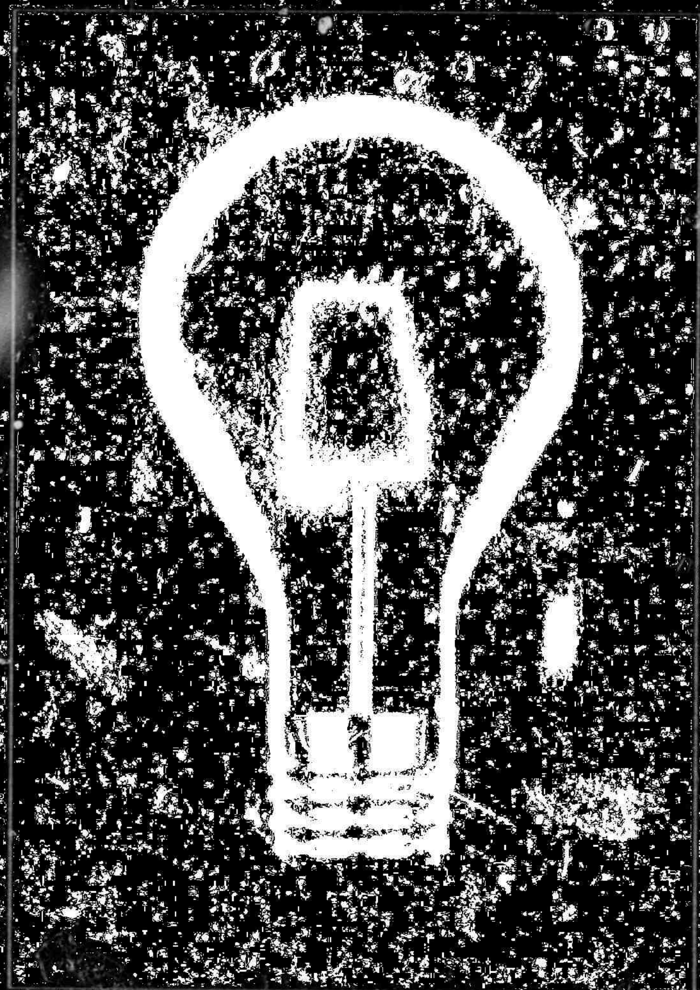
Alabama Power Company
1987 Annual Report



Helping Develop Alabama

Contents

Corporate Profile

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

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

Helping Develop Alabama

Alabama and Alabama Power—neither can be observed without seeing the other.

"It seems almost axiomatic that those who have directed the company over the half century have felt that it could not prosper unless the state prospered."

So stated the late chairman and counsel Thomas W. Martin in 1961 as he was honored by the Alabama Legislature on the occasion of the company's 50th anniversary.

"Helping Develop Alabama," the company's trademark for almost a half-century, disappeared from the company logo in latter years as the company modernized. But throughout unprecedented growth of the 1960s and economic turmoil of the 1970s, the philosophy never changed.

Today, as strong as ever before, the commitment remains as Alabama competes in national and international markets for economic expansion with a vibrant new business climate evident in the state. With a stated commitment to become the competitive choice of the customer, and the opening of our Alabama Resource Center, Alabama Power continues Helping Develop Alabama.

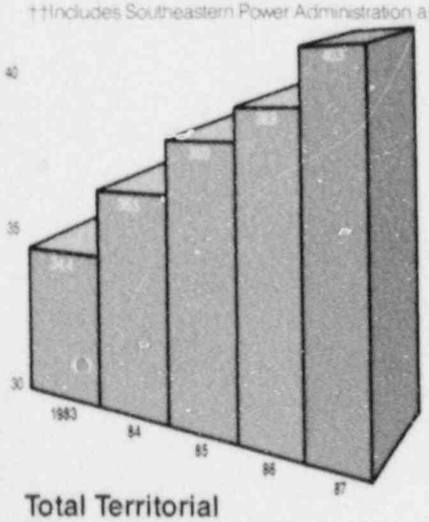
- ● *Hydroelectric*
- ■ *Coal*
- ★ *Nuclear*
- ▲ *Oil or Gas*
- ■ *Service Area*

Highlights

	1987†	1986
Operating Revenues (millions)	$ 2,451	$ 2,426
Operating Expenses (millions)	$ 1,991	$ 1,942
Net Income after Dividends on Preferred Stock (millions)	$ 257	$ 273
Return on Average Common Equity (percent)	13.6	15.1
Allowance for Funds Used During Construction, net as a Percent of Net Income after Dividends on Preferred Stock	16.2	14.7
Coverage Ratios:		
Mortgage Indenture (2.00x minimum requirement for issuance)	4.03x	4.89x
Charter (1.50x minimum requirement for issuance)	1.97x	2.17x
Energy Sales (thousands of kilowatt-hours):		
Within System Service Area	37,761,913	35,809,128
Off-system	7,348,457	5,967,275
Territorial Peak-Hour Demand (thousands of kilowatts)††	7,886	7,892
Total Customers (year-end)	1,090,302	1,070,760
Total Gross Utility Plant (millions)	$ 8,652	$ 8,108
Gross Property Additions During Year (millions)	$ 601	$ 554

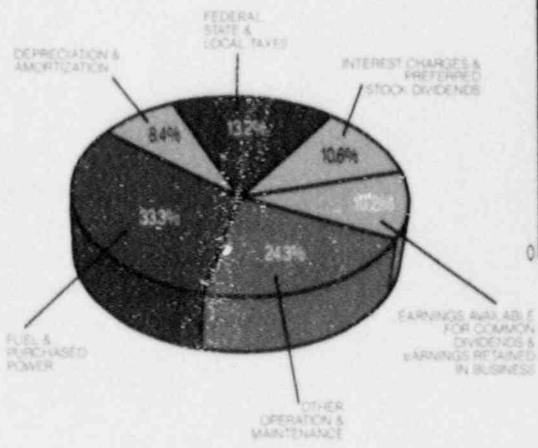
†Includes the effect of recognizing, beginning in February 1987, retail service rendered but not yet billed to customers

††Includes Southeastern Power Administration allotment



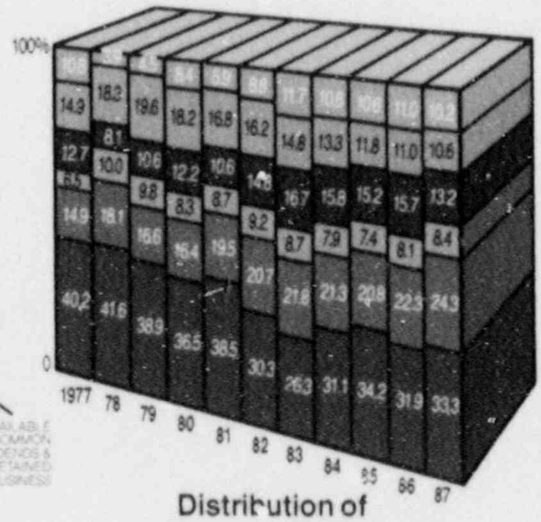
Total Territorial Energy Supplied

Billions of KWH (Includes Southeastern Power Administration Allotment) 5-Year Compound Annual Growth Rate = 3.8%



Distribution of 1987 Revenue Dollar*

**Includes allowance for funds used during construction and other income, net of taxes*



Distribution of Revenue Dollar* (1977-1987)

- Earnings available for common dividends & earnings retained in business
- Interest charges and preferred stock dividends
- Federal, state and local taxes
- Depreciation and amortization
- Other operation and maintenance
- Fuel and purchased power

*Includes allowance for funds used during construction and other income, net of taxes

"It seems almost axiomatic that those who have directed the company over the half century have felt that it could not prosper unless the state prospered."

■ THOMAS W. MARTIN, SPEAKING BEFORE THE ALABAMA LEGISLATURE, APRIL 11, 1961.

To The Stockholders:

Alabama Power Company continued to experience growth and financial stability during 1987, a year highlighted by planning and preparation to meet competition and face changes in the regulatory environment. The quality of the company's earnings, common equity investment as a percentage of total capitalization, and the security ratings all remained stable. However, net income declined primarily as the result of an ongoing dispute with Gulf States Utilities Company of Beaumont, Texas, concerning purchase power contracts and the expiration in late 1986 of certain off-system power contracts with other utilities.

We reported last year that our Vision and Values statement, the corporate philosophy and goal to be more competitive in the future, provided a clear corporate direction and recognized the importance of our employees in achieving the objectives to which our company is dedicated.

Consistent with our vision to be competitive in the future, we have developed a strategic plan which is a step to ensure our success in providing quality electric service at a reasonable cost while earning an adequate return for you. The plan also supports the strategic objectives of our parent firm, The Southern Company.

A major event took place in 1987 which is a significant example of progress toward one of our strategic objectives. Construction was begun on the Alabama Resource Center, which will provide more information to assist economic development in Alabama than has ever been gathered under one roof, using the latest technology available. The Resource Center will support our strategy of increasing sales by acting as a major force in the economic development of areas served by Alabama Power.

Economic development has been a constant force within the company since it began a new industries division in 1921. "Helping Develop Alabama" has been associated with Alabama Power for years.

Improved marketing strategies and advances in productivity continue to keep the company in a more competitive position as more energy choices become available to our customers.

It is significant to note that while the compound annual growth rate in electric energy supplied in the company's service area was 1.9 percent for the past 10 years, the growth rate during the last five years has been 3.8 percent.

The rate stabilization procedure used for setting retail electric rates, which the Alabama Public Service Commission in 1985 extended into 1989, continues to be beneficial. This concept establishes a range for the company's rate of return on end-of-period retail common equity and allows for small, periodic rate adjustments to keep the company within that range. During 1987 rates were adjusted once under the plan, a decrease of approximately 1.9 percent in October.

The system's generating plant performance continues to be an outstanding indication of attention to efficiency and productivity. Availability of the system's fossil-fueled units was 89.5 percent, while availability of the hydroelectric generating units was 95.4 percent and nuclear units, 83.3 percent. These numbers are well above the national averages.

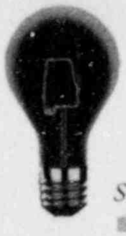
Several assistance programs have been initiated to help ease the financial burden of energy costs for low-income customers. Of these programs, the most widely known and successful is Project SHARE, nationally recognized as the best program of its kind in the industry.

As we move into a time of change in our industry we are confident that our strategic planning and dedication to corporate values, coupled with the recognition of the importance of dedicated employees, will guide us successfully toward our vision of becoming the best electric utility in the United States.

Joseph M. Farley

Joseph M. Farley
President
February 29, 1988


HATHAWAY



"New industries have received excellent cooperation from state, city and county governments over many years. It is essential to our continued growth that this cooperation be evident at all levels if industrial expansion is to continue.... We shall continue to work with others in the stimulation of such growth, which we are confident will come."

FROM THE 1957 ANNUAL REPORT

Financial Review

Net income for 1987 after dividends on preferred stock was $257.2 million, a decrease of $16.2 million from 1986. This decrease resulted primarily from reserves associated with the ongoing dispute with Gulf States Utilities Company concerning purchase power contracts and the expiration in late 1986 of certain off-system power contracts with other utilities. The company's 1987 return on average common equity was 13.56 percent as compared to 15.12 percent for 1986. The reduction is the result of the decrease in net income and an increasing common stock equity investment.

The company's common equity investment, as a percentage of total capitalization, remained stable at approximately 41 percent. The quality of the company's earnings, as measured by the allowance for funds used during construction as a percentage of net income, also remained stable at 16.2 percent in 1987.

Minimum coverage ratios required under the mortgage indenture and corporate charter for the issuance of additional first mortgage bonds and preferred stock are 2.0 and 1.5, respectively. At year end, interest and dividend ratios under the mortgage indenture and corporate charter were 4.03 and 1.97, respectively.

Oscillographs installed at Miller Steam Plant and Farley Nuclear Plant in 1987 help detect and record data on electrical system short circuits and send it back to Corporate Headquarters where engineers analyze system conditions, locate faults and initialize restoration of facilities, resulting in improved system reliability.

The company's security ratings remained stable during 1987, reflecting the financial community's continued confidence in the company's financial condition.

	First Mortgage Bonds	Preferred Stock
Moody's	A1	a2
Standard & Poor's	A	A–
Duff and Phelps	6	7

In November 1987 the company sold first mortgage bonds totaling $200 million at an interest rate of 10⅝ percent. Additionally, in February 1988, the company sold 2 million shares of Adjustable Rate Class A Preferred Stock totaling $50 million stated capital. The dividend rate on the new preferred stock will be adjusted quarterly based upon a percentage of U.S. Treasury security rates. This was the first sale of preferred stock since 1983. Proceeds from the sales of these securities were used to finance a portion of the company's capital needs and to repay short-term indebtedness.

Rates

Alabama Power's principal mission is to be the full-service supplier of our customers' electric energy needs. One key to accomplishing this mission is to operate under regulation and remain competitive with non-regulated entities. A strategic objective is to protect customers and stockholders from the effects of legislation or regulation that would impose unreasonable costs.

Alabama Power's customers continue to benefit from the Rate Stabilization and Equalization (Rate RSE) procedure adopted in 1982 by the Alabama Public Service Commission. In 1985 that commission, which has jurisdiction over the company's retail electric rates, extended the procedure into 1989. The Supreme Court of Alabama affirmed this extension in 1986. During 1987 rates were adjusted once under Rate RSE, a decrease of 1.88 percent in October.

Rate RSE establishes a range of 13.5 percent to 15 percent for the company's rate of return on end-of-period retail common equity investment. Small, periodic rate adjustments are allowed to keep the company within the approved range. A rate decrease is required if the annual return at the end of a quarter exceeds 15 percent. If the return falls below 13.5 percent, a rate increase is warranted.

The plan also provides for rate adjustments upon the commercial operation of certificated new generating plants (Rate CNP). There were no rate adjustments under Rate CNP during 1987.

The Tax Reform Act of 1986 reduced the corporate federal income tax rate beginning in 1987. The company has rate schedules which provide for adjustments in retail electric rates to reflect changes in both state and federal tax rates. As a result of the Tax Reform Act of 1986, retail electric rates were reduced by approximately 2 percent in January 1987 and 1 percent in January 1988.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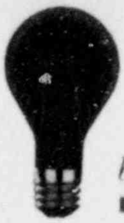


"Realizing, as we do, the need for balancing agriculture with industry, we will continue our efforts, which have been so productive over the years, to induce new industries to locate in Alabama, thus conserving our greatest natural resources—the young men and women preparing to embark on their careers—by giving them the opportunity to find suitable jobs in Alabama."

■ FROM THE 1949 ANNUAL REPORT

The Federal Energy Regulatory Commission regulates the company in the transmission or sale at wholesale of electric energy in interstate commerce as well as sales to the company's electric cooperative and municipal customers. That commission also has jurisdiction with respect to licensed hydroelectric projects and certain other matters, such as accounting policies and practices.

Electric Sales

Aggressive marketing, rigorous cost controls, quality of service to customers and continuing to take a leading role in helping develop Alabama's economy all play a role in successfully competing in today's energy market.

