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ALABAMA POWER COMPANY

Balance Sheet

	March 1980	March 1979
	(Thousands of dollars)	
Assets and Other Debits		
Utility Plant	$4,734,920	$4,376,333
Accumulated provision for depreciation	(850,296)	(740,903)
Nuclear fuel	178,229	100,570
Accumulated provision for amortization	(45,761)	(34,172)
Net utility plant	4,017,092	3,701,828
Nonutility property (net)	2,272	2,296
Investment in subsidiary companies	17,278	17,088
Other investments and special funds	14	9
Total other property and investments	19,564	19,393
Cash and marketable securities	13,752	49,233
Working funds and special deposits	464	328
Receivables less provision for uncollectibles	93,875	81,914
Fuel stock	149,090	104,966
Other materials and supplies	19,904	19,887
Prepayments	35,654	27,881
Total current assets	312,739	284,209
Deferred debits	60,408	58,001
Total assets and other debits	$4,409,803	$4,063,431
Liabilities and Other Credits		
Common capital stock	$ 224,358	$ 224,358
Preferred capital stock	381,900	384,400
Premium on preferred stock	461	461
Gain on cancellation of reacquired preferred capital stock	479	-
Miscellaneous paid-in capital	725,145	625,700
Earnings retained in the business (Note)	99,613	110,530
Total proprietary capital	1,431,956	1,345,449
Long-term debt-Bonds	1,643,486	1,661,919
Other Long-term debt	280,533	253,938
Unamortized premium and discount	(11,856)	(12,394)
Total capitalization	3,344,119	3,248,912
Notes payable	393,996	238,803
Accounts payable	151,007	129,800
Customer deposits	18,615	16,963
Taxes accrued	21,842	22,038
Interest accrued	55,493	51,812
Other current liabilities	25,621	23,873
Total current liabilities	666,574	483,289
Accumulated deferred income taxes	333,236	275,771
Accumulated deferred investment tax credits	43,592	38,745
Other deferred credits	19,392	15,050
Total deferred credits	396,720	329,566
Injuries and damage reserve	2,390	1,664
Total liabilities and other credits	$4,409,803	$4,063,431

The accompanying note is an integral part of this balance sheet.

ALABAMA POWER COMPANY

Statements of Income

	Twelve Months Ended March	
	1980	1979
	(Thousands of dollars)	
Operating revenues -		
Sales of electricity	$1,203,078	$1,014,033
Other operating revenues	9,579	8,406
Total operating revenues	1,212,657	1,022,439
Operating expenses -		
Operation	627,654	579,473
Maintenance	87,414	74,378
Total operation and maintenance	715,068	653,851
Depreciation and amortization	123,832	113,833
Taxes other than income taxes	77,615	64,815
Income taxes	74,520	21,311
Total operating expenses	991,035	853,810
Total electric operating income	221,622	168,629
Steam heat operating income	482	591
Total operating income	222,104	169,220
Other income and deductions -		
Allowance for funds used during construction-other	25,884	38,912
Other income	10,733	9,260
Other income deductions	797	482
Taxes	(2,515)	2,300
Total other income and deductions	38,335	45,390
Income before interest charges	260,439	214,610
Interest charges -		
Interest on long-term debt	164,760	160,134
Amortization of debt discount, expense and prem.	518	873
Other interest expense	62,697	19,978
Total interest charges	227,975	180,985
Allowance for funds used during construction -		
borrowed - credit	(36,670)	(19,693)
Income tax effect - AFUDC - Borrowed - Credit	(33,168)	(18,897)
Net interest charges	158,137	142,395
Net Income	102,302	72,215
Dividends on preferred stock	31,219	31,219
Net income after dividends on preferred stock (Note)	$ 71,083	$ 40,996

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

ALABAMA POWER COMPANY

Statements of Retained Earnings

	Twelve Months Ended March	
	1980	1979
	(Thousands of Dollars)	
Balance at first of period	$110,530	$151,052
Add (deduct):		
Net income after dividends on preferred stock	71,083	40,996
Cash dividends on common stock	(82,000)	(81,400)
Preferred capital stock expense	-	(118)
Balance at end of period	$ 99,613	$110,530

ALABAMA POWER COMPANY

March, 1980

NOTES TO BALANCE SHEET AND INCOME ACCOUNT

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:

		1974 Case To Date
		(Thousands of Dollars)
Sales For Resale		
1	Revenues	$29,333
2	Income Taxes	14,448
3	Other Taxes	77
4	Net Increased 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 rates by approximately $288.8 million annually. The APSC on March 6, 1979, granted a 9-1/2% emergency increase ($81.9 million annually) effective March 9, 1979, in retail rates. On July 19, 1979, the APSC issued an order making permanent the 9-1/2% emergency increase and granted an additional 5% increase effective July 19, 1979, and another 8% increase effective January 1, 1980. These increases in retail revenues aggregate approximately $208 million annually. On August 20, 1979, the Company and certain intervenors appealed the APSC's order to the Supreme Court of Alabama (COURT). On October 19, 1979, the Court permitted the Company to collect, subject to possible refund, the 8-percent increase which was otherwise not effective until January 1, 1980. The financial statements include increased revenues resulting from revised retail rates in effect October 19, 1979, subject to refund, as shown below:

		Current Month	Year to Date	Total to Date
		(Thousands of Dollars)		
Retail				
5	Revenues	$(2)	$3,610	$19,708
6	Income Taxes	(1)	1,640	8,956
7	Other Taxes	-	156	850
8	Net Increased Income	$(1)	$1,814	$ 9,902

ALABAMA POWER COMPANY

Statements of Sources of Funds for Gross Property Additions

	Twelve Months Ended March	
	1980	1979
	(Thousands of Dollars)	
SOURCES		
Net income	$102,302	$ 72,215
Less - Dividends on common stock	82,000	81,400
Dividends on preferred stock	31,219	31,219
	(10,917)	(40,404)
Add (deduct) principal noncash items -		
Depreciation and amortization	140,854	144,361
Deferred income taxes, net	77,728	15,117
Allowance for funds used during construction (gross)	(95,722)	(77,503)
	111,943	41,571
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	35,345	87,228
Receivables	(11,961)	(193)
Materials and supplies	(44,141)	(54,668)
Accounts payable	22,466	38,278
Taxes accrued	(195)	9,107
Interest accrued	3,681	(3,070)
Other, net	(5,633)	20,037
	(438)	96,719
Other, net*	82,476	49,128
Total funds from internal sources	193,981	187,418
Sales of securities -		
First mortgage bonds	-	-
Less - bonds retired	18,433	10,345
Preferred stock	-	-
Less - preferred stock redeemed	2,500	-
	(20,933)	(10,345)
Capital contributions by The Southern Company	99,445	47,200
Pollution control obligations	6,645	27,779
Sales of property, net book value	415	176
Obligations under capitalized leases	19,950	5,934
Increase (decrease) in interim obligations	155,193	230,213
Total funds from external sources	260,715	300,957
GROSS PROPERTY ADDITIONS	$454,696	$488,375

* Includes allowance for funds used during construction.

ALABAMA POWER COMPANY

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

	1979 (Actual)	1980 (Projections)
Net Income After Taxes	$ 88,659	$ 123,138
Less Dividends Paid	(85,219)	(148,001)
Retained Earnings	3,440	(24,863)
Adjustments:		
Depreciation and Amortization	137,275	179,625
Deferred Income Taxes and Investment Tax Credits	61,970	81,687
Allowance for Funds Used During Construction (Gross)	(85,750)	(97,469)
Total Adjustments	113,495	163,843
Internal Cash Flow	$116,935	$ 138,980
Average Quarterly Cash Flow	$ 29,234	$ 34,745

Percentage Ownership in all Operating Nuclear Units: Joseph M. Farley Units 1 & 2 100%

Maximum Total Contingent Liability (Note) $20,000

Note:

Includes Farley Unit 2 which is estimated to be licensed and in commercial operation in late 1980.

Alabama Power Company
Annual Report 1979

The land we serve — 44,500 square miles rich in its resources and its heritage; the people we serve — over 800 communities where almost 3 million people live and work, creating a better quality of life for all.

Contents

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.

Form 10-K
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.

Alabama Power

the southern electric system

Cover: Robert Byrd, Jr., has a livestock farm a few miles north of Montevallo. Byrd, like other rural customers, has developed sound conservation practices for the efficient use of electricity in his farming operation.

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

Comparative Highlights

	1979	1978
	(Dollars Expressed in Thousands)	
Electric Energy Sales (millions of kwh):		
Residential	8,679	9,089
All Other Retail	19,964	19,207
Wholesale	2,468	2,822
Total	31,111	31,118
Average Annual Use Per Residential Customer (kwh)	10,231	10,939
Customers Served Directly at End of Year	976,200	961,440
Operating Revenues, Electric:		
Residential Sales	$ 385,224	$ 351,644
All Other Retail Sales	691,182	576,754
Wholesale Sales	77,278	78,073
Total from Sales of Energy	1,153,684	1,006,471
Other Revenues	9,939	7,972
Total	$1,163,623	$1,014,443
Operating Expenses, Electric:		
Fuel	$ 365,628	$ 295,186
Purchased and Interchanged Power, Net	124,929	161,602
Other	466,516	396,728
Total	$ 957,073	$ 853,516
Income Before Interest Charges	$ 247,325	$ 205,819
Interest Charges (Before credit of $57,196,000 in 1979 and $37,948,000 in 1978 for allowance for debt funds used during construction)	215,362	169,645
Dividends on Preferred Stock	31,219	31,219
Net Income After Dividends on Preferred Stock	57,440	42,903
Total Utility Plant at End of Year	$4,814,504	$4,372,725
Gross Additions to Utility Plant During Year	459,533	483,430
Construction Work in Progress at End of Year	950,210	735,777

This report and accompanying financial statements are submitted for the information of stockholders and are not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities.

To the Stockholders

For Alabama Power Company, as for other Alabama business and industry, the 1970s were a decade of considerable change. Those unstable years seemed to culminate in 1979, forcing the company to weather the most serious financial crisis since the earliest days of its 74-year history.

Following court decisions in late 1978 and early 1979 which voided, on a technicality, an earlier Public Service Commission order granting a badly needed $210-million rate increase, the company was compelled to curtail sharply nearly all its major generating plant construction and a substantial part of transmission and distribution construction and maintenance; initiate drastic cutbacks on expenditures; and release about 4,000 construction craft workers, contract personnel and company employees.

The situation was eased somewhat, but certainly not solved, when the Public Service Commission issued its order in July mandating a three-phase rate increase. Although the increase granted was much less than the amount requested, it did allow the reinstatement of a sizeable portion of our lines of credit with a number of lending institutions, thus permitting the company to resume limited construction work.

On December 28, 1979, new rate schedules were filed with the Commission for an increase in revenues of approximately 10 percent, basically the amount denied the company in the Commission's July retail rate order, escalated to more current inflation levels. Only adequate and timely revenues will allow the company's earnings, which have been sharply deteriorating for the past two years, to improve.

The understanding support of the employees of Alabama Power Company during this difficult time has been a significant factor as the company gradually returns to fiscal health; and we are indebted, too, to Southern Company Services employees for their cooperation and assistance.

Nature also played a major role in 1979 as the Alabama Gulf Coast was devastated by Hurricane Frederic on September 12, injuring scores and knocking out 90 percent of the electric power in the Mobile service area. There was also extensive damage to the company's system in Birmingham, Tuscaloosa, Jasper, Anniston and other towns throughout western and central Alabama.

Some 2,100 storm repair workers and support personnel were on the job virtually around the clock; and in just 21 days of almost superhuman effort, power was restored to nearly every customer. On behalf of the management and stockholders of Alabama Power Company, I express to all of our employees gratitude and pride for their efficient work, loyalty and dedication during that time of crisis and in the day-to-day business of providing service to customers. All of us are grateful to the employees of Gulf and Georgia Power companies and Florida Power Corporation for their substantial and dedicated work under adverse circumstances.

1980 began with the company still operating in a restricted mode, reflecting less than normal levels of maintenance and support. Our daily operations, as well as our construction work, continue to be hampered by strict but imperative limitations on expenditures.

