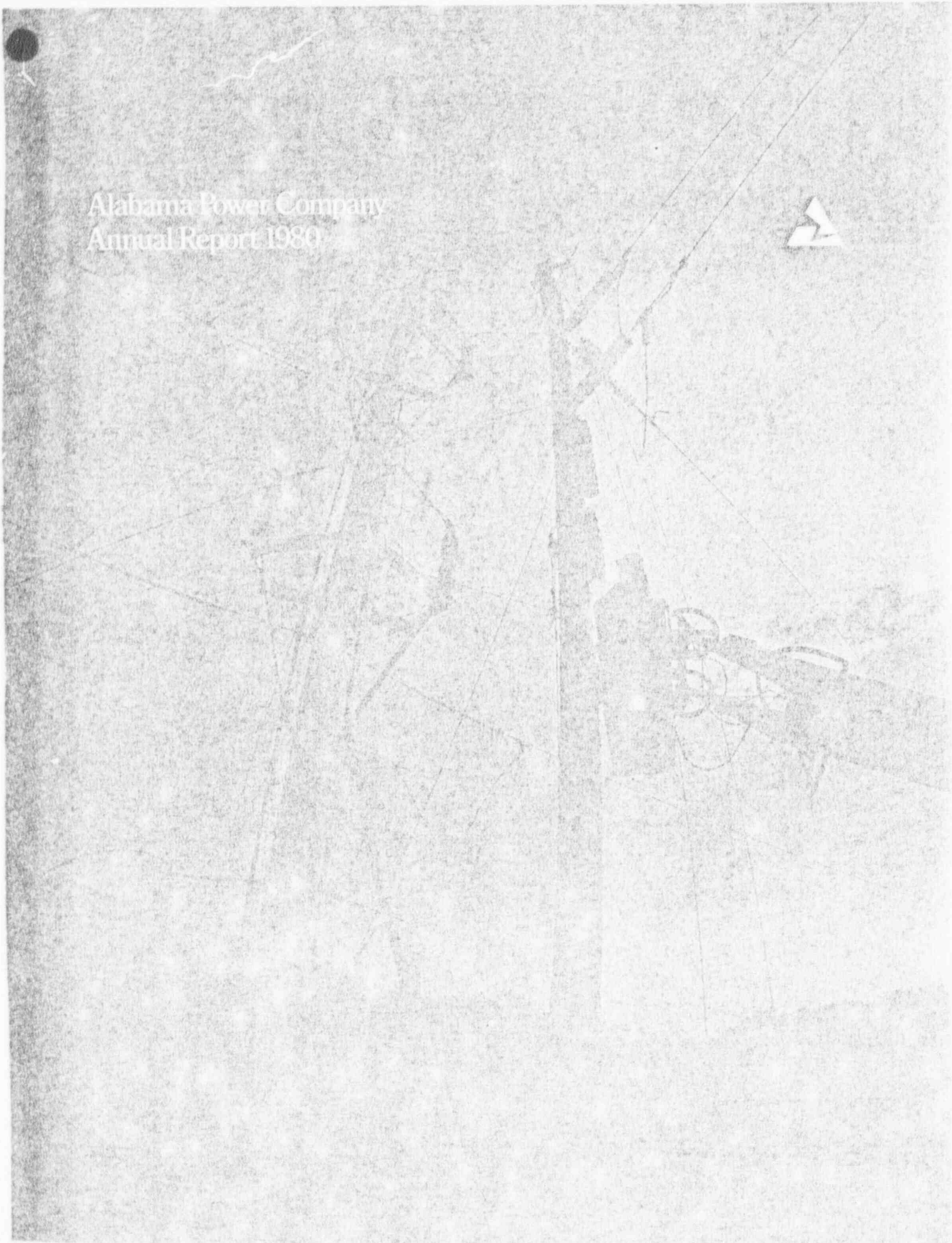


Alabama Power Company
Annual Report 1980

Contents

Cover

Standing like sentries, giant pylons support nearly 50,000 miles of lines carrying power to light the homes and run the factories of the almost 3 million people served by Alabama Power.

Alabama Power Company is one of the operating companies of The Southern Company. Others are Georgia Power Company, Gulf Power Company (serving northwest Florida) and Mississippi Power Company (serving southeast Mississippi). System affiliates also include Southern Company Services, Inc., which performs specialized services at cost for system companies upon request, 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

the southern electric system

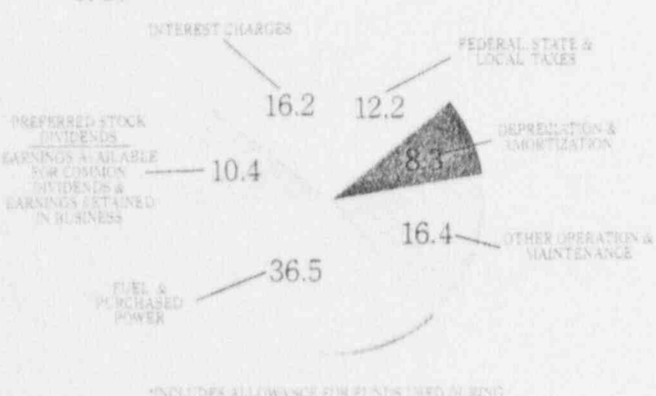
Alabama Power Company/600 North 18th Street/Post Office Box 2641/Birmingham, AL 35291/Telephone 205/250-1000

Comparative Highlights

	1980*	1979
	(Dollars Expressed in Thousands)	
Electric Energy Sales (millions of kwh):		
Residential	9,511	8,679
All Other Retail	20,141	19,964
Wholesale	3,866	2,468
Total	33,518	31,111
Average Annual Use Per Residential Customer (kwh)	11,041	10,231
Customers Served Directly at End of Year	986,082	976,200
Operating Revenues, Electric:		
Residential Sales	$ 489,031	$ 385,224
All Other Retail Sales	808,066	691,182
Wholesale Sales	114,931	77,278
Total from Sales of Energy	1,412,028	1,153,684
Other Revenues	9,969	9,939
Total	$1,421,997	$1,163,623
Operating Expenses, Electric:		
Fuel	$ 439,488	$ 365,628
Purchased and Interchanged Power, Net	124,163	124,929
Other	569,347	466,516
Total	$1,132,998	$ 957,073
Income Before Interest Charges	$ 331,714	$ 247,325
Interest Charges (Before credit of $79,839,000 in 1980 and $57,196,000 in 1979 for allowance for debt funds used during construction and related income tax effect)	250,836	215,862
Dividends on Preferred Stock	31,013	31,219
Net Income After Dividends on Preferred Stock	129,704	57,440
Total Utility Plant at End of Year	$5,199,848	$4,814,504
Gross Additions to Utility Plant During Year	411,813	459,533
Construction Work in Progress at End of Year	1,147,650	950,210

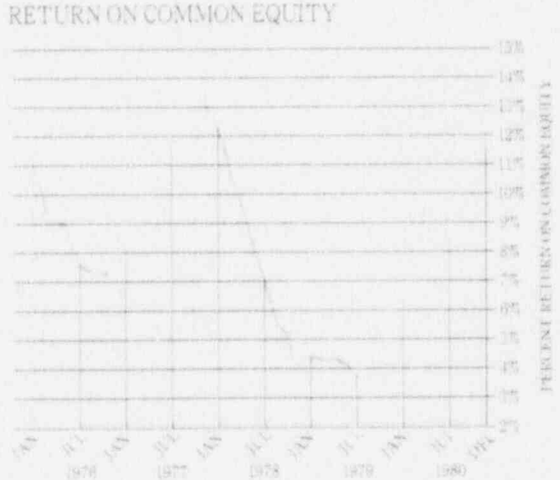
*Restated to reflect refund of retail revenues. See Note 2 of "Notes to Financial Statements" relative to restated amounts.

DISTRIBUTION OF REVENUE DOLLAR*
(PERCENT)
1980



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

RETURN ON COMMON EQUITY



To the Stockholders

DESPITE continued inflationary pressures that affect every phase of our business and the continued need to operate at less than desirable levels of maintenance and operations, there were in 1980 several reasons for encouragement for Alabama Power.

The most noticeable were improved earnings following rate increases and the high volume of energy sales during record-breaking heat this summer. During the year, our return on average common equity rose from less than 6 percent to 11.6 percent at year-end. This is still below the desired level of earnings that we must achieve if our future public service responsibilities are to be met. We therefore shall continue to seek adequate levels of rates.

For the first time in two years, we were able to go to the securities market to sell first mortgage bonds. In June 1980, we sold $100 million principal amount of long-term first mortgage bonds and an additional $150 million in September. A third issue, planned for December, was deferred until January 1981 because of then prevailing unstable market conditions. Earnings coverages permitted the sale of preferred stock in February 1981 for the first time since December 1977. The proceeds of these sales and The Southern Company's investment of common equity capital enabled us to reduce short-term indebtedness substantially.

In early 1981, the Alabama Public Service Commission, Alabama Power and certain intervenors agreed to a settlement in two previous retail rate cases. A petition was filed in November 1980 with the Federal Energy Regulatory Commission for an increase in wholesale rates.

At the invitation of the company, Price Waterhouse & Co. returned to review and evaluate the progress made in implementing recommendations made by the independent audit firm in a management study and financial audit mandated by the state legislature and completed in 1978. We were pleased at their overall conclusion that the actions taken by the company have been positive and timely. The Public Service Commission mandated audit of fuel purchases and the energy adjustment rate by Touche Ross & Co. also produced a favorable result.

Our company is actively promoting conservation, but even the present forecast growth of about 3 percent per year during the 1980s cannot be served by conservation alone. Further, the industrial and economic development of the state is being actively pursued by state and local governments and by private groups with which we cooperate through our industrial development department. Without reliable electric service and fair rates, the economic growth and development sought by our state cannot be adequately sustained.

The decade of the 1970s was a time of considerable change within our industry and our company. The late 1970s in particular found our company facing serious financial problems from which we are only now beginning to recover. However, much work is yet to be done to regain full financial stability. This period has also taught us again and again that Alabama Power Company's basic strength is its employees who have enabled the company successfully to pass through this period of stress and to make so much progress toward recovery. I also express the appreciation of all of us for the help and support of employees of Southern Company Services, Inc., through the year.

All of us begin the new decade with hope and a renewed confidence that, despite all of the problems facing our country, we will meet the challenges of the 1980s.

Joseph M. Farley

Joseph M. Farley
President

March 12, 1981

Management Changes

SEVERAL significant management changes were made in 1980. These changes included a realignment of responsibilities among the company's senior management staff.

Executive Vice Presidents Jesse S. Vogtle, William O. Whitt and Elmer B. Harris were involved in the reorganization. The realignment was necessary because of the election in May of former Executive Vice President Alan R. Barton as president of Mississippi Power Company.

Mr. Vogtle retained responsibility for public affairs, including regulatory and legislative matters, corporate real estate, claims, energy services and public information. He was also assigned division operations and power delivery.

Mr. Whitt assumed responsibility for fuel procurement, system operations, system planning, construction activities and the company's power generation facilities.

Mr. Harris continues to have responsibility for corporate planning and the company's financial activities. New assignments include human resources, support and materials services and security. Mr. Harris was also elected a member of the board of directors.

Robert E. Huffman, formerly general manager-operations services, was elected vice president for operations services which includes system planning, operations and interconnection activities.

R. P. McDonald, formerly vice president of power supply services, was named vice president for nuclear generation. He has responsibility for operation of the company's nuclear energy program.

J. T. Young, formerly vice president of production, was named vice president for fossil/hydro generation. He oversees operation of the company's fossil and hydro generation units.

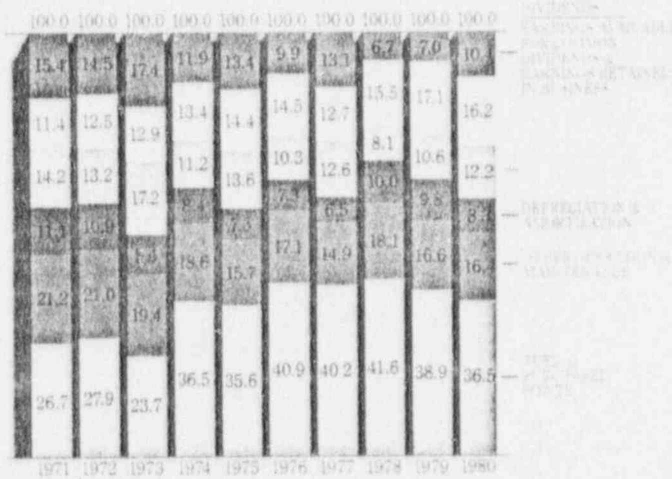
Top: Executive Vice Presidents, left to right, Elmer B. Harris, William O. Whitt and Jesse S. Vogtle.

Bottom: Other management changes involved J. T. Young and R. P. McDonald, seated left to right, and Robert E. Huffman, standing.

Earnings

NET income for 1980, after dividends on preferred stock, was $129,704,000, an increase of $72,264,000 from 1979. This increase resulted primarily from rate increases and high energy sales during the record-breaking heat wave experienced during the summer. As a result of improved earnings in 1980, the company's return on average common equity increased from 5.82 percent for the year ended December 31, 1979 to 11.61 percent for the year ended December 31, 1980.

DISTRIBUTION OF REVENUE DOLLAR*
(PERCENT)
1971-1980



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

Financing

FOR the first time since March 1978, the company was able to sell securities in 1980. The issuance of first mortgage bonds and preferred stock is restricted by earnings coverage requirements contained in the company's mortgage indenture and corporate charter. Improved earnings in 1980 enabled the company to sell $100 million and $150 million first mortgage bonds in June and September, respectively. Due to the unstable financial market in December, the planned sale of an additional $100 million bonds was postponed until January 1981. In February 1981, earnings coverages had improved sufficiently to permit the company to issue $40 million of preferred stock for the first time since December 1977.