Territorial electricity sales in 1987 totaled 37.8 billion kilowatt-hours, up 5.5 percent over 1986. Industrial customers accounted for 42.3 percent of these sales; commercial customers, 19.8 percent; and residential customers, 29.5 percent.

A portion of the increase in 1987 over 1986 is related to the recognition, beginning in February 1987, of retail service rendered but not yet billed to customers. Excluding these unbilled sales from the comparison, territorial sales in 1987 increased 3.5 percent over 1986.

Sales to utilities outside the company's service area increased in 1987. Total off-system sales were 7.3 billion kilowatt-hours, up 23.1 percent from 1986. One off-system customer, Gulf States Utilities Company of Beaumont, Texas, filed suit in 1986 against the Southern electric system in a dispute over purchase power contracts between the two utility systems. Gulf States alleges a failure to negotiate in good faith to change the contracts. In a 1986 ruling a federal District Court in Texas permitted Gulf States to place in escrow some of the funds it owes while the case is pending. However, in late 1986, the Public Utility Commission of Texas and the Louisiana Public Service Commission disallowed the recovery of the capacity charges under these contracts. As a result of these actions, Gulf States has taken the position that it is excused from performance under the contracts and has not paid the capacity charges or deposited them with the court. The case is still pending before the U.S. District Court in Texas.

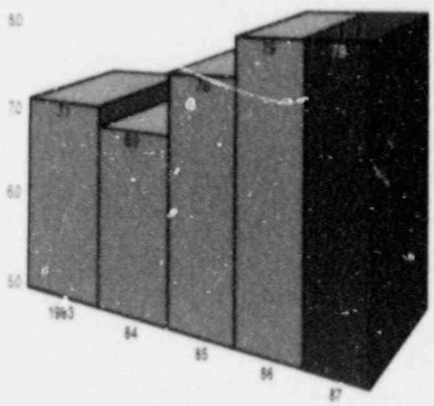
In a separate action earlier this year, an administrative law judge of the FERC ruled that under the Federal Power Act the contracts are valid and reasonable and found no merit in Gulf States' claim that it should be excused from its obligations. Gulf States has appealed that ruling to the full commission.

Through December 31, 1987, Gulf States has placed in escrow or withheld approximately $71.7 million due Alabama Power.

The amount of electric energy supplied in Alabama Power's territory for the past 10 years, which includes the recession of the early 1980s, grew at a compound annual rate of 1.9 percent. However, during the period from 1982 to 1987 the compound annual growth rate was 3.8 percent.

During the same 10-year period, the company's system peak demand for energy grew at a compound annual rate of 2.2 percent. The compound annual growth rate for system peak demand rose to 4.1 percent during the period from 1982 to 1987.

Demand for electricity on Alabama Power's system reached a peak for the year on August 25 of 7.89 million kilowatts, including the Southeastern Power Administration allotment. The



Territorial Peak Demand
Millions of KW
(Includes Southeastern Power Administration Allotment)

■ **Nona Davis, North Shelby District residential marketing representative, discusses her new Good Cents Home with Bill Kinnebrew of Indianwood Building Co., Inc. He is also the builder of Alabama Power's Good Cents Advantage Home, built to demonstrate for the public in cutaway display fashion the features of a Good Cents Home.**

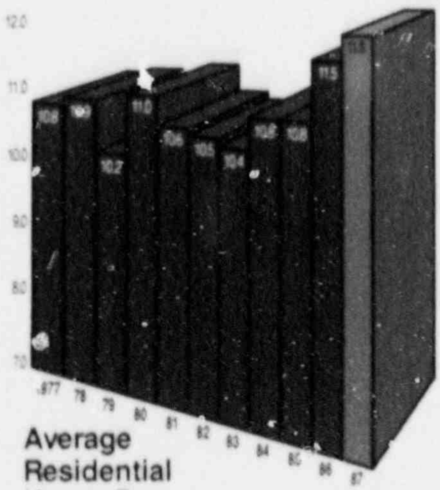

8543

"The expansion of existing industry is significant in that it reflects satisfaction with conditions. . . . and the opportunity presented by the growing southern market. . . ."

■ FROM THE 1960 ANNUAL REPORT

peak was 6,000 kilowatts below the all-time peak demand reached in 1986.

Through a continuing program to market electricity during off-peak times by promotion of heat pumps and outdoor lighting, a total of 13,777 heat pumps were installed in new and existing homes, up 40 percent from 1986. Of that total, 5,156 heat pumps were installed in new, single family homes, a 32-percent increase over 1986. A total of 20,548 units of outdoor lighting were leased in 1987.



Average Residential Usage Per Customer
Thousands of KWH

First electric streetcar system in the U.S., "The Lightning Route," began operating in Montgomery in 1886 and was commemorated in 1987 with the introduction of brightly colored rubber-tired streetcar replicas, shown here passing the new Montgomery District Office, created by restoration of two historic Dexter Avenue structures. The new office also opened in 1987.

Generating Resources

The efficient use of generating resources through cost control and improvements in productivity is crucial to help keep the cost of electricity competitive.

During the year the company continued a program to raise the awareness of employees at each fossil plant concerning the importance of heat rate to the efficiency and profitability of the company. Heat rate is a measure of efficiency in the conversion of thermal energy from fuel to electricity. The Heat Rate Awareness Training Program was begun in 1986 to teach fossil generation employees how each individual can contribute toward attaining specific heat rate goals.

New goals have been achieved each year since the program began.

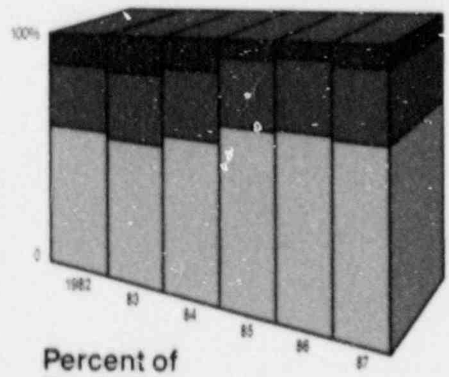
Another important measure of generating plant performance is availability, the amount of time during the year a generating unit is able to produce electricity. During 1987 availability for the company's fossil-fueled generating units was 89.5 percent; nuclear generating units, 83.3 percent; and hydroelectric generating units, 95.4 percent.

Hydroelectric generation improved some over 1986 when a record drought severely affected river flows, but still remained below expectations due to below normal rainfall. Hydroelectric generation was 30 percent below projected levels for 1987.

Fossil-fueled units generated 67.4 percent of the total energy production for the year; nuclear units, 25.2 percent; and hydroelectric units supplied 7.4 percent.

Alabama Power purchased approximately 13.8 million tons of coal during 1987 and had approximately 3 million tons at year end. The cost of fossil fuel per kilowatt-hour generated continued to decline as a result of lower costs for coal and improved plant efficiency.

Early in 1987 the Farley Nuclear Electric Generating Plant was one of six nuclear plants to receive the Award of Excellence from the Institute of Nuclear Power Operations. The award is given to plants which excel on nine different performance indicators.



Percent of Total KWH Generation
■ *Coal*
■ *Nuclear*
■ *Hydro*
Gas and Oil (Less than 0.5%)

"We feel that we should do everything possible to assure returning soldiers and workers now engaged in war industries that peacetime jobs will be available to them."

■ FROM THE 1942 ANNUAL REPORT

At mid-year Farley Unit 1 moved into the top 10 national ranking of Westinghouse pressurized water reactors of 600 MW or greater. The nuclear plant performance ranking is based upon capacity factor of the unit, which is a measure of the energy generated compared with the annual maximum energy capability of the unit. The ranking is maintained by Westinghouse Electric Corporation. Unit 2 has been at the top of the list for several years.

The company has been engaged in negotiations with the Alabama Electric Cooperative, Inc. (AEC) of Andalusia, Alabama, and the staff of the Nuclear Regulatory Commission (NRC) regarding the terms under which the company should offer to sell AEC an approximate 6-percent interest in the Farley plant as required by a 1981 NRC order. The negotiations relate to the terms of the sale and future operation of the nuclear plant. In June 1986 the NRC issued a notice pursuant to a complaint filed by AEC stating that Alabama Power may have violated the terms of the NRC order. Additional discussions have been conducted with the NRC staff in an attempt to resolve these issues. If the issues raised in the notice are not resolved, the NRC may initiate a proceeding to determine if Alabama Power has negotiated in good faith; however, no such proceeding has been started at the present time.

Dielectric fluid analysis, conducted by Alabama Power in its Environmental Affairs organic laboratory, helps detect presence of combustible gases in transformer fluid, an indicator of maintenance needs to prevent transformer failure.

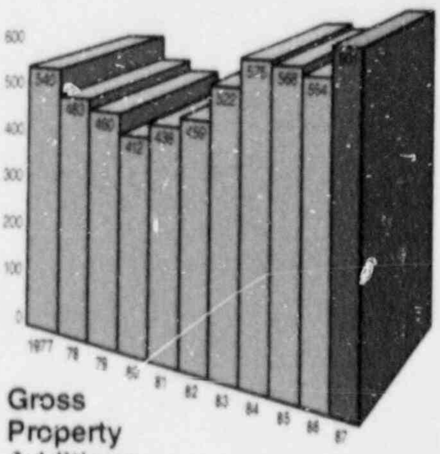
Capital Expenditures

Alabama Power invested approximately $600 million for capital expenditures during 1987, including generating plants, nuclear fuel, transmission and distribution lines, substations, and other facilities.

The largest transmission project ever undertaken by the company was completed in 1987, establishing a 500-kilovolt transmission line tie between Miller Electric Generating Plant and two of the largest load centers on the system, Birmingham and Montgomery. Alabama Power also completed construction of a 122-mile section of the first fiber optics telecommunications link connecting Alabama Power's Corporate Headquarters and Southern Company Services' operations in Birmingham with Georgia Power Company's headquarters and Southern Company Services' operations in Atlanta.

The move into the new Corporate Headquarters building was completed during 1987 as work continued on the remodeling of adjoining structures built in 1925, 1950 and 1958. Work on the 1.2-million square-foot complex is expected to be complete by the fourth quarter of 1988.

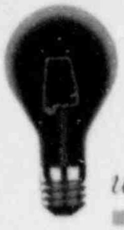
Construction of the third and fourth fossil-fueled units of the Miller Plant continued on schedule during 1987, moving toward completion dates of early 1989 for Unit 3 and 1991 for Unit 4. A natural draft cooling tower for Units 3 and 4 was topped out in 1987 at a height of 551 feet. It is the largest capacity cooling tower in the world. When completed, total electric generating capacity of the plant will be 2,640,000 kilowatts. Units 1 and 2 went into commercial operation in 1978 and 1985. Because Units 3 and 4 initially are dedicated to off-system sales and devoted to customers outside Alabama Power's service area, no increase will take place under Rate CNP.



Gross Property Additions
Millions of Dollars

Research and Development

Alabama Power began a program in 1987 to test fluid in more than 3,000 large transformers in substations and generating plants. Detection of combustible gases through testing enables the company to remove transformers from service for maintenance before a catastrophic failure occurs.



"Our progress is inseparably bound up in the progress of Alabama. We recognize that we should participate as a good citizen in the development of every community within the area we serve. Realizing the need for balancing agriculture with industry, we endeavor to work wholeheartedly for the development of Alabama, supporting worthwhile movements to build and expand industry in the state."

■ FROM THE 1964 ANNUAL REPORT

Another program was implemented to sample and analyze lubricating oil in more than 1,200 pieces of heavy equipment. Results of the program are used to determine preventive maintenance requirements and increase the life of the equipment.

Alabama Power continued its participation in research on a broad array of topics through cooperation with the Electric Power Research Institute (EPRI), one of America's largest private research organizations. Employees of the company served on some 20 EPRI committees in 1987. One of the more than 50 different EPRI projects involving Alabama Power is research into heat pump compressor reliability, cost of servicing and an analysis of heat pumps in the company's area. Another broad area of EPRI research in which Alabama Power participates is coal combustion technology.

Productivity

The Performance Team Program, which was started in 1986 as a pilot program with three teams, has expanded to 56 teams throughout the company. In the program, employees meet voluntarily to identify work-related problems and propose solutions. The teams have completed more than 30 projects. One team solved a problem relating to the control of the temperature of water samples from a generating plant boiler, resulting in cost savings and the reduction of heat loss. Another team's work has enabled line crews throughout the company to work faster and safer with the use of a simple device the team designed to hold material being assembled.

In addition to the performance teams, other areas of the company have achieved productivity improvements. One illustration is the expanded office automation system which improves communications ability and lessens the volume of paperwork. Personal computers have reduced the hours needed to prepare reports and allowed reporting of additional information, which can be more easily tailored to the needs of those receiving it.

In another program known as team-building, more than 30 sessions were held in 1987 in which natural work teams gathered to solve organizational problems and increase productivity through improved teamwork.

An accounting program was implemented in 1987 which established performance indicators and provides for tracking and reporting of measurements. A new accounting system for the company's fossil generating plants, which tracks costs by each unit, provides improved control of expenses.

Economic Development

Helping develop Alabama continues to be a major goal of Alabama Power Company. Growth which provides jobs and dollars for Alabama's citizens goes hand in hand with the company's goal of delivering electricity at a price which makes Alabama competitive while maintaining a tradition of quality service.

A significant step toward economic growth was taken in 1987 with the announcement of Alabama Power's plans to build the Alabama Resource Center, a 15,000-square-foot facility now under construction in Meadowbrook Park, near Birmingham. The center will be available for use by the State of Alabama, local communities, chambers of commerce and the state's universities, as well as Alabama Power. The facility will use state of the art technology to provide facts on available sites throughout the state to individuals interested in locating or expanding business or industry in Alabama. Prospects will be able to get demographic data on virtually any site in the state. The key concept of the resource center is to provide a catalyst for developing a team approach to attracting business to the state.