For the 1980s, our challenge is simple and clear: We must meet the

Joseph M. Farley
President

demands for electricity that our customers set for us in their homes and businesses, within ever growing governmental regulations and restraints. We are confident today of a greater public understanding of the company and its role in society. We believe that communication of our story to the public is essential if the company is to continue to meet its goals and objectives as a viable electric utility, and we have completely reorganized our public information effort to this end. We begin the new decade with hope and confidence that people will begin to understand the complexities inherent in producing and supplying electric energy. Those of us involved in this process — all 9,000 employees — are striving to provide the most efficient and reliable product possible, at a fair price.

Joseph M. Farley

Joseph M. Farley
President

Management Changes

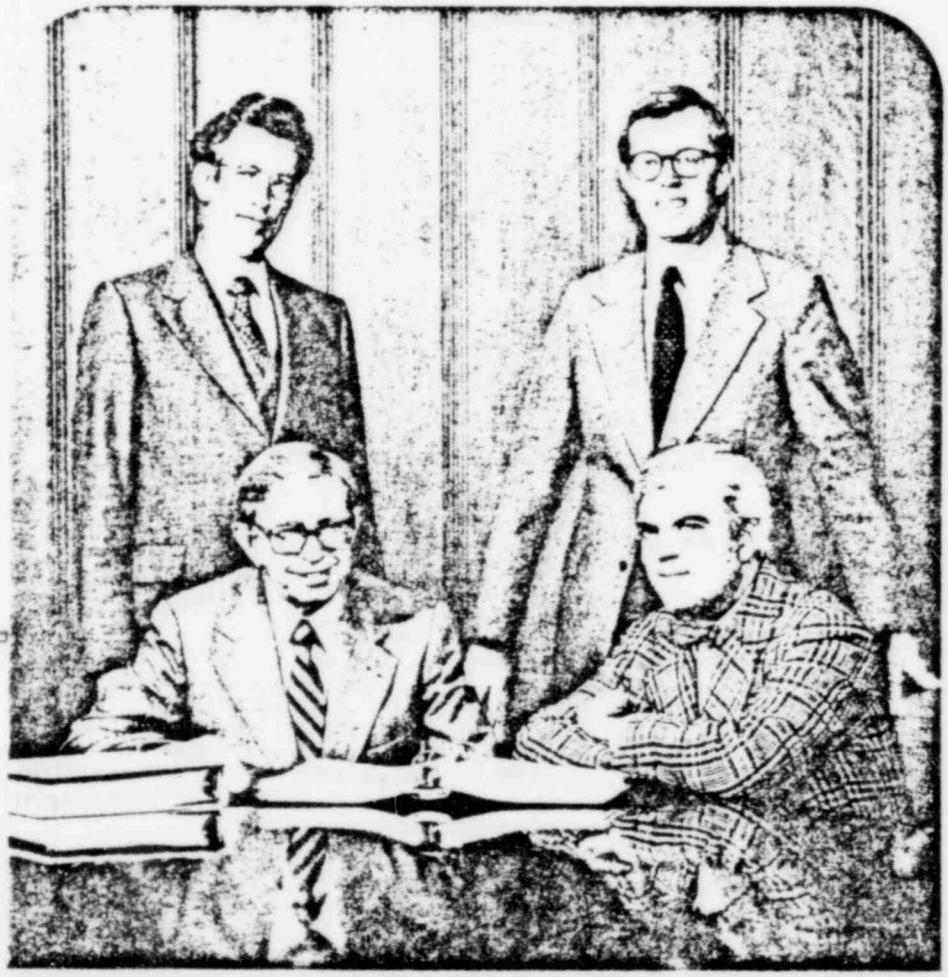
Several significant management changes were made in 1979.

Elmer B. Harris, formerly senior vice president, was elected executive vice president and chief financial officer. He has responsibility for the company's financial activities, including corporate finance and planning.

Stephen E. Bradley, who was assistant vice president for public information, was elected vice president. He continues to have responsibility for the company's public information program.

In other changes, William O. Whitt and Jesse S. Vogtle were elected to the Board of Directors. Both are executive vice presidents of the company. Mr. Whitt has responsibility for the six geographic divisions within the company, power delivery, security, human resources, and support and materials services. Mr. Vogtle's responsibilities include regulatory and legislative matters, corporate real estate, energy services and public information.

1. Among those involved in management changes during 1979 were, seated, left to right, William O. Whitt and Jesse S. Vogtle; and standing, left to right, Elmer B. Harris and Stephen E. Bradley.



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1979 in Review

Earnings

Net income for 1979, after preferred stock dividends, was $57.4 million, an increase of $14.5 million from 1978. Earnings reflect a three-step increase in retail rates granted the company on July 19, 1979, following a rate increase request filed with the Alabama Public Service Commission December 20, 1978, and include $8.1 million subject to possible refund, related to the third step of this increase. However, the 1979 earnings are $59.9 million, or 51 percent, below the $117.3 million earned in 1977.

The July 19 rate order allowed an 11.7-percent return on common equity; but Alabama Power's actual return on average common equity for the 12 months ended December 31, 1979, was 5.82 percent, one of the lowest in the nation within the utility industry.

Revenues and Expenses

Electric operating revenues totaled $1.164 billion in 1979, an increase of $149.2 million over 1978.

Electric operating expenses for the year totaled $957.1 million, an increase of $103.6 million, or 12.1 percent, over 1978.

Fuel costs remain the major expense, accounting for 31 cents out of every revenue dollar in 1979. These costs totaled $365.6 million in 1979, a 23.9-percent increase over 1978. Part of this increase was due to the Farley Nuclear Electric Generating Plant being out of operation eight months for a Nuclear Regulatory Commission mandated testing program and for the plant's scheduled refueling.

Net purchased power costs, totaling $124.9 million in 1979, decreased by $36.7 million, or 22.7 percent, from 1978.

Other operation and maintenance expenses, depreciation and amortization, and taxes increased $69.8 million over 1978 to $466.5 million.

Alabama Power's customers used 31.1 billion kilowatt-hours of electric energy in 1979, 1.1 percent more than in 1978. The average residential customer used 10,231 kilowatt-hours last year, 708 less than in 1978.

Rates

On December 28, 1979, Alabama Power filed its eighth general rate increase request with the Alabama Public Service Commission (PSC).

This latest request is, in effect, the extension of rate proceedings which actually began in 1977 and have continued for more than two and one-half years amid frequent delays and court appeals.

In December 1978, the company filed a rate increase application for $288.8 million annually in additional revenue. The order of the PSC in July granted the company a three-phase increase aggregating $208 million annually. That final order made permanent a nine and one-half percent emergency increase

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granted in March added a five-percent increase effective July 19, and made provision for an eight-percent increase which was to become effective on January 1, 1980.

Following an appeal to the Supreme Court of Alabama, the company was allowed to accelerate the collection of the eight-percent phase of the increase on billing cycles after October 19, 1979, subject to possible refund.

The inadequacy of the July order and the deteriorating financial condition of the company forced it to file the new rate increase request. The new request, which would result in approximately $122.3 million annually in additional revenues, includes the amount not granted the company in the PSC's July retail rate order and provides for the impact of inflation and the increased investment in plant and equipment. A decision by the Commission on this case is expected by early summer 1980.

Planning and Financing

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

In 1979, the long-range forecast of electricity requirements was revised to reflect the expected slower economic growth in the state over the next two decades and the effect of conservation efforts on energy usage.

The 1979 customer peak of 6,396,800 kilowatts occurred on August 7 and represented a 2.5-percent decline when compared to the peak hour in 1978. This marked the first year since 1938 that the peak demand period of the year did not increase from the previous year. An abnormally mild summer in the South in combination with increased conservation efforts and more energy-efficient appliances and heating/cooling systems was responsible for the lower-than-forecasted peak.

1. Joe Grant, lead lineman, is involved in transferring facilities in the City of Birmingham to provide clearance for the city's work on operation TOPICS – Traffic Operations Program to Increase Capacity and Safety.

2. Randy Hardman takes a sighting with a transit so that the construction crews can properly locate new transmission lines and other equipment needed to serve the company's customers.

3. Eugene C. Gowins, crew foreman, and his crew are working with the City of Birmingham in a TOPICS project. The program is designed to expedite traffic flow in a safe manner.

4. Mrs. Peggy Maynard owns a country store in Autauga County. She lives in one of over 800 communities served by Alabama Power Company.

5. Plant Farley Unit No. 1 near Dothan has been in commercial operation since December 1977 and has functioned reliably and safely throughout its initial operation. Unit No. 2 is expected to be ready for commercial operation in late 1980.

6. John C. Yeager is one of four security guards at Logan Martin Dam. Like other plant and building guards throughout the system, Yeager has received specialized training to prepare him to protect the company's facilities.

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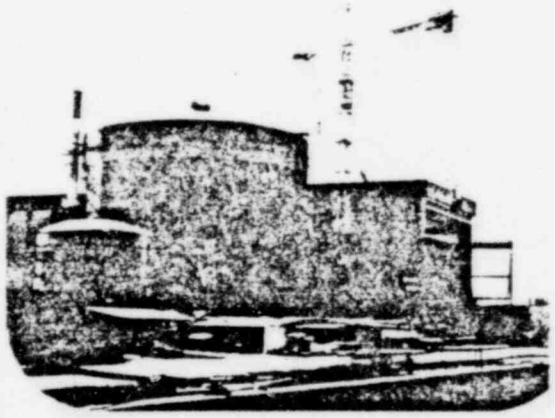

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The reduced load forecast, coupled with the forced construction curtailment due to the company's severe financial crisis, caused the in-service dates of several generating units to be delayed.

The company continued to be a net purchaser of electricity, further indicating the immediate need for completion of those plants now under construction. Alabama Power was a net seller of electricity for only four months during 1979.

Current forecasts indicate that during the next ten years peak demand is expected to grow at an average annual rate of approximately four percent, down significantly from the 1978 forecast of between five and six percent. Energy sales are also expected to grow at an average annual rate of approximately four percent, compared with the five percent forecast in 1977.

Accurate load forecasting has become an increasingly difficult task for utilities. To meet this challenge, 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.

Growth, inadequate earnings and increased demand for electricity during the 1970s forced the company to go to the marketplace for a larger proportion of its financing requirements. Record-high interest rates and the increase in short-term financing required to carry out the company's construction efforts were a major factor in interest expenses rising to an all-time high in 1979.

Total interest expense for the year was $215.9 million, including $39.8 million on the short-term debt. Dividends on preferred stock remained at $31.2 million for 1979.

As a result of inadequate earnings, the company has been unable to issue additional first mortgage bonds since March 1978, or preferred stock since December 1977. The issuance of such securities is restricted by earnings coverage requirements in the company's first mortgage indenture and charter.

As a result of being unable to acquire external capital through the sale of senior securities, the company has been forced to carry an inordinate amount of short-term debt despite substantial cutbacks in construction and operation and maintenance activities. The major source of such short-term borrowings has been the company's $500-million revolving credit agreement with ten out-of-state banks. As of December 31, 1979, the company had outstanding over $352 million in short-term debt, including $60 million from Alabama banks. The revolving credit agreement expires September 30, 1980.

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Funds generated through internal sources provided approximately 54 percent, or $246 million, of the total invested in plant additions and improvements in 1979.

Fuel and Power Generation

Alabama Power was developed initially as a hydroelectric and then as a coal system, utilizing two of Alabama's abundant natural resources. Coal continues to be the primary fuel, accounting for about 74 percent of the total electricity generated by the company in 1979. Hydro remains important to the generation mix, providing about 17 percent.

Nuclear power accounted for six percent of the total generation despite an eight-month shutdown of Plant Farley Unit No. 1 for refueling and a Nuclear Regulatory Commission mandated testing program involving piping supports.

Alabama Power purchased approximately 12 million tons of coal in 1979 for the fossil-fueled electric generating plants which it operates. Approximately 94 percent of this coal was purchased from mines in Alabama through long-term contracts and spot-market purchases.