Interest expenses for Alabama Power rose to an all-time high in 1980 as a result of record-high interest rates and the necessity to carry an inordinate amount of short-term debt. The major source of short-term borrowings has been the company's revolving credit agreement with 10 out-of-state banks. While the company's borrowings peaked at $420,266,000 in May 1980, outstanding short-term debt had been reduced to $96,501,000 by year-end.

Total interest expense for the year was $250,836,000 including $52,361,000 on short-term debt. Dividends on preferred stock totaled $31,013,000 in 1980.

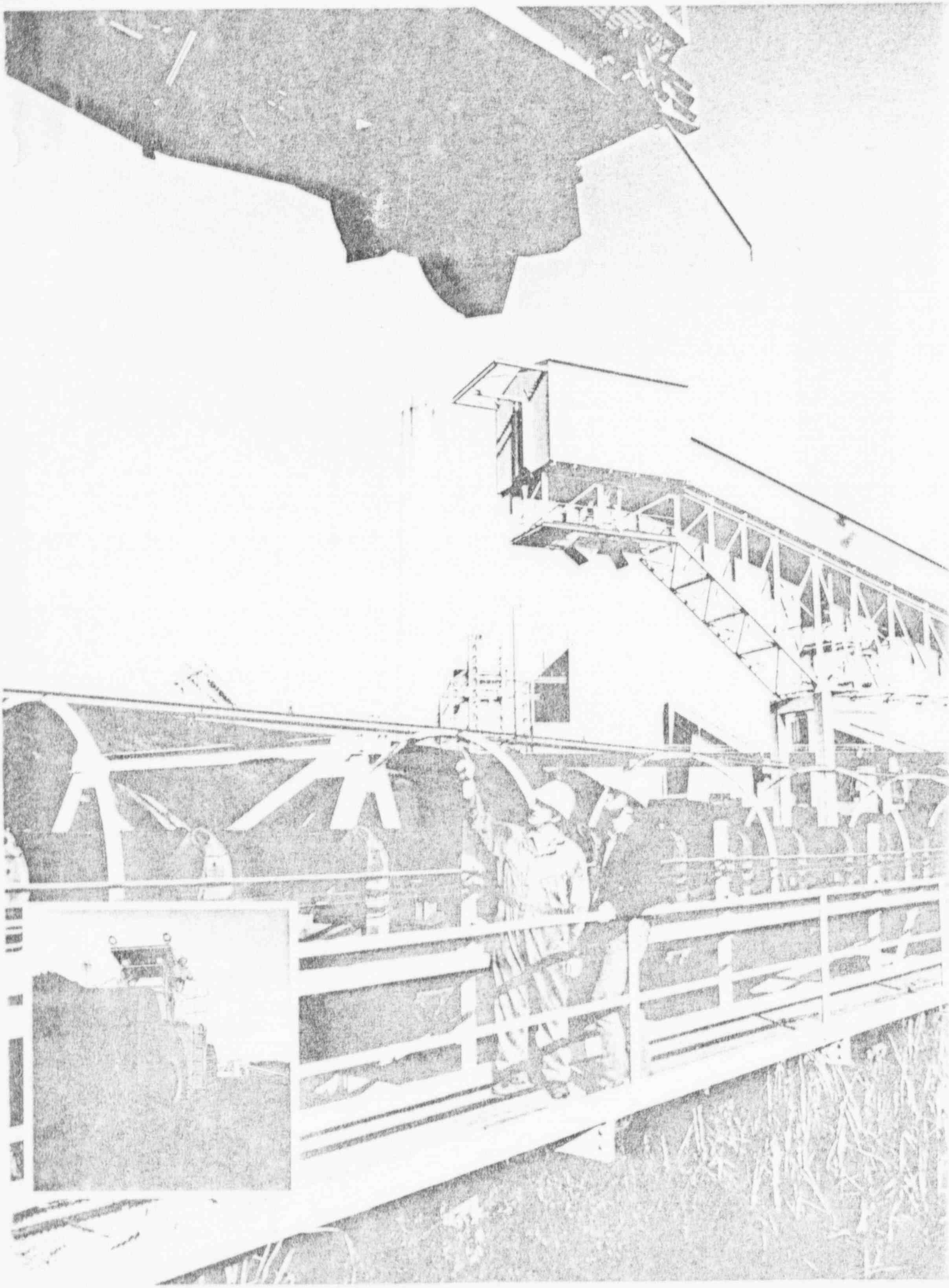
Rates

ON March 12, 1981, the Alabama Public Service Commission made a final ruling on rate increase requests which had been filed by Alabama Power in 1978 and 1979. The order placed into effect a settlement agreement which had been reached among the commission, the company and a number of other parties in the proceedings.

In December 1978, Alabama Power had filed for an additional $288.8 million in annual revenues. The commission ordered a phased-in, $208-million annual rate increase — a decision which the company appealed to the Supreme Court of Alabama. In August 1980, the court returned the case to the commission with instructions to "enter an order based on the evidence." The court declared that, based on the evidence in the case, a 13-percent return on common equity was the lowest the company should be allowed to earn.

As a result of the settlement, $19.7 million of revenues which Alabama Power billed under bond from October 1979 to January 1980 are no longer subject to refund.

Alabama Power's 1979 request for higher rates sought $122.3 million in annual revenues. The commission granted the company a $30.6-million increase, and the company appealed that ruling to the state supreme court.



The court allowed Alabama Power to place into effect the entire $122.3-million rate increase as of July 30, 1980. That portion of the increase not granted by the commission was billed subject to refund, pending a final ruling on the case.

The final settlement gave Alabama Power a $92.5-million annual increase from July 30, 1980 to February 28, 1981. This will result in the company refunding approximately $17 million to its retail customers. In addition, the $92.5-million increase was reduced to $80 million annually, effective March 1, 1981.

On November 5, 1980, Alabama Power filed a $23.4-million wholesale rate increase request with the Federal Energy Regulatory Commission. The last request for an increase in wholesale rates was filed in December 1977.

The increase, suspended on January 2, 1981 for five months by the FERC, would affect 15 municipal electric systems, 11 rural electric distribution cooperatives and one airport and one industrial authority served by the company.

Planning

DEMAND for electricity on Alabama Power's electric system reached a new all-time peak during the summer of 1980 when power use reached 7.2 million kilowatts on July 15. Customers used 33.5 billion kilowatt-hours of electricity during 1980, an increase of 7.7 percent over 1979.

Projections of future demand for electricity directly affect the addition of generating and other facilities.

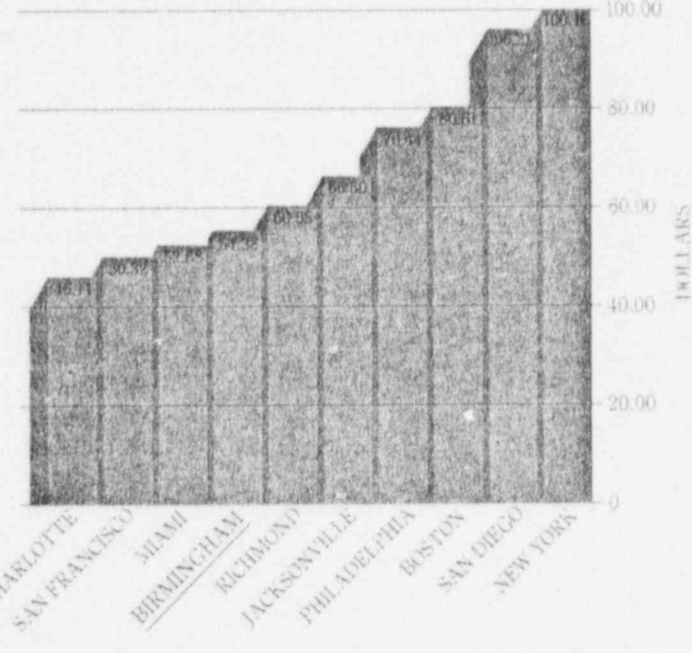
In 1980, the long-range forecast of electricity requirements reflects the revised economic growth expected in the state over the next decade and the effects of price and conservation efforts on energy usage. Further growth in electric sales is now forecast to average about 3 percent between now and 1990, compared with the 4-percent forecast for this period made in 1979.

Alabama Power reviews its forecasts at least annually and utilizes, among other techniques, an econometric forecast model based on the relationship between numerous national and regional economic factors and the use of energy. The model is continually revised and updated as new economic data become available.

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

There is more than a 10-year gap between the inception and completion of a generating plant, and companies must plan for financing construction costs that have escalated during the past decade.

RESIDENTIAL ELECTRIC BILLS FOR SELECTED U.S. CITIES FOR MONTHLY USE OF 1,000 KILOWATT-HOURS, RATES IN EFFECT DECEMBER 1, 1980



Fuel and Power Generation

WHILE conservation, as well as load management, is an integral part of Alabama Power's load forecast, customer energy demand cannot be met without additional generation facilities. Today the most economical generation mix includes coal, nuclear and hydroelectric facilities.

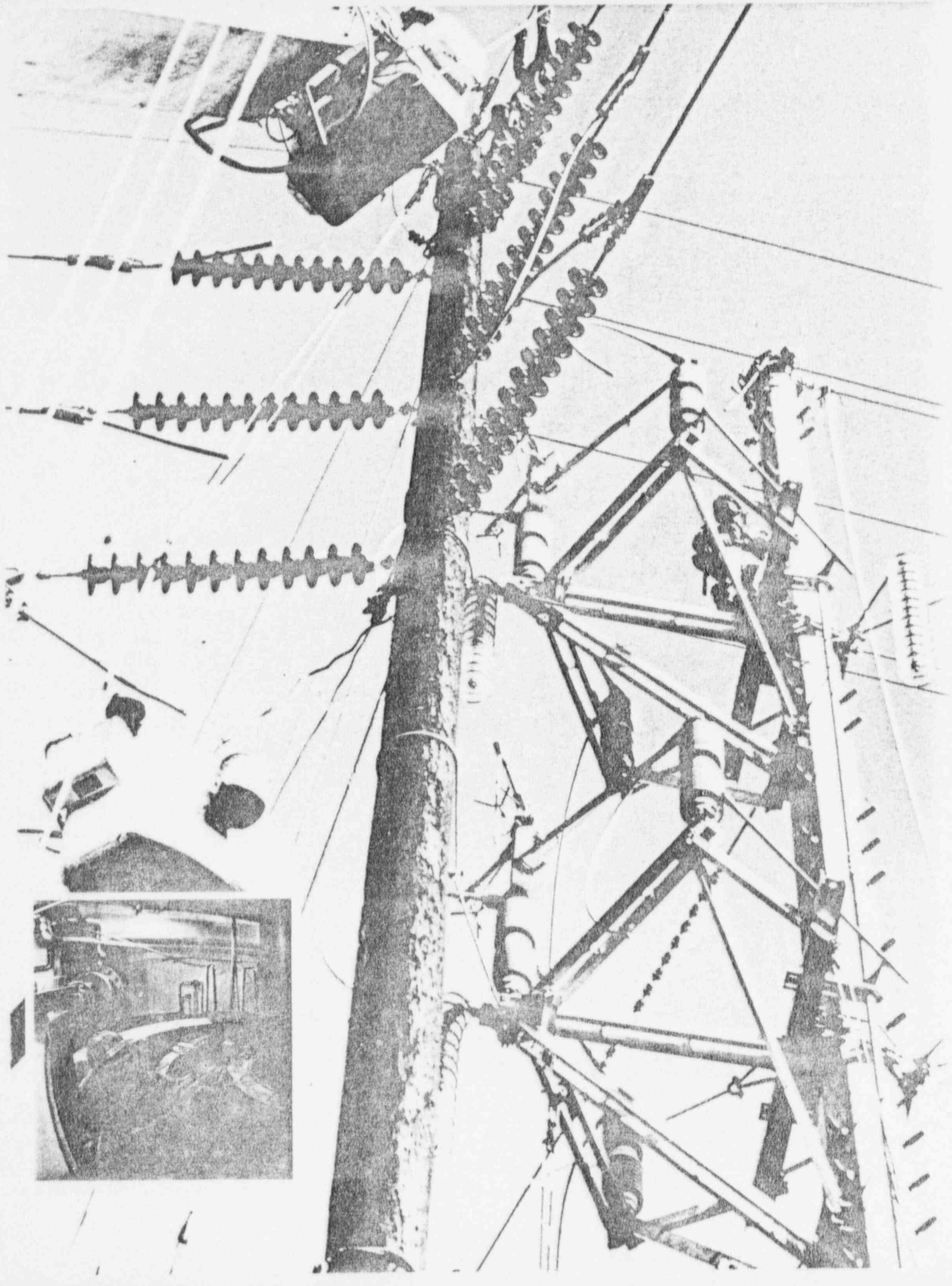
Alternate sources, such as solar power, are in the developmental stage and could be added to the company's generation mix as they become technologically and economically feasible.

Coal continues to be the primary fuel, accounting for 71.7 percent of the total electricity generated by the company in 1980. Alabama Power owns and operates seven fossil-fueled electric generating plants, including the 500,000-kilowatt Greene County Electric Generating Plant, which is owned jointly with Mississippi Power.

Approximately 13.4 million tons of coal were purchased by Alabama Power in 1980. Alabama mines

An old wooden structure is retired by a power delivery line crew while transferring conductors to a new steel switch pole. This project is part of the company's efforts to upgrade and improve system reliability.

Inset: To keep equipment in top operating condition, Marshall L. Williams, plant operator at Bouldin Dam, performs periodic maintenance on a vacuum system as part of the company's continuing maintenance program.



supplied 93.3 percent of this coal through long-term contracts and spot-market purchases.

