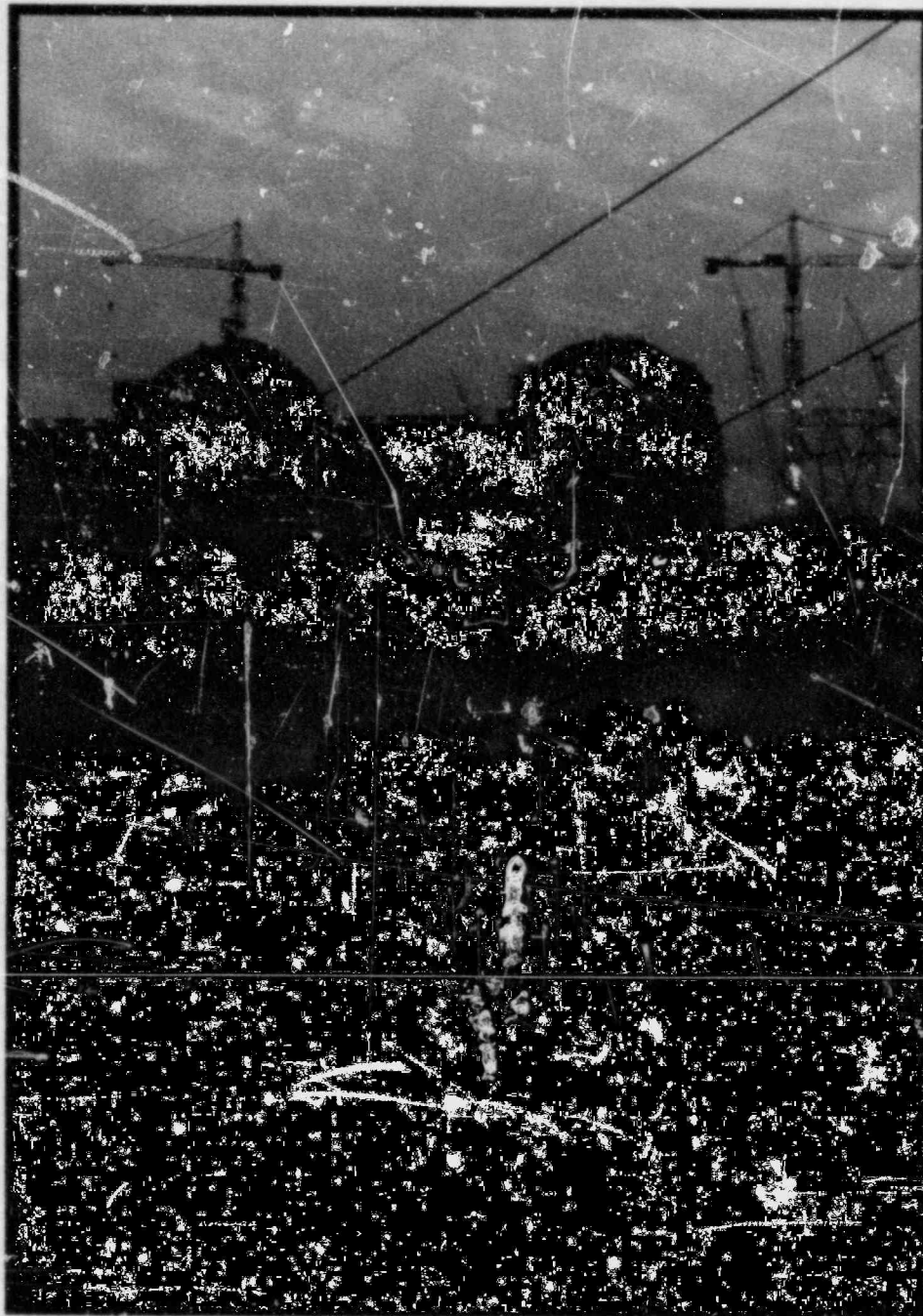


In partnership with Georgia



Georgia Power Company ▲
1985 Annual Report

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J PDR

Georgia Power Company
333 Piedmont Avenue
P. O. Box 4545
Atlanta, Georgia 30302
Telephone 404 526-6526

Georgia Power Company is an investor-owned electric utility serving 57,000 of the state's 59,000 square miles. The Southern Company is the parent firm for Georgia Power, as well as Alabama Power, Gulf Power, and Mississippi Power. These companies, together with certain service and special-purpose subsidiaries, comprise the Southern electric system.

A copy of Form 10-K as filed with the Securities and Exchange Commission will be provided upon written request to the office of the Corporate Secretary. A copy of the Company's *Financial and Statistical Review* also is available. For additional information, contact the office of the Corporate Secretary at 404 526-7450.

Registrar, Transfer Agent and Dividend Disbursing Agent
All series of Preferred Stock
Trust Company Bank
Corporate Trust Department
P. O. Box 4625
Atlanta, Georgia 30302

Trustee, Registrar and Interest Paying Agent
All series of First Mortgage Bonds
Chemical Bank
Corporate Trust Department
55 Water Street
New York, New York 10041

Dividends Paid

It has been determined that all dividends paid on Georgia Power Company Preferred Stock and Class A Preferred Stock for the year 1985, are 100 percent taxable.

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

About the cover

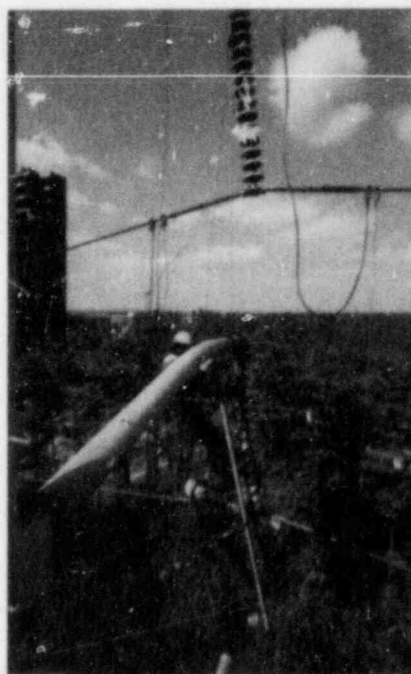
In the early morning mist, work continues on the around-the-clock task of topping the Unit 2 dome at Plant Vogtle late in 1985. With the completion of the dome topping, the project's last major concrete placement, 99 percent of the concrete at Vogtle had been placed. The opposite page shows commercial construction in the booming Atlanta area.