Early in 1979, spot-market purchases had to be stopped, and long-term purchases reduced, in an effort to conserve the company's cash. Normal coal purchases were not resumed until May 1979, after coal stockpiles for the summer peak-demand period were at less than the desired level.

At year end, there were 2.9 million tons of coal on hand, a 111-day supply based on anticipated requirements.

The accident at Three Mile Island Nuclear Plant, which occurred in March 1979, was the most significant event in the history of commercial nuclear power generation, at least in terms of public perception. It brought new

1. Mrs. Juliette Hill is shown operating earth-compacting equipment at the Bouldin Dam reconstruction site. The project is scheduled for completion in 1980.

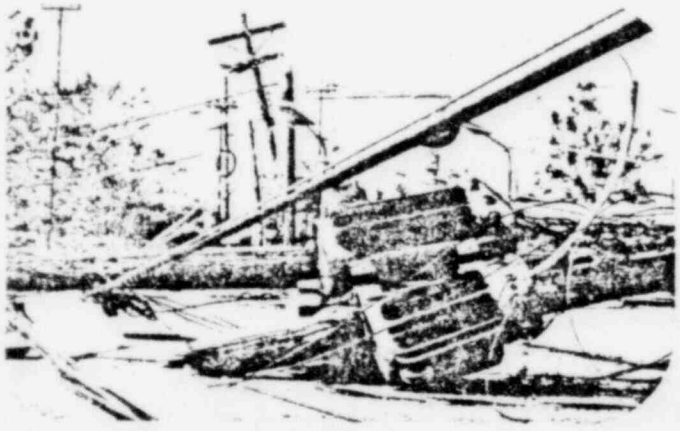
2. C. T. Allen (L), superintendent of Logan Martin Dam, and D. O. Gibson, manager of Upper Coosa hydroelectric operations, discuss production and maintenance plans. Allen has been with the company 32 years while Gibson has worked 43 years for Alabama Power.

3. R. H. Hale, Construction Department, is shown conducting a sand-cone density test. This is one of the procedures used to ensure proper compaction of earthen embankments at the Bouldin Dam site.

4. Virtually the entire transmission and distribution system in Mobile was severely damaged as Hurricane Frederic roared through on the evening of September 12.

5. Division Manager Robert Haubein (L) and Mobile Division Vice President William L. McDonough check map during rebuilding following Hurricane Frederic.

6. The tall, round structure at Plant Miller is a natural-draft cooling tower, which is part of the environmental protection system.



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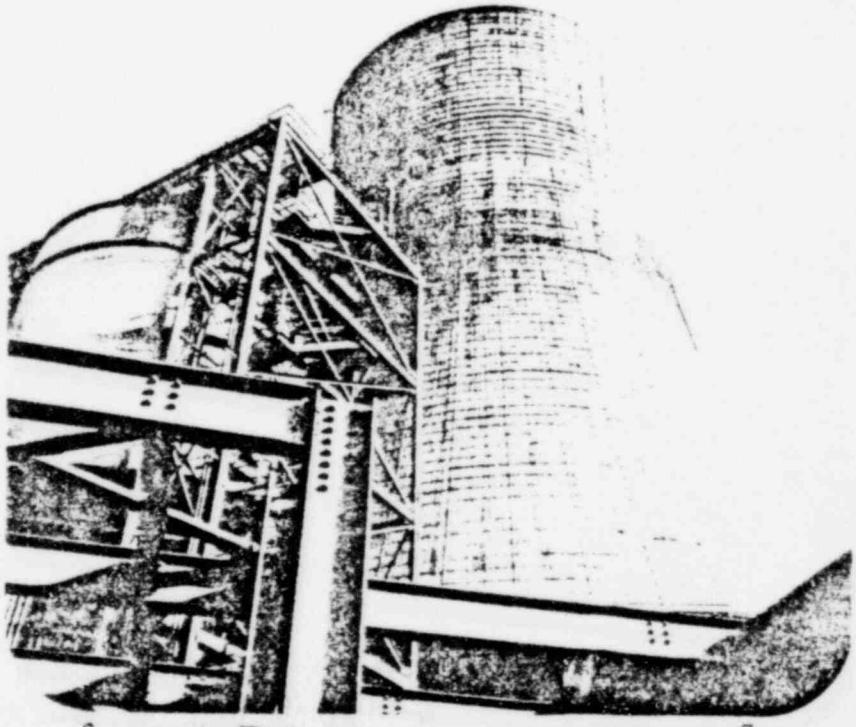

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focus on the nuclear industry and raised many questions about its safety.

Less than one week after the accident, The Southern Company formed a task force to review the major operational and safety systems of the nuclear power plants in the system.

Representatives from Alabama Power worked for more than three months on the task force, composed of engineers and consultants from both private industry and the academic community. Specific recommendations for improvement were made in five major areas: plant design, operating procedures, personnel training, administrative controls, and emergency planning and communication. All actions to implement the recommendations have either been completed or are in progress.

The company is confident that Plant Farley Unit No. 2 will be complete and ready for operation in late 1980; however, new, emerging licensing requirements could affect receipt of an operating license.

Nuclear generation was significantly lower in 1979 due to the eight-month shutdown at Plant Farley, which reduced the company's nuclear production to only six percent of the total generation instead of the projected 16 percent.

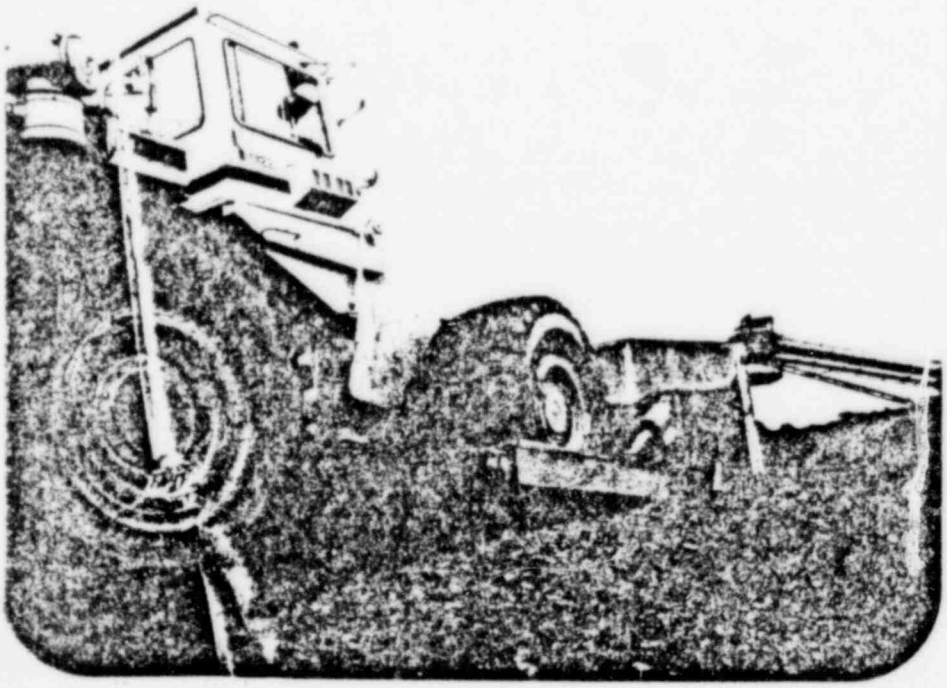
During the shutdown, anchored piping supports were tested, analyzed and modified where necessary to provide additional assurance that Plant Farley would operate properly under all conditions, even the remote possibility of an earthquake.

Unit No. 1 of the nuclear plant began commercial operation in December 1977 and functioned reliably and safely throughout its initial 15 months. Following refueling and the mandated piping support program, the plant was brought back on line in November 1979.

Nature played a major part in Alabama Power's generation in 1979. The state received heavier than normal rainfall for the year, 24 percent above normal, resulting in 36 percent more generation at its hydroelectric plants than budgeted for the year and 56 percent more than in relatively dry 1978.

Litigation involving Bouldin Dam was still active during 1979. During the year, Alabama Power settled with insurers holding $10 million in all-risk coverage for 85 percent of the face amount. The company's lawsuits against other insurers are still pending, as are suits against the contractors who built the facility. Reconstruction was about 71 percent complete at year end. For more information regarding Bouldin Dam, see Note 3 to the financial statements.

As a result of the company's program of preventive maintenance, the availability of the company's generating units to produce electricity remained at a high level for the third consecutive



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year. Availability was approximately 85 percent in 1979. During the critical summer months, the operating availability averaged 91 percent.

A computerized technique to evaluate the future reliability of the company's generation and transmission system has been developed. This technique provides an important tool in planning the expansion of the system with the highest reliability at the lowest cost.

Alabama Power designed and developed a Dynamic Voltage Fluctuation Simulator which is a "first" in the industry. This device aids in the analysis of generating and transmission facilities needed to supply large new fluctuating industrial loads such as electric arc furnaces and mining draglines.

These and other significant improvements are indicative of Alabama Power's commitment to increase the efficiency and economy of operation of its generation and transmission system.

Construction Activities

Continued inflation, higher interest rates on borrowed money, new regulations and construction delays inherent in the licensing of plants have combined to push construction costs to record levels, imposing a tremendous financial burden on electric utilities, investors and customers.

For the company to fulfill its obligation to provide adequate and reliable electric service to its customers, it must construct new generating plants and make additions and improvements to existing generating plants. During 1979, the company spent $249 million for major construction projects and $211 million on lines, substations and production plant additions, substantially less than the amount budgeted before the financial crisis forced a major reduction.

As a result of the company's critical financial condition, a

1. Willie Chatman, bulldozer operator, working the coal pile at Plant Gorgas.

2. Bryce Martin, supervisor-yard coal handling, Plant Gorgas.

3. Home electric meters measure electricity in kilowatt-hours, but at Unit No. 1 of Plant Miller it takes a megawatt meter to do the job. Pictured is Sammie Dunklin, utilityman.

4. Frank Sims (L) and Michael Hardaway, Construction Department, are shown reviewing one of numerous contracts related to the company's construction program.

5. Horace Tucker, mechanical superintendent, Plant Miller.

6. Mrs. Frances Ritch, staff accounting assistant, has been with Alabama Power 35 years.

7. Workmen are shown repairing a gantry crane at Bouldin Dam reconstruction site. On completion of the project 225,000 kw of electrical capacity will be returned to service.

8. Clayton Martin, a load dispatcher in the dispatch control room, monitors the output from the company's generating plants, flows on the transmission system and the interties with the other companies in surrounding states.

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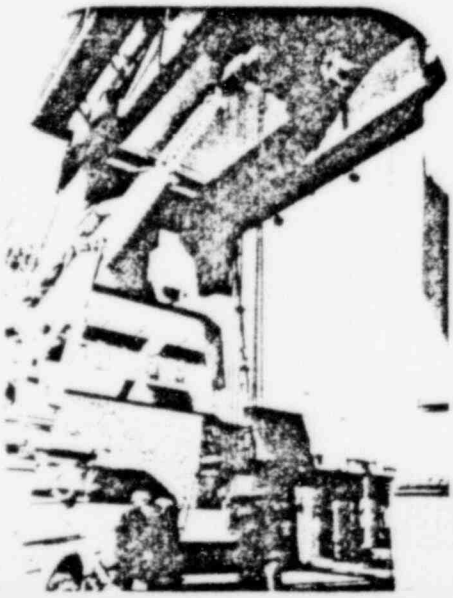

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construction curtailment was ordered by the company's Board of Directors in December 1978. At that time, work was suspended on all major generating plant projects including Plant Farley Unit No. 2; Miller Electric Generating Plant Unit Nos. 2, 3 and 4; Harris Dam, Bouldin Dam and Mitchell Dam. Work was also suspended on critically needed transmission and distribution lines and substations.

The rate increase granted in July 1979 slightly improved the company's financing capabilities and allowed the resumption of construction of only Plant Farley in August and Bouldin Dam in September. Both projects are scheduled for completion in late 1980.

Remedial construction continued at Logan Martin Dam during 1979 to ensure the continued integrity of the dam and reduce leakage under the structure. These activities were maintained during the construction curtailment as recommended by a board of consultants and ordered by the Federal Energy Regulatory Commission.