At year-end, the company had 3.4 million tons on hand, a 143-day supply based on anticipated requirements.

The reconstruction of Bouldin Dam was completed in 1980, returning 225,000 kilowatts of electrical capacity to service. Alabama Power owns and operates 13 hydroelectric facilities, which accounted for 13.7 percent of the company's total generation during the year.

Nuclear power supplied about 14.5 percent of Alabama Power's 1980 generation. The company's first nuclear unit began operation in December 1977, and the second is scheduled for commercial operation in mid-1981.

Completion of the second nuclear unit will add 860,000 kilowatts of new capacity to the system.

This additional capacity will not only keep reserve margins from falling dangerously low in the years just ahead, but also save money for customers through reduced fuel costs.

The installed generating capacity of the company, including 50 percent of the capacity of four units and a small combustion turbine of Southern Electric Generating Company at Gaston Electric Generating Plant and 60 percent of the capacity of the Greene County Plant, totaled 7,625,675 kilowatts at the end of the year. Southern Electric Generating Company is owned equally by Alabama Power and Georgia Power companies.

Heat Wave

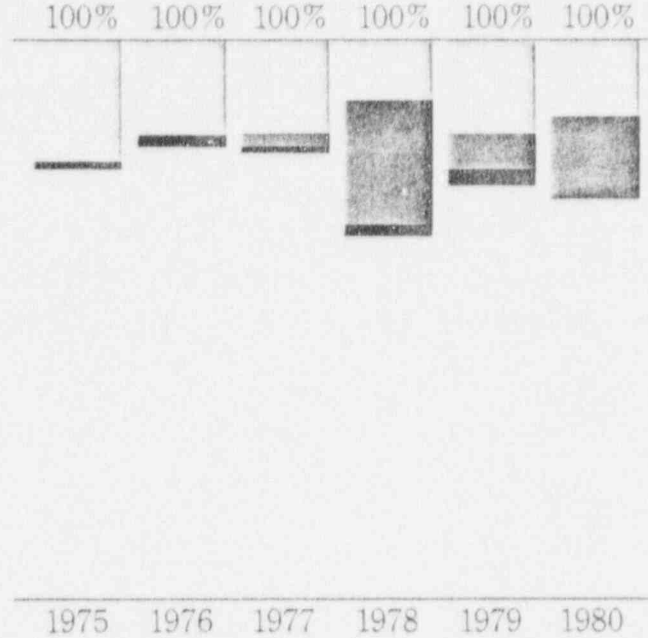
FOR more than 12 weeks last summer, people throughout the entire southern United States sweltered in record-breaking temperatures. The increased demand severely strained the electrical system throughout the region.

Every available source of generation, including purchases of electricity from neighboring utilities when available, was called upon to meet energy needs of our customers during the most intensive heat wave in the company's history.

The heat wave had regional impact, straining utilities' reserves throughout the Sun Belt region. Temperatures in Alabama exceeded 100° on 13 days during the 12-week period.

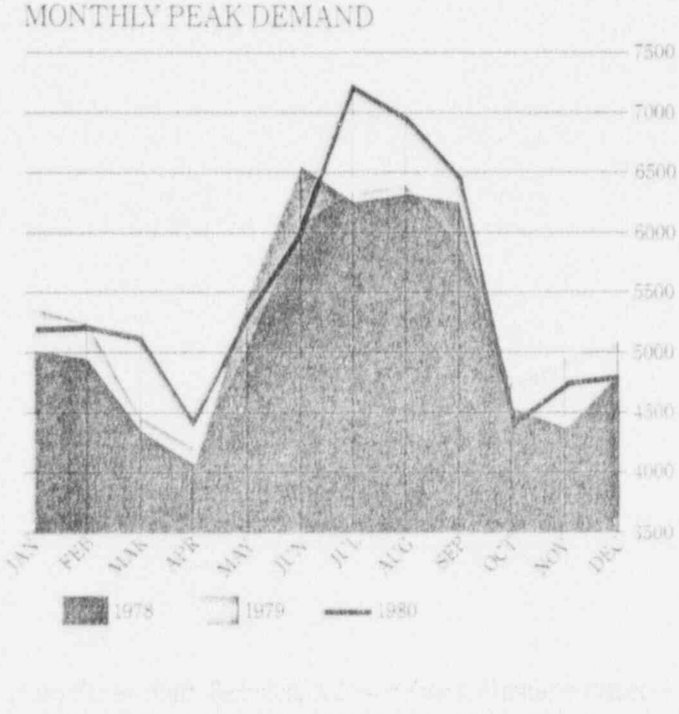
The company was deeply concerned with the health and safety of its customers during the emergency period. Payment plans were worked out with individual customers experiencing unusually high electric bills and

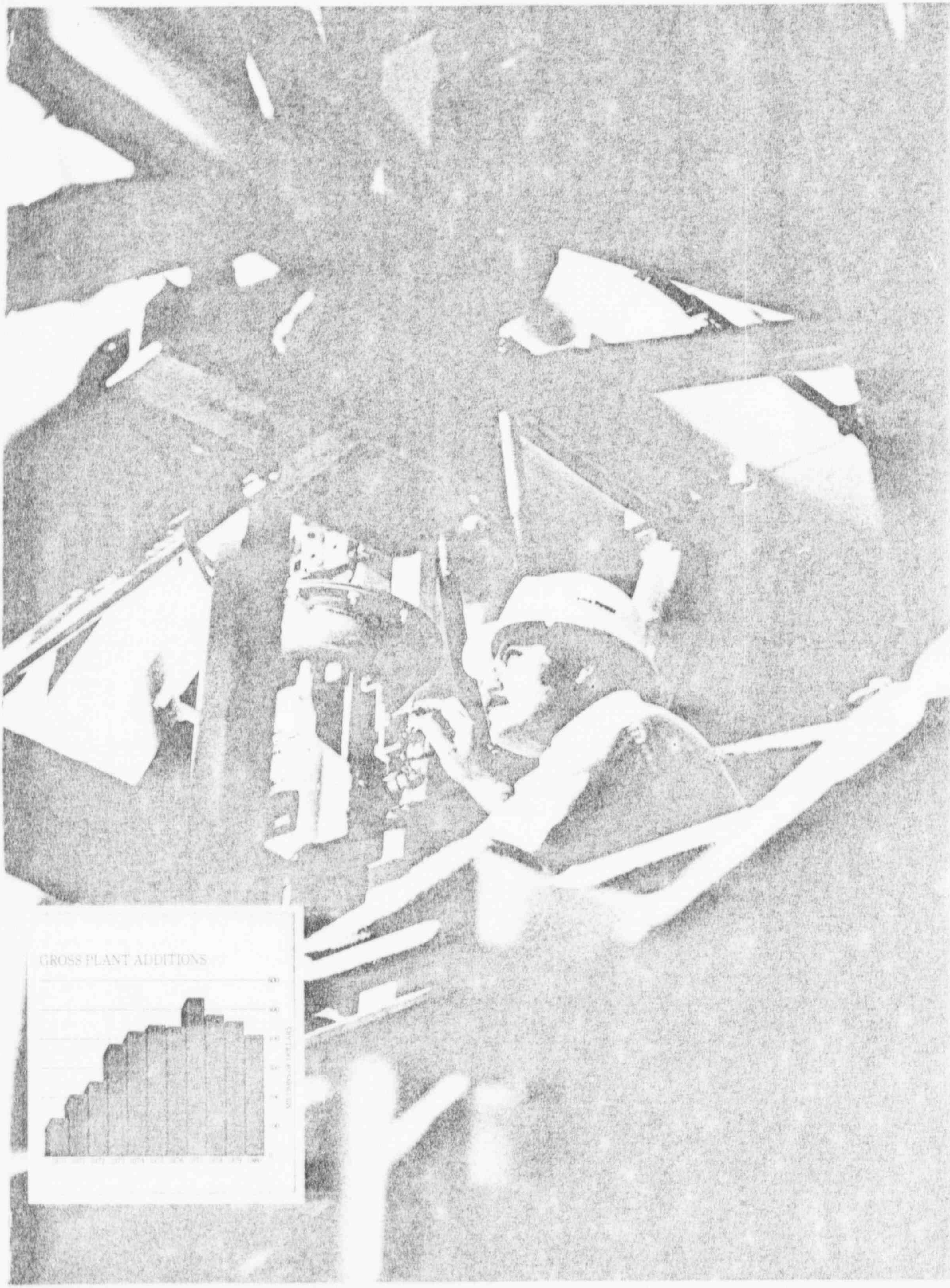
PERCENT OF TOTAL KWH GENERATION



NOTE: EXCLUDES GENERATION RECEIVED FROM SEGCO.

MONTHLY PEAK DEMAND




GROSS PLANT ADDITIONS

disconnection procedures were suspended during the emergency.

An all-time high summer peak demand for electricity on Alabama Power's system was recorded on July 15, 9.7 percent higher than the previous peak demand set in 1978 and 12.5 percent higher than 1979.

This is the second consecutive year that nature has had a tremendous impact on Alabama Power's electric system. In 1979, Hurricane Frederic devastated the Gulf Coast, destroying much of the company's electric transmission and distribution facilities in that area and forcing 290,000 Alabama Power customers to go without power for as long as several weeks.

Construction

CONSTRUCTION costs throughout the utility industry have escalated at an alarming and unprecedented rate. While reductions in the company's load forecast have allowed deferrals in the completion dates of new generating plants, construction of additional facilities will be necessary to meet the existing electrical demand and the projected growth in the future.

Current projections call for a 3-percent annual growth in peak demand on Alabama Power's system over the next decade.

In conjunction with previously imposed financial restraints, these revised forecasts have resulted in a decision to delay the completion dates for several fossil and hydro units. Planned commercial operation dates for Miller Electric Generating Plant Units 2, 3 and 4 are 1985, 1989 and 1991, respectively. Commercial operation date for Harris Dam is 1983 and 1985 for Mitchell Dam.

Bouldin Dam was returned to service in late 1980, after undergoing reconstruction following a breach in 1975. This 225,000-kilowatt plant has the largest generating capacity of Alabama Power's hydroelectric plants.

The second unit at Farley Nuclear Electric Generating Plant is expected to be completed in mid-1981.

Research and Development

IMPROVEMENT of present methods of producing electric power and development of new energy sources and technology are ongoing concerns of the electric utility industry.

Alabama Power and the nation's other energy-oriented companies are supporting the work of the Electric Power Research Institute. Research projects include major efforts in solar, geothermal and nuclear fusion energy. The institute was funded in 1980 by the industry in the amount of $219.8 million of which Alabama Power's share was $4.4 million.

During 1980, Alabama Power continued for a second year its study of the practical application of solar power to residential requirements. The study is being conducted in two identical homes, one solar and the other conventional, to test the combined efficiency of a solar system and a heat pump for space heating and water heating.

Environmental Regulations

ALABAMA Power spent $16.5 million during 1980 to comply with environmental regulations imposed on the company by various federal, state and local agencies. It is estimated that another $78 million will be required during the next five years to meet regulations now in effect or anticipated. Such expenditures by Alabama Power since 1970 now exceed $357.9 million.

Legislation

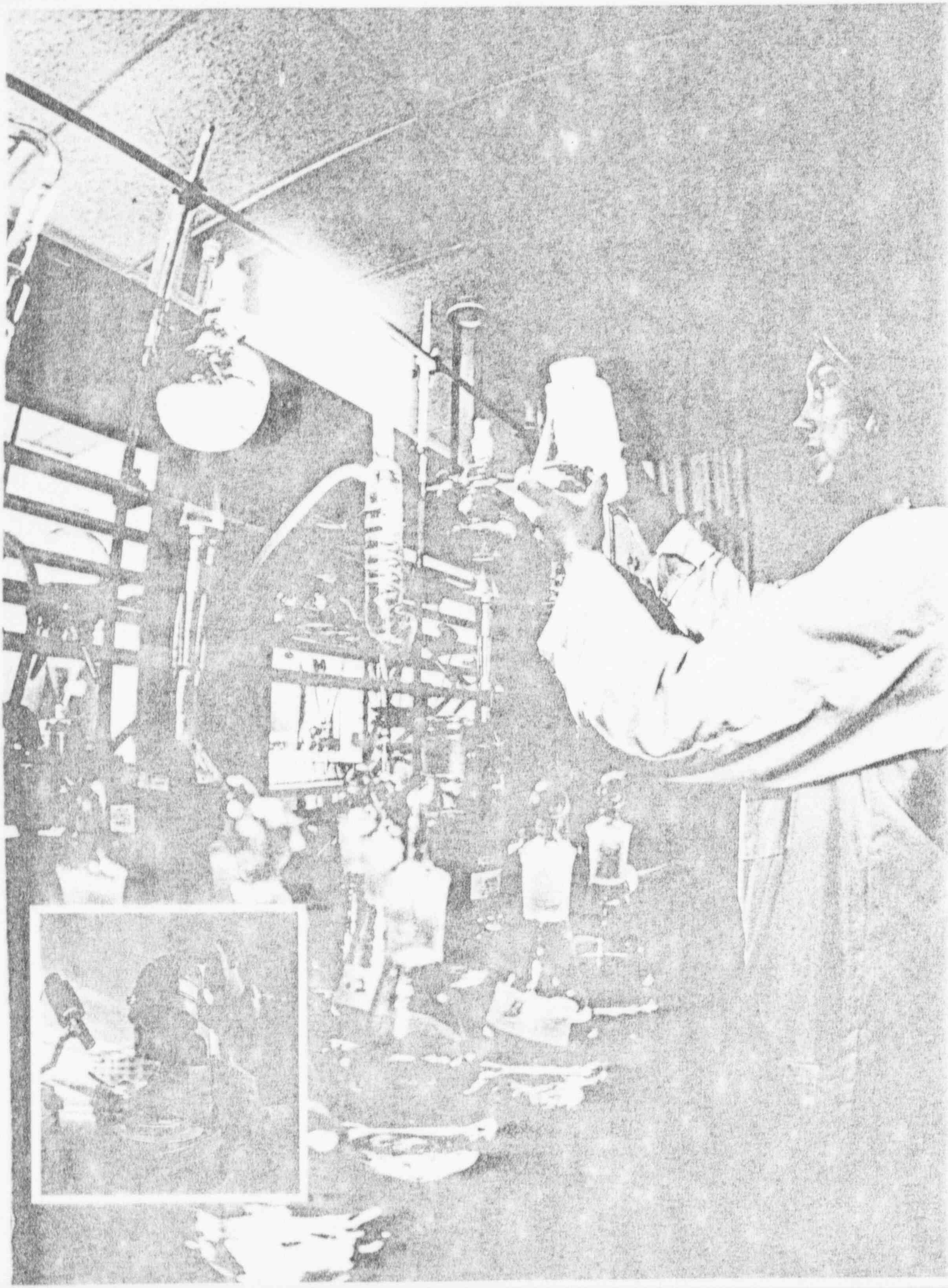
AN Alabama Department of Energy was created in 1980 by the Alabama Legislature. The department is responsible for formulating energy policy, recommending administrative and legislative changes, coordinating energy-related activities and encouraging the conservation and efficient use of energy resources.