Highlights

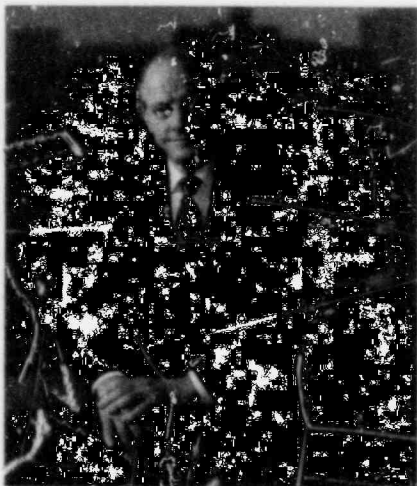
Financial (in thousands of dollars)	1985	1984	% Change
Operating revenues	\$3,444,298	\$3,132,880	9.9
Operating expenses	\$2,902,477	\$2,637,903	10.0
Net income after dividends on preferred stock	\$ 493,717	\$ 421,719	17.1
Gross property additions	\$1,384,192	\$1,396,846	(0.9)
Electric Operations			
Kilowatthour sales (millions)	64,929	59,055	9.9
Customers served (year-end)	1,400,637	1,352,235	3.6
Maximum system peak hour demand (megawatts)	13,291	12,061	10.2
Capital Structure Ratios (year-end)			
Long-term debt	50.7%	52.6%	
Preferred stock	8.3%	7.4%	
Preferred stock subject to mandatory redemption	1.6%	1.9%	
Common equity	39.4%	38.1%	
Return on Average Common Equity	17.95%	18.43%	
Ratio of Earnings to Fixed Charges (SEC Method)	2.93	3.09	

Contents

Letter to Investors	2
Growth in Georgia	4
Growth at Georgia Power	6
Selected Financial Data	14
Management's Discussion and Analysis	16
Financial Statements	
Income	21
Earnings Retained in the Business	21
Other Paid-In Capital	21
Balance Sheets	22
Capitalization	23
Sources of Funds for	
Gross Property Additions	24
Notes to Financial Statements	25
Auditors' Report	35
Report of Management	35
Board of Directors and	
Company Officers	36



Letter to investors



Robert W. Scherer

The growth that Georgia Power experienced during 1985 directly reflects the economic prosperity of Georgia and its neighboring states.

It was in many ways a record year. Our total assets reached \$9 billion, and our earnings totaled \$494 million. Much of our financial success has come from the continuing growth in our state and Georgia Power's aggressive marketing strategies, which have led to greater kilowatt-hour sales.



James H. Miller, Jr.

Total energy sales reached 64.9 billion kilowatt-hours. More than 14 billion kilowatt-hours of this represented off-system sales.

During the year, two generating units at Bartletts Ferry came on line, bringing the Company's total generating capacity to almost 12,000 megawatts, and notable progress was made toward the completion of major units at Plants Vogtle and Scherer.

Dramatizing the increasing need for electricity in our state were all-time records set in 1985 for both summer and winter peak demands for electricity. During June, the territorial summer peak exceeded 13,000 megawatts, not only surpassing previous records but exceeding the projected peak for 1987. The winter peak, which was reached during sub-zero weather in January, reached 11,550, a record that exceeded the forecast for the winter of 1991. These figures combine the demand of customers of Georgia Power, Oglethorpe Power Corp., the Municipal Electric Authority of Georgia and the City of Dalton.

In early August Georgia Power

announced that the Company's cost of completing Plant Vogtle, a two-unit nuclear facility of which Georgia Power owns 45.7 percent, will be some 15.3 percent higher than was previously projected. The total estimated budget increased to \$8.4 billion, reflecting lower than anticipated productivity rates and a re-evaluation of the amount of materials needed to complete the plant. Georgia Power's portion of the new estimate is \$3.6 billion. At the end of 1985, Unit 1 was 88 percent complete, and Unit 2 was more than 50 percent complete.

We continue to believe that Plant Vogtle is a sound investment. As we move into Plant Vogtle's final licensing stage, we continue our dedication to the highest standards of quality and safety. The plant has been evaluated favorably by the Advisory Committee on Reactor Safeguards, an independent group that advises the Nuclear Regulatory Commission.

While electricity rates will increase over the next few years, in part because of new generating capacity that will be brought into the rate base, our rates still should remain close to the national average. The immediate effect will be lessened for our customers if the Georgia Public Service Commission allows the cost of Plant Vogtle to be phased into the rate base over several years, an approach the Commission is now considering.

Our future earnings will be affected by how Plant Vogtle is handled for ratemaking purposes and whether our license to construct Rocky Mountain, a pumped storage hydro facility located north of Rome, is extended by the Federal

Energy Regulatory Commission (FERC).

The announcement of a budget increase for Plant Vogtle did not affect the credit rating assigned to Georgia Power bonds by two national rating agencies — Moody's Investors Service and Standard & Poor's Corp. A third rating agency, Duff & Phelps, Inc., lowered its rating of the Company's securities following the announcement. During the year, the Company issued \$550 million in pollution control obligations. The Company has also issued \$150 million of preferred stock.

Generating plant performance during 1985 was the best in the Company's history by two measures. Equivalent availability reached an all-time high of 86.6 percent at coal-fired plants and 75.9 percent at the Hatch nuclear plant. Heat rate has improved so that we are now getting more energy from each ton of coal at our coal-fired plants than ever before. Both of these mean that the Company has more electricity available to meet our customers' needs with less additional construction and using less fuel.

Programs to improve the performance of existing plants have been highly successful. Because of this and other factors, we have been able to revise the construction schedule for Rocky Mountain, the 848-megawatt plant, previously scheduled for commercial operation in 1991, now scheduled to go on line in 1990 subject to FERC approval.

Important progress has been made on other Georgia Power generating plant construction projects. The third unit of Plant Scherer is now 86 percent com-

plete and scheduled to go into commercial operation in 1987. The plant's fourth unit is about 17 percent complete. Also, major redevelopment is continuing at several hydroelectric dams and was completed at Morgan Falls, an 83-year-old hydro plant north of Atlanta. This work would bring these dams up to new federal standards.

We have every indication that Georgia will need the energy that the plants we now have under construction will produce. The rate at which Georgians are using electricity is expected to increase an average of 3 percent a year between now and the end of the century. If growth continues at this rate, we fully expect that by the year 2000 Georgians will require some 7 million kilowatts in additional capacity — three times the output of Plant Vogtle alone.

We also expect that when Plant Vogtle starts producing electricity we will benefit from the low cost of nuclear fuel, compared to the cost of coal or oil. Over the 10 years that it has been operating, Plant Hatch, a nuclear facility in south Georgia, has saved more than \$700 million in fuel costs.

There were changes in top level management during the year. Executive vice president George Edwards resigned to accept the position of president and chief executive officer at United Illuminating of New Haven, Conn. His area of responsibility,

external affairs, is now headed by Elmer Harris, formerly an executive vice president with Alabama Power, one of Georgia Power's affiliate companies.