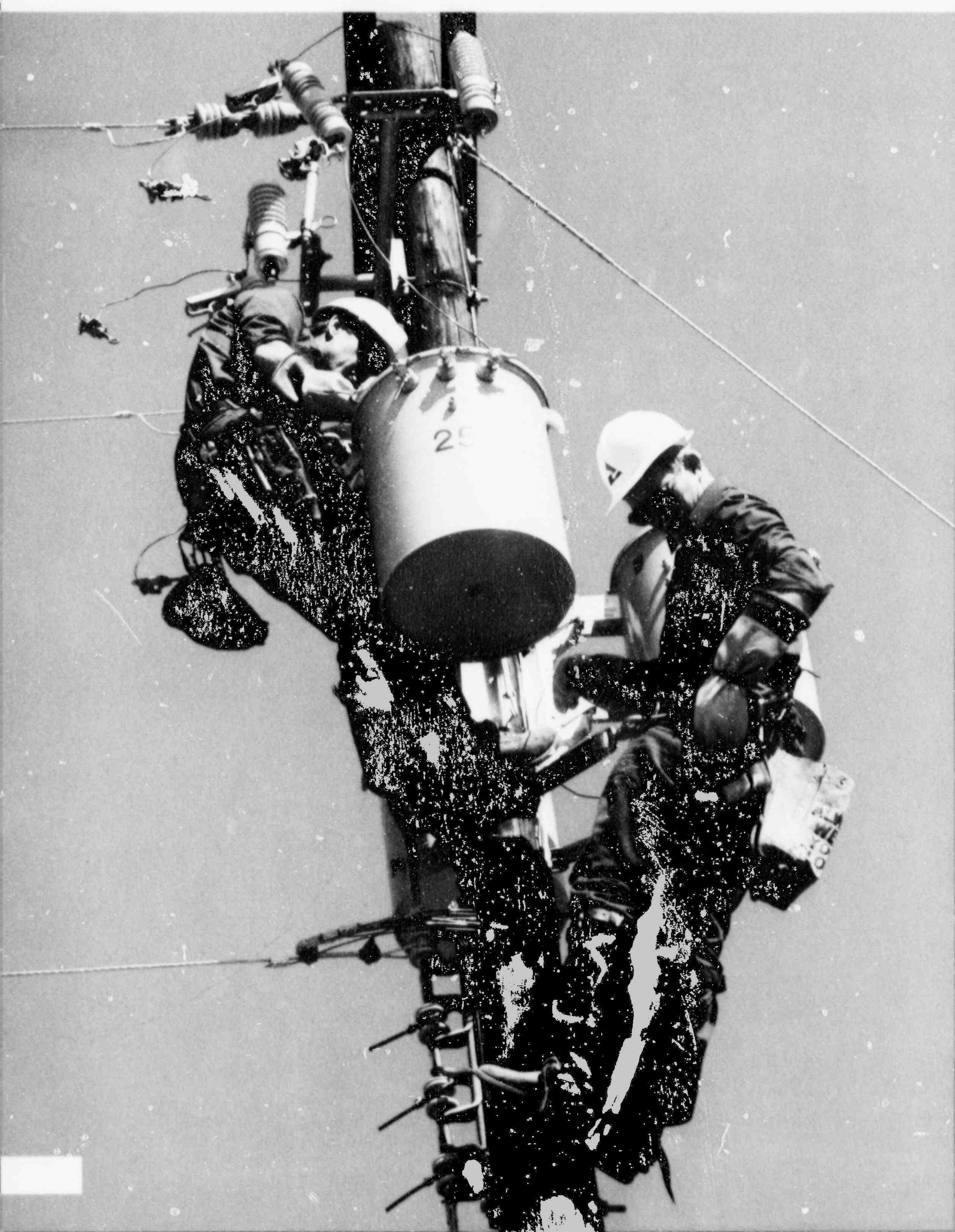
Alabama Power's Economic Development Department worked with a number of commercial and industrial prospects during 1987, as well as with state and local officials and national consultants. It also worked closely with Governor Guy Hunt on an industry-seeking trip to the Far East.

One of the economic development objectives of Alabama Power is to create jobs in the state. During 1987 approximately 2,200 new jobs were created as a result of economic development activity.

Some major projects are:

The U.S. Steel Division of USX Corporation began an additional $200 million capital improvements program to construct a continuous caster and renovate its hot strip mill at Fairfield. When completed in late

A kaleidoscope of color reflects in slender threads of fiber optics cable. A 122-mile section of cable was constructed by the company in 1987, part of a telecommunications link between sister operating and service companies in Birmingham and Atlanta.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"We seek the right to be heard and understood; we also pledge to listen and understand. It is a time to face the future with mutual respect and to strive together to solve mutual problems. We must create a better place for each of us to live, to work, to be ourselves."

FROM THE 1976 ANNUAL REPORT

1988, the mill will be one of the world's most modern steel-making facilities.

Mead Corporation, operating as Alabama Kraft, announced plans in 1987 for an expansion of a plant in Cottonton. The new $500 million paperboard mill will employ 200 and create an additional 400 wood gathering jobs.

Russell Corporation of Alexander City, world's largest manufacturer of athletic apparel and related leisure wear, has announced plans to spend $150-$180 million between 1987 and 1989 for modernization and expansion.

Knauf Corporation, a German company, broke ground in 1987 on a new fiberglass manufacturing plant in Lanett, which is expected to provide 150 jobs. The development represents an investment of $50 million.

Customer Service

During 1987 Alabama Power completed the installation and conversion of all its offices to a computerized customer accounting system, enabling local office employees to respond more rapidly to customer requests for service, answer questions of customers and report service trouble or power outages.

Also last year the company's work order procedures were refined and simplified, resulting in both more efficient engineering and crew operations and more timely service to the customer.

Competition between linemen performing their varied skills was a major ingredient of the Southeast Division's Lineman's Rodeo and Country Fair. The October event in Eufaula was attended by employees and their families.

Along with the revised work order procedures, a new distribution system outage reporting system was implemented which speeds evaluation of power outage problem sources.

A new customer service training program for employees whose jobs do not normally bring them in touch with customers was started. The program is designed to enable those employees to better understand the company's service-oriented direction and to more easily answer questions about the company from family and acquaintances.

Application, installation, and service training were provided for 573 heat pump dealers, technicians, and other allies in 1987 to increase product reliability and improve customer confidence in heat pump products.

Implementation of a Strategic Market Planning Program was undertaken in 1987, following a study phase in which employees from throughout the company, along with an international management consulting firm, examined every marketing-related aspect of the company's business. Marketing strategies were given priority, tactical plans developed and resources allocated. The goal of the program is to ensure that Alabama Power is the competitive choice of the customer as increasing energy sources become available. To achieve that goal the company must work to provide the best service, most courteous employees and be most accessible to meet customers' energy needs.

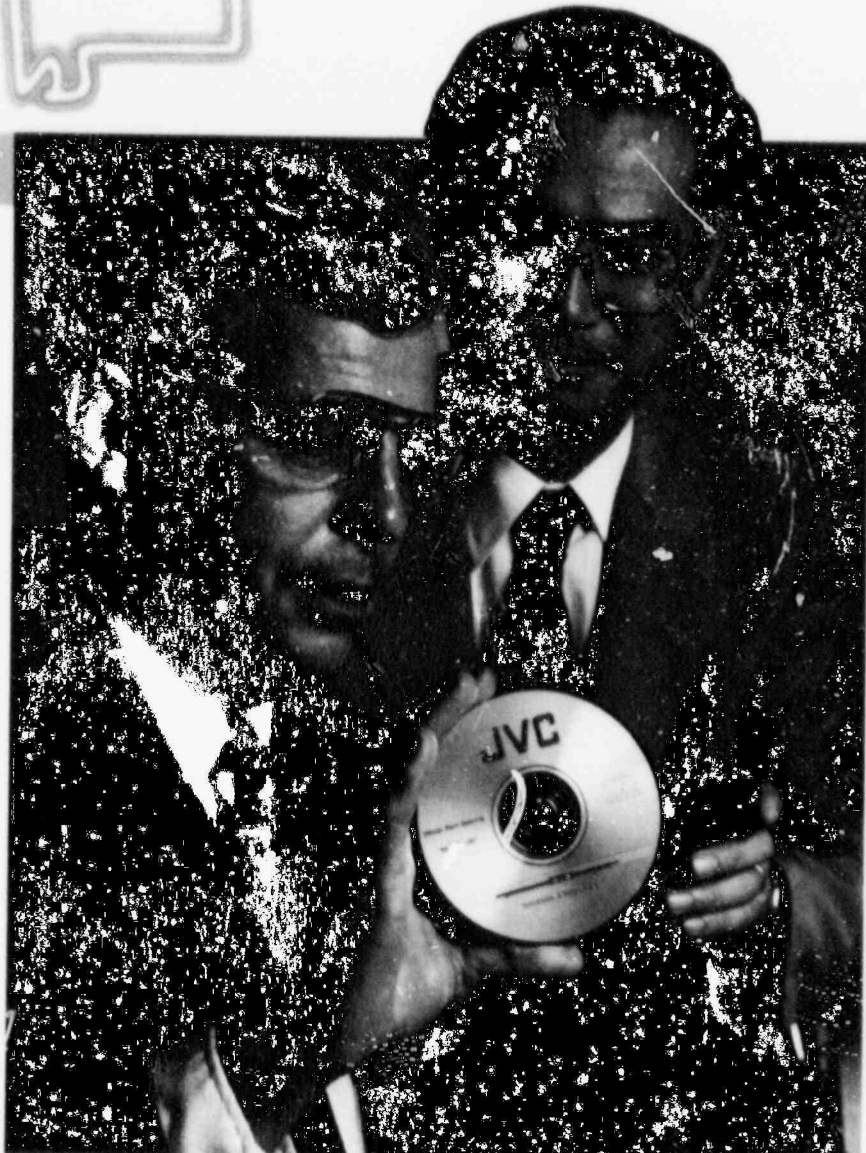
Project SHARE, the energy assistance program for qualified low-income elderly and handicapped individuals, continued in 1987 to be one of the most successful programs of its kind in the country. The program is funded by Alabama Power customers and company employees through a monthly $1 donation and is administered by The American Red Cross. More than 80,000 Alabama Power customers donated during 1987. The program was started in 1982 with a seed contribution of $50,000 from Alabama Power and since has distributed more than $3.5 million to qualified recipients.

Employees

Quality and cost of service are greatly influenced by the performance of employees. Over the past two years the company has been studying and implementing a program to identify areas where management can be streamlined and to recorrelate job classifications with work responsibilities.

Furthermore, in 1987 the company announced plans to review the current compensation system. The primary purpose of this review is to ensure the company's compensation program is consistent with our competitive business environment as well as to place specific emphasis on job performance and productivity. Another goal is to recognize extraordinary accomplishment by employees with extraordinary reward.

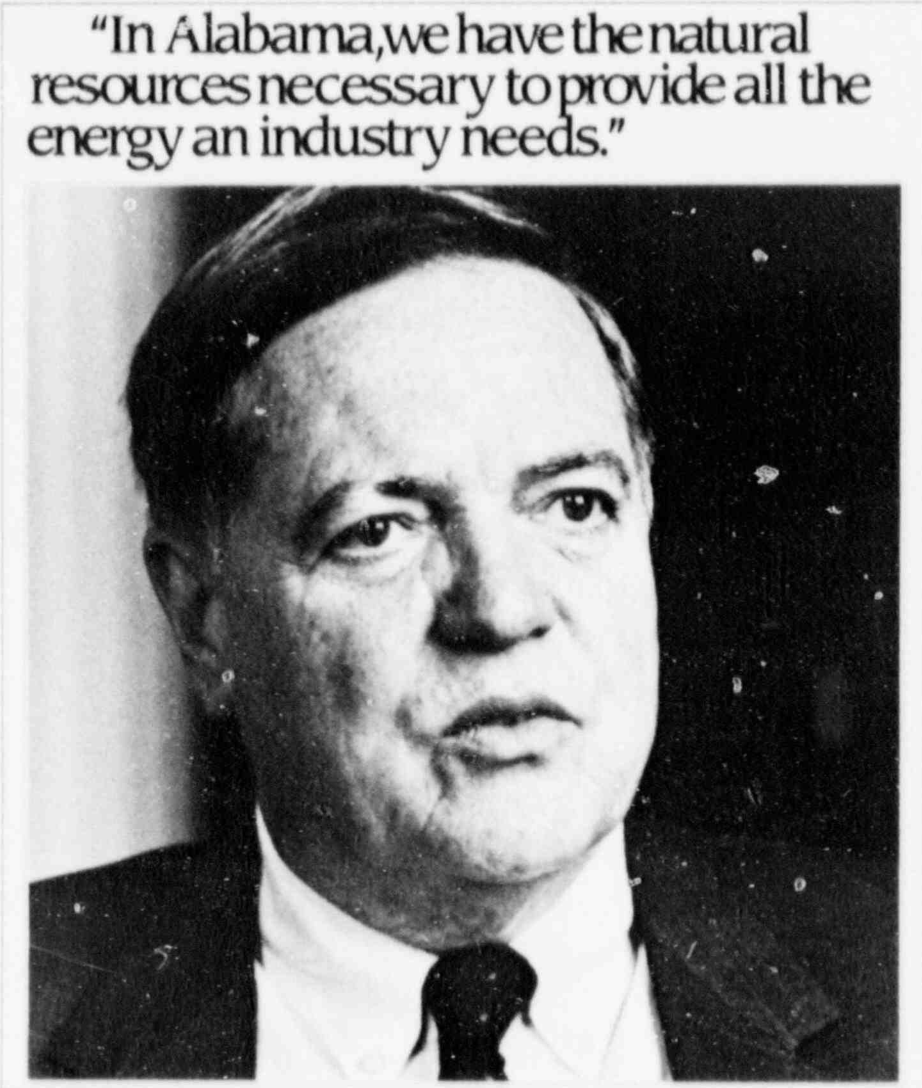
Fourteen Edison Electric Institute Safety Achievement Awards were presented in 1987 to work groups or departments for working a million or more hours without experiencing a disabling occupational injury or illness. In addition, the company was recognized by EEI and the National Safety Council for reduction of its occupational illness and injury incidence rate.



Economic development work begun by Alabama Power's Charlton McArthur, in conjunction with state and local officials, eventually led to JVC Disc America Company's decision to locate a compact disc plant in Tuscaloosa, where Takeo Niimi (right) is executive vice president.

(Above) Al Cook (center) of Sikorski Aircraft's Tallassee Plant shows Alabama Power's Sherrill Jeffcoat (left) and Max Alexander components manufactured at the all-electric facility.

Development along Tennessee-Tombigbee Waterway has brought growth and increased electrical demand to western Alabama.



Advertisement which the Alabama Development Office, a state agency, ran in *The Wall Street Journal* features Alabama Power President Joseph M. Farley discussing Alabama's energy independence. The company works closely with the Development Office to help attract industry to Alabama.

Brigade of bucket trucks on early weekend morning provides striking graphic pattern, a silent symbol of Alabama Power's effort to be the customer's energy supplier of choice.

Helping Develop Alabama

Illuminated light bulb filament in the shape of the state of Alabama, shown in different colors on other pages, is symbolic of a number of things. It represents the variety of terrain the state offers from mountains to plains to ocean shores. It also represents the variety of business and industry, both rural and urban, from heavy metals to medicine, high technology to service industries, which exist in the state. And, it represents the variety of types of customer needs the company serves throughout the state.

Alabama Power's role in helping develop Alabama is an integral part of the company's history and remains a firm strategic objective in the company's plans for the future.