The legislature also established an Energy Advisory Council, to which appointments are made by the governor from business, government, education and the general public.

Three bills to provide for the restructuring of the Alabama Public Service Commission were introduced during the 1980 legislative session. While the session ended without the enactment of any of them, a senate resolution was passed creating a joint interim committee to continue to study the reorganization of the commission. This committee will report its recommendations during the 1981 legislative session.

Environmental Specialist Donna Wilson conducts a test to determine the oxygen content in discharge water from a company generating plant. The test is one of many done to comply with regulations of the National Pollution Discharge Elimination System.

Inset: Senior Aquatic Biologist Bob Jones monitors larval fish populations in the vicinity of power plant intake structures to ensure that the structures are not harming aquatic life.



Service to Customers and Area Growth

SERVICE to customers takes many forms. Quality service is comprised of a myriad of activities, each evolving from personal concern for customers.

In 1980, programs developed by Alabama Power aided more than 1,300 businesses, factories, hospitals, schools and government buildings in becoming more energy efficient.

Approximately 17,000 residential customers received individualized home energy audits and conservation information suggesting ways to control their energy usage.

In addition to performing energy audits, company specialists assist commercial and industrial customers in designing, carrying out and monitoring their tailor-made conservation programs. Alabama Power has also completed energy audits of all of its facilities. As a result, during a recent 12-month period, electric energy use in company facilities decreased by more than 21 percent compared with the preceding 12 months.

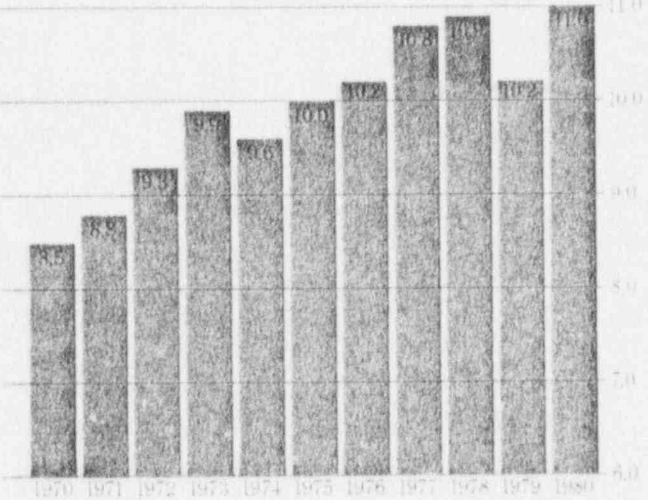
Homebuilders, architects and realtors continued to promote the construction of Good Cents Homes. Each house incorporates techniques, equipment and materials designed to achieve greater energy conservation than is possible in standard contemporary homes.

Various tests are being conducted in homes to help determine the economic feasibility of new energy-conservation equipment, materials and designs, and to assist builders and manufacturers in learning which conservation methods are the most practical and cost effective.

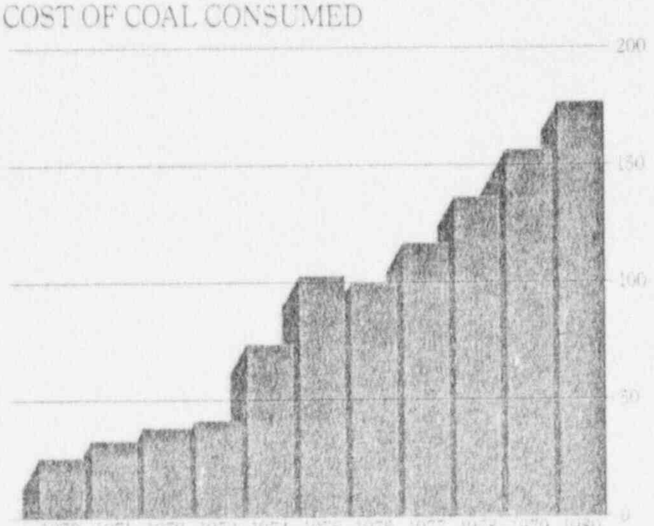
Alabama Power also works closely with industrial development agencies actively seeking new and expanded industry for the state. Company specialists work with industrial prospects outlining the availability of electric power and designing conservation programs.

During the year, 597 industrial firms announced plans to locate or expand facilities in Alabama Power's service area, creating 16,172 new jobs and an estimated annual payroll of approximately $144 million. When these additions and expansions are in full operation, total investment for new and expanded industries announced in 1980 will be $1.36 billion.

AVERAGE RESIDENTIAL USAGE PER CUSTOMER



COST OF COAL CONSUMED



TOTAL TERRITORIAL ENERGY SALES

Public Information

THE ability of Alabama Power to serve its customers effectively is influenced, in large part, by the level of public understanding of the company and its role in Alabama life.

The necessity of communication between the company and its customers and employees has continued to increase as the public has become more aware of the nation's energy problems. Continuing increases in the price of electricity, constant media attention to Alabama Power and questions about the future availability of energy dominate public and employee concerns.

Nationwide, public utilities are recognizing that customer and employee concerns must be identified and addressed in a straight-forward and timely manner.

During 1980, Alabama Power's public information effort continued with an aggressive media relations program, a reorganized company-wide public speaking program, services to state educational media, expanded employee information programs and extensive conservation and public issue advertising.

In the 1980s, energy — and its cost and availability — will continue to increase in importance to Alabama and the nation. Also of increasing importance is an effective and creditable channel of communication between the company and those it is chartered to serve.

Human Resources

AN electric utility is comprised of a network of transmission and distribution lines, generating plants and substations. These technological and engineering marvels carry electricity to thousands of homes and businesses.

But what really sustains this huge flow of power is another kind of energy — human energy, generated by more than 9,500 employees. In ways often unnoticed, the men and women of Alabama Power have been providing reliable service to this state for almost 75 years.

Many employees also carry a tradition of service into their private lives. Some serve on city councils and school boards. Others are involved with youth work, charity drives, church activities or other programs to make their communities better places in which to live.

Safety is an important aspect of the utility industry, and Alabama Power is committed to safe procedures throughout its operation. The company completed the year with an occupational injury and illness incidence rate of only 0.48 for each 200,000 man-hours worked. This record is well below the national average.

In August 1980, the company and the International Brotherhood of Electrical Workers agreed to new two-year contracts. The agreements included wage increases of 10.99 percent in the first year and 9 percent in the second.

Employee participation in the savings plan and stock ownership plan reached record amounts during 1980. The pension plan and insurance programs also provided a wide range of benefits to employees.

In response to the increasing need for customer understanding of issues affecting the company, informational advertising was used during the year to address such topics as rates, service restoration, future planning and technology.

Inset: Broadcast and print advertisements announcing the company's WHCA energy conservation program resulted in more than 12,000 customer requests for energy conservation kits during 1980.


Today understanding energy is everyone's business.
Alabama Power

An Essay

The New Decade

AS we begin the 1980s, great uncertainty over the energy future of the United States still hangs like a threatening cloud. It is appropriate, therefore, for Alabama Power Company to ask these questions: As a company charged with providing energy, in what direction should we go? How, and to what extent, are we planning for the future?

Alabama Power is striving to answer those questions in a meaningful way in its own operations.

Electricity doesn't just happen. Much time, effort and money must be expended to provide basic energy to nearly one million customers. Policy issues involved with the financing, planning, engineering, construction and operation of our electric system must be coordinated so that subsequent decisions can be made and implemented to provide the needed facilities in time to meet customer demands.

The choices are often difficult when weighed against regulatory constraints and the force of political and public opinion.

Financing the operations and construction needs of the enterprise has been particularly difficult. If the decade of the 1970s taught us anything, it provided a preview of the future for the utility industry.

Regulatory delays, unparalleled increases in costs, public frustration and an erosion of credibility in all forms of business evolved during the past decade.

Forecasting the future energy needs of our customers is a difficult task at best. We are the supplier of electricity for a major portion of Alabama and, as public servants, we must assure our customers that their current and future needs are being met.

Alabama has grown over the past 10 years and continues to grow. That means we've had to grow, too.

Building for the future is another difficult task. Governmental and regulatory uncertainties surrounding the engineering and construction of facilities have stretched the lead time toward actual completion of a generating plant to more than 10 years.

Finally, when a project is completed and in service, it must be operated in an efficient and economical manner to ensure maximum use of our investment.

All ingredients in the cycle of producing and supplying power are critical because the overall financial strength of the enterprise must not be diminished in the process.

In the larger perspective, our dilemmas are symptomatic of the energy problem facing the nation as a whole.

Hard decisions must be made now to avoid shortages in the future.

Rational choices must be made now about future sources of energy that are practical, safe and economical.

As a nation, we have had years of debate, of study, of indecision about energy. Those who believe the solution lies in a no-growth ethic and in exotic but impractical forms of energy could win by default. Their simplistic answers are unreachable panaceas.

We can no longer take energy for granted. The lesson that it will never again be cheap and used without thought for the future is abundantly clear. Utilities must be allowed to charge a fair price for their product so that an adequate supply of electricity is available for this decade.

The challenge is to make those hard decisions about where we are going—and the best path to travel to get there. We must solve our energy problems, both at home and as a nation, in the midst of the severest kind of economic strain.

Alabama Power is committed to do its part to make this new decade a time of progress toward workable solutions to the problems that must be resolved if we are to survive as a nation.

Report of Management

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

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

Independent public accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting control 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

	Years Ended December 31,				
	1980*	1979	1978	1977	1976
Operating Revenues, Electric (Thousands)	$1,421,997	$1,163,623	$1,014,443	$ 968,693	$ 699,667
Net Income After Dividends on Preferred Stock (Thousands)	$ 129,704	$ 57,440	$ 42,903	$ 117,276	$ 56,424
Total Assets (Thousands)	$4,617,943	$4,292,736	$3,967,906	$3,581,456	$3,081,349
Long-term Debt (Thousands)	$2,159,793	$1,883,684	$1,851,394	$1,652,013	$1,294,731
Preferred Stock Subject to Mandatory Redemption (Thousands)	$ 47,500	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Cash Dividends Declared on Common Stock (Thousands)	$ 115,300	$ 54,000	$ 108,800	$ 94,900	$ 60,000
Construction Expenditures (Thousands)	$ 411,813	$ 459,533	$ 483,430	$ 540,076	$ 443,951
Kilowatthour Sales (Millions)	33,518	31,111	31,118	29,854	27,597
Customers (End of period)	986,082	976,200	961,440	938,576	921,208
Average Revenues per Kilowatthour—Total Sales (Cents)	4.21	3.71	3.23	3.22	2.51
Average Cost of Fuel per Net Kilowatthour Generation (Cents)	1.61	1.56	1.20	1.21	1.05

*Restated to reflect refund of retail revenues. See Note 2 of "Notes to Financial Statements" relative to restated amounts.

Additional financial and statistical information for the period 1970-1980 is provided in the company's Financial and Statistical Review. This report will be provided upon written request to Richard Bowron, secretary.

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

Results of Operations

The company's financial performance significantly improved in 1980 over the severely depressed earnings of the past two years. Net income after dividends on preferred stock totaled \$129,704,000 for the year 1980, compared to \$57,440,000 in 1979 and \$42,903,000 in 1978. Return on average common equity for 1980 was 11.61 percent compared to 5.82 percent in 1979 and 4.46 percent in 1978.

Increases in operating revenues in each period are attributable principally to rate increases, recovery of increased fuel and purchased power costs through fuel and energy adjustment provisions contained in rate schedules and increased energy sales in 1978 and 1980. Rate increases amounting to approximately \$92,500,000 on an annual basis were placed into effect during 1980, of which approximately \$36,600,000 is included in 1980 revenues. (See Note 2 to the financial statements for further details.) Kilowatthour sales increased 4.23 percent in 1978 from 1977, compared to a 0.02 percent decrease in 1979 from 1978, and an increase of 7.74 percent in 1980 over 1979. The increase in sales in 1980 was due primarily to increased demand from residential and commercial customers resulting from an extended heat wave during the summer and the implementation of contracts for the sale of capacity through The Southern Company System Power Pool to neighboring utilities. The company's portion of these bulk sales amounted to 1.3 billion kilowatthours and revenues of \$37,182,000. The all-time maximum demand on the company's system occurred on July 15, 1980, and was 7,199,500 kilowatts, 9.7 percent higher than the previous record set in 1978. The small decrease in 1979 kilowatthour sales resulted primarily from conservation efforts by residential customers. Increased billings resulting from the recovery of increased fuel and purchased power cost and the results of rate relief have increased the average revenue per kilowatthour from 3.23¢ in 1978, to 3.71¢ in 1979 and 4.21¢ in 1980.