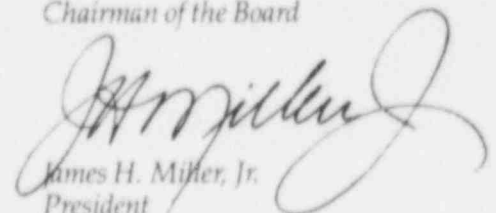
The years ahead will be among the most challenging we have faced as a Company, as we bring Plant Vogtle into the rate base. Employees at every level in every area of the Company are being encouraged to perform at a high level of excellence while using as few resources as possible. Specific programs, aimed at reducing staff and budgets, have been initiated throughout the Company. The overall goal is to continue making Georgia Power a more efficient, tightly run organization.

On behalf of the officers, employees and directors of Georgia Power Company, we extend our thanks to you, our investors, for your continued confidence and support.

Sincerely,

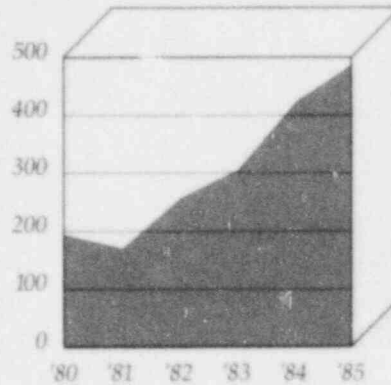


Robert W. Scherer
Chairman of the Board

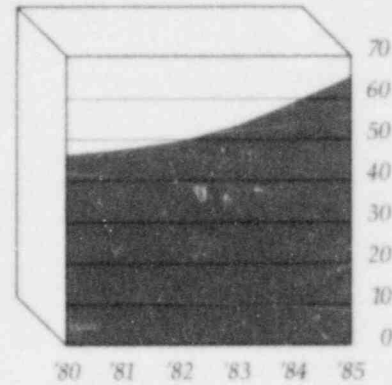


James H. Miller, Jr.
President
February 19, 1986

Net Income
(Millions of Dollars)



Total Energy Sales
(Billions of KWH)



Georgia: Progress and prosperity

From the state's mountainous northern regions to its sunny coast, there is evidence of the economic prosperity that places Georgia among the fastest growing states in the nation.

Huge new industries, spacious new shopping malls and modern housing developments all indicate that growth continues unabated, not only in Georgia but throughout the Sunbelt. Last year, a record \$21 billion was invested in new and expanded private business and industry in the state. Georgia Power expects demand for electricity in its service area to grow at an average rate of 3 percent a year over the next 14 years.

In many ways, Georgia is growing at a rate well above the national average. Since 1980, the state's population increased by more than 375,000 people. Since 1983, both employment and per capita income in Georgia have risen 8 percent. For the foreseeable future, Georgia is expected to continue growing and becoming more prosperous.

Atlanta, Georgia's capital, is now the 15th largest metropolitan area in the U.S. and regarded by many as the transportation, communications and financial capital of the Southeast. Home to one of the two busiest airports in the world and a popular center for trade shows and conventions, Atlanta is gaining new jobs at a 5.3 percent annual growth rate. Downtown Atlanta alone now has more than 10 million square feet of office space and expects to gain another 11.4 million by 1994 —



more than doubling its present size.

Some counties in the metropolitan Atlanta area are growing even faster than the downtown area. Gwinnett County, just north-east of Atlanta, is the fastest growing county in the U.S. among those with a population of 100,000 or more. Cobb County, to the northwest, is 20th in that same category.

While Metro Atlanta showed the largest employment rate increase since 1983 of any portion of the state, there also were sizable increases among other Georgia cities. Employment has been rising at a 5.3 percent rate in Columbus, for example, and more than 3 percent in Augusta and Macon.

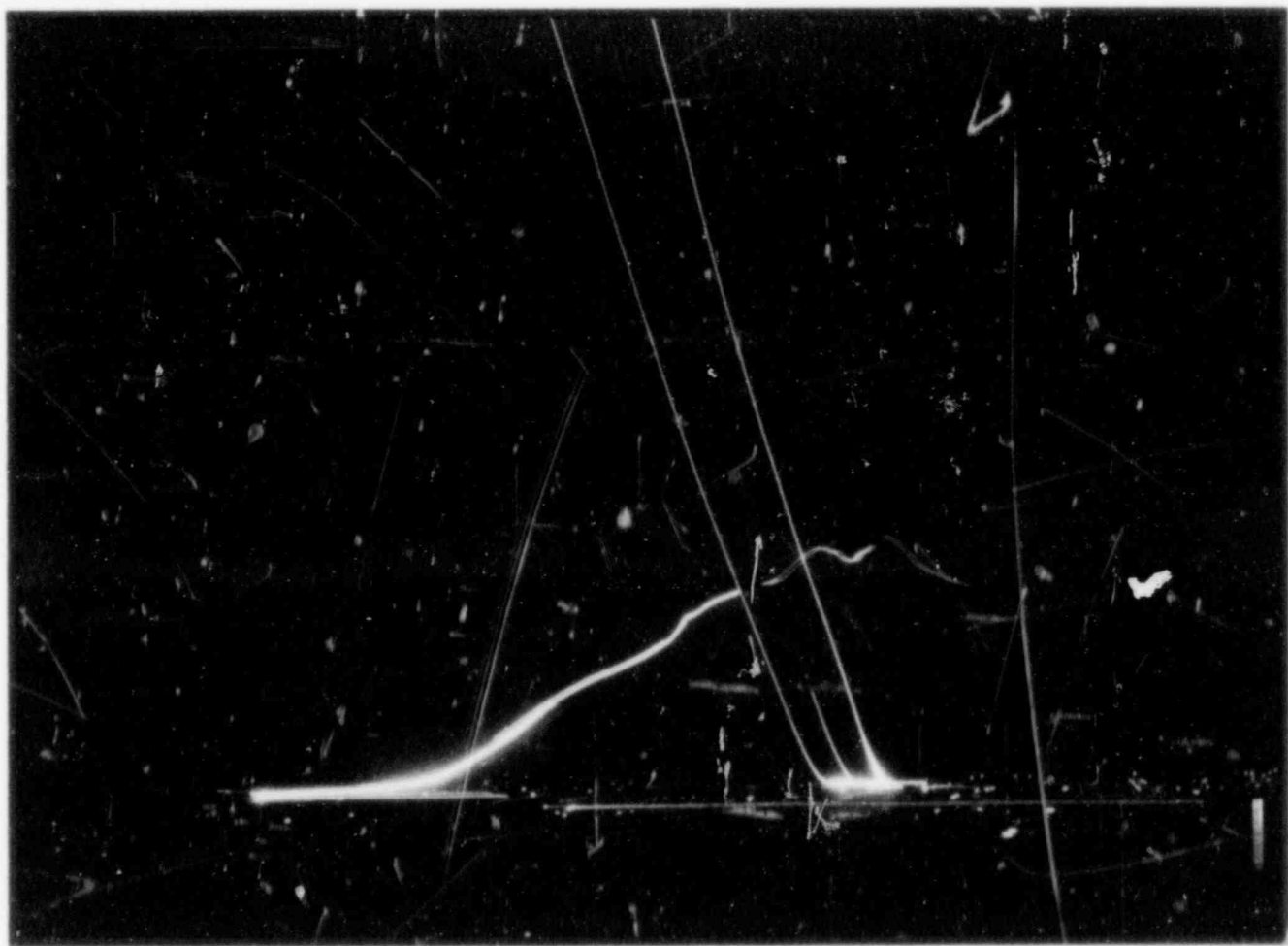
The movement to the South by many industries and the expansion and development of others have contributed greatly to the region's continuing prosperity. Georgia Power gained 33 industrial customers in 1985 and increased its total industrial kilowatt-hour sales 3.5 percent. Among the large industries that became Georgia Power customers in 1985 are Nippon Electronics Corp., a Japanese company that established a plant near McDonough with a demand of about