Power Delivery

At the close of 1979, Alabama Power had in service a total of 8,882 pole miles of transmission lines and 39,838 pole miles of distribution lines. It also had 1,184 cable miles of underground transmission and distribution lines in service.

Transmission and distribution substation capacity at year end was 38,278,329 kilovolt-amperes, and the total number of substations in operation at the end of 1979 was 1,171.

Research and Development

Alabama Power has several projects which are part of the company's research and development program on alternative sources of energy. The company is giving a great deal of attention to solar economics and techniques to provide customers with a realistic understanding of the technology.

Alabama Power is planning to monitor solar energy research through a space heating and water heating project in a subdivision south of Birmingham. Along with the Good Cents Solar Home, two control homes with identical floor plans will be specially metered so valid comparisons can be made.

Alabama Power has assumed a major role in several projects related to solar energy, including evaluation of solar heating and cooling systems for commercial buildings, such as the company's solar office building in Montevallo; evaluation through computer programs of the many variables affecting solar energy; technical, economic and operating evaluations of photovoltaic power systems; studies relating to the impact of solar heating and water heating systems on the company's

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requirements and production costs from 1990 through the year 2000; and a survey of available solar simulation programs which best meet utility requirements.

The solvent refined coal (SRC) pilot plant located at Gaston Electric Generating Plant near Wilsonville continued to make an important contribution in 1979 toward the development of new energy sources for the future. Operation of this plant is under the direction of Southern Company Services, Inc., in conjunction with the Electric Power Research Institute.

Since SRC technology is the most advanced of the processes to produce clean solid and liquid fuels from coal, it is expected that SRC will play a significant role in the nation's commitment to develop a synthetic fuels industry.

Property and Plant

At the end of 1979, Alabama Power owned and operated 13 hydroelectric facilities (including Bouldin Dam), seven fossil electric generating facilities and one nuclear plant, together with a wholly owned 880,000-kilowatt unit located at Plant Gaston. In addition, Alabama Power and Mississippi Power own, as tenants in common in the proportions of 60 percent and 40 percent, respectively, a fossil electric generating plant in Greene County, Alabama, with an installed capacity of 500,000 kilowatts.

The installed generating capacity of the company, including 50 percent of the capacity of the units of Southern Electric Generating Company (SEGCO) at Plant Gaston and 60 percent of the capacity of the Greene County plant, totaled 7,625,675 kilowatts at

1. Water sports are popular with customers at eight of Alabama Power Company's lakes. Otis T. McQuarley enjoys fishing at Lake Logan Martin.

2. Alabama Power urged its customers to start saying "WHOA" to energy waste through its comprehensive, free energy-budget kit and conservation advertising program.

3. Division residential specialist Bruce Johnson (L) talks with Mr. and Mrs. George Spears about the special features of the new Good Cents Solar Home located in the Inverness subdivision near Birmingham. The solar home, which is equipped with a rock-bed storage system for solar-assisted heating and water heating, was opened for special tours upon its completion in the fall of 1979.

4. Randy May, senior energy services engineer in the Huffman District, specializes in energy conservation for commercial buildings. Here he adjusts a time clock and motor dampers on a heating, air conditioning and ventilation system.

5. Since retiring from Alabama Power Company, Margaret E. Alford has enjoyed a busy career of baby-sitting for her many friends in the Birmingham area. She worked in the company's General Accounting Department prior to her retirement.

6. Mr. C. C. York (L) of Beech Aircraft Corporation, and Ted Levi, senior industrial development representative, inspect a Beech Super King Air at the new multimillion-dollar Beechcraft plant in Selma. The plant presently employs 100 men and women in assembling and modifying aircraft. Expansion plans call for a total of 450 employees within two years.

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the end of the year. SEGCO is owned in equal shares by Alabama Power and Georgia Power companies.

As of December 31, 1979, Alabama Power Company's total investment in utility plant was $4.8 billion. Accumulated depreciation and amortization provisions amounted to $856.5 million, leaving a $4.0 billion net investment in plant.

Environmental Regulations

Alabama Power spent $35.5 million on pollution-control facilities at its generating plants during 1978 and an additional $25.3 million during 1979 to comply with environmental regulations imposed upon the company by various federal, state and local agencies. It is estimated that another $112.4 million will be spent during the next five years to comply with regulations now in effect or anticipated. Total expenditures by Alabama Power to comply with environmental regulations since 1970 now exceed $314.3 million.

In October 1979, the U.S. Environmental Protection Agency (EPA) approved the State of Alabama's request for administration of the National Pollutant Discharge Elimination System (NPDES) by the Alabama Water Improvement Commission (AWIC). Granting of this authority to the State of Alabama will remove the previously existing dual permitting efforts of EPA and the AWIC and allow Alabama Power to compete on a more favorable basis with surrounding states for desirable new industry by offering a single authority for water quality matters. Acting on this newly acquired authority, the AWIC issued a final NPDES permit to Alabama Power Company for Plant Miller on December 20, 1979.

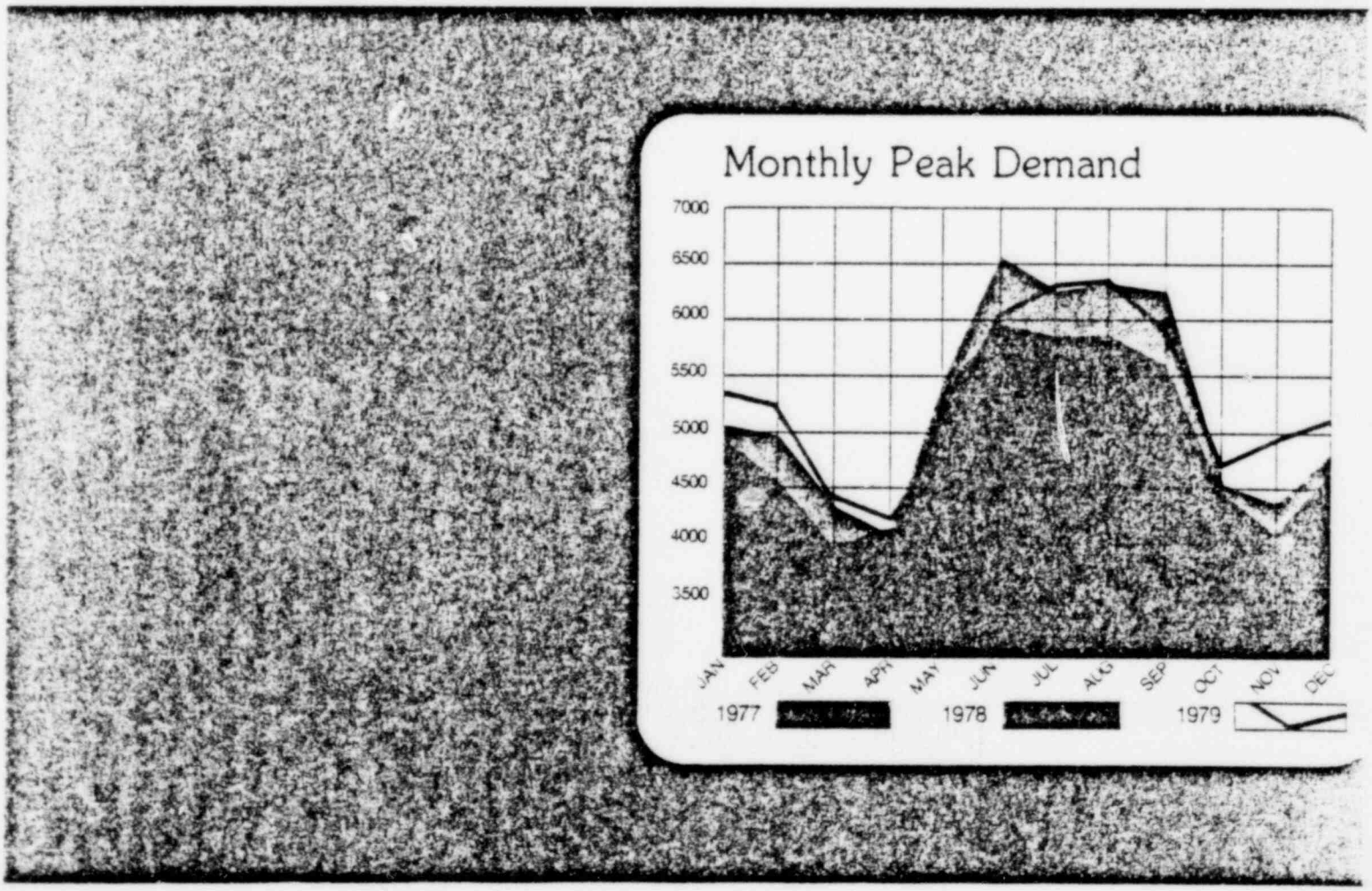
The Alabama Coastal Area Management Program, approved by the U.S. Department of Commerce in September 1979, created a comprehensive plan allowing the Coastal Area Board to manage construction and other major activities in the coastal area.

The plan potentially imposes significant additional requirements upon construction activities and operations of Alabama Power in the coastal area. Studies are in progress to ensure proper compliance with the program.

Legislation

The First Session of the 96th Congress adjourned in late December, leaving most energy-related legislation still undecided. Legislation pertaining to windfall profits tax, energy conservation, authorizations for the Nuclear Regulatory Commission, regulatory reform and other utility-related matters will be considered during the Second Congressional Session in 1980.

During 1979, the Alabama Legislature passed two measures that particularly affect the company. One act requires that any corporation which constructs or



operates a nuclear generating facility within the state must conduct inquiries into the criminal records of employees who perform duties at such facilities. The other amends the Corrupt Practices Act and the Business Corporations Act to permit corporations to set up political action committees for the purpose of soliciting voluntary contributions to be used for state political purposes.

Two bills which did not pass, but of significance to the company, concerned allocation of service territories among power suppliers and the formation of a municipal electric authority. The territorial legislation would have eliminated unnecessary duplication of electric facilities in incorporated cities now served by more than one electric supplier. The municipal authority bill would have allowed a group of cities now operating electric distribution systems to join together to purchase or build generating and transmission facilities.

Industrial Growth

During 1979, Alabama Power continued to promote the economic development of Alabama by working closely with industrial development programs and actively seeking new and expanded industry for the state.

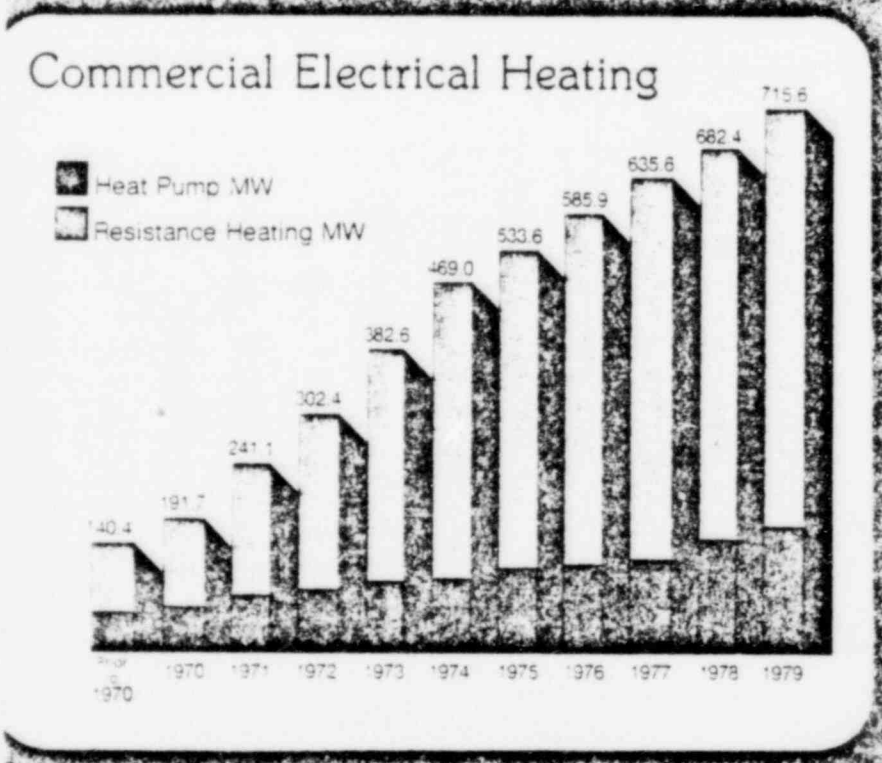
During the year, 585 industrial firms announced plans to locate or expand facilities in the area served by Alabama Power, creating 16,855 new jobs and an estimated annual payroll of some $150 million. When these additions and expansions are in full operation, total investment for new and expanded industries for 1979 will be $1.2 billion.