The rise in operation expenses occurring each year since 1977 has resulted primarily from increased generation and escalations in the cost of fuel and other operation expenses, partially offset by reductions in purchased power. Fuel cost per kilowatthour generated was 1.20¢ in 1978, 1.56¢ in 1979 and 1.61¢ in 1980. Purchased and interchanged power expenses declined in both 1980 and 1979, reflecting increased availability of generating capacity, and increased economy and emergency energy sales to neighboring utilities. Increases in other operation and maintenance expenses are largely due to escalating costs of labor, materials and services.

Increases in depreciation and amortization each year are due principally to the continued growth in depreciable plant in service, and the amortization of costs related to a cancelled generating plant amounting to \$7,116,000 in 1978, \$7,145,000 in 1979 and \$7,071,000 in 1980. (See Note 1 to the financial statements.) The composite straight-line depreciation rate was approximately 3.37 percent in 1978, 3.46 percent in 1979 and 3.43 percent in 1980.

Fluctuations in income taxes resulted from changes in income before income taxes and reduction of the federal income tax rate from 48 percent to 46 percent in 1979. Federal and state income tax provisions are detailed in Note 5 to the financial statements.

The company capitalizes as part of the cost of property and plant an allowance for the cost of funds required to finance construction work in progress. Such amount also is recorded in the Statements of Income as "allowance for equity funds used during construction" in nonoperating income and "allowance for debt funds used during construction", including the tax effect of debt funds, as a reduction in interest charges. This allowance becomes part of construction work in progress and, when a construction project is placed in service, the allowance is included in the rate base (together with construction labor, material and related costs capitalized).

This accounting treatment thus provides for the cash recovery of such costs through rates, which include depreciation of those capitalized amounts over the service life of property and plant. Therefore, the allowance for funds used during construction, net of income taxes, as a percent of net income after dividends on preferred stock, amounted to 135.5 percent in 1978, 102.0 percent in 1979 and 57.1 percent in 1980.

Inflation has a significant effect on the company due to the regulatory environment in which the company operates and the large investment (approximately 91 percent of total assets) in utility plant. See Note 13 to the financial statements for supplementary information concerning the approximate effects of inflation.

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

Financial Condition

The company's continuing construction program to build an energy supply network with a sufficient margin of reserve capacity to ensure an adequate, economical power supply, required the expenditure of \$1.3 billion during the three years 1978 through 1980. As shown on the Statements of Sources of Funds for Gross Property Additions, the primary sources of funds for construction expenditures are sales of long-term debt, capital contributions from The Southern Company and internal sources.

The company's capitalization ratios have remained approximately the same in recent years, but the composite interest rate on long-term debt has increased from 8.1 percent at December 31, 1977 to 9.7 percent at December 31, 1980.

As further evidence of the increasing cost of capital, the company's annual interest requirement on long-term debt has increased 57.8 percent since 1977.

At December 31, 1980, the company had $9,017,000 of temporary cash investments and $331,584,000 of unused credit arrangements with banks to meet its short-term cash needs. (See Note 4 to the financial statements.) Short-term bank loans outstanding at December 31, 1980 were $96,501,000, a decrease of $255,977,000 from December 31, 1979. Also, fuel stock inventories were increased in anticipation of a coal miners' strike.

The company's construction expenditures are estimated to total $1.5 billion for the three years 1981 through 1983. These construction programs are subject to revision because of factors such as granting of timely and adequate rate increases, new estimates of increased costs, revised load estimates and the availability and cost of capital. These factors forced substantial reductions in construction programs in recent years, resulting in a combination of postponements and cancellations of generating units and other facilities. See Note 3 to the financial statements for further details. In addition to the funds required for the construction program, approximately $164,839,000 will be required through the end of 1983 in connection with maturities of long-term debt and preferred stock subject to mandatory redemption.

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

On the basis of the requirements contained in the company's mortgage indenture and corporate charter, the bond and preferred stock coverages of the company at December 31, 1980 were 2.59 and 1.51, respectively.

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, 1980 and 1979, 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, 1980. 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 report dated February 15, 1980, our opinion on the 1979 financial statements was qualified as being subject to the effect of any adjustments that may result from the final outcome of a pending rate matter. As explained in Note 2 to the financial statements, the rate matter was settled and no refund of revenues was required. Accordingly, our present opinion on such financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the financial position of Alabama Power Company as of December 31, 1980 and 1979, 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,
March 12, 1981.

Balance Sheets at December 31, 1980 and 1979

	1980	1979
	(In Thousands)	
Assets		
UTILITY PLANT (Notes 1 and 3):		
Plant in service, and held for future use, at original cost	$3,854,627	$3,695,721
Less — Accumulated provision for depreciation	934,606	818,279
	2,920,021	2,877,442
Nuclear fuel, at amortized cost	131,442	130,373
Construction work in progress —		
Nuclear	684,945	548,575
Other	462,705	401,635
	4,199,113	3,958,025
OTHER PROPERTY AND INVESTMENTS:		
Southern Electric Generating Company (Note 8)	16,400	16,400
Nonutility property, net	2,372	2,345
Miscellaneous	993	860
	19,765	19,605
CURRENT ASSETS:		
Cash (Note 4)	13,429	9,048
Temporary cash investments, at cost	9,017	—
Receivables —		
Customer accounts receivable	90,745	79,708
Other accounts and notes receivable	7,132	6,992
Intercompany accounts	9,871	17,609
Accumulated provision for uncollectible accounts	(542)	(1,047)
Refundable federal income tax (Note 5)	20,000	3,154
Fossil fuel stock, at average cost	161,593	123,752
Materials and supplies, at average cost	21,734	20,913
Prepayments	24,871	15,651
	357,850	275,780
DEFERRED CHARGES:		
Cost of cancelled plant, being amortized (Note 1)	12,402	19,403
Debt expense, being amortized	6,878	6,287
Miscellaneous	21,935	13,636
	41,215	39,326
	$4,617,943	$4,292,736
Capitalization and Liabilities		
CAPITALIZATION (See accompanying statements):		
Common stock equity	$1,211,417	$1,022,533
Preferred stock	334,400	334,400
Preferred stock subject to mandatory redemption (Note 7)	47,500	50,000
Long-term debt	2,159,793	1,883,684
	3,753,110	3,290,617
CURRENT LIABILITIES:		
Notes payable to banks (Note 4)	96,501	352,478
Long-term debt due within one year (Note 6)	47,424	24,305
Accounts payable —		
Intercompany accounts	38,922	29,616
Other	108,294	129,262
Revenues to be refunded (Note 2)	11,978	—
Customer deposits	19,891	18,254
Taxes accrued —		
Federal and state income	22,645	5,284
Other	10,462	8,177
Interest accrued	54,061	49,093
Miscellaneous	11,707	18,134
	421,885	634,603
DEFERRED CREDITS, ETC.:		
Accumulated deferred income taxes	370,439	302,831
Accumulated deferred investment tax credits	53,030	44,017
Miscellaneous	19,479	20,668
	442,948	367,516
COMMITMENTS AND CONTINGENT MATTERS (Notes 3, 4, 8 and 10)		
	$4,617,943	$4,292,736

The accompanying notes are an integral part of these balance sheets.

Statements of Capitalization at December 31, 1980 and 1979

		Amount 1980	Amount 1979	Percent of Total 1980	Percent of Total 1979
		(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		866,145	692,145		
Premium on preferred stock (Note 7)		941	461		
Earnings retained in the business (Notes 2 and 9)		119,973	105,569		
Total		1,211,417	1,022,533	32.3%	31.1%
CUMULATIVE PREFERRED STOCK (Note 3):					
$1 par value, authorized 27,500,000 shares—none outstanding		—	—		
$100 par value, authorized 3,850,000 shares—Series					
4.20% to 4.52%		41,400	41,400		
4.60% to 4.92%		29,000	29,000		
5.96% to 8.04%		32,000	32,000		
8.16% to 9.44%		232,000	232,000		
Total (annual dividend requirement $25,719,000)		334,400	334,400	8.9	10.2
Subject to mandatory redemption (Note 7): 11.00% (annual dividend requirement $5,225,000)		47,500	50,000	1.3	1.5
LONG-TERM DEBT (Notes 3 and 6):					
First mortgage bonds—Maturity	Interest Rates				
September 1, 1981	3¼%	15,000	15,000		
April 1, 1982	3⅜%	12,000	12,000		
May 1, 1983	4⅛%	11,939	11,939		
March 1, 1984	3⅛%	17,000	17,000		
June 1, 1985	3½%	15,000	15,000		
1986 through 1990	3½% to 8⅜%	153,182	153,182		
1991 through 1995	4⅛% to 4⅞%	98,567	98,567		
1996 through 2000	6¼% to 9%	162,298	162,298		
2001 through 2005	7½% to 10⅞%	683,500	683,500		
2006 through 2010	8¾% to 15¼%	725,000	475,000		
Total first mortgage bonds		1,893,486	1,643,486		
Other long-term debt (Note 6)		329,066	276,487		
Unamortized debt premium (discount), net		(15,335)	(11,984)		
Total long-term debt (annual interest requirement $215,305,000)		2,207,217	1,907,989		
Less amount due within one year		47,424	24,305		
Long-term debt, excluding amount due within one year		2,159,793	1,883,684	57.5	57.2
Total capitalization		$3,753,110	$3,290,617	100.0%	100.0%

The accompanying notes are an integral part of these statements.

Statements of Income for the Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands)	
OPERATING REVENUES, ELECTRIC (Note 2)	$1,421,997	$1,163,623	$1,014,443
OPERATING EXPENSES, ELECTRIC:			
Operation—			
Fuel	439,488	365,628	295,186
Purchased and interchanged power, net	124,163	124,929	161,602
Other	153,552	129,430	122,511
Maintenance	99,040	80,660	76,085
Depreciation and amortization	127,840	123,075	109,315
Taxes other than income taxes	74,488	74,592	63,737
Federal and state income taxes (Note 5)	114,427	58,759	25,080
Total operating expenses	1,132,998	957,073	853,516
OPERATING INCOME, ELECTRIC	288,999	206,550	160,927
OTHER INCOME:			
Allowance for equity funds used during construction (Note 1)	32,189	28,554	38,927
Income from subsidiary (Note 8)	2,466	2,425	2,511
Other, net	8,060	9,796	3,454
Income before interest charges	331,714	247,325	205,819
INTEREST CHARGES:			
Interest on long-term debt	184,557	163,343	155,353
Amortization of debt discount, premium and expense, net	593	610	841
Other interest charges	65,686	51,909	13,451
Allowance for debt funds used during construction (Note 1)	(79,839)	(57,196)	(37,948)
Net interest charges	170,997	158,666	131,697
NET INCOME	160,717	88,659	74,122
DIVIDENDS ON PREFERRED STOCK	31,013	31,219	31,219
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK (Note 2)	$ 129,704	$ 57,440	$ 42,903

Statements of Earnings Retained in the Business
for the Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands)	
Balance, beginning of period	$ 105,569	$ 102,129	$ 168,307
Add (deduct):			
Net income after dividends on preferred stock (Note 2)	129,704	57,440	42,903
Cash dividends paid on common stock	(115,300)	(54,000)	(108,800)
Preferred stock issuance expense	—	—	(281)
Balance, end of period (Notes 2 and 9)	$ 119,973	$ 105,569	$ 102,129

Statements of Other Paid-In Capital
for the Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands)	
Balance, beginning of period	$ 692,145	$ 625,700	$ 578,500
Cash contribution to capital by parent company	174,000	66,445	47,200
Balance, end of period	$ 866,145	$ 692,145	$ 625,700

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, 1980, 1979 and 1978

	1980	1979	1978
		(In Thousands)	
Net income (Note 2)	$160,717	$ 88,659	$ 74,122
Add (deduct) principal noncash items —			
Depreciation and amortization	160,669	137,275	140,087
Deferred income taxes, net	105,299	61,970	25,151
Deferred investment tax credits	10,700	—	—
Allowance for equity funds used during construction	(32,189)	(28,554)	(38,927)
	405,196	259,350	200,433
Less —			
Dividends on common stock	115,300	54,000	108,800
Dividends on preferred stock	31,013	31,219	31,219
	258,883	174,131	60,414
Decrease (increase) in net current assets, excluding long-term debt due within one year and notes payable to banks —			
Cash and temporary cash investments	(13,398)	8,742	(9,556)
Receivables	(3,944)	(14,915)	(9,805)
Refundable federal income taxes	(16,846)	(3,154)	25,985
Fossil fuel stock	(37,841)	3,932	(37,846)
Materials and supplies	(821)	(498)	(2,038)
Accounts payable	(11,662)	48,910	26,082
Revenues to be refunded	11,978	(2,547)	(12,855)
Interest accrued	4,968	4,734	9,688
Taxes accrued	19,646	(442)	6,208
Other, net	(14,010)	2,069	(6,798)
	(61,930)	46,831	(10,935)
Other net, including allowance for equity funds used during construction	(3,242)	25,811	5,722
Total internal sources	193,711	246,773	55,201
External Sources —			
First mortgage bonds	250,000	—	200,000
Bonds retired	—	(18,433)	(10,345)
Preferred stock reacquired (Note 7)	(2,500)	—	—
Capital contribution by parent company	174,000	66,445	47,200
Pollution-control obligations, net	8,803	8,688	26,565
Obligations under capitalized leases	43,776	22,835	(754)
Increase (decrease) in notes payable to banks	(255,977)	133,225	165,563
Total external sources	218,102	212,760	428,229
Gross Property Additions (includes net AFUDC in the amount of $74,110,000 in 1980, $58,586,000 in 1979 and $58,134,000 in 1978)	$411,813	$459,533	$483,430

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General—

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

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

Revenues—

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

Fuel Costs—

Fuel costs are expensed as the fuel is consumed. The company's rates include fuel and net purchased energy adjustment clauses under which fuel and net purchased energy costs above or below certain base levels are billed, or credited, to customers on a current basis. The cost of nuclear fuel, including the estimated cost of anticipated permanent storage of spent fuel, is amortized to fuel expense based on the quantity of heat produced for generation of electric energy. Such amortization was $27,505,000 in 1980, $8,500,000 in 1979 and $24,945,000 in 1978.