1,000 kilowatts; a General Electric plant in Norcross with a demand of 3,000 kilowatts; and National Wire in Shenandoah with a 4,000-kilowatt demand.

Commercial developers are planning the equivalent of two additional downtown Atlantas to be constructed over the next 10 years. The Atlanta area now has about 49 million square feet of major commercial space. It is expected to have an additional 100 million square feet by 1995. Some 23 million square feet of this new development will be in the area north of Atlanta. The high-tech automated office complexes in this area will require more electricity than conventional offices.

Examples of large commercial developments being built elsewhere in Georgia Power's service area are Glynn Place Mall, under construction in Brunswick; Carmike Plaza, a \$5 million all-electric office-retail complex being built in Columbus, and expansion of the Hatcher Point Mall in Waycross.

Georgia's population has been growing in two major ways. Americans are moving in large numbers from the Snowbelt region of the Northeast to the Sunbelt, which includes Georgia. Also, more Georgians are remaining in their home state to live, work and raise their families. The nonagricultural employment rate in Georgia has been increasing steadily by more than 2 percent a year since 1979, making Georgia's growth in this area second only to Florida's.



A time exposure shot of runways shows take-offs and landings at Atlanta's Hartsfield Airport. With more scheduled commercial flights than any other airport in the world, Hartsfield is second in size only to Chicago's O'Hare Airport.

Opposite page: an Augusta machine employee reviews requirements with a representative of a large industrial customer that recently underwent a major expansion. The \$130 million Nutrasweet facility was added to the C. D. Seagriv plant near the end of 1984.

In partnership with Georgia

The generating plants Georgia Power now has under construction will be essential to the state's economic development over the next 40 years.

Units 5 and 6 of the Bartletts Ferry hydro plant 14 miles north of Columbus went into commercial operation in October and November of 1985. The recently completed units added 108,000 kilowatts to the 60-year-old plant, more than doubling its capacity.

Much of this year's construction activity has been at Plant Vogtle, the two-unit nuclear facility near Augusta, where Units 1 and 2 are scheduled to go into commercial operation in 1987 and 1988, respectively.

In August, the budget for Vogtle was revised to reflect productivity rates that did not meet the Company's ambitious goals and a re-evaluation of the amount of materials needed to complete the plant. Also, the construction schedule for Unit 1 was delayed by three months. Georgia Power's share of the total cost of Plant



Vogtle, which it is building with Oglethorpe Power Corp., the Municipal Electric Authority of Georgia and the City of Dalton, is now estimated at \$3.6 billion.

Economic and regulatory changes, which have continued to mount since construction first began at Vogtle, have driven the total cost of the plant to a pro-

jected \$8.4 billion. For example, when Georgia Power started designing the plant in the early '70s, there were fewer than 10 federal regulations related to nuclear reactor design. Now the Nuclear Regulatory Commission (NRC) has more than 2,000 regulations related to the design of nuclear power reactors.

continued

GENERATING UNITS UNDER CONSTRUCTION at December 31, 1985

Units	Percent Ownership By Georgia Power	Nameplate Rating (Kilowatts)*	Commercial Operation Date	Percent Complete at 12/31/85	Cost at Completion (Millions)*	
Fossil	Plant Scherer Unit 3	75.0	613,500	1987	86.0	513
	Plant Scherer Unit 4	100.0	818,000	1989	17.0	771
Nuclear	Plant Vogtle Unit 1	45.7	530,120	1987	88.0	2,554
	Plant Vogtle Unit 2	45.7	530,120	1988	53.0	1,003
Pumped Storage	Rocky Mountain Units 1, 2 & 3	100.0	847,800	1999	21.0	1,193

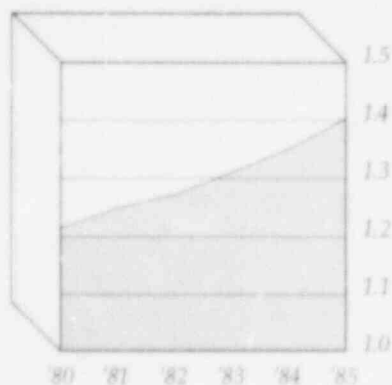
*Georgia Power portion only, excluding amounts sold to joint participants.



*S*ilhouetted by the morning sun, Company and contract employees at Plant Vogtle work to finish placement of concrete atop the Unit 2 containment building. This major construction step was completed in December.

The completion of Units 5 and 6 at Bartletts Ferry, opposite page, added 108,000 kilowatts to Georgia Power's generating capacity.

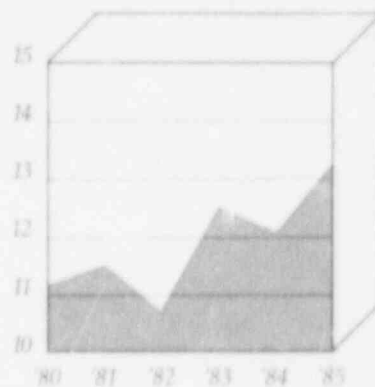
Growing along with Georgia



Total Customers—End of Year
(Millions of Customers)

Construction continues at the fourth and final unit of Plant Scherer, a coal-fired generating facility in central Georgia that was 17 percent complete at the end of 1985.

At right, a lineman, in a walk that resembles an acrobat's high-wire act, checks new transmission lines coming out of Plant Vogtle.



Territorial Peak Demand
(Millions of KW)



During 1985, the Company took major steps toward the licensing and operation of Plant Vogtle. To assist in the licensing process, a readiness review program was established. Georgia Power is dividing the commitments and requirements for licensing into manageable parts called "readiness review modules." The first of these was submitted to the NRC for approval early in 1985, and eight modules and three appendices were submitted during the year. The Company plans to submit 13

modules, four appendices and an independent design review report in 1986.