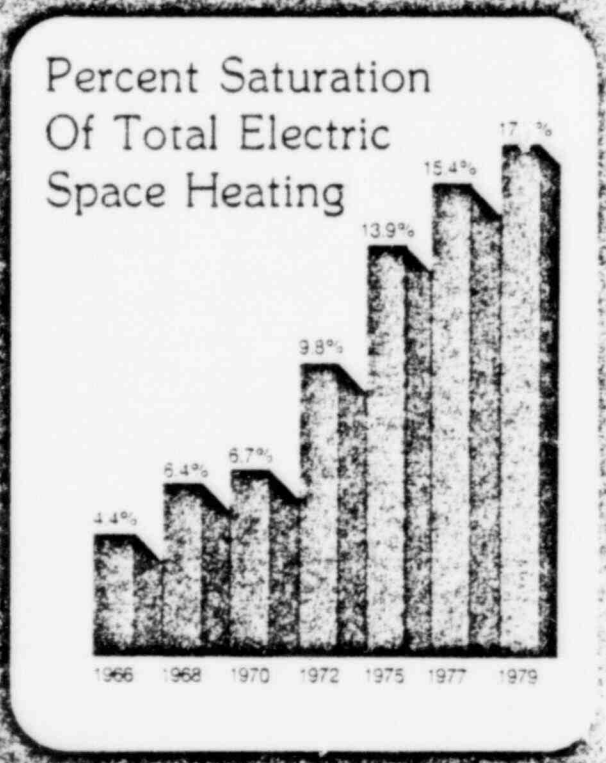
Hurricane Frederic

Nature had a tremendous impact on Alabama Power's electric system in September 1979, when Hurricane Frederic hit the Gulf Coast with winds up to 145 miles per hour. Alabama Power's facilities were the hardest hit of any of the utilities in the area, and damage to the company's electric system was the worst ever experienced by an electric utility in the United States.

At one point, 290,000 Alabama Power customers, almost one-third of the system, were without electricity. Most of the damage to the company's electric transmission and distribution facilities was in the Mobile vicinity, where Frederic left only one transmission line energized. Some 3,500 poles had to be replaced, and virtually every distribution line in the Mobile area was damaged. Also destroyed was the 44-kilovolt transmission line to Dauphin Island, which is currently being rebuilt. Until permanent restoration is complete, the company is providing temporary service to island residents through the use of large portable generators.

Besides the 220 crewmen in the Mobile area, approximately 1,900 from Georgia Power, Gulf Power, Florida Power Corporation and other divisions of Alabama Power aided in restoration of service.





Through a combination of hard, dedicated work and 16-hour workdays, restoration efforts were completed in 21 days.

Alabama Power President Joseph M. Farley described the restoration effort as an almost "superhuman" task. Alabama Governor Fob James remarked on statewide television that "... Alabama Power Company and the men and women that work for the Alabama Power Company have probably done the greatest job that's ever been done after any disaster in restoring power."

Damage estimates indicate that the full cost of repairing, and in most cases replacing, the electric system is approximately $23 million, the major portion of which must be capitalized under utility accounting requirements. Additionally, loss of revenues was estimated to be approximately $12 million as a result of the storm damage.

Energy Services

Generation of electricity at plants costing millions of dollars is only the first step in bringing energy to almost one million customers in the Alabama Power service area. Involved are thousands of miles of power lines that carry the electricity to homes, stores, offices, farms and factories and hundreds of employees working hard to meet the electric needs of the state.

We live in an era of changing energy supplies; and since service is part of this evolution, Alabama Power is striving to serve its customers better in many ways beyond supplying electric power.

The company first began offering energy audits to its customers in 1977, and during 1979 provided approximately 10,250 residential and commercial customers with individualized recommendations on ways to use electricity more wisely. In association with the Alabama Energy Management Board, Alabama Power also began a program to provide energy audits for approximately 800 secondary, post-secondary and private school buildings within the company's service area. In addition, 154 energy-management tests and economic studies were performed during 1979 for industrial customers.

During the year, the Energy Services Department made 109 presentations to municipalities, county governments and school systems on systematic methods for operating their buildings with increased energy efficiency.

Public Information

As changes take place in the utility industry and the costs of producing and supplying power increase, communication with the customer becomes an essential ingredient in a company's responsibility.

Day-to-day communication with our customers remains a vital need. Despite an advertising moratorium during most of 1979, imposed by its critical financial condition, the company has continued to seek improved ways to inform the public of its positive programs on energy matters and the financial and regulatory situation and to explain company operations, procedures and policies.

During 1979, the Public Information Department was completely reorganized to meet current needs and to enable the department to function more effectively. Because of the opportunities created by the reorganization, new information roles involving the community, government, education, professions and consumers are now a part of an aggressive communication effort by company personnel. The understanding of how a utility operates can only be gained when the public is fully informed on energy matters and our country's economic system. Our efforts, involving a number of programs, extend from the schoolroom to the boardroom, from the home to the factory and from the office to the civic club.

In 1980, the company will undertake an extensive public information program to present the company's story to the public.

Day-to-day communication with employees is also an integral part of the company's public information program. Employees are exposed daily to customer questions and inquiries about company activities; and only through effective channeling of information can employees respond in an informed manner.

Human Resources

The severe financial crisis that gripped Alabama Power in 1979 affected the internal operation of the company just as it did the ability to supply electricity to its customers.

The massive layoff of workers which began in December 1978 continued into 1979 and totaled approximately 4,000 construction craft workers, contract personnel and company employees. The layoffs brought about realignments within the company and the temporary assignment of approximately 125 employees to other departments, districts and divisions in order to provide emergency manpower.

At year end, Alabama Power employed a total of 9,038 men and women, 6.8 percent fewer than in 1978. Inadequate rates have prevented the company's return to normal operations, leaving many employees laid off and others on temporary assignment. During 1979, there was not a single work-related fatality among the employees of the company's electric operations; and they completed the year with an occupational injury and illness incidence rate of only 0.63 for each 200,000 man-hours worked, well below the national average.

The Employee Savings Program attracted an enrollment of more than 4,200 employees, 50 percent of those eligible. Under the plan,

eligible company employees may save a portion of their pay, with the percentage saved augmented by company contributions.

Benefits of the Employee Stock Ownership Plan are being provided to a growing number of employees. At year end, some 7,354 employees were participating in the plan which began four years ago.

Also important to employees are the pension plan and insurance programs, which provide a wide range of benefits. During 1979, 84 employees retired; and benefits totaling $4,987,016 were paid to employees under the pension plan.

A very popular program, begun in 1974 and adopted as a model by several other companies, is the Retirement Planning Program. The program provides assistance to both active and retired employees in adapting to changes brought about by retirement. Information seminars on financial planning, physical fitness, time use, company benefits and other topics are conducted throughout the company for active employees aged 60-64.

Retired employees are provided with information about company activities through newsletters, employee bulletins, questionnaires, personal visits and area meetings.

The company received national recognition during 1979 for its use of the Threshold Traits Analysis Selection System (TTA), an employment procedure which was first implemented in 1976 to help ensure that positions within the company are filled by the most qualified applicants available. Articles about the company's system appeared in *The New York Times* business column, *Electric Light and Power* magazine, *Electrical World* magazine and Sylvia Porter's syndicated column. Training sessions were conducted during the year to familiarize employment interviewers, clerical and managerial employees and department interviewers with details of the TTA system for interviews, placement exercises and selection.

Financial Information

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, subject to the effect, if any, of the final outcome of the retail revenues billed subject to possible refund as discussed more fully in Note 2 to the financial statements, the financial statements reflect fairly the financial position, results of operations and sources of funds for gross property additions of the company.

Summary of Operations

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
						(In Thousands)					
OPERATING REVENUES, ELECTRIC	$1,163,623	$1,014,443	$968,693	$699,667	$631,250	$489,455	$396,841	$325,700	$278,325	$249,317	$234,798
OPERATING EXPENSES, ELECTRIC:											
Fuel	365,628	295,186	250,409	206,811	218,190	156,085	84,573	63,528	45,293	36,278	29,123
Purchased and interchanged power (net)	124,929	161,602	183,746	118,442	33,018	43,210	17,140	32,061	32,298	27,233	24,998
Other operation and maintenance	210,090	198,596	160,725	136,251	110,833	101,423	83,659	71,882	61,831	53,637	48,698
Depreciation and amortization	123,075	109,315	69,938	57,692	51,394	45,523	40,605	37,253	32,216	29,963	26,894
Taxes other than income taxes	74,592	63,737	47,887	45,584	38,147	34,370	30,241	24,950	19,146	15,755	15,107
Federal and state income taxes	58,759	25,080	89,161	36,577	58,342	26,426	44,076	20,327	22,265	26,485	32,357
Total operating expenses	957,073	853,516	801,866	601,357	509,924	407,037	300,294	250,001	213,049	189,351	177,177
OPERATING INCOME, ELECTRIC	206,550	160,927	166,827	98,310	121,326	82,418	96,547	75,699	65,276	59,966	57,621
OTHER INCOME:											
Allowance for funds used during construction —											
Debt and equity	—	—	—	71,110	54,151	40,328	23,871	14,954	10,667	4,472	4,247
Equity	28,554	38,927	53,168	—	—	—	—	—	—	—	—
Other (net)	12,221	5,965	4,268	24,442	20,861	15,055	9,909	1,728	1,971	2,636	2,166
INCOME BEFORE INTEREST CHARGES	247,325	205,819	224,263	193,862	196,338	137,801	130,327	92,381	77,914	67,074	64,034
INTEREST CHARGES:											
Long-term debt and other interest expense	215,862	169,645	137,678	115,053	101,609	72,843	55,472	42,709	33,157	25,481	21,432
Allowance for debt funds used during construction	(57,196)	(37,948)	(54,577)	—	—	—	—	—	—	—	—
Net interest charges	158,666	131,697	83,101	115,053	101,609	72,843	55,472	42,709	33,157	25,481	21,432
NET INCOME	88,659	74,122	141,162	78,809	94,729	64,958	74,855	49,672	44,757	41,593	42,602
DIVIDENDS ON PREFERRED STOCK	31,219	31,219	23,886	22,385	16,947	15,964	9,766	9,027	4,808	3,979	3,884
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 57,440	$ 42,903	$117,276	$ 56,424	$ 77,782	$ 48,994	$ 65,089	$ 40,645	$ 39,949	$ 37,614	$ 38,718

Management's Discussion and Analysis of the Summary of Operations

The results shown in the foregoing summary of operations reflect the results of prior periods and are not intended as any representation for future periods. 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 affect future earnings adversely. Increases in sales in the future will be affected by the extent of energy conservation practiced by customers, elasticity of demand, weather and the rate of economic growth in the company's service area. In recent years, earnings of public utility companies, including those of the company, have tended to decline during periods following the initial realization of general rate increases and prior to receipt of further rate relief.

The following discussion focuses on the factors that have significantly affected operations since 1976:

Operating Revenues, Electric

Increases in operating revenues in each period since 1976 are attributable principally to increased sales, rate increases and recovery of substantial portions of increased fuel and net purchased energy costs through energy adjustment clauses contained in rate schedules. Territorial kilowatt-hour sales increased 8.1% in 1977, 5.3% in 1978 and 1.1% in 1979. As a result of rate increases and billings under energy adjustment clauses, the average revenue per kilowatt-hour sold has increased from 2.51 cents in 1976 to 3.71 cents in 1979.