Final disposition of spent fuel may require adjustments to fuel expense. Pending ultimate disposition, the company has sufficient storage capacity at Plant Farley for storage of the spent fuel into 1991 and 1994 for Plant Farley Unit Nos. 1 and 2, respectively.

Utility Plant—

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

Allowance for Funds Used During Construction—

The allowance for funds used during construction represents the estimated debt and equity costs of capital funds which are applicable to utility plant while under construction. The composite rate used to determine the amount of the allowance, net of the income tax effect of capitalized debt cost, was 8.3% in 1980, 8.1% in 1979 and 8.2% in 1978. The company accounts for the income tax effect of capitalized debt cost as a charge to income tax expense associated with operations with a corresponding credit to allowance for debt funds used during construction.

Depreciation and Amortization—

Depreciation of the original cost of depreciable utility plant in service is provided using composite straight-line rates which approximated 3.43% in 1980, 3.46% in 1979 and 3.37% in 1978, and includes a factor to provide for the expected cost of decommissioning nuclear facilities. The cost of decommissioning, based on decommissioning promptly after the unit is taken out of service, is estimated at approximately $30,000,000 per unit at Plant Farley. This estimate will be adjusted periodically considering changing price levels and technology. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with its cost of removal, less salvage, is charged to the accumulated provision for depreciation.

The construction of Plant Barton was cancelled in 1977. Obligations related to equipment design and engineering and termination of contracts applicable to this plant amounted to approximately $34,000,000. The company has received regulatory approval to amortize and recover these costs as an operating expense, ratably over a five-year period. Such amortization is included in "Depreciation and amortization" and amounted to $7,071,000 in 1980, $7,145,000 in 1979 and $7,116,000 in 1978.

Maintenance—

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

Pension Costs—

The company has a trusteed and non-contributory pension plan which covers substantially all regular employees. The policy of the company is to fund each year's accrued pension cost for the plan, which amounted to $14,849,000 in 1980, $13,111,000 in 1979 and $11,993,000 in 1978. Of these amounts, $9,466,000 in 1980, $8,712,000 in 1979 and $7,258,000 in 1978 were charged to operating expenses, and the balance was charged to construction and other accounts.

The actuarial present value of accumulated plan benefits at January 1, 1980, totaled $130,322,000 for vested benefits and $6,946,000 for nonvested benefits. These amounts were determined on the basis of accrued benefits as of January 1, 1980, whereas the plan is funded based on the premise that the plan will continue in existence, which requires that future events be considered. The net assets available for benefits at January 1, 1980 amounted to $154,373,000. The weighted average rate of return assumed in determining the actuarial present value of accumulated plan benefits was 5%. The unfunded prior service cost under the plan and supplemental contracts amounted to approximately $16,290,000 and $17,476,000 at December 31, 1980 and 1979, respectively, and is being amortized over a period of approximately 15 years.

Income Taxes—

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

2. RATE MATTERS:

On December 20, 1978, the company filed with the APSC a rate increase request estimated to increase retail revenues by approximately $288.8 million annually. On July 19, 1979, the APSC issued an order making permanent a 9-1/2% emergency increase granted in March and granted an additional 5% increase effective July 19, 1979 and an 8% increase effective January 1, 1980. These increases in retail revenues aggregate approximately $208.3 million annually. On appeal, the Supreme Court of Alabama, on October 19, 1979, permitted the company to bill, subject to refund, the 8% increase which was otherwise not effective until January 1, 1980. The Court subsequently remanded the proceeding to the APSC with the admonition to "enter an order based on the evidence and thereby meet its statutory obligation to the public."

On December 28, 1979, the company filed with the APSC a rate increase request estimated to increase retail revenues by approximately $122.3 million annually based on a test year ended November 30, 1979. On July 28, 1980, the APSC issued an order granting an increase in retail revenues of $30.6 million annually effective August 1, 1980. In connection with its appeal of such APSC order to the Supreme Court of Alabama, the company received, on August 13, 1980, an order of the Court authorizing the company to bill, subject to refund pending final determination of the appeal, the balance of the requested $122.3 million increase effective July 30, 1980.

On March 12, 1981, under remand orders by the Supreme Court, the APSC entered a final order in both proceedings implementing a settlement agreement among the APSC, the company and certain other parties. As a result, $19.7 million of revenues from the $208.3 million increase granted in July 1979 are no longer subject to refund. Additionally, an increase of approximately $92.5 million annually was made effective from July 30, 1980 through February 28, 1981. Refunds of approximately $17 million will be made from revenues billed during such period under the August 1980 order of the Supreme Court of Alabama. The $92.5 million increase is lowered to $80 million annually effective March 1, 1981.

The settlement resulted in a decrease in the company's earnings from those previously released for the year ended December 31, 1980, to reflect a refund of $11,978,000 of revenues billed during the year, which, after giving effect to applicable taxes, reduced net income by $6,018,000.

On November 5, 1980, the company filed a wholesale rate increase application with the FERC estimated to increase wholesale revenues by $23.4 million annually based on the test year 1981. On January 2, 1981, the FERC suspended the company's filed rates until June 5, 1981. The outcome of this pending rate proceeding cannot now be determined.

3. CONSTRUCTION PLAN, FINANCING AND FUEL COMMITMENTS:

Construction Plan—

The company's estimated construction additions, as of October 17, 1980, amount to $487,318,000 in 1981, $513,385,000 in 1982 and $525,758,000 in 1983.

The construction program is subject to periodic review and revision, and actual construction costs incurred and commercial operation dates may vary from estimates because of factors such as granting of timely and adequate rate increases, new estimates of increased costs, revised load estimates and the availability and cost of capital. Because of these factors, the company's construction program has been reduced in recent years, primarily through postponements of planned generating units and other facilities.

As a result of inadequate earnings and insufficient cash, the company began implementing delays in construction of its major generating plants and other construction projects in December 1978. Although construction activities were resumed at Unit No. 2 of Plant Farley and Walter Bouldin Dam in August 1979 and at Harris Dam in August 1980, construction delays continue at the other major projects. Unless adequate rate increases are granted from time to time, additional construction cutbacks will have to be made resulting in substantial increases in ultimate construction costs. These cutbacks may adversely affect future reliability of electric service and could result in increased amounts of purchased power.

On October 23, 1980, the Nuclear Regulatory Commission (NRC) issued an operating license for Unit No. 2 of Plant Farley, and it is expected that it will be placed in commercial operation in mid-1981.

On February 10, 1975, a break occurred at the company's Bouldin Dam causing extensive damage and resulting in the removal from service of the hydroelectric generating facilities (225,000 kilowatts) at the dam. The costs of reconstruction and repair are estimated to be approximately $42,565,000 and $22,180,000, respectively. In the ensuing prosecution of claims and litigation, the company settled with machinery breakdown insurance carriers and all-risk insurers for a total of $33,850,000 and its litigation against the contractors responsible for construction of the dam is still pending. The facilities at the dam were returned to service in late 1980.

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 long-term debt and preferred stock to the public, receipt of additional paid-in capital from SOUTHERN, sale of pollution-control revenue bonds by public authorities and leasing of nuclear material.

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

In order to issue additional first mortgage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The most restrictive of these provisions require for the issuance of additional first mortgage bonds that before-income-tax earnings, as defined, cover pro forma annual interest charges on outstanding first mortgage bonds at least twice; and for issuance of additional preferred stock, that gross income available for interest cover pro forma annual interest charges and preferred stock dividends at least one and one-half times. These coverages, for first mortgage bonds and for preferred stock for the year ended December 31, 1980, were 2.59 and 1.51, respectively.

Because the company has been unable to fund fully its construction program with sufficient amounts of long-term securities, its short-term unsecured borrowings have been outstanding for longer periods of time and in larger amounts than would otherwise be the case (see Note 4).

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

Fuel Commitments—

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

4. NOTES PAYABLE TO BANKS:

The size of the company's construction program necessitates substantial amounts of short-term unsecured borrowings. Under the provisions of its charter, the company's preferred stockholders have approved an increase in the amount of securities representing short-term unsecured indebtedness, which it may have outstanding until January 1, 1982, from 10% of secured indebtedness and other capital to 20% thereof. At December 31, 1980, such 20% limitation amounted to approximately $769,480,000. The company has been authorized by the SEC under the Holding Company Act to have outstanding through September 30, 1981 up to $575,000,000 of short-term unsecured indebtedness. At December 31, 1980, the company had lines of credit with banks totaling approximately $428,000,000 of which $350,000,000 represents commitments obtained under a revolving credit agreement with a group of ten banks outside its service area, terminating September 30, 1981. In January 1981, the company exercised its option under the Revolving Credit Agreement to reduce the maximum commitment to $200,000,000. The agreement contains: (1) restrictions which among other things, (a) limit the amount of certain types of additional indebtedness which the company may incur, and (b) require that a substantial portion of the proceeds from sales of properties or securities, with certain exceptions, be applied to repayment of the notes, and (2) requirements for the payment of fees. These fees amounted to $6,356,000 in 1980, $6,693,000 in 1979 and $4,832,000 in 1978.

Arrangements with respect to the $78,000,000 remaining lines of credit expire at various times during 1981 and provide for average annual compensating balances primarily equal to either 15% of the line, whether used or not, or 10% of each line plus 10% of amounts borrowed. Because the arrangements are based on an average balance, the company does not consider any of its cash balances to be restricted as of any specific date. Including compensating balances, the company has maintained operating account balances in these banks averaging approximately $9,858,000 in 1980 and $9,091,000 in 1979.

5. INCOME TAXES:

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

	1980	1979	1978
	(In Thousands)		
Federal—			
Currently (refundable)	$ (4,678)	$ (3,154)	$ —
Deferred	110,871	68,540	33,918
Deferred in prior years (credit)	(10,091)	(10,178)	(10,483)
Deferred investment tax credits	10,700	—	—
	106,802	55,208	23,435
State—			
Currently payable	3,151	—	—
Deferred	5,205	4,259	2,388
Deferred in prior years (credit)	(731)	(708)	(743)
	7,625	3,551	1,645
Total applicable to electric operations	114,427	58,759	25,080
Income taxes applicable to other income	(1,273)	(1,864)	2,389
Total income taxes	$113,154	$ 56,895	$ 27,469

The company received a federal income tax refund of $3,256,000 for the year ended December 31, 1979, and has accrued a refund of federal income taxes of $20,000,000 at December 31, 1980, attributable to the company's utilization of net operating loss carry-forwards from 1978 and 1979, which were recorded as a reduction in the provision for deferred taxes in those years, and from the estimated use of investment tax credits in SOUTHERN's consolidated income tax return for 1980.

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

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

	1980	1979	1978
Effective federal income tax rate as reported	39.6%	37.7%	25.8%
Reductions in tax expense resulting from statutory exclusions from taxable income—			
Equity component of the allowance for funds used during construction	5.6	9.2	18.7
Percentage depletion on coal reserves mined	.7	.1	3.1
Other	1.6	1.8	3.0
Effective federal income tax rate before effect of timing differences	47.5	48.8	50.6
Timing differences "flowed through" for accounting and rate-making purposes—			
Using different depreciation bases and rates than are used for book purposes, net	(1.8)	(3.0)	(2.5)
Other	.3	.2	(.1)
Federal income tax statutory rate	46.0%	46.0%	48.0%

Investment tax credits utilized in the consolidated tax return are allocated to the members of the SOUTHERN system generating such credits. Deferred investment tax credits are amortized over the life of the property which gave rise to the credits. Such amortization is applied as a credit to reduce depreciation in the Statements of Income and amounted to $1,687,000 in 1980, $1,713,000 in 1979 and $1,666,000 in 1978. At December 31, 1980, investment tax credits totaling approximately $232,000,000 expiring at various times from 1985 to 1987, have not been utilized and are available to reduce federal income taxes payable in future years.

6. OTHER LONG-TERM DEBT:

The annual first mortgage bond sinking fund requirement due on June 1, 1981 (1% of the aggregate amount of bonds, other than refunding bonds, authenticated prior to January 1) amounts to $21,014,000. This requirement may be satisfied by the deposit of cash or reacquired bonds or by the delivery of bonds specifically authenticated for such purpose against unfunded property additions. Satisfaction of the sinking fund requirement by delivery of bonds against unfunded property additions is dependent upon compliance with certain earnings coverage requirements discussed in Note 3.