At the end of October, the secondary hydro test — a pressurization program on the piping connecting the steam generator and the turbine — was completed on Plant Vogtle Unit 1. The system has been tested at full pressure and demonstrated no problems. That unit is now about 85 percent complete. Placement of the concrete on the Unit 2 containment building dome was completed in December, and year-end that

unit was more than 50 percent complete.

Both the Final Environmental Statement and the Safety Evaluation Report were approved by the NRC in preparation for the Atomic Safety and Licensing Board hearings.

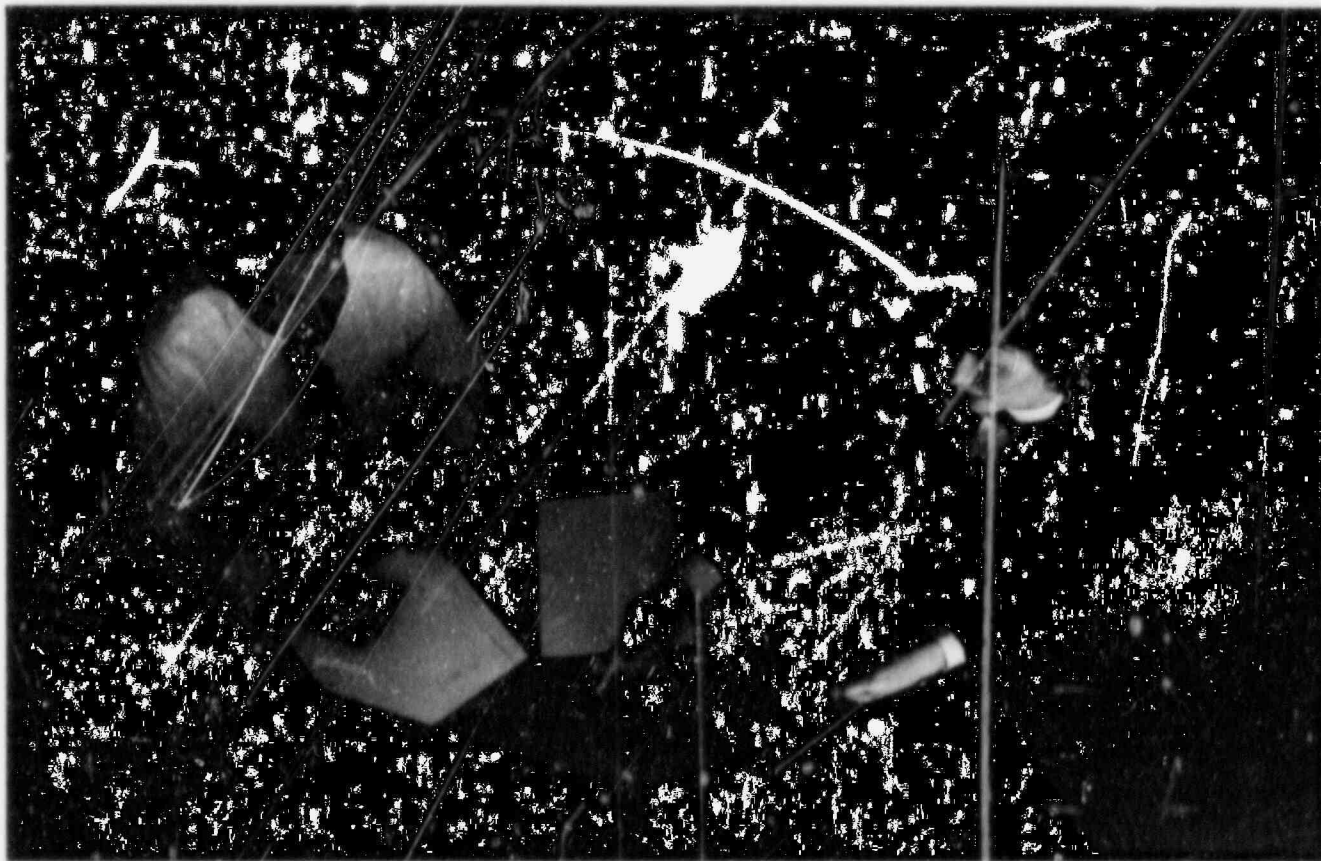
The two 818-megawatt units still under construction at Plant Scherer, a coal-fired facility near Macon, continue to be on schedule and under budget. Unit 3, of which Georgia Power owns 75 percent, and an affiliate company, Gulf Power, owns 25 percent, is now about 86 percent complete and is scheduled for commercial operation in 1987. Unit 4, owned entirely by Georgia Power, is 17 percent complete and is scheduled to go into commercial operation in 1989.

The three pumped storage hydro units at Rocky Mountain have been deferred from their previous commercial operation date of 1991 to 1999 subject to FERC approval. Projections of load growth and other economic considerations indicate that these units, designed to produce power during peak periods, will be more economical if brought into service on their new completion date. Their total capacity is 818 megawatts.

At this time Georgia Power has no plans to start construction of additional major generating facilities.

The Company invested \$164 million in the construction of transmission and distribution equipment. This includes four substations being built to accommodate the massive development in Atlanta's booming northside area.

Meeting customers' needs



*A*tlanta area marketing representatives help a customer, center, interpret information on the computer terminals at the new Energy Planning Center.

Opposite page, top left, representatives of a Norcross heating and air conditioning business chat with one of their instructors, right, at the Milledgeville training center, where technicians from across the state are learning to install and repair electric heat pumps. Top right, employees from marketing and underground inspect a model of Buckhead

Plaza, a major commercial project in north Atlanta.

In bottom photos, planes on the ground at the Atlanta airport are cooled using a recently developed electric ice storage system, saving the airline millions of dollars a year. The system is housed in the building in the left photo. Center photo, the system's tall, silver ice modules are checked by an airline troubleshooter. At right, huge yellow hoses carry the chilled air into waiting planes, cooling them without operating the craft's oil-driven air conditioning system.



Kilowatthour sales this year reached 64.9 billion, an increase of 9.9 percent over the previous year's total. Especially successful were our off-system sales, which represented more than 14 billion out of the total kilowatthour sales for 1985.

Much of the success in kilowatthour sales is attributable to the aggressive marketing programs continued in 1985. Among these is a program to help dealers sell electric heat pumps. At the end of the year, more than 16,900 such pumps had been installed.

In south Georgia especially, electric heat pumps are a popular choice for new homes. An estimated 60 percent of the new buildings in the Brunswick area will have heat pumps.