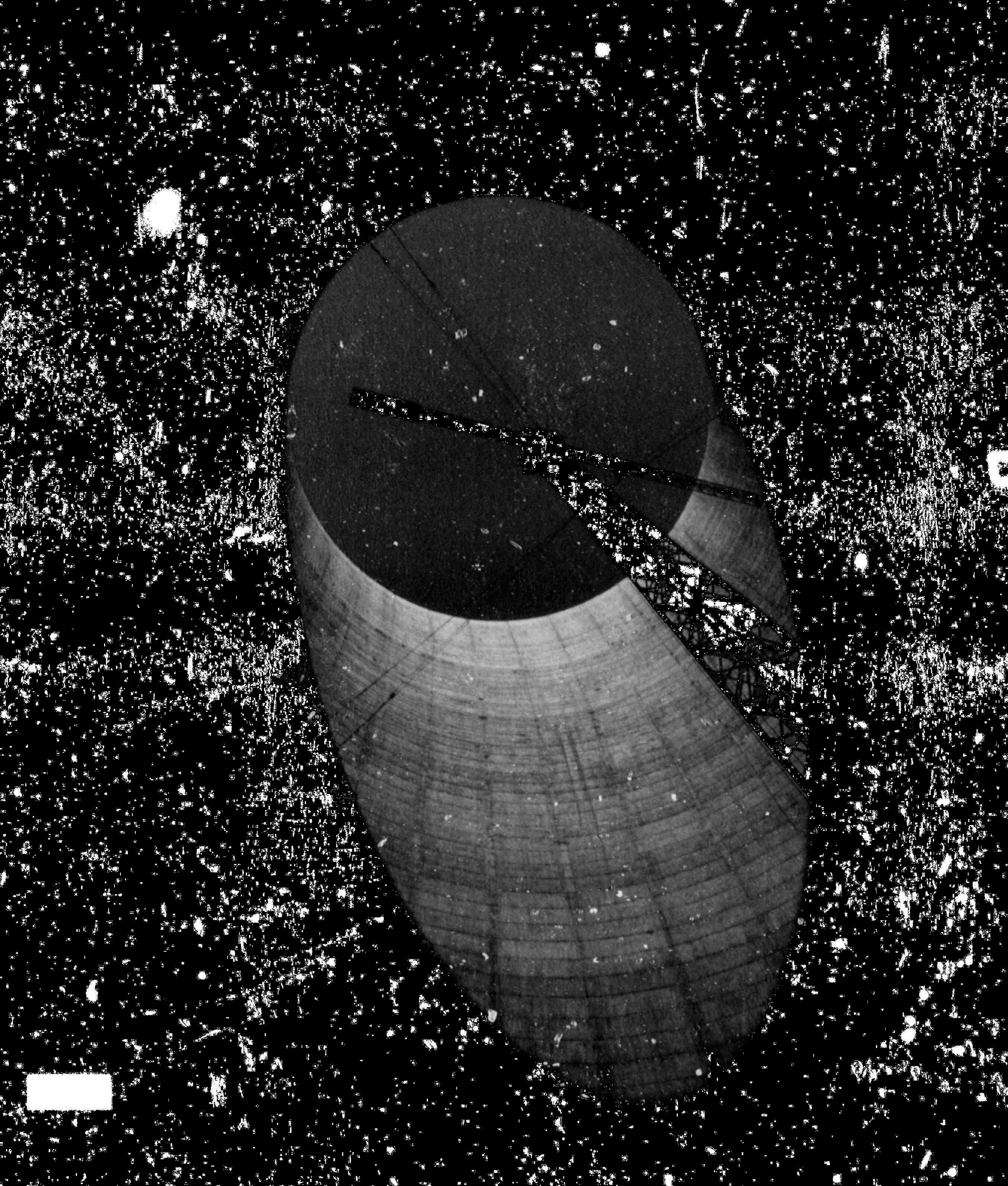
As is evident from quotations highlighted in this report, Thomas W. Martin's vision of "the manufacture of customers" began in the 1920s and has continued ever since. He foresaw a day when industrial activity would rival and complement the prevalent agricultural activity of the state in those days. Solid growth which began slowly in the 1930s has continued, making his vision become a reality.

Economic development in today's economy is a fast-paced, highly competitive business which requires extensive knowledge and education of prospective clients about the state's advantages and determined cooperative effort among company, state and local officials.

The Alabama Resource Center is designed to give the company and the state an edge in this competitive arena. The state of Alabama is making unprecedented efforts to improve its business climate and communicate the fact that "Alabama Is Open For Business."

Alabama Shakespeare Festival Theatre in Montgomery has been critically acclaimed by *The Wall Street Journal*, *New York Times* and *Washington Post*. Alabama Power worked with architects and contractors on the theatre to install backup transformers to help avoid power outages during performances.

1987 Financial Report



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 controls based upon recognition that cost of the system should not exceed benefits derived. The company believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

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

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

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

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, 1987 and 1986, and the related statements of income, earnings retained in the business, other paid-in capital and sources of funds for gross property additions for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements (pages 24-34) referred to above present fairly the financial position of Alabama Power Company as of December 31, 1987 and 1986, and the results of its operations and the sources of funds for gross property additions for the periods stated, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Birmingham, Alabama,
February 11, 1988.

View upward from inside giant cooling tower for Miller Steam Plant Units 3 and 4 gives an idea of the structure's size. It is the largest capacity cooling tower in the world and rises 551 feet into the atmosphere.

Selected Financial Data

(Dollars In Thousands)	1987*	1986	1985	1984
Condensed Statements of Income:				
Operating Revenues	$2,450,532	$2,425,751	$2,414,219	$2,105,406
Operating Expenses:				
Operation and maintenance	1,446,608	1,349,167	1,370,594	1,157,405
Depreciation and amortization	212,072	201,803	183,779	174,514
Taxes other than income taxes	141,422	135,248	128,648	122,928
Federal and state income taxes	190,575	255,400	248,774	224,726
Total operating expenses	1,990,677	1,941,618	1,931,795	1,679,573
Operating Income	459,855	484,133	482,424	425,833
Other Income, Net	38,180	38,291	47,888	57,563
Income Before Interest Charges	498,035	522,424	530,312	483,396
Net Interest Charges	207,877	214,943	224,404	208,103
Dividends on Preferred Stock	32,919	34,025	41,346	42,041
Net Income after Dividends on Preferred Stock	$ 257,239	$ 273,456	$ 264,562	$ 233,252
Cash Dividends on Common Stock	$ 201,100	$ 191,300	$ 185,700	$ 161,900
Return on Average Common Equity (Percent)	13.56	15.12	15.41	14.74
Total Assets	$5,912,000	$5,570,653	$5,722,263	$5,496,197
Gross Property Additions	$ 600,589	$ 553,767	$ 568,073	$ 575,173
Capitalization:				
Common stock equity	$1,946,747	$1,847,608	$1,770,156	$1,664,295
Preferred stock	384,400	384,400	384,400	424,400
Preferred stock subject to mandatory redemption	27,500	30,000	35,000	37,224
Long-term debt	2,386,258	2,210,108	2,349,373	2,402,713
Total Capitalization	$4,744,905	$4,472,116	$4,538,929	$4,528,632
Kilowatt-hour Sales (In Thousands):				
Residential	11,149,225	10,606,698	9,814,814	9,634,285
Commercial	7,476,924	7,015,589	6,593,645	6,270,899
Industrial	15,969,075	15,025,806	15,215,276	15,134,188
Sales for resale	3,007,267	3,007,753	2,726,083	2,600,692
Other	159,422	153,282	146,119	143,785
Total territorial sales	37,761,913	35,809,128	34,495,937	33,783,849
Nonterritorial sales	7,348,457	5,967,275	9,167,033	5,266,477
Total Kilowatt-hour Sales	45,110,370	41,776,403	43,662,970	39,050,326
Operating Revenues:				
Residential	$ 759,957	$ 738,864	$ 684,970	$ 664,286
Commercial	501,088	481,676	453,651	430,400
Industrial	721,298	705,395	717,078	692,177
Sales for resale	118,907	124,412	119,025	109,030
Other	10,968	10,811	10,129	9,615
Total territorial revenues	2,112,218	2,061,158	1,984,853	1,905,508
Nonterritorial revenues	319,617	345,614	411,571	186,518
Total revenues from sales of electricity	2,431,835	2,406,772	2,396,424	2,092,026
Other revenues	18,697	18,979	17,795	13,380
Total Operating Revenues	$2,450,532	$2,425,751	$2,414,219	$2,105,406
Customers (End of Year)	1,090,302	1,070,760	1,050,795	1,034,026
Employees (End of Year)	10,457	10,367	10,212	10,144
Average Revenue Per Kilowatt-hour Total Sales (Cents)	5.39	5.76	5.49	5.36
Average Cost of Fuel Per Net Kilowatt-hour Generated (Including SEGCO) (Cents)	1.80	1.83	1.90	1.86

*Includes the effect of recognizing, beginning in February 1987, retail service rendered but not yet billed to customers.

	1983	1982	1981	1980	1979	1978	1977
	$1,875,608	$1,764,145	$1,594,022	$1,421,997	$1,163,623	$1,014,443	$ 968,693
	941,966	940,262	978,075	816,243	700,647	655,384	594,880
	169,231	169,753	147,581	127,840	123,075	109,315	69,938
	107,445	96,936	86,878	74,488	74,592	63,737	47,887
	220,245	176,238	92,773	114,427	58,759	25,080	89,161
	1,438,887	1,383,189	1,305,307	1,132,998	957,073	853,516	801,866
	436,721	380,956	288,715	288,999	206,550	160,927	166,827
	44,339	28,571	46,927	42,715	40,775	44,892	57,436
	481,060	409,527	335,642	331,714	247,325	205,819	224,263
	214,113	210,612	199,762	170,997	158,666	131,697	83,101
	37,936	36,658	36,071	31,013	31,219	31,219	23,886
	$ 229,011	$ 162,257	$ 99,809	$ 129,704	$ 57,440	$ 42,903	$ 117,276
	$ 145,200	$ 130,700	$ 120,800	$ 115,300	$ 54,000	$ 108,800	$ 94,900
	16.12	12.62	8.17	11.61	5.82	4.46	12.82
	$5,120,607	$4,683,358	$4,449,126	$4,244,932	$3,995,816	$3,717,638	$3,341,428
	$ 522,140	$ 459,437	$ 437,587	$ 411,813	$ 459,533	$ 483,430	$ 540,076
	$1,499,909	$1,340,890	$1,231,061	$1,211,417	$1,022,533	$ 952,648	$ 971,626
	424,400	374,400	374,400	334,400	334,400	334,400	334,400
	38,034	42,234	43,789	47,500	50,000	50,000	50,000
	2,404,565	2,370,050	2,394,674	2,159,793	1,883,684	1,851,394	1,652,013
	$4,366,908	$4,127,574	$4,043,924	$3,753,110	$3,290,617	$3,188,442	$3,008,039
	9,176,413	9,153,173	9,229,255	9,510,609	8,679,417	9,088,856	8,804,755
	5,816,678	5,715,630	5,586,990	5,514,844	5,207,513	5,282,746	5,121,461
	13,688,096	13,460,193	14,651,012	14,499,375	14,629,581	13,799,043	12,845,489
	2,496,899	2,408,904	2,402,331	2,518,347	2,461,078	2,479,439	2,346,603
	138,901	134,811	131,117	127,582	126,729	125,177	120,556
	31,316,987	30,872,711	32,000,705	32,170,757	31,104,318	30,775,261	29,238,864
	2,905,585	3,066,423	1,768,650	1,346,912	6,286	342,302	615,423
	34,222,572	33,939,134	33,769,355	33,517,669	31,110,604	31,117,563	29,854,287
	$ 629,478	$ 578,291	$ 518,730	$ 489,031	$ 385,224	$ 351,644	$ 339,393
	395,827	371,581	325,388	293,576	242,626	213,059	208,864
	631,440	600,219	584,030	507,784	442,221	357,691	338,007
	97,731	99,014	89,727	77,627	76,056	67,539	56,872
	8,914	8,036	7,644	6,706	6,335	6,004	5,663
	1,766,390	1,657,141	1,525,519	1,374,724	1,152,462	995,937	948,799
	92,373	90,331	56,013	37,304	1,222	10,534	12,496
	1,858,763	1,747,472	1,581,532	1,412,028	1,153,684	1,006,471	961,295
	16,845	16,673	12,490	9,969	9,939	7,972	7,398
	$1,875,608	$1,764,145	$1,594,022	$1,421,997	$1,163,623	$1,014,443	$ 968,693
	1,015,203	1,001,832	996,200	986,082	976,200	961,440	938,576
	9,917	9,663	9,661	9,573	9,038	9,695	8,813
	5.43	5.15	4.68	4.21	3.71	3.23	3.22
	1.74	1.80	1.84	1.61	1.56	1.22	1.20

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

RESULTS OF OPERATIONS

The company's net income after dividends on preferred stock was $257 million in 1987, $273 million in 1986 and $265 million in 1985. The decrease in 1987 is attributable to recognition that revenues associated with sales to Gulf States Utilities Company (Gulf States) could possibly be uncollectible, the expiration, in late 1986, of long-term nonfirm power contracts with non-affiliated utilities and a rate decrease under Rate RSE, offset somewhat by continued growth in territorial sales.

The return on average common equity for 1987 was 13.6 percent compared to 15.1 percent in 1986 and 15.4 percent in 1985. The decrease from 1986 to 1987 is the result of a decrease in net income and an increasing common stock equity investment attributable to earnings retained in the business and capital contributions from The Southern Company.

Revenues

The increase in revenues in 1987 over 1986 is due primarily to an increase in territorial kilowatt-hour sales offset to a large extent by a decrease in revenues from sales to nonterritorial customers. While territorial revenues increased 2.5 percent or $51 million during 1987, nonterritorial revenues decreased 7.5 percent or $26 million. This decrease is a result of reduced capacity sales under long-term contracts. Under such contracts, energy is generally sold at its variable cost, while capacity revenues impact profitability through the recovery of fixed costs and a return on investment.

Territorial revenues were affected by an approximate two percent reduction in retail rates, beginning in January 1987, to reflect the reduction in federal income taxes as a result of the Tax Reform Act of 1986 and an approximate 1.9 percent decrease, effective in October, under Rate RSE. Rate RSE provides for periodic retail rate adjustments based upon the company's earned return on end-of-period retail common equity. Recognizing retail service rendered, but not yet billed to customers, increased territorial revenues by $30 million and territorial sales by 683 million kilowatt-hours.

Sales to Gulf States, a nonterritorial customer, amounted to $58.6 million in 1987 and $64.9 million in 1986. Legal and administrative proceedings are continuing in which Gulf States is seeking to be excused from obligations under unit power and other long-term power sales contracts with the company and other operating affiliates of The Southern Company. See Note 13 to the financial statements for additional information, including the possible uncollectibility of revenues from Gulf States.

The increase in revenues in 1986 over 1985 was attributable to increased territorial sales.

Kilowatt-hour sales to territorial and nonterritorial customers increased in 1987 compared to 1986 and 1985. Sales to residential, commercial and industrial customers increased an aggregate of 6.0 percent compared to 1986, of which 2.1 percent is attributable to recording unbilled electric service. Nonterritorial energy sales, which are generally sold at variable cost, were up 23.1 percent over 1986 reflecting increased energy sales to non-affiliated utilities under long-term contractual agreements. This increase was primarily due to higher prices for oil and natural gas, the primary fuel source of these non-affiliated utilities.

The average revenue per kilowatt-hour of total sales was 5.39¢ in 1987, 5.76¢ in 1986 and 5.49¢ in 1985. The decrease in 1987 was largely the result of increased energy and decreased capacity sales to non-affiliated, nonterritorial customers under long-term contracts. The increase in 1986 compared to 1985 was primarily the result of increased capacity sales to nonterritorial customers.