Details of other long-term debt are as follows:

	December 31, 1980	December 31, 1979
	(In Thousands)	
Obligations incurred in connection with the sale of tax exempt pollution-control revenue bonds by public authorities—		
December 1, 1980, 7.40%	$ —	$ 1,000
December 1, 1981, 7.55%	500	500
December 1, 1982, 7.70%	500	500
December 1, 1983, 7.85%	500	500
December 1, 1984, 8%	3,500	3,500
December 1, 1995 to 2004 (due serially), 9% to 9⅛%	18,700	18,700
2003-2010, 6% to 9½%	175,950	171,700
Less funds on deposit with trustee	(25,514)	(31,067)
	174,136	165,333
Capitalized lease obligations—		
Nuclear fuel	130,340	84,656
Vehicles	12,913	14,558
Office buildings	10,556	10,661
Other	1,121	1,279
	154,930	111,154
	$329,066	$276,487

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

The company has capitalized leased nuclear material and recorded the related lease obligations. One arrangement provides for the payment of interest monthly, in advance, based on the prime interest rate, as defined, plus 1¼% (18.125% at December 31, 1980 and 17.375% at December 31, 1979). The

other arrangement provides for the payment of interest at the time of each extension of credit at an interest rate based on the secondary market bid discount rate for time certificates of deposit, plus certain additional charges (approximately 23.31% at December 31, 1980 and 16.65% at December 31, 1979). Principal payments are required under both arrangements based on the cost of fuel burned.

The company has also capitalized certain vehicle, office building, equipment and other leases. Monthly principal payments plus interest are required, and at December 31, 1980, the interest rate was 18.0% for vehicles, 9.5% for office buildings and the composite interest rate for other leases was 17.51%. Corresponding interest rates for 1979 were 17.25% for vehicles, 9.5% for office buildings and the composite interest rate for other leases was 13.24%.

The estimated aggregate annual maturity of the company's capitalized lease obligations through 1985 is as follows: $31,924,000 in 1981, $52,503,000 in 1982, $34,973,000 in 1983, $19,511,000 in 1984 and $4,737,000 in 1985.

Long-term debt due within one year at December 31, 1980, consists of $15,000,000 of first mortgage bonds, $500,000 of pollution-control obligations and $31,924,000 of capitalized lease obligations.

7. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

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

8. INVESTMENT IN JOINTLY OWNED FACILITIES:

The company and one of its affiliates, Georgia Power Company (GEORGIA), own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO), which owns electric generating units with a total rated capacity of 1,019,680 kilowatts, together with associated transmission facilities. The capacity of these units is sold equally to the company and GEORGIA under a contract expiring in 1994 which, in substance, requires payments sufficient to provide for the operating expenses, taxes and debt service, including a return on investment, whether or not SEGCO has any capacity and energy available. The company's share of such amounts totaled $68,882,000 in 1980, $64,849,000 in 1979 and $50,171,000 in 1978, and is included in "Purchased and interchanged power, net" in the Statements of Income.

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

At December 31, 1980, the capitalization of SEGCO consisted of $32,800,000 of equity and $47,215,000 of long-term debt on which the annual interest requirement is $3,037,000. Through December 31, 1980, SEGCO has paid dividends equal to its net income.

The company and one of its affiliates, Mississippi Power Company, own as tenants in common in the proportions of 60% and 40%, respectively, a 500,000-kilowatt steam electric generating plant in Greene County, Alabama. The plant was placed in service in 1965 and the company's investment at December 31, 1980 amounted to $53,606,000. The company's share of expenses is included in the corresponding operating expense accounts in the Statements of Income.

9. DIVIDEND RESTRICTIONS:

The company's charter contains provisions which prohibit the payment of cash common dividends (except those paid concurrently with the receipt of a cash capital contribution in like amount) in cases where retained earnings are not at least equal to two times annual dividends on the outstanding Preferred Stock and Class A Preferred Stock. At December 31, 1980, this restriction amounted to $61,888,000. In addition, various series of the company's outstanding first mortgage bonds are entitled to the benefits of covenants restricting the payment of cash dividends on common stock. However, under the terms of such covenants, the entire amount of earnings retained in the business at December 31, 1980 is available for the payment of cash common dividends.

10. NUCLEAR INSURANCE:

Under the Price-Anderson Act, the company maintains agreements of indemnity with the NRC which, together with private insurance, cover third-party liability arising from any nuclear incident occurring at its nuclear power plant. The Act limits public liability claims that could arise from a single nuclear incident to $560,000,000. Each reactor at the company's nuclear plant is insured against this liability to a maximum of $160,000,000 by private insurance (the maximum amount presently available) and the remainder is provided by indemnity agreements with the NRC. In the event of a nuclear incident, the company and each other licensee of a nuclear power plant could be assessed up to $5,000,000 per incident for each licensed reactor operated by it, but not more than $10,000,000 to be paid in a calendar year. On the basis of its ownership of one reactor in service and one reactor licensed for service, the company could be assessed a maximum of $10,000,000 for any such incident, but not more than $20,000,000 to be paid in any one year.

The company is a member of Nuclear Mutual Limited, a mutual insurer established to provide property damage insurance for members' nuclear generating plants. In the event of catastrophic loss payments by the insurer, the members are

subject to assessments in proportion to their participation in the mutual insurer. The present maximum assessment for the company would be approximately $33,000,000.

Also, the company is a member of Nuclear Electric Insurance Limited, a mutual insurer which provides insurance to cover members' extra cost of replacement power resulting from a prolonged accidental outage of nuclear units. The company is insured against such increased costs in the amount of up to $2,000,000 per week (starting 26 weeks after the outage) for one year and $1,000,000 per week for the second year. Members are subject to assessments of up to five times their respective annual premiums if losses exceed the accumulated funds available to the insurer. The present maximum assessment for the company would be approximately $8,000,000.

11. 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.

12. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1980 and 1979 are as follows:

	Operating Revenues, Electric	Operating Income, Electric	Net Income After Dividends on Preferred Stock
		(In Thousands)	
1980 (a)			
First	$297,639	$62,129	$22,043
Second	302,226	56,391	12,982
Third	457,313	94,374	57,526
Fourth	364,819	76,105	37,153
1979			
First	$244,657	$47,058	$ 8,401
Second	271,178	42,889	3,343
Third	353,489	59,950	27,012
Fourth	294,299	56,653	18,684

(a) The amounts for the first three quarters of 1980 have been restated from those previously reported to reflect a reclassification of bulk power sales made under long-term contracts initiated in 1980 and the settlement of a retail rate matter as explained in Note 2. The effect of the reclassification of bulk power sales was to increase operating revenues, electric for the first three quarters by $3,949,000, $5,929,000 and $14,422,000, respectively, with a corresponding increase in purchased and interchanged power. The effect of the rate settlement on the third quarter was to reduce operating revenues, electric by $4,453,000 and operating income, electric and net income after dividends on preferred stock by $2,237,000.

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

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

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

The accumulated provision for depreciation for current cost was developed by applying, for each major class of plant, the same percentage relationship that existed between gross plant and accumulated provision for depreciation on a historical basis to the adjusted plant data. Depreciation expense for both methods was determined by applying the current depreciation rates to the respective indexed plant amounts reduced by the amortization of investment tax credits which were first adjusted to average 1980 constant dollar amounts by year of addition.

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

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

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

Statement of Income Adjusted for Changing Prices

for the Year Ended December 31, 1980

	Constant Dollar	Current Cost
	(In Thousands of Average 1980 Dollars)	
Income applicable to common stockholder, as reported	$ 129,704	$ 129,704
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	106,323	133,690
Reportable as a reduction to net recoverable cost	319,117	182,468
	425,440	316,158
Excess of the general level of prices ($834,672) in the current year over increase in specific price changes ($725,390)*		109,282
Offsetting effect of debt financing	(305,406)	(305,406)
Net erosion of common stockholder's equity	120,034	120,034
Income (loss) applicable to common stockholder, as adjusted** (including the effect of debt financing)	$ 9,670	$ 9,670

*At December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation, was $8.2 billion, and historical cost or net cost recoverable through depreciation was $4.1 billion.

**Adjusted income (loss) applicable to the common stockholder would be $23.4 million on a constant dollar basis and ($4.0 million) on a current cost basis if only the amount reportable as an additional provision for depreciation were deducted from the reported amount of such income.

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

	1980	1979	1978	1977	1976
			(In Thousands)		
Operating Revenues, Electric:					
Historical cost	$1,421,997	$1,163,623	$1,014,443	$ 968,693	$ 699,667
As adjusted*	1,421,997	1,326,530	1,278,198	1,317,422	1,014,517
Income (loss) applicable to common stockholder:					
Historical cost	$ 129,704	$ 57,440			
As adjusted for the net erosion of common stockholder's equity*	9,670	(68,824)			
Common stockholder's investment (net assets), at year-end:					
Historical cost	$1,211,417	$1,022,533	$ 952,648	$ 971,626	$ 858,300
As adjusted*	1,162,960	1,094,110	1,162,231	1,292,263	1,218,786
Excess of the general level of prices over increase in specific price changes*	$ 109,282	$ 295,136			
Effect of debt financing*	$ 305,406	$ 363,154			
Return on average common equity:					
Historical	11.61%	5.82%			
As adjusted for the net erosion of common stockholder's equity*	0.86%	(6.97)%			
Cash dividends declared:					
Historical cost	$ 115,300	$ 54,000	$ 108,800	$ 94,900	$ 60,000
As adjusted*	115,300	61,560	137,088	129,064	87,000
Average consumer price index	246.8	217.4	195.4	181.5	170.5

*Adjusted amounts represent average 1980 dollars.

General Officers

Joseph M. Farley, President

Alan R. Barton, Executive Vice President (1)

Elmer B. Harris, Executive Vice President

Jesse S. Vogtle, Executive Vice President

William O. Whitt, Executive Vice President

Fred L. Clayton, Jr., Senior Vice President

John D. Jones, Senior Vice President

Kenneth L. Allums, Group Vice President

Bob Andrews, Vice President, Human Resources

S. H. Booker, Vice President, Energy Services

Tr[illegible] J. Bowden, Vice President and Treasurer

[illegible] E. Bradley, Vice President, Public Information

Rayford F. Davis, Vice President, Power Delivery

R. E. Huffman, Vice President, Operations Services

R. P. McDonald, Vice President, Nuclear Generation

Jackson W. Minor, Vice President and Comptroller

G. Thornton Nelson, Vice President, Industrial Development

Ollie D. Smith, Vice President, Corporate Real Estate

Alvin W. Vogtle, Jr., Vice President

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

Richard A. Bowron, Secretary

Charles M. Deason, Assistant Comptroller

Ernest E. Glass, Jr., Assistant Comptroller

Dale W. Oliver, Assistant Comptroller

Robert C. Ford, Assistant Secretary and Assistant Treasurer

E. Ray Perry, Assistant Secretary and Assistant Treasurer

Dorothy L. Essig, Assistant Secretary

John H. Snyder, Assistant Secretary

W. L. Sanders, Jr., Assistant Treasurer

William L. Smith, Assistant Treasurer

Division Officers

W. D. Bolton, Vice President, Anniston

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

Hugh P. Foreman, Vice President, Montgomery

William L. McDonough, Vice President, Mobile

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

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

Transfer Agents

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

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

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

Registrars

The First National Bank of Birmingham
Birmingham, Alabama 35288

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

Chemical Bank
New York, New York 10041
(Only for the 15.68% Class A Preferred Stock)

(1) Resigned June 1, 1980 to become president of Mississippi Power Company

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

Directors

Joseph M. Farley, Birmingham (1965)†
President

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

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

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

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

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

Alan R. Barton, Birmingham (1968)†(1)
Executive Vice President

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

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

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

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

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

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

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

Ernest F. Ladd, Jr., Mobile (1974)
Chairman Emeritus
Southland 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

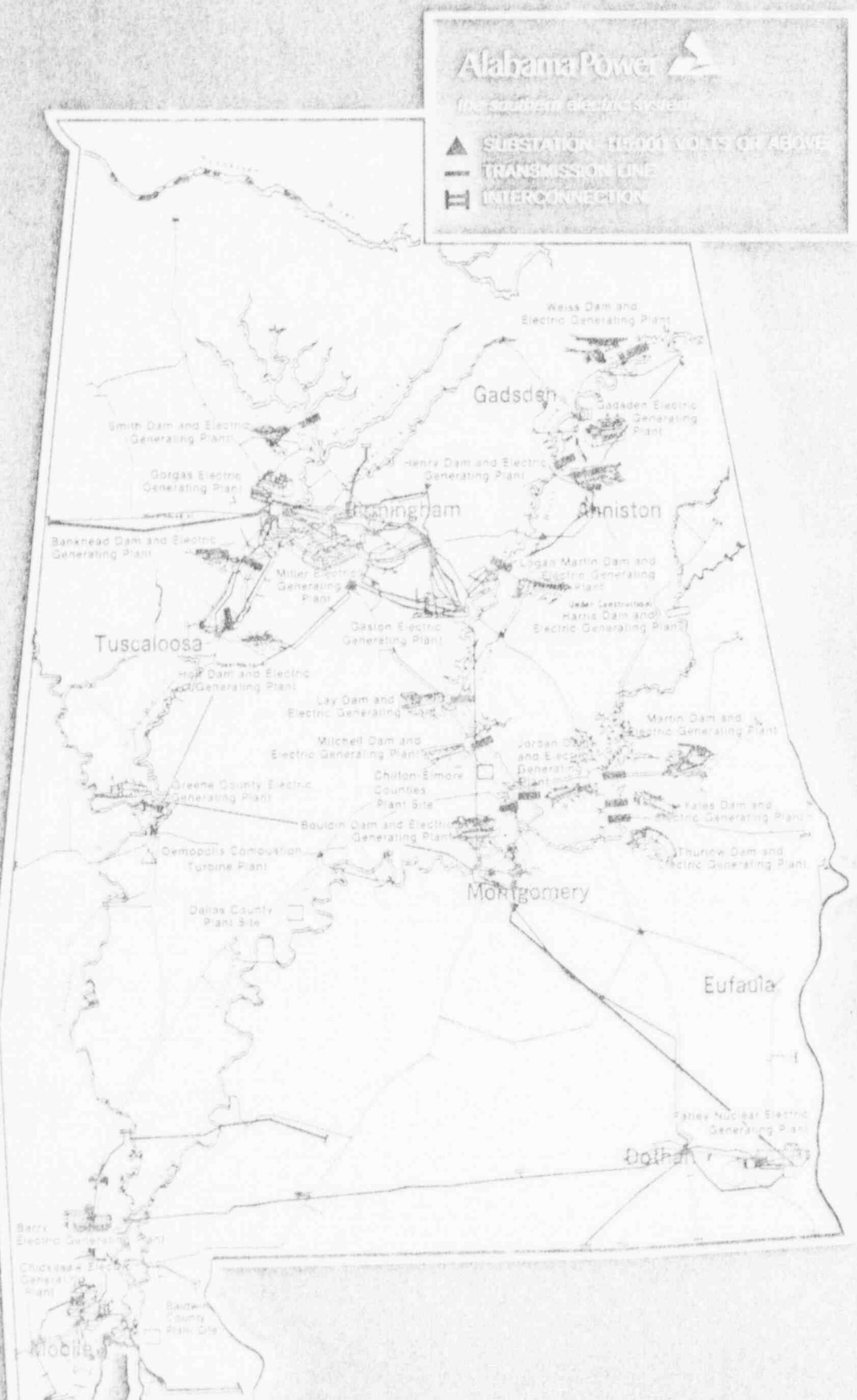
Jesse S. Vogtle, Birmingham (1979)
Executive Vice President

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

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

* Audit Committee member
** Audit Committee alternate member
† Executive Committee member
(1) Resigned June 1, 1980 to become president of Mississippi Power Company

Years in parentheses indicate date of election.