The Energy Planning Center, which Georgia Power opened in late October, was designed to help industrial and commercial customers keep abreast of the

developments in electrical technology and to encourage new industrial customers to locate in the area. Located in Atlanta's Technology Park, the center is a showcase for such products as electrode boilers and heat pump water heaters. It also includes a commercial cooking demonstration area, a videodisk system for presenting information about Georgia Power and the area it serves, and a seminar room where Georgia Power employees can meet with customers to discuss their needs and how Georgia Power can serve them.

From March through October, Georgia Power opened to the public three demonstration homes north of Atlanta. Collectively known as "Future II — The Energy Colony," the structures were designed to show that highly energy efficient homes need not be dull or look ultra-modern. All three featured heat pumps and new insulation techniques, but varied in levels of innovation and energy efficiency.

Another customer relations achievement during 1985 was the completion of audits on homes certified through the Company's Good Cents program. The audits were prompted by concern that some contractors were using too much air when blowing in insulation, causing the insulation to appear to be up to Good Cents standards when it was not. Homes in question were re-checked using the highly reliable core-sampling method, which is now used to certify homes for the Good Cents designation. As a result of the audits, more than \$300,000 worth of additional insulation was installed in Good Cents Homes by contractors at no expense to Georgia Power or its customers. The Good Cents Home program was praised by the Georgia Office of Consumer Affairs and has become a model for utilities across the country.



Efficiency for today and tomorrow

These successful marketing efforts along with the economic growth in Georgia Power's service area have contributed to the Company's earnings. Net income after dividends on preferred stock for 1985 was \$494 million, an increase of \$72 million over 1984 earnings.

During 1985, Georgia Power's assets reached \$9 billion. Assets have increased steadily over the years from \$1 billion in 1967 to the present level.

The Company continued to take advantage of the lower interest rates available on pollution control bonds. Georgia Power sold \$550 million in such obligations during 1985. Of this amount, \$393 million represented refinancing of pollution control notes issued the previous year. The Company also issued \$36.4 million in pollution control notes in 1985. No first mortgage bonds were issued during the year.

Preferred stock sales for the year totaled \$150 million. A \$50 million issue in April carried a dividend rate equivalent to 12 percent. Two adjustable rate issues of \$50 million were sold in October and December with a minimum dividend rate ("floor") of 6.25 percent and a maximum ("ceiling") of 12.75 percent. The October issue had an initial rate of 9.53 percent and the December issue had an initial rate of 9.30 percent. For the adjustable rate preferred stock, the dividend rate is adjusted quarterly based on the highest among three variables: the Treasury Bill rate, the 10-year constant maturity rate,

and the 20-year constant maturity rate for the dividend period.

Capital contributions from The Southern Company totaled \$315 million.

Georgia Power is succeeding in its efforts to find ways to improve the performance of generating plants. Both availability and heat rate reached record levels. An improvement in heat rate means that a plant can produce more electricity without burning more fuel. The average heat rate this year for fossil fuel plants measured 9,945 BTUs, an improvement of 577 BTUs over the 1975 average.

Equivalent availability, another performance factor, reached an all-time record of 86.6 percent for the Company's coal-fired generating plants. That's a jump of 20 percentage points over the 1975 figure and places Georgia Power well above the industry average. Plant Hatch, the only operating nuclear plant on Georgia Power's system, also achieved its best equivalent availability record ever — 75.9 percent — with no major outages during the year. By these two important measures of efficiency, heat rate and equivalent availability, Georgia Power's generating plants had an exceptional year.

After Hurricane Elena struck the Gulf Coast in late August, more than 600 Georgia Power line crew workers were dispatched to neighboring utilities to help restore power. Most of these went to help Gulf Power and Mississippi Power, two sister companies in the Southern electric system; others went to the aid of Florida Power Corp. Elena left more than

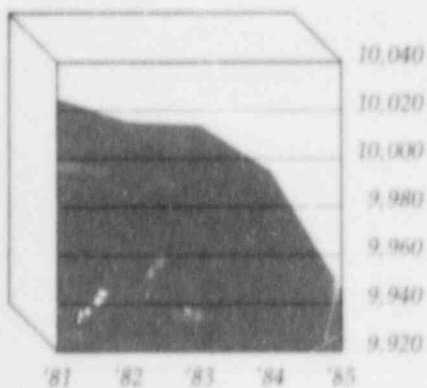
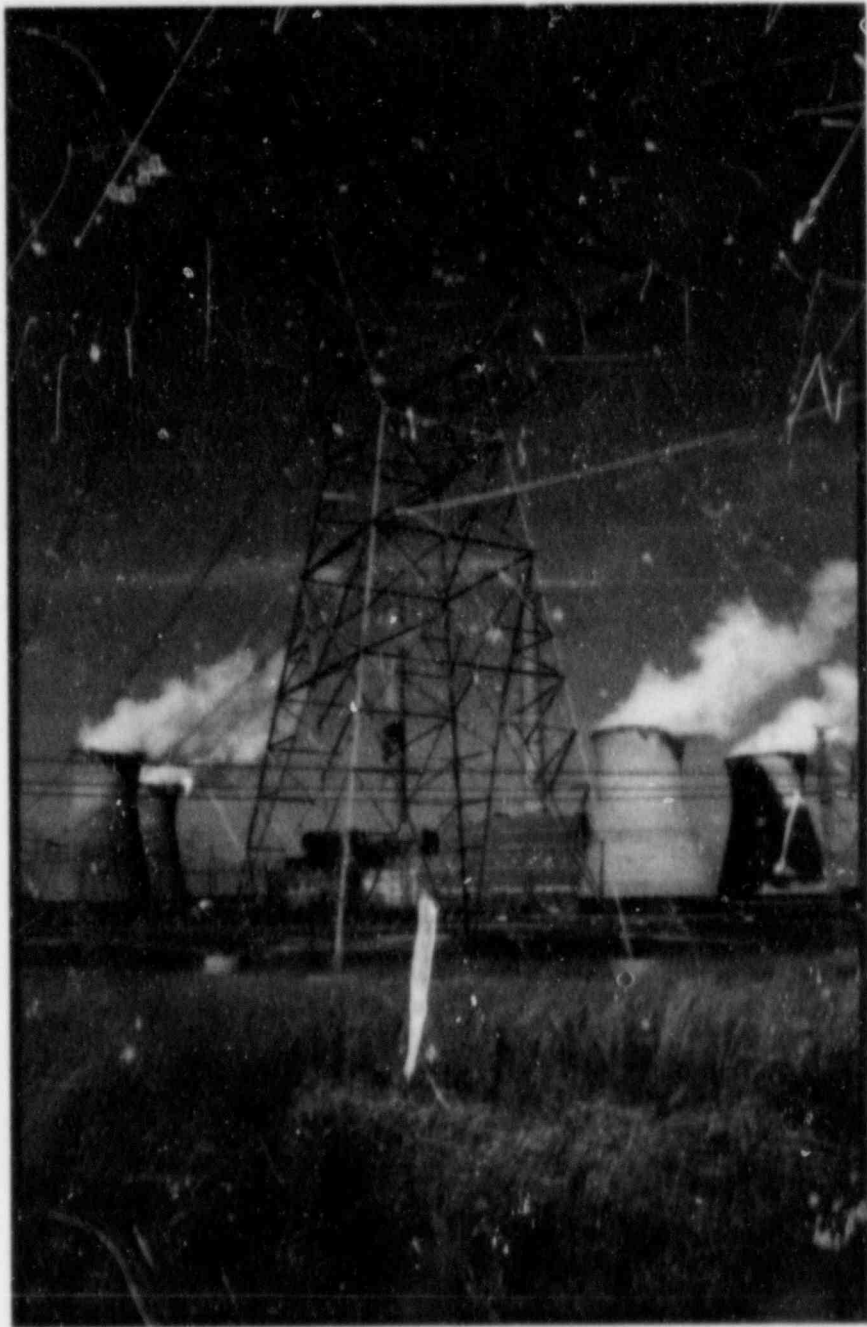
270,000 people without electrical service.