Operating Expenses

Total operating expenses for 1987 increased 2.5 percent over 1986 primarily as a result of increased operation expense associated with the additional demand for energy. Purchased and interchanged power expenses increased $83.5 million due to the availability of lower cost generation from other plants on the Southern electric system. This increase was substantially offset by a reduction in fuel expense due to a 63 percent increase in hydro generation and reduced fossil and nuclear generation. The large increase in hydro generation reflects the record drought conditions encountered during 1986. Fuel expense per kilowatt-hour for fossil generation continued to decline as a result of lower costs for coal and improved plant efficiency. Fuel cost per kilowatt-hour generated, including the company's portion of Southern Electric Generating Company, was 1.80¢ in 1987, 1.83¢ in 1986 and 1.90¢ in 1985. Providing for possible uncollectible amounts relating to the Gulf States dispute also increased operating expenses. Such provisions amounted to $/3.7 million in 1987 and $9.6 million in 1986.

Depreciation and amortization expense increased each year principally due to continued growth in depreciable plant in service. The composite straight-line depreciation rate was 3.5 percent in 1987 and 1986 and 3.4 percent in 1985.

Variations in income tax expense resulted from fluctuations in pre-tax income and a decrease in the federal tax rate as a result of the Tax Reform Act of 1986. Retail rates were adjusted in January 1987 to reflect the reduction in the federal tax rate. Taxes other than income taxes increased each year because of higher revenue-related taxes as well as growth in property taxes.

Operating expenses grew from 1985 to 1986 principally because of higher depreciation expense and increased taxes other than income taxes.

Interest on long-term debt continued to decrease in 1987 reflecting the full effect of redemptions of high cost first mortgage bonds during 1986. Other interest charges increased due to the incurrence of short-term debt to meet interim obligations.

Allowance for Funds used During Construction (AFUDC)

AFUDC is the estimated debt and equity costs during the period of construction, of funds invested in the construction of plant which are not recovered from customers through current rates. While cash is not realized currently from such allowance, it is realized over the service life of the plant under the rate-making process through increased revenues resulting from higher rate base and higher depreciation expense. The composite rate used to determine the amount of allowance, net of income tax, was 8.9 percent in 1987 and 9.3 percent in 1986 and 1985. The company accounts for the income tax effect of the debt cost as a charge to income tax expense associated with operations and a corresponding credit to allowance for debt funds used during construction. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock was 16.2 percent in 1987, 14.7 percent in 1986 and 18.2 percent in 1985.

Effects of Inflation

The company is subject to rate regulation and income tax laws that are based on the recovery of historical costs only. Therefore, inflation creates an economic loss because the company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has subsided, it continues to have an adverse effect on the company because of the large investment in long-lived utility plant. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations, such as long-term debt and preferred stock. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed.

Future Earnings

The results of operations discussed above are not necessarily indicative of future earnings. It is expected that higher operating costs and carrying charges on increased investment in plant, if not offset by proportionate increases in operating revenues (either by appropriate rate increases or increases in energy sales), will adversely affect future earnings.

The Tax Reform Act of 1986 provides for a reduction in the federal corporate income tax rate, repeal of the investment tax credit, less favorable depreciation rates, a new alternative minimum tax and other items. The net effect is to reduce income tax expense because of the decrease in the tax rate, to reduce cash flow because of lower deferred taxes and investment tax credits, and to increase external financing requirements as a result of the reduced cash flow. The company's rate schedules provide for adjustments in retail electric rates to reflect changes in both state and federal income tax rates. As a result of the decrease in the federal income tax rate by the Tax Reform Act of 1986, retail electric rates were reduced approximately 1 percent in January 1988. Net income is not expected to be materially impacted.

Also, the Financial Accounting Standards Board has issued new rules for accounting for income taxes that will be effective in 1989. The most significant impact will be to require the use of before-income-tax AFUDC rates. Currently, the equity component of AFUDC is capitalized without a provision for deferred taxes, and the debt component is capitalized net of income tax. This change will not affect net rate base, but could create additional property taxes. The rule will also require the adjustment of accumulated deferred income taxes to reflect changes in income tax laws and rates. This change is not expected to materially affect net income. Changes to depreciation-related deferred income taxes will continue to be reversed over the lives of the related assets because of the requirements of the Tax Reform Act of 1986. Changes to other deferred income taxes, which are much less significant, will be reversed in accordance with regulatory rate-making treatment.

Future earnings will also depend upon growth in electric sales which will be subject to a number of factors, including the volume of sales to non-affiliated utilities, the extent of energy conservation practiced by customers, the elasticity of demand, weather, and the rate of economic growth in the company's service area. See Note 13 to the financial statements for information concerning attempts by Gulf States to modify or void obligations under unit power and other long-term power sales contracts.

FINANCIAL CONDITION

Liquidity and Capital Resources

At December 31, 1987, the company had cash on hand of $7 million. The company has borrowing resources and regulatory approval for up to $300 million of short-term borrowings, of which $15 million was outstanding at year-end. Short-term borrowings outstanding during 1987 averaged $100 million with an average interest rate of 7.21 percent.

In November 1987, the company issued $200 million of first mortgage bonds (10⅝ percent series). In February 1988, $50 million of Adjustable Rate Class A Preferred Stock was sold, with a minimum dividend rate of 5.92 percent and a maximum dividend rate of 11.04 percent. The initial dividend rate, which extends through March 31, 1988, is 6.90 percent.

The company's common equity as a percent of total capitalization was 41.0 percent at year-end 1987. Security ratings remain high indicating continued confidence in the company by the financial community.

The company's continuing capital expenditure program required the outlay of $1.7 billion during the three years 1985 through 1987. The primary sources of funds for capital expenditures are internal sources, long-term debt, sales of preferred stock and capital contributions from The Southern Company.

Capital expenditures are estimated to total $2.1 billion for the three years 1988 through 1990, including $184 million of AFUDC, net of income taxes. A major component of these expenditures is Plant Miller Units 3 and 4 which will have generating capacity of 660 megawatts each, and are scheduled for operation in 1989 and 1991, respectively. These coal-fired units will initially be dedicated to off-system power sales under long-term contracts.

The capital budget is subject to periodic review and revision and capital costs incurred and commercial operation dates may vary from estimates because of several factors, including new cost estimates, revised load estimates, changes in environmental requirements, and the cost of capital. In addition to the funds required for the capital budget, approximately $78 million will be required through the end of 1990 in connection with present sinking fund requirements and maturities of senior securities and pollution control bonds.

It is anticipated that the funds required will be derived from sources in form and quantity similar to those used in the past. In order to issue additional first mortgage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The bond coverage was 4.03 and the preferred stock coverage was 1.97 for the year ended December 31, 1987. The minimum coverage ratios under the mortgage indenture and corporate charter for the issuance of additional first mortgage bonds and preferred stock are 2.0 and 1.5, respectively.

The Tax Reform Act of 1986 will increase future external financing requirements because of reductions in capital previously provided through investment tax credits and deferred income taxes. Although the Act initially reduces revenues required to earn a specified return on investment, the cost of the increased capital requirements will ultimately exceed the benefits of reduced tax rates, resulting in higher revenue requirements. These factors will also reduce interest and preferred stock dividend coverage ratios.

Changes in environmental regulations could substantially increase the system's capital requirements and operating costs. Various Environmental Protection Agency regulations and recent legislation are described in Note 3 to the financial statements. The full impact of these requirements cannot be determined at this time pending the development and implementation of applicable regulations.

An order of an appeal board of the Nuclear Regulatory Commission (NRC) in an antitrust review resulted in conditions being imposed on the NRC licenses for Plant Farley which require the company to sell an ownership interest of approximately six percent in Plant Farley to Alabama Electric Cooperative, Inc. (AEC), and to provide transmission services to AEC and municipal electric distributors. The company has engaged in negotiations with AEC for such sale. See Note 12 to the financial statements for additional information.

Statements Of Income

for the Years Ended December 31, 1987, 1986 and 1985

	1987	1986	1985
		(In Thousands)	
OPERATING REVENUES (Notes 1, 2, 13 and 17)	$2,450,532	$2,425,751	$2,414,219
OPERATING EXPENSES:			
Operation—			
Fuel	696,763	738,367	743,463
Purchased and interchanged power, net	139,653	56,157	108,551
Other	410,575	350,671	308,437
Maintenance	199,617	203,972	210,143
Depreciation and amortization	212,072	201,803	183,779
Taxes other than income taxes	141,422	135,248	128,648
Federal and state income taxes (Note 5)	190,575	255,400	248,774
Total operating expenses	1,990,677	1,941,618	1,931,795
OPERATING INCOME	459,855	484,133	482,424
OTHER INCOME (EXPENSE):			
Allowance for equity funds used during construction (Note 1)	27,663	27,455	32,985
Income from subsidiary (Note 11)	3,440	2,967	3,417
Other, net	7,077	7,869	11,486
INCOME BEFORE INTEREST CHARGES	498,035	522,424	530,312
INTEREST CHARGES:			
Interest on long-term debt	205,824	226,110	248,073
Allowance for debt funds used during construction (Note 1)	(24,235)	(24,334)	(29,048)
Amortization of debt discount, premium and expense, net	4,405	3,313	1,145
Other interest charges	21,883	9,854	4,234
Net interest charges	207,877	214,943	224,404
NET INCOME	290,158	307,481	305,908
DIVIDENDS ON PREFERRED STOCK	32,919	34,025	41,346
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 257,239	$ 273,456	$ 264,562

Statements Of Earnings Retained In The Business

for the Years Ended December 31, 1987, 1986 and 1985

	1987	1986	1985
		(In Thousands)	
Balance, beginning of period	$ 440,644	$ 361,716	$ 282,854
Add (deduct):			
Net income after dividends on preferred stock	257,239	273,456	264,562
Cash dividends paid on common stock	(201,100)	(191,300)	(185,700)
Preferred stock redemption expense (Note 9)	—	(3,228)	—
Balance, end of period (Note 14)	$ 496,783	$ 440,644	$ 361,716

Statements Of Other Paid-In Capital

for the Years Ended December 31, 1987, 1986 and 1985

	1987	1986	1985
		(In Thousands)	
Balance, beginning of period	$1,182,145	$1,182,145	$1,155,145
Cash contribution to capital by parent company	43,000	—	27,000
Balance, end of period	$1,225,145	$1,182,145	$1,182,145

The accompanying notes are an integral part of these statements.

Statements Of Sources Of Funds For Gross Property Additions

for the Years Ended December 31, 1987, 1986 and 1985

	1987	1986	1985
		(In Thousands)	
FUNDS FROM OPERATIONS:			
Net income	$290,158	$307,481	$305,908
Add (deduct) principal noncash items—			
Depreciation and amortization	270,492	292,569	266,657
Deferred income taxes, net	107,824	135,364	104,259
Deferred investment tax credits	23,477	19,736	57,096
Allowance for equity funds used during construction	(27,663)	(27,455)	(32,985)
	664,288	727,695	700,935
Less—			
Dividends on common stock	201,100	191,300	185,700
Dividends on preferred stock	32,919	34,025	41,346
Net funds provided from operations	430,269	502,370	473,889
FUNDS FROM (REQUIRED FOR) FINANCINGS AND CAPITAL CONTRIBUTIONS:			
First mortgage bonds—			
Total issues	200,000	125,000	—
Less retirements	108,082	405,765	39,460
Net issues (retirements)	91,918	(280,765)	(39,460)
Preferred stock reacquired or redeemed	(5,000)	(42,224)	—
Capital contributions from parent company	43,000	—	27,000
Obligations incurred under pollution control bonds, net	432	5,232	115,577
Increase (decrease) in other long-term debt, net	37,286	51,456	(22,025)
Increase in notes payable to banks	15,000	—	—
Net funds provided from (required for) financings and capital contributions	182,636	(266,301)	81,092
FUNDS PROVIDED (REQUIRED) BY OTHER SOURCES:			
Decrease (increase) in temporary cash investments	12,000	327,154	(34,571)
Decrease (increase) in other net current assets (excluding preferred stock, long-term debt due within one year and notes payable to banks)	(89,983)	(60,894)	45,949
Advance payment under capacity contract	—	100,000	—
Other, net (including allowance for equity funds used during construction)	65,667	(48,562)	1,714
Net funds provided (required) by other sources	(12,316)	317,698	13,092
GROSS PROPERTY ADDITIONS (including allowance for funds used during construction in the amounts of $41,770,000 in 1987, $40,232,000 in 1986 and $48,238,000 in 1985)	$600,589	$553,767	$568,073

The accompanying notes are an integral part of these statements.

Balance Sheets at December 31, 1987 and 1986

Assets	1987	1986
	(In Thousands)	
UTILITY PLANT (Notes 1, 3, 12 and 16):		
Plant in service, at original cost	$7,196,154	$6,966,106
Less—Accumulated provision for depreciation	2,074,114	1,882,385
	5,122,040	5,083,721
Nuclear fuel, at amortized cost	191,493	205,768
Construction work in progress	750,996	497,614
	6,064,529	5,787,103
Less—Property-related accumulated deferred income taxes (Note 1)	933,932	857,081
	5,130,597	4,930,022
OTHER PROPERTY AND INVESTMENTS:		
Southern Electric Generating Company, at equity (Note 11)	21,235	18,046
Nonutility property, net	4,019	4,061
Miscellaneous	6,148	8,628
	31,402	30,735
CURRENT ASSETS:		
Cash (Note 4)	8,079	16,905
Temporary cash investments, at cost	—	12,000
Receivables—		
Customer accounts receivable	256,086	135,048
Other accounts and notes receivable (Note 13)	78,733	32,240
Affiliated companies	39,862	50,373
Accumulated provision for uncollectible accounts (Note 13)	(59,464)	(15,573)
Refundable income taxes (Note 5)	38,276	17,937
Fossil fuel stock, at average cost	164,671	152,640
Materials and supplies, at average cost	103,823	89,599
Prepayments	10,595	12,320
Vacation pay deferred (Note 1)	21,317	20,002
	661,978	523,491
DEFERRED CHARGES:		
Debt expense, being amortized	6,695	6,308
Debt redemption expense, being amortized	30,767	34,170
Miscellaneous	50,561	45,927
	88,023	86,405
Total Assets	$5,912,000	$5,570,653
Capitalization and Liabilities		
CAPITALIZATION (See accompanying statements):		
Common stock equity	$1,946,747	$1,847,608
Preferred stock	384,400	384,400
Preferred stock subject to mandatory redemption (Note 8)	27,500	30,000
Long-term debt	2,386,258	2,210,108
	4,744,905	4,472,116
CURRENT LIABILITIES:		
Preferred stock due or to be redeemed within one year (Note 8)	2,500	5,000
Long-term debt due or to be redeemed within one year (Note 7)	95,140	142,394
Notes payable to banks (Note 4)	15,000	—
Accounts payable—		
Affiliated companies	65,172	47,187
Other	208,441	191,419
Customer deposits	32,220	30,333
Taxes accrued—		
Federal and state income (Note 5)	60,877	39,593
Other	11,241	11,164
Interest accrued	49,489	47,648
Vacation pay accrued (Note 1)	21,317	20,002
Miscellaneous	24,660	25,567
	586,057	560,307
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred investment tax credits (Note 5)	418,370	418,275
Prepaid capacity revenues, net (Note 17)	103,947	101,143
Miscellaneous	58,721	18,812
	581,038	538,230
COMMITMENTS AND CONTINGENT MATTERS (Notes 3, 11, 12, 13, 15 and 17)		
Total Capitalization and Liabilities	$5,912,000	$5,570,653

The accompanying notes are an integral part of these statements.