Operating Expenses, Electric

The most significant element of operating expenses has been the cost of fuel. Average fuel costs, in mills per kilowatt-hour of net fuel generation, were 10.53 in 1976, 12.14 in 1977, 12.01 in 1978 and 15.62 in 1979.

The company's rates include energy adjustment clauses which enable it to recover fuel and net purchased energy costs currently. The cost of fuel used for generation increased $70,442,000 in 1979 over 1978. This was caused by an increase in fossil fuel expense of $86,878,000 which was partially offset by a decrease in nuclear fuel expense of $16,436,000. The increase in fossil fuel expense resulted from an increase of approximately 16% in the average cost per ton of coal consumed, a full year's generation by Unit No. 1 of Plant Miller and increased availability of the company's other steam generating plants. The decrease in nuclear fuel expense resulted from an eight-month shutdown of Unit No. 1 of Plant Farley for scheduled refueling and a Nuclear Regulatory Commission mandated testing program involving piping supports. The cost of fuel used for generation increased $44,777,000 in 1978 compared to 1977, essentially from an increase of 18% in the cost per ton of coal and a full year's generation by Unit No. 1 at Plant Farley, resulting in increased nuclear fuel expense. The cost of fuel used in generation increased $43,598,000 in 1977 over 1976, primarily as a result of an increase in steam electric generation of approximately 5%.

In 1979, purchased power costs decreased $36,673,000 from 1978, principally attributable to the availability of Plant Miller Unit No. 1 and the availability of the other steam generating plants as previously mentioned and an increase of approximately 56% in hydro generation. Purchased power costs decreased $22,144,000 in 1978 compared to 1977, largely from a full year's generation at Plant Farley Unit No. 1. In 1977, purchased power costs increased $65,304,000 over 1976, primarily as a result of the delay in the commercial operation date of Unit No. 1 at Plant Farley, making it necessary to purchase additional generating capacity and energy.

Other operation and maintenance expenses have increased in successive periods due to growth in the number of customers served and escalating costs of labor and materials. Another factor affecting the increase in 1976 was maintenance expenditures necessitated by installation of pollution-control facilities at several generating units, as well as expenditures for other maintenance scheduled for a later date but performed while the generating units were removed from service for installation of such facilities.

Depreciation and amortization have increased from period to period as a result of additions to depreciable plant in service and amortization of the costs related to the cancelled Barton Nuclear Electric Generating Plant. The composite straight-line depreciation rates were approximately 3.1% in 1976, 3.2% in 1977, 3.4% in 1978 and 3.5% in 1979 for all depreciable plant and include a factor to provide for the expected cost of decommissioning nuclear facilities.

Taxes other than income taxes have increased in each period through 1979, principally because of additions to the property tax base and increased property tax rates, increased license taxes resulting from increased revenues from sales of electricity and higher payroll taxes.

Federal and state income tax provisions are discussed more fully in Note 5 to the financial statements. The fluctuations in income taxes between periods are due primarily to changes in net income before income taxes and from the reduction of the federal income tax rate from 48% to 46% in 1979.

Other Income

Beginning in 1977, the debt portion and associated tax effect of the allowance for funds used during construction were recorded as reductions in interest charges. Because of this change in reporting, other income for 1977 decreased from 1976. The decrease in other income for the years 1978 and 1979 is primarily due to a decrease in allowance for equity funds used during construction, resulting from decreased construction work in progress.

Interest Charges and Dividends on Preferred Stock

Interest expense on long-term and other debt and dividends on preferred stock have increased as a result of the issuance of additional securities to finance the construction program and the higher interest and dividend rates on such securities. Net interest charges for 1977 decreased as a result of the reclassification of the debt portion and related tax effect of the allowance for funds used during construction.

Statistical Review

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Capitalization – End of Year (Thousands of Dollars):											
Common Stock	224,358	224,358	224,358	224,358	224,358	224,358	224,358	224,358	224,358	217,365	193,365
Other Paid-in Capital	692,145	625,700	578,500	483,500	333,500	266,500	151,500	86,500	42,000	–	–
Premium on Preferred Stock	461	461	461	461	461	461	349	338	152	152	146
Earnings Retained in the Business	105,569	102,129	168,307	149,981	154,878	137,096	134,902	115,613	110,468	108,812	100,798
Preferred Stock:											
Redeemable – Not mandatory	334,400	334,400	334,400	235,400	235,400	235,400	200,400	150,400	92,400	92,400	82,400
– Mandatory	50,000	50,000	50,000	50,000	–	–	–	–	–	–	–
Long-Term Debt	1,907,989	1,894,352	1,681,760	1,314,667	1,200,287	1,026,982	904,354	738,418	618,614	533,739	473,826
Utility Plant (Thousands of Dollars):											
Total Utility Plant – End of Year	4,814,504	4,372,725	3,903,164	3,405,774	2,971,681	2,544,137	2,130,174	1,759,520	1,516,144	1,321,152	1,198,164
Gross Additions	459,533	483,430	540,076	443,951	447,966	428,874	383,114	257,338	212,157	132,008	90,410
Operating Revenues, Electric (Thousands of Dollars):											
Residential	385,224	351,644	339,393	248,306	230,161	178,949	152,689	126,355	109,703	97,869	90,741
Commercial	242,626	213,059	208,864	152,076	140,568	109,944	92,121	74,758	63,541	55,640	51,966
Industrial	442,221	357,691	338,007	238,282	208,068	165,540	127,415	104,427	88,471	77,922	76,821
Other	82,391	73,543	62,535	46,618	42,280	25,176	20,937	15,053	12,445	12,635	12,511
Total Revenues from Electric Sales – Territorial	1,152,462	995,937	948,799	685,282	621,077	479,609	393,162	320,593	274,160	244,066	232,039
Nonterritorial Sales	1,222	10,534	12,496	7,817	5,253	5,031	–	1,981	1,255	3,069	643
Other Operating Revenues	9,939	7,972	7,398	6,568	4,920	4,815	3,679	3,126	2,910	2,182	2,116
Total Operating Revenues, Electric	1,163,623	1,014,443	968,693	699,667	631,250	489,455	396,841	325,700	278,325	249,317	234,798
Electric Sales (Thousands of Kilowatt-Hours):											
Residential	8,679,417	9,088,856	8,804,755	8,135,215	7,743,609	7,321,419	7,344,878	6,656,760	6,106,810	5,750,296	5,121,939
Commercial	5,207,513	5,282,746	5,121,461	4,793,698	4,611,863	4,306,750	4,194,288	3,797,751	3,394,637	3,209,540	2,865,341
Industrial	14,629,581	13,799,043	12,845,489	11,872,717	10,742,325	10,992,118	10,867,180	10,278,181	9,725,873	9,434,059	9,307,353
Other	2,587,807	2,604,616	2,467,159	2,251,388	2,131,719	2,059,514	2,427,814	2,015,945	1,641,119	1,678,781	1,690,057
Total Electric Sales – Territorial	31,104,318	30,775,261	29,238,864	27,053,018	25,229,516	24,679,801	24,834,160	22,748,637	20,868,439	20,072,676	18,984,690
Nonterritorial	6,286	342,302	615,423	544,327	420,868	552,995	–	104,303	145,470	384,789	78,791
Total Electric Sales	31,110,604	31,117,563	29,854,287	27,597,345	25,650,384	25,232,796	24,834,160	22,852,940	21,013,909	20,457,465	19,063,481
Electric Customers – End of Year:											
Residential	856,193	841,781	821,599	806,197	787,262	773,004	755,251	729,840	706,491	686,381	673,172
Commercial	115,435	115,208	112,691	110,862	107,440	105,887	104,307	101,613	97,903	94,665	92,633
Industrial and Other	4,572	4,451	4,286	4,149	3,956	3,815	3,714	3,564	3,468	3,372	3,319
Total	976,200	961,440	938,576	921,208	898,658	882,706	863,272	835,017	807,862	784,418	769,124
Residential Service:											
Average Annual kwh Use per Customer	10,231	10,939	10,840	10,223	9,954	9,575	9,895	9,285	8,773	8,475	7,697
Average Revenue per kwh – ¢	4.44	3.87	3.85	3.05	2.97	2.44	2.08	1.90	1.80	1.70	1.77
Average Annual Bill per Customer – $	454.09	423.24	417.83	312.02	295.85	234.02	205.70	176.25	157.60	144.24	136.36

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, 1979 and 1978, and the related statements of income, earnings retained in the business, other paid-in capital and sources of funds for gross property additions for the years then ended. 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 2, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effect of adjustments, if any, that may result from the final outcome of a pending rate matter. As explained in Note 1 to the financial statements, regulatory approval was obtained to permit recovery of the deferred cost of a cancelled nuclear generating plant. Accordingly, our present opinion on such financial statements, as presented herein, is different from that expressed in our previous report.

As discussed more fully in Note 2 to the financial statements, the Company has billed increased retail revenues subject to possible refund. The effect of any adjustments that may result from the final outcome of this pending rate matter cannot presently be determined.

In our opinion, subject to the effect, if any, on the 1979 financial statements of the final outcome of the pending rate matter discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of Alabama Power Company as of December 31, 1979 and 1978, and the results of its operations and the sources of funds for gross property additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Birmingham, Alabama,
February 15, 1980.

Balance Sheets at December 31, 1979 and 1978

Assets	1979	1978
	(In Thousands)	
UTILITY PLANT (Notes 1 and 3):		
In service and held for future use, at original cost	$3,695,721	$3,543,626
Less – Accumulated provision for depreciation	818,279	709,123
	2,877,442	2,834,503
Nuclear fuel, at amortized cost	130,373	63,670
Construction work in progress –		
Nuclear	548,575	465,144
Other	401,635	270,633
	3,958,025	3,633,950
OTHER PROPERTY AND INVESTMENTS:		
Southern Electric Generating Company (Note 8)	16,400	16,400
Nonutility property, at cost	2,345	2,287
Miscellaneous	860	685
	19,605	19,372
CURRENT ASSETS:		
Cash (Note 4)	9,048	9,283
Temporary cash investments, at cost	–	8,507
Receivables, less accumulated provision for uncollectible accounts of $1,047,000 in 1979 and $811,000 in 1978	103,262	88,347
Refundable federal income tax (Note 5)	3,154	–
Fossil fuel stock, at average cost	123,752	127,684
Materials and supplies, at average cost	20,913	20,415
Prepayments	15,651	11,389
	275,780	265,625
DEFERRED CHARGES:		
Deferred cost of cancelled plant (Note 1)	19,403	26,404
Debt expense, being amortized	6,287	6,378
Miscellaneous	13,636	16,177
	39,326	48,959
	$4,292,736	$3,967,906
Capitalization and Liabilities		
CAPITALIZATION (See accompanying statements):		
Common stock equity	$1,022,533	$ 952,648
Preferred stock –		
Not subject to mandatory redemption	334,400	334,400
Subject to mandatory redemption (Note 7)	50,000	50,000
Long-term debt	1,883,684	1,851,394
	3,290,617	3,188,442
CURRENT LIABILITIES:		
Notes payable to banks (Note 4)	352,478	219,253
Long-term debt due within one year (Note 6)	24,305	42,958
Accounts payable	158,878	109,968
Revenues to be refunded	–	2,547
Interest accrued	49,093	44,359
Customer deposits	18,254	16,600
Dividends declared	7,805	7,805
Taxes accrued –		
Federal and state income	5,284	7,507
Other	8,177	6,396
Miscellaneous	10,329	5,652
	634,603	463,045
DEFERRED CREDITS, ETC.:		
Accumulated deferred income taxes	302,831	263,675
Accumulated deferred investment tax credits	44,017	39,054
Miscellaneous	20,668	13,690
	367,516	316,419
COMMITMENTS AND CONTINGENT MATTERS (Notes 2, 3, 4, 8 and 10)		
	$4,292,736	$3,967,906