Georgia Power's employees, in addition to having a productive year, had a safe year, as safety records were set among several employee groups. Plant Hatch, a south Georgia nuclear plant that has been in operation for 10 years, reached a milestone six million man-hours without a lost workday accident. Also, Nuclear Regulatory Commission data indicate that radiation exposure at Hatch is the lowest of any boiling water reactor plant in the U.S. with a capacity of at least 100 megawatts.

Employees at Plant Wansley, a coal-fired plant in west Georgia, not only set a plant safety record, but were the first Georgia Power employees at a coal-fired plant to reach three million man-hours without a lost workday accident.

The Company also is achieving a favorable safety record in relation to other investor-owned utilities. The Edison Electric Institute presented Georgia Power its Incident Rate Safety Award, based on 1984 performance. Georgia Power's incident rate of 0.102 was the lowest in its category — utilities with more than 8,000 employees. The rate for 1985 was even better at 0.075.

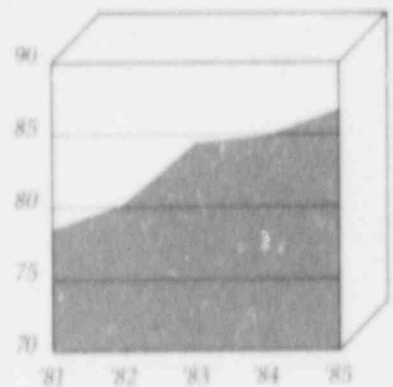
Efforts are continuing to reduce Georgia Power's operating expenses and increase its revenues. All employees are being asked to contribute to the companywide effort by finding ways to reduce costs and to use fewer resources while keeping productivity high.



Annual Fossil Net Heat Rate (BTU/KWH)

Steam rises from Plant Bowen's massive cooling towers as all four units produce power. During 1985, Bowen generated more electricity (20.9 million megawatt-hours) than any other plant in the U.S.

Heat rate, shown in the chart at left, measures the amount of fuel needed to generate a kilowatt. The lower the rate, the more efficient the generating system. The equivalent availability chart at right shows the percentage of the fossil-fuel system that was available for full load generation at any point during the year.



Coal-Fired Plant Equivalent Availability (Percent)

Selected Financial Data (DOLLARS IN THOUSANDS)

Years Ended December 31	1985	1984	1983
Condensed Income Statement:			
Operating Revenues	\$ 3,444,298	\$ 3,132,880	\$ 2,730,574
Operating Expenses:			
Operation and maintenance	2,269,482	2,071,136	1,775,903
Depreciation and amortization	201,524	191,205	176,735
Taxes other than income taxes	120,320	106,908	95,797
Federal and state income taxes	311,151	268,654	231,565
Total operating expenses	2,902,477	2,637,903	2,280,000
Operating Income	541,821	494,977	450,574
Other Income, Net	256,984	206,766	129,093
Income Before Interest Charges	798,805	701,743	579,667
Net Interest Charges	238,975	224,407	219,544
Income Before Change in Method of Recording Revenues	559,830	477,336	360,123
Cumulative effect as of January 1, 1982 of accruing unbilled revenues, less income taxes of \$22,320(000)	—	—	—
Net Income	559,830	477,336	360,123
Dividends on Preferred Stock	66,113	55,617	55,568
Net Income After Dividends on Preferred Stock	\$ 493,717	\$ 421,719	\$ 304,555
Pro Forma Net Income After Dividends on Preferred Stock assuming change in method of recording revenues was applied retroactively	N/A	N/A	N/A
Cash Dividends Declared on Common Stock	\$ 277,500	\$ 225,500	\$ 189,600
Return on Average Common Equity (percent)	17.95	18.43	15.86
Total Assets	\$ 9,030,618	\$ 7,880,072	\$ 6,746,247
Capitalization:			
Common stock equity	\$ 3,013,707	\$ 2,486,172	\$ 2,089,171
Preferred stock	632,844	482,844	432,844
Preferred stock subject to mandatory redemption	120,000	127,500	131,250
Long-term debt	3,878,066	3,432,606	3,128,500
Total capitalization	\$ 7,644,617	\$ 6,529,122	\$ 5,781,765
Gross Property Additions	\$ 1,384,182	\$ 1,396,846	\$ 1,015,274
Kilowatt-hour Sales (in thousands):			
Residential	12,006,462	11,548,787	11,443,257
Commercial	11,945,938	10,902,163	10,181,953
Industrial	19,517,543	18,862,531	17,415,441
Sales for resale	6,762,694	7,113,291	6,919,459
Other	382,238	342,047	331,804
Total territorial sales	50,614,875	48,768,819	46,291,914
Sales to utilities outside territory	14,313,679	10,285,892	7,116,061
Total kilowatt-hour sales	64,928,554	59,054,711	53,407,975
Operating Revenues:			
Residential	\$ 786,500	\$ 754,163	\$ 686,269
Commercial	797,540	739,035	649,932
Industrial	873,554	858,536	747,305
Sales for resale	244,260	277,848	275,148
Other	26,766	24,388	20,972
Total revenues from territorial sales	2,728,620	2,653,970	2,379,626
Revenues from sales to utilities outside territory	682,632	450,928	323,671
Total revenues from sales of electricity	3,411,252	3,104,898	2,703,297
Other revenues	33,046	27,982	27,277
Total operating revenues	\$ 3,444,298	\$ 3,132,880	\$ 2,730,574
Average Revenue Per Kilowatt-hour—			
Total Sales (cents)	5.25	5.26	5.06
Average Cost of Fuel Per Net Kilowatt-hour Generated (cents)			
Generated (cents)	1.80	1.85	1.82
Customers (end of year)	1,400,637	1,352,235	1,311,063
Employees (end of year)	14,947	14,562	14,535