Statements Of Capitalization at December 31, 1987 and 1986

	Amount 1987	Amount 1986	Percent of Total 1987	Percent of Total 1986
	(In Thousands)			
COMMON STOCK EQUITY:				
Common stock, par value $40 per share, authorized 6,000,000 shares, outstanding 5,608,955 shares	$ 224,358	$ 224,358		
Other paid-in capital	1,225,145	1,182,145		
Premium on preferred stock	461	461		
Earnings retained in the business (Note 14)	496,783	440,644		
Total	1,946,747	1,847,608	41.0%	41.3%
CUMULATIVE PREFERRED STOCK (Note 3):				
$1 par value, authorized 27,500,000 shares—$25 stated capital—outstanding 2,000,000 shares—				
Adjustable rate—8.96% at December 31, 1987 (Note 10)	50,000	50,000		
$100 par value, authorized 3,850,000 shares, outstanding 3,644,000 shares—				
Series				
4.20% to 4.52%	41,400	41,400		
4.60% to 4.92%	29,000	29,000		
5.96% to 8.04%	32,000	32,000		
8.16% to 9.44%	232,000	232,000		
Total (annual dividend requirement—$30,039,000)	384,400	384,400	8.1	8.6
Subject to mandatory redemption (Note 8):				
11.00% (annual dividend requirement—$3,300,000)	30,000	35,000		
Less amount due or to be redeemed within one year	2,500	5,000		
Total excluding amount due or to be redeemed within one year	27,500	30,000	0.6	0.7
LONG-TERM DEBT (Note 3):				
First mortgage bonds— Maturity / Interest Rates				
May 1, 1987 — 4⅝%	—	14,500		
October 1, 1987 — 8⅝%	—	75,000		
January 1, 1988 — 3⅞%	23,000	23,000		
May 1, 1989 — 4⅞%	20,000	20,000		
April 1, 1990 — 5%	6,957	6,957		
March 1, 1991 — 4½%	13,000	13,000		
June 1, 1992 — 4⅜%	14,360	14,360		
1993 through 1997 — 4⅜% to 6½%	128,581	128,581		
1998 through 2002 — 7% to 9%	378,424	378,424		
2003 through 2007 — 8¼% to 10⅞%	685,000	685,000		
2008 — 9½% to 9⅝%	200,000	200,000		
2010 — 12⅝%	81,418	100,000		
2016 — 9⅜%	125,000	125,000		
2017 — 10⅝%	200,000	—		
Total first mortgage bonds	1,875,740	1,783,822		
Other long-term debt (Note 6)	624,119	586,401		
Unamortized debt premium (discount), net	(18,461)	(17,721)		
Total long-term debt (annual interest requirement—$222,465,000)	2,481,398	2,352,502		
Less amount due or to be redeemed within one year (Note 7)	95,140	142,394		
Long-term debt, excluding amount due or to be redeemed within one year	2,386,258	2,210,108	50.3	49.4
TOTAL CAPITALIZATION	$4,744,905	$4,472,116	100.0%	100.0%

The accompanying notes are an integral part of these statements.

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General—

The company is a wholly owned subsidiary of The Southern Company (Southern) which is the parent company of four operating companies, a system service company, Southern Electric International, Inc. (SEI) and The Southern Investment Group, Inc. (SIG). The operating companies provide electric utility service in four southeastern states. Contracts among the companies, covering interconnection arrangements, interchange of electric power and joint ownership of generating facilities, are regulated by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission. The system service company provides, at cost, specialized services upon request to Southern and to each of the subsidiary companies. SEI markets to utilities and industrial concerns the technical expertise of the Southern electric system in planning and operating electric power facilities. SIG was formed to research and develop new business and investment opportunities.

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

Revenues—

Prior to February 1987, revenue from the sale of electricity in the company's retail jurisdiction was included in revenues as billed to customers on a cycle billing basis. Beginning in February 1987, the estimated revenue for service rendered but not yet billed to retail customers is being accrued and included in revenues. Under current retail rate procedures, such cumulative accrued amount of $49,446,000 as of February 1, 1987, is being amortized over the ensuing eighteen-month period. Such amortization amounted to $30,217,000 in 1987.

Fuel Costs—

Fuel costs are expensed as the fuel is consumed. The company recovers fuel costs and net purchased energy costs through fuel cost recovery mechanisms which provide for adjustments as necessary to reflect increases or decreases in such costs.

Fuel expense includes the amortization of the cost of nuclear fuel, and a charge, based on nuclear generation, for the permanent disposal of spent nuclear fuel. The total charges for nuclear fuel included in fuel expense amounted to $83,964,000 in 1987, $88,326,000 in 1986, and $88,713,000 in 1985. The company has a contract with the Department of Energy (DOE) which provides for permanent disposition of spent nuclear fuel. The service provided by DOE is scheduled to begin in 1998. Pending permanent disposition of the spent fuel, sufficient storage capacity is presently available at Plant Farley for storage of spent fuel into 2007 and 2011 for Unit Nos. 1 and 2, respectively.

Utility Plant—

Utility plant is stated at original cost. Such cost includes appropriate administrative and general costs; payroll-related costs such as pensions, taxes and other benefits; and the estimated cost of funds used during construction. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacement of property (exclusive of minor items of property) is charged to utility plant.

Allowance for Funds Used During Construction (AFUDC)—

This allowance is the estimated debt and equity costs during the period of construction, of funds invested in the construction of plant which are not recovered from customers through current revenues. While cash is not realized currently from such allowance, it is realized over the service life of the plant under the rate-making process through increased revenues resulting from higher rate base and higher depreciation expense. The composite rate used to determine the amount of allowance, net of income tax, was 8.9 percent in 1987 and 9.3 percent in 1986 and 1985. The company accounts for the income tax effect of the capitalized debt cost as a charge to income tax expense associated with operations and a corresponding credit to allowance for debt funds used during construction. The income tax effect of capitalized debt cost was $10,128,000, $11,557,000 and $13,795,000 in 1987, 1986, and 1985, respectively. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock amounted to 16.2 percent in 1987, 14.7 percent in 1986 and 18.2 percent in 1985.

Depreciation—

Depreciation of the original cost of depreciable utility plant in service is provided using composite straight-line rates which approximated 3.5 percent in 1987 and 1986 and 3.4 percent in 1985 and includes a factor to provide for the expected cost of decommissioning nuclear facilities. This cost, based on decommissioning promptly after the unit is taken out of service, is estimated as of December 1985, to be a total of $250 million for Plant Farley. This estimate will be adjusted periodically considering changing price levels and technology and the factor included in the depreciation rates will also be adjusted to reflect revised decommissioning costs. 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.

Retirement Plans—

The company has a defined benefit, trusteed, noncontributory pension plan which covers substantially all regular employees. Benefits are based on the greater of amounts resulting from two different formulas: years of service and final pay or years of service and flat-dollar benefit. The policy of the company is to use the "entry age normal method with frozen initial liability" actuarial method for funding purposes, subject to limitations under federal income tax regulations. On January 1, 1987, the company implemented Financial Accounting Standards Board (FASB) Statement No. 87, "Employers' Accounting for Pensions", which requires use of the "projected unit credit" actuarial method for financial reporting purposes. This change decreased pension expense for 1987 which amounted to $11,828,000 compared to $27,296,000 in 1986 and $24,136,000 in 1985. Of these amounts, $7,158,000 in 1987, $19,061,000 in 1986 and $15,956,000 in 1985 were charged to operating expenses, and the balance was charged to construction and other accounts. The funded status of the plan at December 31, 1987 is as follows (in thousands):

Actuarial present value of benefit obligations:	
Vested benefits	$(314,073)
Nonvested benefits	(19,048)
Accumulated benefit obligation	$(333,121)
Additional amounts related to projected salary increases	(208,018)
Projected benefit obligation	(541,139)
Fair value of plan assets, primarily equity and fixed income securities	611,482
Unrecognized net loss	19,708
Unrecognized net transition asset	(90,051)
Prepaid pension cost recognized in the Balance Sheets	$ 0

The discount rate used to measure the projected benefit obligation was 7.5 percent, the annual rate of salary increases was 6.0 percent, and the expected long-term rate of return on plan assets was 8.5 percent. The components of net pension cost for 1987 were (in thousands):

Benefits earned during the year	$ 22,422
Interest cost on projected benefit obligation	36,747
Actual return on plan assets	(23,525)
Net amortization and deferral	(23,816)
Net pension cost	$ 11,828

The actuarial present value of accumulated plan benefits as of January 1, 1986, based on an 8 percent assumed rate of return, totaled $268,002,000, of which $256,983,000 and $11,019,000 represented vested and nonvested benefits, respectively. Plan net assets available for benefits at January 1, 1986 were $515,728,000.

The company also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits when they retire. Prior to 1987, the costs of such benefits were recognized as payments were made. In 1987, to reflect the full cost of such benefits, the company began recognizing these benefit costs on an accrual basis using the "aggregate cost" actuarial method, which spreads the expected cost of such benefits over the remaining periods of employees' service as a level percentage of payroll costs. Accrued costs for medical benefits will be funded to the extent deductible under federal income tax regulations; accrued costs of life insurance benefits, other than current cash payments for retirees, are not currently being funded. This change increased the cost of such benefits for 1987 which amounted to $15,591,000 compared to $1,815,000 in 1986 and $2,017,000 in 1985.

The company offered an early retirement plan in 1987. The estimated expenses of $7,995,000 will be amortized during 1988 and 1989 consistent with the proposed rate-making treatment.

Vacation Pay—

The company's employees earn their vacation in one year and take it in the subsequent year. However, for rate-making purposes, vacation pay is recognized as an allowable expense only when paid. Consistent with this rate-making treatment, the company accrues a current liability for earned vacation pay and records a current asset representing future recoverability of the costs. Such amounts were $21,317,000 and $20,002,000 at December 31, 1987 and 1986, respectively. In 1988, approximately 67.5 percent of the 1987 vacation liability will be expensed and the balance will be charged to construction and other accounts.

Income Taxes—

The company provides deferred income taxes for all income tax timing differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property. Provisions for property-related deferred income taxes reflect consumption of part of the value of the plant and equipment to which the provisions relate. Accordingly, the related accumulated deferred income taxes are a valuation reserve which is deducted from plant investment in the Balance Sheets. Other deferred income taxes are included in taxes accrued. FASB Statement No. 96, "Accounting for Income Taxes", which must be implemented by 1989, will require, among other things, conversion to the liability method of accounting for deferred income taxes. This change will necessitate recording deferred income taxes for all book-tax basis differences, and restating deferred income taxes at the rates at which they are expected to be settled. Certain deferred income taxes have been recorded at rates higher than the rates specified in the Tax Reform Act of 1986. The amounts resulting from the change in tax rates will be used to reduce future tax expense for accounting and rate-making purposes. Tax law requires that such amounts related to accelerated depreciation be used to reduce tax expense over the lives of the related assets. Amounts not related to accelerated depreciation are not covered by normalization requirements and they will be reversed in accordance with regulatory rate-making treatment. The statement also precludes netting of deferred tax liabilities against assets. See Note 5 for further information regarding income taxes.

The company is included in the consolidated federal income tax return of Southern.

2. RATE MATTERS:

In November 1982, the APSC adopted Rate RSE which provides for periodic retail rate adjustments based upon the company's earned return on end-of-period retail common equity and Rate CNP which provides for adjustments to recognize the placing in retail service of new generating facilities. Since the adoption of the rates, both increases and decreases have been required. Only one Rate RSE adjustment was required in 1987, a decrease of approximately 1.9 percent in October. No Rate RSE adjustment was required in January 1988. In June 1985, the APSC extended the retail rate-making concept into 1989, and the extension order was affirmed by the Supreme Court of Alabama in October 1986. Among the modifications implemented by the APSC extension was that the sum of all increases and decreases under Rate RSE from July 1985 through January 1989 shall not total more than 14 percent. Through January 1988 such sum was a negative 1.8 percent.

The company's rate schedules provide for adjustments in retail electric rates to reflect changes in both state and federal income tax rates. As a result of the decrease in the federal income tax rate by the Tax Reform Act of 1986, retail electric rates were reduced approximately 1 percent and 2 percent in January 1988 and 1987, respectively.

3. CAPITAL BUDGET, FINANCING AND FUEL COMMITMENTS:

Capital Budget—

The company's capital expenditures are currently estimated to total $773 million in 1988, $680 million in 1989 and $623 million in 1990. The estimates include AFUDC, net of income taxes, of $67 million in 1988, $61 million in 1989 and $56 million in 1990. The capital budget is subject to periodic review and revision and actual capital costs incurred and commercial operation dates may vary from estimates because of several factors including new cost estimates, revised load estimates, the cost of capital and changing environmental requirements.

In 1985 the U. S. Environmental Protection Agency (EPA) promulgated air quality control regulations relating to the stack height requirements of the Clean Air Act. The U. S. Court of Appeals for the District of Columbia Circuit issued an opinion in litigation concerning EPA's stack height rules on January 22, 1988. At this time the impact of that decision on final rules and the impact on the company cannot be determined. In addition, legislation being considered by Congress concerning acid rain and other air quality issues would make additional pollution-control equipment compulsory for certain coal-fired power plants. The enactment of legislation or new stack height rules mandating reductions in sulfur dioxide emissions in Alabama would substantially increase the company's capital requirements and operating costs.

Recent legislation amending the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and the Emergency Planning and Community Right-to-Know Act affects many areas of company operations including the generation, transmission and distribution of electric energy. The full impact of these requirements cannot be determined at this time pending the development and implementation of applicable regulations.

Financing—

The ability of the company to finance its capital budget depends on the amount of funds generated internally and the funds it can raise by external financing. The company's primary sources of external financing are sales of first mortgage bonds and preferred stock to the public, receipt of additional paid-in capital from Southern, and leasing of nuclear material. Paid-in capital is planned to be provided, to the extent possible, by Southern from the sale of additional common stock in amounts and at times not yet determined.

In order to issue additional first mortage bonds and preferred stock, the company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter. The most restrictive of these provisions requires, for the issuance of additional first mortgage bonds, that before-income-tax earnings, as defined, cover pro forma annual interest charges on outstanding first mortgage bonds at least twice; and for the issuance of additional preferred stock, that gross income available for interest cover pro forma annual interest charges and preferred stock dividends at least one and one-half times. These coverages, for first mortgage bonds and for preferred stock for the year ended December 31, 1987, were 4.03 and 1.97, respectively.

Fuel Commitments—

To supply a portion of the fuel requirements of its generating plants, the company has entered into various long-term commitments for the procurement of fossil and nuclear fuels. In most cases, such contracts contain provisions for price escalations, minimum production levels and other financial commitments. In addition, contracts with a certain coal contractor require reimbursement or purchase, at net book value, of the investments in mines or equipment upon termination of the contract. At December 31, 1987 such net book value was approximately $43.1 million. Additional commitments for coal and for nuclear fuel will be required in the future to supply the company's fuel needs.