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

Statements of Capitalization at December 31, 1979 and 1978

	Amount		Percent of Total	
	1979	1978	1979	1978
	(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	692,145	625,700		
Premium on preferred stock	461	461		
Earnings retained in the business ($62,438,000 restricted against payment of cash common dividends) (Notes 2, 3 and 9)	105,569	102,129		
Total	1,022,533	952,648	31.1%	29.9%
CUMULATIVE PREFERRED STOCK (Note 3):				
$1 par value, authorized 27,500,000 shares — none outstanding	—	—		
$100 par value, authorized 3,850,000 shares —				
Not subject to mandatory redemption:				
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	10.2	10.5
Subject to mandatory redemption (Note 7):				
11.00% (annual dividend requirement $5,500,000)	50,000	50,000	1.5	1.5
LONG-TERM DEBT (Notes 3 and 6):				
First mortgage bonds —				
Maturity — Interest Rates				
September 1, 1981 — 3-1/4%	15,000	15,000		
April 1, 1982 — 3-3/8%	12,000	12,000		
May 1, 1983 — 4-1/8%	11,939	11,939		
March 1, 1984 — 3-1/8%	17,000	17,000		
1985 through 1989 — 3-1/2% to 8-5/8%	161,225	161,225		
1990 through 1994 — 4-3/8% to 5%	72,240	81,957		
1995 through 1999 — 4-7/8% to 8-5/8%	150,658	157,374		
2000 through 2004 — 7-1/2% to 9-3/4%	593,424	595,424		
2005 through 2008 — 8-3/4% to 10-7/8%	610,000	610,000		
Unamortized discount and premium, net	(8,143)	(8,496)		
Total first mortgage bonds	1,635,343	1,653,423		
Pollution-control obligations —				
December 1, 1979 to 2004 (due serially), 7-1/4% to 9-1/8%	24,700	29,700		
2003 to 2008, 6% to 9-1/2%	171,700	171,700		
Funds held in construction fund	(31,067)	(44,755)		
Unamortized discount	(3,841)	(4,035)		
Total pollution-control obligations	161,492	152,610		
Obligations under capitalized leases —				
Nuclear fuel	84,656	58,490		
Other	26,498	29,829		
Total obligations under capitalized leases	111,154	88,319		
Total long-term debt (annual interest requirement $167,608,000)	1,907,989	1,894,352		
Less — Long-term debt due within one year	24,305	42,958		
Long-term debt, excluding amounts due within one year	1,883,684	1,851,394	57.2	58.1
Total capitalization	$3,290,617	$3,188,442	100.0%	100.0%

The accompanying notes are an integral part of these statements.

Statements of Income for the years ended December 31, 1979 and 1978

	1979	1978
	(In Thousands)	
OPERATING REVENUES, ELECTRIC (Note 2)	$1,163,623	$1,014,443
OPERATING EXPENSES, ELECTRIC:		
Operation –		
Fuel	365,628	295,186
Purchased and interchanged power, net	124,929	161,602
Other	129,430	122,511
Maintenance	80,660	76,085
Depreciation and amortization	123,076	109,315
Taxes other than income taxes	74,592	63,737
Federal and state income taxes (Note 5)	58,759	25,080
Total operating expenses	957,073	853,516
OPERATING INCOME, ELECTRIC	206,550	160,927
OTHER INCOME:		
Allowance for equity funds used during construction (Note 1)	28,554	38,927
Dividends from subsidiary (Note 8)	2,425	2,511
Other, net	9,796	3,454
Income before interest charges	247,325	205,819
INTEREST CHARGES:		
Interest on long-term debt	163,343	155,353
Other interest expense	52,519	14,292
Allowance for debt funds used during construction (Note 1)	(57,196)	(37,948)
Net interest charges	158,666	131,697
NET INCOME	88,659	74,122
DIVIDENDS ON PREFERRED STOCK	31,219	31,219
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK (Notes 2 and 3)	$ 57,440	$ 42,903

The accompanying notes are an integral part of these statements.

Statements for the years ended December 31, 1979 and 1978

	1979	1978
Earnings Retained in the Business	(In Thousands)	
Balance, beginning of period	$102,129	$168,307
Add (Deduct):		
Net income after dividends on preferred stock (Notes 2 and 3)	57,440	42,903
Cash dividends on common stock	(54,000)	(108,800)
Preferred stock issuance expense	—	(281)
Balance, end of period (restricted as indicated on statements of capitalization)	$105,569	$102,129
Other Paid-In Capital		
Balance, beginning of period	$625,700	$578,500
Cash contribution to capital by parent company	66,445	47,200
Balance, end of period	$692,145	$625,700
Sources of Funds for Gross Property Additions		
Net income (Notes 2 and 3)	$ 88,659	$ 74,122
Less — Dividends on common stock	54,000	108,800
Dividends on preferred stock	31,219	31,219
Reinvested earnings	3,440	(65,897)
Principal noncash items —		
Depreciation and amortization	137,275	140,087
Deferred income taxes, net	61,970	25,151
Allowance for funds used during construction (gross)	(85,750)	(76,875)
	116,935	22,466
Decrease (increase) in net current assets, other than long-term debt due within one year and notes payable to banks —		
Cash and temporary cash investments	8,742	(9,556)
Receivables	(14,915)	(9,805)
Refundable federal income taxes	(3,154)	25,985
Fossil fuel stock	3,932	(37,846)
Materials and supplies	(498)	(2,038)
Accounts payable	48,910	26,082
Revenues to be refunded	(2,547)	(12,855)
Interest accrued	4,734	9,688
Taxes accrued	(442)	6,208
Other, net	2,069	(6,798)
	46,831	(10,935)
Other, net (includes allowance for funds used during construction)	82,579	43,494
Total internal sources	246,345	55,025
Sale of securities —		
First mortgage bonds	—	200,000
Less — Bonds retired	18,433	10,345
	(18,433)	189,655
Capital contribution by parent company	66,445	47,200
Pollution-control obligations	8,688	26,565
Obligations under capitalized leases	22,835	(754)
Sales of property, net book value	428	176
	79,963	262,842
Increase in notes payable to banks	133,225	165,563
Total external sources	213,188	428,405
Gross Property Additions (includes net allowance for funds used during construction in the amount of $58,586,000 in 1979 and $58,134,000 in 1978)	$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 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, 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 (PSC) and follows generally accepted accounting principles and the accounting policies and practices prescribed by the respective commissions.

Revenues—

Revenues, including those subject to possible refund, are included in income as billed monthly to customers on a cycle billing basis (see Note 2).

Fuel Costs —

Fuel costs are expensed as the fuel is consumed. The company's rates include 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 $8,500,000 in 1979 and $24,945,000 in 1978.

Final disposition of spent fuel may require future adjustments to fuel expense. Pending ultimate disposition, the company has sufficient storage capacity at its nuclear plant for storage of the spent fuel until 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 the estimated cost of funds used during construction.

The company has cancelled construction of Plant Barton. 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 $7,145,000 in 1979 and $7,116,000 in 1978.

Allowance for Funds Used During Construction—

The allowance for funds used during construction is an accounting procedure whereby amounts based upon interest charges on debt funds and a return on other capital used to finance construction are charged to utility plant in the same manner as construction labor and material costs. The accrual of allowance for funds used during construction is in accord with established rate-making procedures and accounting policies of the industry, but does not represent current cash income.

The composite rate used to determine the amount of the allowance, net of the income tax effect of capitalized debt cost, was 8.1% in 1979 and 8.2% in 1978.

Depreciation—

Depreciation of the original cost of depreciable utility plant in service is provided using composite straight-line rates which approximated 3.46% and 3.37% in 1979 and 1978, respectively, and includes a factor to provide for the expected cost of decommissioning nuclear facilities. Decommissioning cost for Plant Farley Unit No. 1 is estimated at approximately $30,000,000. This cost is based on current price levels and prompt decommissioning after the unit is taken out of service. 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.

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 noncontributory 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 $13,111,000 in 1979 and $11,993,000 in 1978. Of these amounts $8,712,000 in 1979 and $7,258,000 in 1978 were charged to operating expenses, and the balances were charged to construction and other accounts. The pension fund assets are expected to exceed the actuarially computed value of the vested benefits at December 31, 1979. The unfunded prior service cost under the plan and supplemental contracts amounted to approximately $17,476,000 at December 31, 1979, and is being amortized over a period of approximately 15 years.

Income Taxes—

The company provides deferred income taxes for all income tax timing differences to the extent permitted by the appropriate regulatory agencies. The company is included in the consolidated federal income tax return of The Southern Company. (See Note 5 for further information regarding income taxes.)

2. RATE MATTERS:

On December 20, 1978, the company filed with the PSC a rate increase request estimated to increase retail rates by approximately $288.8 million annually. The PSC on March 6, 1979, granted a 9½-percent emergency increase ($81.9 million annually) effective March 9, 1979, in retail rates. On July 19, 1979, the PSC issued an order making permanent the 9½-percent emergency increase and granted an additional 5-percent increase effective July 19, 1979, and an 8-percent increase effective January 1, 1980. These increases in retail revenues aggregate approximately $208 million annually. On August 20, 1979, the company and certain intervenors appealed the PSC's order to the Supreme Court of Alabama. On October 19, 1979, the Supreme Court permitted the company to collect, subject to possible refund, the 8-percent increase which was otherwise not effective until January 1, 1980. At December 31, 1979, such increased retail revenues subject to possible refund totaled $16,098,000, which, after deducting applicable taxes, increased net income for 1979 by $8,088,000.

On December 28, 1979, the company filed revised retail rate schedules with the PSC seeking to increase retail revenues by approximately $122.3 million annually, based on a test year ending November 30, 1979. The PSC suspended the effective date of the new rates through July 28, 1980, unless otherwise ordered, pending hearings. Consideration of the rate design standards of the Public Utility Regulatory Policies Act of 1978 has been consolidated into the pending proceeding.

It is not possible at this time to predict the final outcome of the foregoing retail rate proceedings.

Pending before the FERC are wholesale rate tariffs of the company filed in June 1974, proposing to increase wholesale revenues from distribution cooperatives and municipalities by approximately $12.6 million annually over a test year ending June 30, 1975. The increased rates were permitted to go into effect as of September 12, 1974, subject to refund of that portion, if any, of the increase not subsequently approved by the FERC. On August 1, 1979, the FERC issued an opinion modifying the initial decision of the administrative law judge in this proceeding. The company and intervening distribution cooperatives and municipalities applied for rehearing of such opinion, and on September 28, 1979, the FERC issued an order clarifying its previous opinion and denying applications for rehearing. It is the opinion of management that the company will be able to retain substantially all of the revenue collected under these rates.

3. CONSTRUCTION PLAN, FINANCING, AND FUEL COMMITMENTS:

Construction Plan —

The company's estimated plant additions, as of October 19, 1979, for the years 1980, 1981 and 1982 were $459,165,000, $491,367,000 and $575,945,000, respectively. The construction program is subject to periodic review and revision, and actual construction costs to be incurred may vary from the above 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.

As a result of inadequate earnings and insufficient cash, the company began implementing delays in its major generating plant and other construction projects in December 1978. After receiving increased retail rates in July 1979 (see Note 2), construction activities were resumed at Unit No. 2 of Plant Farley and Bouldin Dam but construction delays continued at the other major projects. The curtailed construction program will result in additional costs, primarily from material and labor escalation and an increase in allowance for funds used during construction, which could be substantial depending on the duration of the construction curtailment.

On February 10, 1975, a break occurred at the company's Bouldin Dam causing extensive damage thereto and resulting in the removal from service of the hydroelectric generating facilities (225,000 kilowatts) at the dam for an indefinite period. The costs of reconstruction and repair were earlier estimated to be approximately $37,062,000 and $20,000,000, respectively. However, primarily as a result of the implementation of the construction delays, such costs have increased and are now estimated to be approximately $42,565,000 and $22,180,000, respectively. The company is engaged in litigation with the contractors responsible for construction of the dam and with certain all-risk insurers. The company has previously consummated a settlement with machinery breakdown insurance carriers for $1,850,000 and consummated a settlement during 1979 with certain all-risk insurers having $10,000,000 of the total $40,000,000 all-risk insurance coverage for 85% of the face amount of the policies. The contractor litigation, as well as the two cases seeking recovery of the remaining $30,000,000 of insurance coverage, remains pending. It is the opinion of management that a substantial portion of the earlier estimated costs of reconstruction and repair will be recoverable through the combined proceeds of the company's insurance and contractor litigations.