Alabama Power
SUBSTATION - 115,000 VOLTS OR ABOVE
TRANSMISSION LINE
INTERCONNECTION
Weiss Dam and Electric Generating Plant
Gadsden
Gadsden Electric Generating Plant
Smith Dam and Electric Generating Plant
Henry Dam and Electric Generating Plant
Gorgas Electric Generating Plant
Birmingham
Anniston
Bankhead Dam and Electric Generating Plant
Logan Martin Dam and Electric Generating Plant
Miller Electric Generating Plant
Under Construction
Harris Dam and Electric Generating Plant
Gaston Electric Generating Plant
Tuscaloosa
Holt Dam and Electric Generating Plant
Lay Dam and Electric Generating Plant
Martin Dam and Electric Generating Plant
Mitchell Dam and Electric Generating Plant
Jordan Dam and Electric Generating Plant
Greene County Electric Generating Plant
Chilton-Elmore Counties Plant Site
Yates Dam and Electric Generating Plant
Bouldin Dam and Electric Generating Plant
Thurlow Dam and Electric Generating Plant
Demopolis Combustion Turbine Plant
Montgomery
Dallas County Plant Site
Eufaula
Farley Nuclear Electric Generating Plant
Dothan
Barry Electric Generating Plant
Chickasaw Electric Generating Plant
Baldwin County Plant Site
Mobile

ALABAMA POWER COMPANY

Balance Sheets

	March 1981	March 1980
	(Thousands of dollars)	
Assets and Other Debits		
Utility plant	$5,089,730	$4,734,920
Accumulated provision for depreciation	(967,406)	(850,296)
Nuclear fuel	225,385	178,229
Accumulated provision for amortization	(66,129)	(45,761)
Net utility plant	4,281,580	4,017,092
Nonutility property (net)	2,392	2,272
Investment in subsidiary companies	17,403	17,278
Other investments and special funds	12	14
Total other property and investments	19,807	19,564
Cash and marketable securities	20,898	13,752
Working funds and special deposits	666	464
Receivables less provision for uncollectibles	120,831	93,875
Fuel stock	167,542	149,090
Other materials and supplies	22,110	19,904
Prepayments	58,683	35,654
Total current assets	390,730	312,739
Deferred debits	81,219	60,408
Total assets and other debits	$4,773,336	$4,409,803
Liabilities and Other Credits		
Common capital stock	$ 224,358	$ 224,358
Preferred capital stock	421,900	381,900
Premium on preferred capital stock	461	461
Gain on cancellation of reacquired preferred capital stock	479	479
Miscellaneous paid-in capital	881,145	725,145
Earnings retained in the business (Note)	117,098	99,613
Total proprietary capital	1,645,441	1,431,956
Long-term debt-bonds	1,993,486	1,643,486
Other long-term debt	323,176	280,533
Unamortized premium and discount	(15,838)	(11,856)
Total capitalization	3,946,265	3,344,119
Notes payable	30,700	393,996
Accounts payable	163,796	151,007
Customer deposits	20,231	18,615
Taxes accrued	39,386	21,842
Interest accrued	57,269	55,493
Other current liabilities	22,517	25,621
Total current liabilities	333,899	666,574
Accumulated deferred income taxes	413,501	333,236
Accumulated deferred investment tax credits	56,236	43,592
Other deferred credits	21,642	19,892
Total deferred credits	491,379	396,720
Injuries and damages reserve	1,793	2,390
Total liabilities and other credits	$4,773,336	$4,409,803

Restated to reflect refund of retail revenues.

The accompanying notes are an integral part of these balance sheets.

ALABAMA POWER COMPANY

Statements of Income

	Twelve Months Ended March 1981	1980
	(Thousands of dollars)	
Operating revenues -		
Sales of electricity	$1,508,950	*$1,207,026
Other operating revenues	10,537	9,579
Total operating revenues	1,519,487	1,216,605
Operating expenses -		
Operation	792,702	* 631,602
Maintenance	105,065	87,414
Total operation and maintenance	897,767	719,016
Depreciation and amortization	129,074	123,832
Taxes other than income taxes	73,760	77,615
Income taxes	118,908	74,520
Total operating expenses	1,219,509	994,983
Total electric operating income	299,978	221,622
Steam heat operating income	272	482
Total operating income	300,250	222,104
Other income and deductions -		
Allowance for funds used during construction-Other	38,000	25,884
Other income	8,823	10,733
Other income deductions	607	797
Taxes	(149)	(2,515)
Total other income and deductions	46,365	38,335
Income before interest charges	346,615	260,439
Interest charges -		
Interest on long-term debt	199,419	164,760
Amortization of debt discount, expense and premium	658	518
Other interest expense	46,788	62,697
Total interest charges	246,865	227,975
Allowance for funds used during construction -		
Borrowed - Credit	(38,410)	(36,670)
Income tax effect - AFUDC - Borrowed - Credit	(34,741)	(33,168)
Net interest charges	173,714	158,137
Net income	172,901	102,302
Dividends on preferred stock	31,554	31,219
Net income after dividends on preferred stock (Note)	$ 141,347	$ 71,083

* Operating revenues for 1980 were reclassified to include bulk power sales, made under long-term contracts with neighboring utilities, which were previously recorded as a credit to purchased and interchange power.

Restated to reflect refund of retail revenues.

The accompanying note is an integral part of these statements of income.

ALABAMA POWER COMPANY

Statements of Retained Earnings

	Twelve Months Ended March 1981	1980
	(Thousands of Dollars)	
Balance at first of period	$ 99,613	$110,530
Add (deduct):		
Net income after dividends on preferred stock	141,347	71,083
Cash dividends on common stock	(122,000)	(82,000)
Preferred capital stock expense	(1,862)	-
Balance at end of period	$117,098	$ 99,613

Restated to reflect refund of retail revenues.

The accompanying note is an integral part of these statements of retained earnings.

ALABAMA POWER COMPANY

NOTES TO INCOME ACCOUNT AND BALANCE SHEET
March, 1981

1. The financial statements include increased revenues resulting from revised rates applicable to sales for resale in effect from September 12, 1974 to October 1, 1976, subject to refund, as shown below:

Sales For Resale	1974 Case To Date (Thousands of Dollars)
1 Revenues	$29,333
2 Income Taxes	14,448
3 Other Taxes	77
4 Net Income	$14,808

2. On December 20, 1978, Alabama Power Company (COMPANY) filed with the Alabama Public Service Commission (APSC) a rate increase request estimated to increase retail revenues by approximately $288.8 million annually. On July 19, 1979, the APSC issued an order making permanent a 9-1/2% emergency increase granted in March, 1979 and granted an additional 5% increase effective July 19, 1979, and an 8% increase effective January 1, 1980. These increases in retail revenues aggregate approximately $208.3 million annually. On appeal, the Supreme Court of Alabama, on October 19, 1979, permitted the COMPANY to bill, subject to refund, the 8% increase which was otherwise not effective until January 1, 1980. The Court subsequently remanded the proceeding to the APSC with the admonition to "enter an order based on the evidence and thereby meet its statutory obligation to the public."

On March 12, 1981, under remand orders by the Supreme Court, the APSC entered a final order implementing a settlement agreement among the APSC, the COMPANY and certain other parties. As a result, $19.7 million of revenues from the $208.3 million increase granted in July, 1979, are no longer subject to refund.

ALABAMA POWER COMPANY

NOTES TO INCOME ACCOUNT AND BALANCE SHEET
(Continued)
March, 1981

3. On December 28, 1979, the COMPANY filed with the APSC a rate increase request estimated to increase retail revenues by approximately $122.3 million annually based on a test year ended November 30, 1979. On July 28, 1980, the APSC issued an order granting an increase in retail revenues of $30.6 million annually effective August 1, 1980. In connection with its appeal of such APSC order to the Supreme Court of Alabama the COMPANY received on August 13, 1980, an order of the Court authorizing the COMPANY to bill, subject to refund pending final determination of the appeal, the balance of the requested $122.3 million increase effective July 30, 1980.

On March 12, 1981, under remand orders by the Supreme Court, the APSC entered a final order implementing a settlement agreement among the APSC, the COMPANY and certain other parties. An increase of approximately $92.5 million annually was made effective from July 30, 1980, through February 28, 1981. The $92.5 million increase is lowered to $80 million annually effective March 1, 1981. The settlement resulted in a decrease in the COMPANY's earnings for the period July 30, 1980, through February 28, 1981, to reflect a refund of $17,134,000 of revenues billed during the period, which, after giving effect to applicable taxes, reduced net income by $8,609,000.

Below is an analysis of the estimated refund which was recorded in the current month. Of the net refund, $6,018,000 was recorded as an adjustment to retained earnings for the period July 30, 1980, through December 31, 1980. The effect on net income for 1981 is $2,591,000.

	Estimated Refund Recorded in Current Month
Retail	
5 Revenues	$(17,134)
6 Income Taxes	(7,786)
7 Other Taxes	(739)
8 Net Income	$ (8,609)

ALABAMA POWER COMPANY

Statements of Sources of Funds for Gross Property Additions

	Twelve Months Ended March 1981	Twelve Months Ended March 1980
	(Thousands of Dollars)	
SOURCES		
Net income	$172,901	$102,302
Less - Dividends on common stock	122,000	82,000
Dividends on preferred stock	31,554	31,219
	19,347	(10,917)
Add (deduct) principal noncash items -		
Depreciation and amortization	154,761	140,854
Deferred income taxes, net	102,507	77,728
Deferred investment tax credits	14,384	-
Allowance for equity funds used during construction	(38,000)	(25,884)
	252,999	181,781
Decrease (increase) in net current assets, other than long-term debt due within one year and notes payable to banks -		
Cash and temporary cash investments	(7,171)	35,345
Receivables	(27,134)	(11,961)
Materials and supplies	(20,657)	(44,141)
Accounts payable	15,705	22,466
Taxes accrued	17,545	(195)
Interest accrued	1,775	3,681
Other, net	(27,433)	(5,633)
	(47,370)	(438)
Other, net*	(2,284)	12,638
Total funds from internal sources	203,345	193,981
Sales of securities -		
First mortgage bonds	350,000	-
Less - bonds retired	-	18,433
Preferred stock	40,000	-
Less - preferred stock redeemed	-	2,500
	390,000	(20,933)
Capital contributions by The Southern Company	156,000	99,445
Pollution control obligations	6,107	6,645
Sales of property, net book value	73	415
Obligations under capitalized leases	36,536	19,950
Increase (decrease) in interim obligations	(363,296)	155,193
Total funds from external sources	225,420	260,715
GROSS PROPERTY ADDITIONS	$428,765	$454,696

* Includes allowance for equity funds used during construction.

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ALABAMA POWER COMPANY

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

	1980 Actual	1981 Projections
Net Income After Taxes	$160,717	$131,425
Less Dividends Paid	(146,313)	(172,703)
Retained Earnings	14,404	(41,278)
Adjustments:		
Depreciation and Amortization	160,669	211,573
Deferred Income Taxes and Investment Tax Credits	115,999	81,932
Allowance for Funds Used During Construction (Gross)	(112,028)	(89,100)
Total Adjustments	164,640	204,405
Internal Cash Flow	$179,044	$163,127
Average Quarterly Cash Flow	$ 44,761	$ 40,782
Percentage Ownership in all Operating Nuclear Units:		
Joseph M. Farley Units 1 and 2		100%
Maximum Total Contingent Liability		$20,000

Note: Includes Farley Unit 2 which is estimated to be in commercial operation in mid-1981.

Alabama Power Company
600 North 18th Street
Post Office Box 2641
Birmingham, Alabama 35291
Telephone 205 323-5341

Travis J. Bowden
Vice President and Treasurer

Alabama Power
the southern electric system

May 5, 1981

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. 1980 Annual Report which includes financial statements for the calendar year 1980, together with the report on such statements by Arthur Andersen & Co., independent public accountants;

2. Unaudited Financial Statements for the quarter ended March 31, 1981;

3. Cash Flow Projections for the period January 1, 1981 through December 31, 1981, 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 copy of this letter.

Yours very truly,

Travis J. Bowden

Travis J. Bowden

TJB:bm
Enclosures