4. BANK LINES OF CREDIT:

At December 31, 1987, the company had lines of credit with banks totaling approximately $337 million, of which $200 million represented commitments obtained under revolving credit agreements with ten banks outside its service area. These commitments currently terminate April 30, 1991. The agreements require the payment of a commitment fee based upon the unused portion of the commitments which, in the case of eight of the agreements and at the option of the company, may be offset in whole or in part by the maintenance of balances with the respective bank.

Arrangements with respect to the $137 million remaining lines of credit expire at various times during 1988 and in certain cases provide for average annual compensating balances. Because the arrangements are based on an average balance, the company does not consider any of its cash balances to be restricted as of any specific date. Including compensating balances, the company has maintained operating account balances in banks averaging approximately $3,516,000 in 1987 and $3,950,000 in 1986.

5. INCOME TAXES:

A detail of the federal and state income tax provisions is shown below:

	1987	1986	1985
	(In Thousands)		
Total provision for income taxes:			
Federal—			
Currently payable	$ 53,980	$ 94,345	$ 82,838
Deferred—			
Current year	142,093	134,717	106,309
Reversal of prior years	(44,951)	(9,939)	(10,377)
Deferred investment tax credits	23,477	19,736	57,096
	174,599	238,859	235,866
State—			
Currently payable	4,445	5,770	9,522
Deferred—			
Current year	4,498	7,858	4,781
Reversal of prior years	6,184	2,728	3,546
	15,127	16,356	17,849
Total	189,726	255,215	253,715
Less income taxes charged (credited) to other income	(849)	(185)	4,941
Federal and state income taxes charged to operations	$190,575	$255,400	$248,774

The company received federal and state income tax refunds of $27,008,000 for the year ended December 31, 1986, which resulted from the company's estimated tax payments exceeding the income tax liability. For the year ended December 31, 1987, the company's estimated tax payments exceeded the accrued federal and state income taxes resulting in an estimated refund of $38,276,000.

Deferred income taxes result primarily from the company's use of accelerated methods of depreciation and other write-offs of property costs, as provided for by the income tax laws, being greater than the book depreciation of such costs. Other deferred income taxes are provided for certain costs or revenues that are recognized for income tax purposes in periods different from those used for book purposes. Income taxes deferred in prior years are reversed and charged or credited to income when the book depreciation of property costs exceeds the related tax deductions or when other timing differences reverse. As explained in Note 1, certain amounts resulting from the change in tax rates will be reversed in accordance with regulatory rate-making treatment. See "Management's Discussion and Analysis" for further information on the impact of the Tax Reform Act of 1986 and the new rules on accounting for income taxes.

Deferred investment tax credits are amortized over the life of the related property with such amortization applied as a credit to reduce depreciation in the Statements of Income. Such credits amortized in this manner amounted to $22,798,000 in 1987, $20,151,000 in 1986, and $17,832,000 in 1985. At December 31, 1987, all investment tax credits available to reduce federal income taxes payable had been utilized.

The provision for income taxes currently payable includes the tax effects of the reversal of prior years' timing differences for which deferred income taxes were not provided. At December 31, 1987, the remaining balance of such timing differences was approximately $102,000,000, for which deferred income taxes of some $37,000,000 (at 1988 tax rates) have not been provided.

The total provision for federal income taxes as a percentage of income before federal income tax amounted to 37.6 percent, 43.7 percent, and 43.5 percent for 1987, 1986, and 1985, respectively. The difference between the rates and the federal statutory rate (40 percent in 1987 and 46 percent in 1986 and 1985) was due primarily to the exclusion from taxable income of the allowance for equity funds used during construction (2.4 percent in 1987, 2.3 percent in 1986 and 2.8 percent in 1985).

6. OTHER LONG-TERM DEBT:

Details of other long-term debt are as follows:

	December 31,	
	1987	1986
	(In Thousands)	
Obligations incurred in connection with the sale of tax-exempt pollution-control revenue bonds by public authorities—		
December 1, 1995 and 2004, 9% and 9⅛%	$ 18,700	$ 18,700
2003-2013, 6% to 9½%	198,450	198,450
2014-2016, 7.4% to 10⅞%	252,500	252,500
Less funds on deposit with trustees	1,546	1,978
	468,104	467,672
Capitalized lease obligations—		
Nuclear fuel	142,614	105,079
Office buildings	9,445	9,650
Street light	3,956	4,000
	156,015	118,729
	$624,119	$586,401

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 payments sufficient for the authorities to meet principal and interest requirements of such bonds. With respect to $32,500,000 of such pollution-control obligations, the company has authenticated and delivered to the trustees a like principal amount of first mortgage bonds as security for its obligations under the installment purchase agreements. No principal or interest on these first mortgage bonds is payable unless and until a default occurs on the installment purchase agreements.

The company has capitalized leased nuclear material and recorded the related lease obligations. One arrangement provides for the payment of interest monthly, in advance, based on the commercial paper rate, as defined, plus .875 percent. At the end of 1987, $19,028,000 was outstanding at a rate of 8.995 percent under such lease. The company has exercised its option to terminate this arrangement, effective in April 1988. Two other arrangements provide for the payment of interest at varying rates and times dependent on options selected by the company from types of loans available under the arrangements. Principal amounts outstanding at the end of 1987 were $47,946,000 and $75,640,000 with effective rates, including applicable fees, averaging 8.12 percent and 8.55 percent, respectively. Principal payments are required under the arrangements based on the cost of fuel burned.

The company has also capitalized certain office building leases and a street light lease. Monthly principal payments plus interest are required, and at December 31, 1987, the interest rate was 9.5 percent for office buildings and 13.0 percent for street lights.

The net book value of capitalized leases included in utility plant in service was $153,716,000 and $110,152,000 at December 31, 1987 and 1986, respectively.

The estimated aggregate annual maturities of the company's other long-term debt through 1992 are as follows: $52,695,000 in 1988, $40,592,000 in 1989, $33,602,000 in 1990, $13,619,000 in 1991 and $7,065,000 in 1992.

7. LONG-TERM DEBT DUE OR TO BE REDEEMED WITHIN ONE YEAR:

The annual first mortgage bond improvement fund requirement is one percent of the aggregate principal amount of bonds of each series authenticated, so long as a portion of that series is outstanding, and may be satisfied by the deposit of cash and/or reacquired bonds, the certification of unfunded property additions or a combination thereof. The 1988 requirement amounting to $19,445,000 has been satisfied by the deposit of cash, all of which was used for the redemption of outstanding bonds at par value.

First mortgage bonds maturing in 1988 and 1987 amount to $23,000,000 and $89,500,000, respectively. Other long-term debt of $52,695,000 maturing in 1988 consists primarily of capitalized nuclear fuel lease obligations.

8. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

The 11 percent series of preferred stock is subject to a cumulative sinking fund requiring the company to redeem 25,000 shares ($2,500,000) of such stock on January 1 each year. The company has the non-cumulative option to double the number of shares redeemed in any one year. The stock is redeemable for sinking fund purposes at $100 per share plus accrued dividends to the date of redemption. The redemption requirement may be offset each year in whole or in part by shares purchased and cancelled by the company. The January 1, 1988 and 1987 sinking fund requirements were each satisfied through the redemption of 25,000 shares. In 1987, the company exercised its option to redeem 25,000 additional shares.

9. REDEMPTION OF 15.68% CLASS A PREFERRED STOCK:

On February 3, 1986, the company redeemed the entire series (1,600,000 shares) of 15.68% Class A Preferred Stock which had a stated capital of $25 per share. The redemption price was $27.94 per share plus accrued dividends. The associated redemption premium of $4,704,000 was used to offset the $1,476,000 gain on previously reacquired preferred stock with the $3,228,000 balance charged to retained earnings.

10. ADJUSTABLE RATE PREFERRED STOCK:

The company issued 2,000,000 shares of Adjustable Rate Class A Preferred Stock in September 1983, with a stated capital of $25 per share. The company issued an additional 2,000,000 shares of Adjustable Rate Class A Preferred Stock in February 1988 with a stated capital of $25 per share. The dividend rate on each of these series is adjusted quarterly using a formula based upon certain U. S. Treasury security rates. However, the applicable dividend rate for any dividend period shall in no event be, for the 1983 series, less than 7.20 percent per annum or greater than 13.28 percent per annum and, for the 1988 series, less than 5.92 percent per annum or greater than 11.04 percent per annum. The per annum dividend rates applicable to the 1983 series for the four quarters of 1987 were 7.20 percent, 7.20 percent, 7.84 percent and 8.96 percent, respectively, and is 8.64 percent for the first quarter of 1988. The per annum dividend rate applicable to the 1988 series through the first quarter of 1988 is 6.0? percent.

11. INVESTMENT IN JOINTLY OWNED FACILITIES:

The company and one of its affiliates, Georgia Power Company (Georgia), own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO), which owns electric generating units with a total rated capacity of 1,019,680 kilowatts, together with associated transmission facilities. The capacity of these units is sold equally to the company and Georgia under a contract expiring in 1994 which, in substance, requires payments sufficient to provide for the operating expenses, taxes, interest expense and a return on equity, whether or not SEGCO has any capacity and energy available. The company's share of such amounts totaled $76,812,000 in 1987, $84,438,000 in 1986 and $92,782,000 in 1985 and is included in Purchased and interchanged power, net in the Statements of Income.

In addition, the company has guaranteed unconditionally the obligation of SEGCO under an installment sale agreement for the purchase of certain pollution-control facilities at SEGCO's generating units, pursuant to which $26 million principal amount of pollution-control revenue bonds have been issued. Georgia has agreed to reimburse the company for the pro rata portion of such obligation corresponding to its then proportionate ownership of stock of SEGCO if the company is called upon to make such payment under its guaranty.

At December 31, 1987, the capitalization of SEGCO consisted of $42,471,000 of equity and $63,557,000 of long-term debt on which the annual interest requirement is $5,340,000. In 1987 and 1986, SEGCO paid dividends totaling $500,000 and $3,735,000 while net income was $6,880,000 and $5,934,000, respectively.

The company and one of its affiliates, Mississippi Power Company, own as tenants in common in the proportions of 60 percent and 40 percent, respectively, a 500,000 kilowatt steam-electric generating plant in Greene County, Alabama. The plant was placed in service in 1965 and the company's gross investment at December 31, 1987, amounted to $71,403,000. The company's share of expenses is included in the corresponding operating expense accounts in the Statements of Income.

12. POSSIBLE SALE OF AN INTEREST IN PLANT:

An order of an appeal board of the Nuclear Regulatory Commission (NRC) in an antitrust review resulted in conditions being imposed on the NRC licenses for Plant Farley which require the company to sell an ownership interest of approximately six percent in Plant Farley to Alabama Electric Cooperative, Inc. (AEC), and to provide transmission services to AEC and municipal electric distributors. The company has engaged in negotiations with AEC for such sale. On June 29, 1984, AEC filed with the NRC a request that the NRC institute a proceeding which could lead to imposition of sanctions against the company for alleged violations of such license conditions. Discussions among the parties, the NRC staff and NRC's Director of Nuclear Reactor Regulation have been conducted; however, no agreement was reached. On June 16, 1986, the NRC Director of Nuclear Reactor Regulation issued a notice of violation which pertains solely to the license conditions associated with the antitrust proceedings and has no relation to safety or environmental matters. The company responded to the notice on August 27, 1986, denying violation of the license. Under NRC procedure, the notice of violation must be issued before a proceeding is initiated to determine the existence of an alleged violation of the license. If satisfactory resolution of the issues raised in the notice is not reached with the NRC Staff, a show cause order could be issued and a proceeding commenced to determine whether the company has negotiated in good faith with AEC and whether the terms of the sale offered by the company are reasonable.

13. NONTERRITORIAL REVENUES:

The operating subsidiaries of the Southern electric system, including the company, have entered into long-term contractual agreements for the sale of capacity and energy to certain non-affiliated utilities located outside of the system's service territory. Certain of these agreements are nonfirm and are based on capacity of the system in general. Other agreements are firm and pertain to capacity related to specific generating units. Since the energy is generally sold at cost under these agreements, it is revenues from capacity sales that primarily impact profitability. The company's portion of off-system capacity revenues has been as follows:

Year	Unit Power	Other Long-Term	Total
		(In Thousands)	
1987	**$142,195**	**$10,476**	**$152,671**
1986	157,730	36,558	194,288
1985	131,924	37,681	169,605

Long-term nonfirm power has been sold to Florida Power & Light Company (FP&L), Jacksonville Electric Authority (JEA), Florida Power Corporation, and Mississippi Power & Light Company. These contracts expired at the end of 1986 and similar contracts with Gulf States Utilities Company (Gulf States) and the City of Tallahassee, Florida, expire in 1992 and 2000, respectively.

Unit power from Plant Miller is being sold to FP&L, JEA, and Gulf States. Under these agreements, 1,114 megawatts of capacity is scheduled during the first five months of 1988, and 1,155 megawatts for the remaining months of the year. These agreements reach a maximum of 1,369 megawatts in 1992, decline thereafter, and expire in 1995.

On July 2, 1986, Gulf States filed suit in the United States District Court for the Eastern District of Texas (Court) against Southern, its operating subsidiaries, and Southern Company Services, Inc. The complaint seeks a judgment declaring that Gulf States is excused from further obligation under its unit power and other long-term power sales contracts with the company and the other operating affiliates of Southern and awarding Gulf States unspecified damages. Gulf States alleges, among other things, that Southern failed to negotiate and renegotiate in good faith to reduce the amount of capacity purchases under the contracts and engaged in fraudulent conduct in entering into the contracts. The Court permitted Gulf States to make payments due under such contracts by depositing funds with the Court pending the outcome of the suit. However, during October and November of 1986, Gulf States received orders from the Public Utility Commission of Texas and the Louisiana Public Service Commission which disallowed the recovery of the capacity charges to Gulf States under the unit power and other long-term sales contracts. As a result of this action, Gulf States advised Southern that the capacity charges applicable to the Texas and Louisiana jurisdictions would not be deposited with the Court or paid to the operating affiliates. The case is still pending before the U.S. District Court in Texas.

By order dated May 12, 1987, an administrative law judge of the FERC, in consolidated proceedings initiated by Gulf States and Southern, found the contracts not to be unjust or unreasonable, granted the declaratory relief sought by Southern and dismissed the complaint filed by Gulf States. This decision has been appealed to the full Commission where it is pending. The FERC had previously ruled it does not have jurisdiction over the question of whether or not Southern negotiated in good faith to reduce the amount of capacity purchases and engaged in fraudulent conduct in entering into the contract.

Revenues include sales to Gulf States for unit power and other long-term contracts. Some of these revenues have been withheld by Gulf States. Because of disclosure in reports filed with the Securities and Exchange Commission by Gulf States concerning its financial condition, a portion of these revenues, after taxes, has been excluded from the company's net income as shown below.

	12 Months Ended December 1987	1986
	(In Thousands)	
Total revenues	**$58,565**	$64,943
Revenues withheld or deposited	**43,822**	27,888
Charged to provision for uncollectible accounts	**43,692**	9,611
Excluded from net income	**25,432**	5,046

In management's opinion, the outcome of the lawsuit will not have a material impact on the company's financial statements; however, the ultimate outcome of this matter cannot now be determined.