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 The Southern Company, 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 The Southern Company from the sale of additional common stock in amounts and at times not yet determined; however, there is no assurance that The Southern Company 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 long-term debt 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 generally requires for the issuance of additional debt securities that before income tax earnings cover proforma annual interest charges at least twice; and for issuance of additional preferred stock, that after income tax earnings cover proforma annual interest charges and preferred stock dividends at least one and one-half times. These coverages, including revenues billed subject to possible refund as discussed in Note 2, for first mortgage bonds and for preferred stock for the year ended December

31, 1979, were 2.17 and 1.19, respectively. Without revenues subject to refund, these coverages were 2.04 and 1.16, 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.

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 regarding status of rate matters.) 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:

Notes payable to banks are also utilized to finance construction expenditures on an interim basis, and at December 31, 1979, $352,478,000 of notes payable was outstanding under various credit arrangements. At December 31, 1979, the company had credit arrangements with banks for approximately $569,000,000.

Included in these credit arrangements is an agreement with a group of banks for credit of $500,000,000, which terminates September 30, 1980. The loan 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, which fluctuate with changes in the prime interest rate and commitment utilization. These fees amounted to $6,693,000 and $4,832,000 in 1979 and 1978, respectively.

Arrangements with respect to the $69,000,000 remaining lines of credit expire at various times during 1980 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 $9,091,000 in 1979.

The company has authority from the SEC, under the Public Utility Holding Company Act of 1935, to have outstanding through September 30, 1980, a maximum of $455,000,000 in short-term financing.

Details of the unsecured short-term notes payable to banks outstanding during 1979 and 1978 are set forth below:

	1979	1978
Weighted average interest rate on borrowings outstanding at end of period	17.09%	12.82%
Maximum amount of borrowings outstanding at any month end	$352,478,000	$219,253,000
Average daily borrowings during period	$244,446,000	$52,101,000
Weighted average interest cost of borrowings during period	14.27%	10.41%

5. INCOME TAXES:

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

	1979	1978
	(In Thousands)	
Federal —		
Currently refundable	$ (3,154)	$ —
Deferred	68,540	33,918
Deferred in prior years (credit)	(10,178)	(10,483)
	55,208	23,435
State —		
Deferred	4,259	2,388
Deferred in prior years (credit)	(708)	(743)
	3,551	1,645
Total applicable to electric operations	58,759	25,080
Income taxes applicable to Other Income	(1,864)	2,389
Total income taxes	$ 56,895	$ 27,469

The company received a federal income tax refund of $8,770,000 for the year ended December 31, 1978, and accrued a refund of federal income tax of $3,154,000 at December 31, 1979, attributable to the use of net operating losses for tax purposes in The Southern Company's consolidated income tax return. Net operating loss tax benefits totaling approximately $15,000,000 and $27,000,000 from the years 1979 and 1978, respectively, are available to reduce federal income taxes in future years and are reflected as a reduction in the provision for deferred income taxes.

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:

	1979	1978
Effective federal income tax rate as reported	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	9.2	18.7
Percentage depletion on coal reserves mined	1	3.1
Other	1.8	3.0
Effective federal income tax rate before effect of timing differences	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	(3.0)	(2.5)
Other	.2	(.1)
Federal income tax statutory rate	46.0%	48.0%

Investment tax credits utilized are deferred and are amortized over the average 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 $1,713,000 in 1979 and $1,666,000 in 1978. At December 31, 1979, investment tax credits totaling approximately $200,000,000, expiring at various times from 1984 to 1986, have not been utilized and are available to reduce federal income taxes payable in future years.

6. LONG-TERM DEBT:

The annual first mortgage bond sinking fund requirement due on June 1, 1980 (1% of the aggregate amount of bonds, other than refunding bonds, authenticated prior to January 1), amounts to $18,433,000. 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.

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. The first payment on principal was made in 1979 in the amount of $5,000,000, with $1,000,000 due in 1980 and $500,000 due in each of the years 1981, 1982 and 1983, and $3,500,000 due in 1984. 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, which amounted to $84,656,000 at December 31, 1979, and $58,490,000 at December 31, 1978. One arrangement provides for the payment of interest monthly, in advance, based on the prime interest rate, as defined, plus 1⅛% (17⅞% 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 deposits, plus certain additional charges (approximately 16⅝% 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 and equipment leases. The vehicle lease obligations amounted to $14,558,000 and $17,354,000 at December 31, 1979, and 1978, respectively. Obligations under the office building and construction equipment leases amounted to $11,940,000 at December 31, 1979, and $12,475,000 at December 31, 1978. Monthly principal payments plus interest are required and at December 31, 1979, the interest rate was 17¼% for vehicles and 9½% for other leases.

The estimated aggregate annual maturity of the company's capitalized lease obligations through 1984 is as follows: $23,305,000 in 1980, $33,957,000 in 1981, $27,634,000 in 1982, $12,065,000 in 1983 and $2,620,000 in 1984.

Long-term debt due within one year consists of $1,000,000 for pollution-control obligations and $23,305,000 for 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 redeem annually or purchase 25,000 shares ($2,500,000) of the stock commencing January 1, 1981. The company has the option to double the number of shares redeemed in any one year beginning January 1, 1986. The stock is redeemable for sinking fund purposes at $100 per share, plus accrued dividends to the date of redemption. No changes have occurred in the number of shares outstanding of the company's preferred stock subject to mandatory redemption during 1978 and 1979.

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

$64,849,000 and $50,171,000 in 1979 and 1978, respectively, 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 $17,400,300 principal amount of pollution-control revenue bonds have been issued. GEORGIA has agreed to reimburse the company for the prorata 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, 1979, the capitalization of SEGCO consisted of $32,800,000 of equity and $49,120,000 of long-term debt on which the annual interest requirement is $3,138,000. Through December 31, 1979, 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, 1979, amounted to $52,038,000. The company's share of expenses is included in the corresponding operating expense accounts in the Statements of Income.

9. DIVIDEND RESTRICTIONS:

Under terms of the company's first mortgage bond indenture, $23,482,000 of earnings retained in the business at December 31, 1979, is restricted against the payment of cash common dividends. In addition, 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 the annual preferred stock dividends. At December 31, 1979, this restriction amounted to $62,438,000.

10. CONTINGENCIES:

The company is a member of Nuclear Mutual Limited, established to provide insurance coverage against property damage to members' nuclear generating facilities. In the event of a loss by a member company, the company could be assessed a retrospective premium adjustment up to a maximum of $22,176,000.

In addition, under the Price-Anderson Act, the company maintains private insurance and agreements of indemnity with the Nuclear Regulatory Commission (NRC) to cover third-party liability arising from a nuclear incident which might occur at the company's nuclear power plant. There is a limit of $560,000,000 on each nuclear generating unit for public liability claims that could arise from a single nuclear incident. The company 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 an incident, the company could be assessed $5,000,000 per incident for its reactor now in service, to a maximum of $10,000,000 per reactor in any year.

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1979 and 1978 are as follows:

	Operating Revenues, Electric	Operating Income, Electric	Net Income After Dividends on Preferred Stock
		(In Thousands)	
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
1978			
First	$236,662	$39,356	$10,308
Second	231,549	31,103	4,413
Third	310,263	53,536	26,308
Fourth	235,969	36,932	1,874

* Includes revenues billed subject to possible refund as discussed in Note 2.

12. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED):

The following supplementary information, made consistent with Statement No. 33 of the Financial Accounting Standards Board (FASB), is intended to set forth the effect of both general inflation and changes in specific prices on the company. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure. As stated by the FASB, the measurement and use of information on changing prices will require a substantial learning process on the part of all concerned. The FASB makes no pretense of having solved all of the implementation problems and intends to review the requirements of this statement on an ongoing basis.

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 the changes in specific prices of plant from the date the plant was acquired to the present, and 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 utility plant, which includes land, land rights, intangible plant, property held for future use and construction work in progress, was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. Since the utility plant is not expected to be replaced precisely in kind, current cost does not necessarily represent the replacement cost of existing productive capacity.

Depreciation was determined by applying the current depreciation rates to the indexed plant amounts.

Fuel inventories and the cost of fuel used in generation have not been restated from their historical cost. Regulation limits the recovery of fuel costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements was not adjusted.

Revenues and other operation and maintenance

expenses already include the average effects of inflation during the period in historical dollars and, therefore, no adjustments have been made to them.

Under the rate-making procedures prescribed by the regulatory commissions to which the company is subject, only the historic cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost that exceeds the historic cost of plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable amount.

Because only the historic cost of depreciation is recoverable in rates, present and future depreciation provisions are inadequate for purposes of maintaining the purchasing power invested by the common stockholders and the related cash flows are inadequate for replacing the property. The impact of this rate-making process on the common stockholders is mitigated to the extent that depreciable property is financed with debt which can be repaid with dollars of less purchasing power.

Statement of Income From Continuing Operations Adjusted for Changing Prices
For the Year Ended December 31, 1979

	Conventional Historical Cost	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
		(In Thousands)	
Operating revenues	$1,163,623	$1,163,623	$1,163,623
Operation and maintenance	700,647	700,647	700,647
Depreciation and amortization	123,075	215,002	234,382
Taxes other than income taxes	74,592	74,592	74,592
Federal and state income taxes	58,759	58,759	58,759
Other income and deductions – net	(40,775)	(40,775)	(40,775)
Interest charges and preferred dividends	189,885	189,885	189,885
	1,106,183	1,198,110	1,217,490
Income (loss) from continuing operations exclusive of reduction to net recoverable amount	$ 57,440	$ (34,487)	$ (53,867)
Return on average common equity	5.82%	(3.49)%	(5.45)%
Increase in specific prices†			$ 556,333
Reduction to net recoverable amount		$ (344,441)	(66,170)
Increase in general price level			(815,224)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable amount			(325,061)
Reduction of purchasing power loss through debt and preferred stock financing		318,556	318,556
Net		$ (25,885)	$ (6,505)

†At December 31, 1979, current cost of utility plant, net of accumulated depreciation, was $7.2 billion while historical cost or net amount recoverable through depreciation was $3.8 billion.

Five-Year Comparison Of Selected Supplementary Financial Data Adjusted for Effects Of Changing Prices (Restated to Average 1979 Dollars)

	Years Ended December 31,				
	1979	1978	1977	1976	1975
Operating revenues (thousands of dollars)	$1,163,623	$1,126,032	$1,162,432	$ 895,574	$852,188
Cash common dividends declared (thousands of dollars)	$ 54,000	$ 120,768	$ 113,880	$ 76,800	$ 31,000
Net assets at year end at net recoverable amount (thousands of dollars)	$ 971,406	$1,019,333	$1,136,802	$1,072,875	$934,288
Average consumer price index (base year 1967 = 100)	217.4	195.4	181.5	170.5	161.2

General Officers

Joseph M. Farley, President

Alan R. Barton, Executive Vice President

Elmer B. Harris, Executive Vice President

Walter F. Johnsey, Executive Vice President(1)

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

Travis J. Bowden, Vice President and Treasurer

Stephen E. Bradley, Vice President, Public Information

Rayford F. Davis, Vice President, Power Delivery

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

Birmingham Trust National Bank(2)
Post Office Box 2554
Birmingham, Alabama 35290
(Only for the 11% and 9% Series Preferred Stock)

Chemical Bank
55 Water Street
New York, New York 10041
(Only for the 8.72% Series Preferred Stock)

Continental Stock Transfer & Trust Company
19 Rector Street
New York, New York 10006
(All series except 8.72% Series Preferred Stock)

Registrars

The First National Bank of Birmingham
Birmingham, Alabama 35288

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

(1) Retired September 1, 1979
(2) Resigned February 1, 1980

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)†
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

Walter F. Johnsey, Birmingham (1975)(1)
Executive Vice President

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

* Audit Committee member
** Audit Committee alternate member
†Executive Committee member
(1) Retired September 1, 1979

Years in parentheses indicate date of elec' on.

POOR ORIGINAL