Capacity and energy sales to FP&L, the company's largest single customer, provided revenue of $208.0 million in 1987, $208.1 million in 1986 and $246.5 million in 1985, or 8.49 percent, 8.58 percent and 10.21 percent, respectively, of operating revenues.

14. DIVIDEND RESTRICTIONS:

The company's first mortgage bonds and preferred stock outstanding are entitled to the benefits of indenture covenants or charter provisions restricting the payment of cash dividends on common stock (except those paid concurrently with the receipt of a cash capital contribution in like amount). Under the most restrictive of these, a first mortgage bond indenture covenant, $273,455,000 of retained earnings was restricted against the payment of common dividends at December 31, 1987.

15. NUCLEAR INSURANCE:

Under the Price-Anderson Act (Act), the company maintains agreements of indemnity with the NRC which, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the company's nuclear power plant. The Act limits to $715 million public liability claims that could arise from a single nuclear incident. The company's nuclear plant is insured against this liability to a maximum of $160 million by private insurance (the maximum amount currently available), with the remaining coverage provided by a mandatory program of deferred premiums which would be assessed, after a nuclear incident, against all owners of nuclear reactors. A company could be assessed up to $5 million per incident for each licensed reactor it operates, but not more than $10 million to be paid in a calendar year for each reactor. The maximum assessment for the company is $10 million per incident, but not more than $20 million to be paid in any one year.

The Act expired in 1987, but remains applicable to nuclear units licensed by the NRC or under an NRC construction permit prior to August 2, 1987. Bills to amend the Act, including proposals to substantially increase, modify or eliminate the limitation on liability provisions are currently under consideration by Congress.

The company is a member of Nuclear Mutual Limited (NML), a mutual insurer established to provide property damage insurance in an amount up to $500 million for members' nuclear generating facilities. The company is subject to a retrospective premium adjustment in the event that losses exceed accumulated reserve funds. The company's maximum assessment per incident is limited to approximately $30.7 million under the current policy.

Additionally, the company has property damage policies which currently provide coverage up to $1.025 billion for losses in excess of the $500-million NML coverage. This excess insurance is provided by Nuclear Electric Insurance Limited (NEIL), a mutual insurer, and American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters. The NRC requires that, no later than October 4, 1988, on site property damage insurance policies for commercial nuclear power plants be amended to provide that all proceeds from such insurance shall be paid over to a separate trust established for the sole purpose of placing the reactor in a safe and stable condition. Any remaining proceeds are first applied toward the costs of decontamination or debris removal operations ordered by the Director of the NRC, and second, paid to either the company or its bond trustees as may be appropriate under applicable trust indentures. NEIL also covers the extra costs which would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can be insured against increased costs of replacement power in an amount up to $3.5 million per week (starting 26 weeks after the outage) for one year and up to $1.75 million per week for the second year. Under each of the NEIL policies, members are subject to assessments if losses with respect to each policy year exceed the accumulated funds available to the insurer under that policy. The present maximum assessments per incident under current policies for the company for property damage would be $8.4 million and $10.6 million under the replacement power policy.

16. ASSETS SUBJECT TO LIEN:

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

17. ALABAMA MUNICIPAL ELECTRIC AUTHORITY (AMEA) CAPACITY CONTRACT:

In August 1986, the company entered into a firm power purchase contract with AMEA entitling AMEA to scheduled amounts of capacity (to a maximum of 100 megawatts) for a period of 15 years commencing September 1, 1986. This power will be sold to AMEA for its member municipalities that previously were served directly by the company as wholesale customers. Under the terms of the contract, the company received a payment from AMEA representing the net present value of the revenue associated with this capacity entitlement. The company is amortizing this payment to operating revenue with a corresponding charge to other interest expense at an effective discount rate of 9.96%.

In order to secure AMEA's advance payment and the company's performance obligation under the contract, the company issued and delivered to an escrow agent $113.3 million of first mortgage bonds representing the maximum amount of liquidated damages payable by the company in the event of a default under the contract. No principal or interest is payable on such bonds unless and until a default by the company occurs. As the liquidated damages decline under the contract, a portion of the bonds equal to such decrease will be cancelled and delivered to the company.

18. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for 1987 and 1986 are as follows:

	Operating Revenues	Operating Income	Net Income after Dividends on Preferred Stock
		(In Thousands)	
1987			
First	$521,390	$107,628	$ 55,411
Second	620,914	119,059	67,565
Third	745,800	162,501	112,335
Fourth	562,428	70,667	21,928
1986			
First	$559,591	$125,111	$ 69,049
Second	584,105	100,732	47,072
Third	705,443	160,540	108,660
Fourth	576,612	97,750	48,67[illegible]

The company's business is influenced by seasonal weather conditions and the timing of rate adjustments.

General Officers

Joseph M. Farley, President

Travis J. Bowden, Executive Vice President

Bill M. Guthrie, Executive Vice President[1]

William L. McDonough, Executive Vice President

Jesse S. Vogtle, Executive Vice President and Counsel

William O. Whitt, Executive Vice President[2]

Kenneth L. Allums, Senior Vice President[3]

R. P. McDonald, Senior Vice President

Robert R. Todd, Senior Vice President

Bob Andrews, Vice President, Human Resources

S. H. Booker, Vice President, Marketing[4]

Stephen E. Bradley, Vice President, Public Affairs

Rayford F. Davis, Vice President, Power Delivery

John E. Dorsett, Vice President, Power Generation Services

W. George Hairston, III, Vice President, Nuclear Generation[5]

R. S. Hardigree, Vice President, Corporate Services

R. E. Huffman, Vice President, Electric System Operations

William B. Hutchins, III, Vice President and Treasurer

C. Alan Martin, Vice President, Marketing[6]

Charlton B. McArthur, Vice President, Economic Development

Jackson W. Minor, Vice President and Comptroller

T. H. Jones, Vice President, Fossil Generation

Richard A. Bowron, Secretary

Charles M. Deason, Assistant Comptroller

Ernest E. Glass, Jr., Assistant Comptroller[3]

Jerry L. Harris, Assistant Comptroller

E. Wayne Boston, Assistant Secretary and Assistant Treasurer

J. R. Harris, Assistant Secretary and Assistant Treasurer

Dorothy L. Essig, Assistant Secretary

John H. Snyder, Assistant Secretary

William L. Smith, Assistant Treasurer

David L. Whitson, Assistant Treasurer

Division Officers

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

Banks H. Farris, Vice President, Anniston

Robert H. Haubein, Jr., Vice President, Tuscaloosa

John G. Richardson, Vice President, Mobile

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

Clyde H. Wood, Vice President, Montgomery

All executive officers are full-time employees of the company with the exception of E. Wayne Boston and J.R. Harris, Southern Company Services, Inc.

[1] Effective January 1, 1988
[2] Retired February 1, 1988
[3] Retired March 1, 1988
[4] Retired May 1, 1987
[5] Effective July 1, 1987
[6] Effective May 1, 1987

Transfer Agents

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

Harris Trust Company of New York
110 William Street
New York, New York 10038
(For the 8.72% series)

Continental Stock Transfer & Trust Company
72 Reade Street
New York, New York 10007
(All series except the 8.72% series)

Southern Company Services, Inc.
64 Perimeter Center East
Atlanta, Georgia 30346
(For the Adjustable Rate Class A 1988 series)

Registrars

AmSouth Bank, N.A.
Stock Transfer Department
P.O. Box 11426
Birmingham, Alabama 35202

Harris Trust Company of New York
110 William Street
New York, New York 10038
(For the 8.72% series)

Continental Stock Transfer & Trust Company
72 Reade Street
New York, New York 10007
(All series except the 8.72% series)

Southern Company Services, Inc.
64 Perimeter Center East
Atlanta, Georgia 30346
(For the Adjustable Rate Class A 1988 series)

Legal Counsel

Balch & Bingham
P.O. Box 306
Birmingham, Alabama 35201

Directors

Joseph M. Farley, Birmingham (1965)†
President

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

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

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

G. Thornton Nelson, Birmingham (1969)[1]
Former Vice President

S. Eason Balch, Birmingham (1970)
Partner
Balch & Bingham
Attorneys

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

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

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

Fred Morgan Clark, Eufaula (1977)
Retired

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

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

William O. Whitt, Birmingham (1979)†[2]
Executive Vice President

Whit Armstrong, Enterprise (1982)
President
The Citizens Bank

Robert H. Radcliff, Jr., Mobile (1982)
Chairman of the Board
Midstream Fuel Service, Inc.
General Marine Services

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

James H. Sanford, Prattville (1983)*
President
HOME Place Farms, Inc.
Diversified Farmers and Ginners

Louis J. Willie, Birmingham (1984)**†
President
Booker T. Washington Insurance Company

William L. McDonough, Birmingham (1985)†
Executive Vice President

Gerald H. Powell, Jacksonville (1986)*
President
Dixie Clay Company of Alabama, Inc.

Winton M. Blount, III, Montgomery (1986)*
Vice Chairman
Blount, Inc.
Construction and Engineering

Dr. Joab L. Thomas, Tuscaloosa (1986)*
President
The University of Alabama

Travis J. Bowden, Birmingham (1988)
Executive Vice President

* Audit Committee member
** Audit Committee alternate member
† Executive Committee member
[1] Advisory Director
[2] Advisory Director effective February 1, 1988

Years in parentheses indicate date of election.

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

Management Changes

Executive Vice President Travis J. Bowden was elected to the board of directors in 1988. Bill M. Guthrie, former executive vice president, Southern Company Services, Inc., was elected executive vice president in 1988. W. George Hairston, III, former general manager-nuclear support, was elected vice president, nuclear generation in 1987 and C. Alan Martin, former division manager marketing, was elected vice president, marketing in 1987.

Bill M. Guthrie (rear, left) was elected executive vice president; C. Alan Martin (seated, left), vice president, marketing; W. George Hairston, III (seated, right), vice president, nuclear generation; and Travis J. Bowden (standing, right), to the board of directors.

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

ALABAMA POWER COMPANY
STATEMENTS OF INCOME
(Stated in Thousands of Dollars)

(Unaudited)

	3 MONTHS ENDED MARCH 31, 1988
OPERATING REVENUES	$557,432
OPERATING EXPENSES:	
Operation -	
Fuel	142,701
Purchased and interchanged power, Net	35,876
Other	100,227
Maintenance	45,591
Depreciation and amortization	56,486
Taxes other than income taxes	36,368
Federal and state income taxes	32,099
Total operating expenses	449,348
OPERATING INCOME	108,084
OTHER INCOME (EXPENSE):	
Allowance for equity funds used during construction	8,990
Income from subsidiary	1,253
Other, net	1,065
Income before interest charges	11,308
INTEREST CHARGES:	
Interest on long-term debt	54,674
Allowance for debt funds used during construction	(7,163)
Amortization of debt discount, premium and expenses, net	1,088
Other interest charges	5,270
Net interest charges	53,869
NET INCOME	65,523
DIVIDENDS ON PREFERRED STOCK	8,755
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 56,768

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ALABAMA POWER COMPANY
BALANCE SHEET
(Stated in Thousands of Dollars)
(Unaudited)

	At MARCH 31, 1988
ASSETS	
UTILITY PLANT:	
Plant in service, at original cost	$ 7,229,320
Less - Accumulated provision for depreciation	2,135,822
	5,093,498
Nuclear fuel, at amortized cost	174,887
Construction work in progress	835,482
	6,103,867
Less - Property-related accumulated deferred income taxes	950,198
	5,153,669
OTHER PROPERTY AND INVESTMENTS:	
Southern Electric Generating Company, at equity	22,085
Nonutility property, net	4,016
Miscellaneous	3,558
	29,659
CURRENT ASSETS:	
Cash	5,796
Temporary cash investments, at cost	-
Receivables -	
Customer accounts receivable	242,280
Other accounts and notes receivable	89,448
Affiliated companies	64,336
Accumulated provision for uncollectible accounts	(70,298)
Refundable income taxes	11,176
Fossil fuel stock, at average cost	188,947
Materials and supplies, at average cost	110,495
Prepayments	45,949
Vacation pay deferred	21,317
	709,446
DEFERRED CHARGES:	
Debt expense, being amortized	6,559
Debt redemption expense, being amortized	30,063
Miscellaneous	59,975
	96,597
TOTAL ASSETS	$ 5,989,371
CAPITALIZATION AND LIABILITIES	
CAPITALIZATION:	
Common stock equity	$ 1,977,073
Preferred stock	434,400
Preferred stock subject to mandatory redemption	25,000
Long-term debt	2,351,847
	4,788,320
CURRENT LIABILITIES:	
Preferred stock due within one year	2,500
Long-term debt due within one year	85,250
Notes payable to banks	113,670
Accounts payable -	
Affiliated companies	49,126
Other	135,140
Customer deposits	32,296
Taxes accrued -	
Federal and state income	70,792
Other	21,621
Interest accrued	69,904
Vacation pay accrued	21,317
Miscellaneous	23,958
	625,574
DEFERRED CREDITS AND OTHER LIABILITIES:	
Accumulated deferred investment tax credits	416,999
Prepaid capacity revenues, net	104,258
Miscellaneous	34,120
	575,377
TOTAL CAPITALIZATION AND LIABILITIES	$ 5,989,371

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ALABAMA POWER COMPANY

Internal Cash Flow for
Joseph M. Farley Nuclear Power Station

(Dollars in Thousands)

	1987 Actual	1988 Projections
Net Income After Taxes	$290,158	$283,514
Less Dividends Paid	234,019	249,819
Retained Earnings	56,139	33,695
Adjustments:		
Depreciation and Amortization	270,492	300,743
Deferred Income Taxes and Investment Tax Credits	131,301	65,338
Allowance for Funds Used During Construction (Gross)	(51,898)	(78,846)
Total Adjustments	349,895	287,235
Internal Cash Flow	$406,034	$320,930
Average Quarterly Cash Flow	$101,508	$ 80,233
Percentage Ownership in all Operating Nuclear Units: Joseph M. Farley Units 1 and 2		100%
Maximum Total Contingent Liability		$ 20,000

Alabama Power Company
600 North 18th Street
Post Office Box 2641
Birmingham, Alabama 35291-0042
Telephone 205 250-2497

David L. Whitson
Assistant Treasurer and
Manager-Finance

Alabama Power
the southern electric system

April 29, 1988

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

Dear Mr. Saltzman:

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

1. 1987 Annual Report which includes financial statements for the calendar year 1987, together with the report on such statements by Arthur Andersen & Co., independent public accountants;

2. Unaudited Financial Statements for the quarter ended March 31, 1988; and

3. Cash Flow Projections for the period January 1, 1988 through December 31, 1988, showing that cash flow of $20,000,000 can be generated and would be available for payment of retrospective premiums within three months after submission of the statement.

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

Very truly yours,

David L. Whitson

DLW/paw

Enclosures

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1/1

Alabama Power Company
600 North 18th Street
Post Office Box 2641
Birmingham, Alabama 35291-0042
Telephone 205 250-2497

David L. Whitson
Assistant Treasurer and
Manager-Finance

Alabama Power
the southern electric system

April 29, 1988

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Very truly yours,

David L. Whitson

DLW/paw

Enclosures