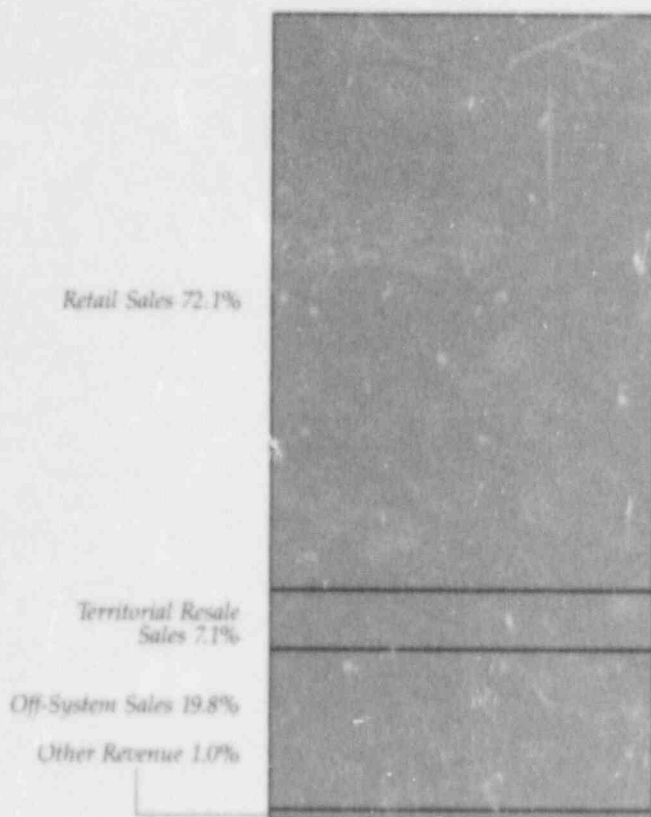
Georgia Power Company

1982*	1981	1980	1979	1978	1977	1976	1975
\$ 2,457,201	\$ 2,015,810	\$ 1,808,408	\$ 1,519,942	\$ 1,475,024	\$ 1,301,237	\$ 1,170,046	\$ 1,079,175
1,622,200	1,326,359	1,087,389	935,210	921,465	813,987	690,953	615,343
162,796	157,336	153,245	133,888	118,208	109,944	100,347	89,677
93,271	83,780	73,454	67,736	65,364	58,939	53,030	46,548
185,944	141,196	178,032	118,424	126,953	118,514	94,645	109,007
2,064,211	1,708,671	1,492,120	1,255,258	1,231,990	1,101,384	939,575	860,575
392,990	307,139	316,288	264,684	243,034	199,853	230,471	218,600
97,908	76,222	71,974	67,119	52,510	67,430	62,857	75,188
490,898	383,361	388,262	331,803	295,544	267,253	293,328	293,788
206,495	170,901	157,693	151,505	129,050	125,087	144,348	136,207
284,403	212,460	230,569	180,298	166,494	142,166	148,980	157,581
23,009	--	--	--	--	--	--	--
307,412	212,460	230,569	180,298	166,494	142,166	148,980	157,581
48,468	40,366	35,224	34,786	30,480	30,480	27,862	18,451
\$ 258,944	\$ 172,094	\$ 195,345	\$ 145,512	\$ 136,014	\$ 111,686	\$ 121,118	\$ 139,130
\$ 235,935	\$ 175,515	\$ 196,709	\$ 140,706	\$ 137,236	\$ 117,086	\$ 121,978	\$ 142,763
\$ 154,700	\$ 131,000	\$ 136,400	\$ 131,100	\$ 119,225	\$ 109,400	\$ 100,400	\$ 100,000
16,14	12,41	15,47	12,21	12,04	10,51	12,06	14,90
\$ 6,159,663	\$ 5,271,846	\$ 4,728,977	\$ 4,341,295	\$ 4,084,794	\$ 3,803,627	\$ 3,591,063	\$ 3,332,590
\$ 1,751,186	\$ 1,458,240	\$ 1,314,315	\$ 1,210,868	\$ 1,173,036	\$ 1,056,247	\$ 1,038,961	\$ 969,057
432,844	357,844	357,844	357,844	307,844	307,844	307,844	257,844
135,000	138,674	67,500	71,250	75,000	75,000	75,000	75,000
2,997,760	2,667,372	2,326,627	2,168,272	1,953,553	1,880,798	1,827,470	1,757,541
\$ 5,316,790	\$ 4,622,130	\$ 4,066,286	\$ 3,808,234	\$ 3,509,433	\$ 3,349,889	\$ 3,249,275	\$ 3,059,442
\$ 912,145	\$ 730,454	\$ 690,959	\$ 607,616	\$ 500,719	\$ 534,153	\$ 404,435	\$ 438,097
11,075,560	11,153,588	11,297,518	10,340,375	10,829,488	10,470,674	9,512,592	9,260,034
9,890,108	9,464,443	9,184,086	8,735,947	8,827,281	10,278,012	9,712,599	8,795,788
16,203,691	16,813,165	16,299,666	16,225,971	15,682,025	13,236,290	12,629,263	11,654,106
7,342,957	7,361,961	7,127,310	7,632,216	8,580,211	9,617,229	9,262,454	9,395,581
320,893	306,724	294,700	246,055	226,113	216,621	213,058	204,009
44,833,209	45,099,881	44,203,280	43,180,564	44,145,118	43,818,826	41,329,966	39,009,518
4,869,513	2,642,547	2,102,411	54,128	--	--	--	--
49,702,722	47,742,428	46,305,711	43,234,692	44,145,118	43,818,826	41,329,966	39,009,518
\$ 645,289	\$ 540,004	\$ 514,860	\$ 414,500	\$ 417,696	\$ 358,933	\$ 315,226	\$ 301,541
625,446	499,653	454,049	386,176	369,808	385,889	355,405	317,879
711,085	608,713	547,256	488,044	449,719	328,407	290,983	275,591
284,206	251,572	205,030	204,280	213,319	203,914	191,110	166,777
19,439	15,428	14,169	10,971	9,856	8,957	8,542	8,012
2,285,465	1,915,370	1,735,364	1,503,971	1,460,398	1,286,100	1,161,266	1,069,800
147,565	82,048	56,911	1,261	--	--	--	--
2,433,030	1,997,418	1,792,275	1,505,232	1,460,398	1,286,100	1,161,266	1,069,800
24,171	18,392	16,133	14,710	14,626	15,137	8,780	9,375
\$ 2,457,201	\$ 2,015,810	\$ 1,808,408	\$ 1,519,942	\$ 1,475,024	\$ 1,301,237	\$ 1,170,046	\$ 1,079,175
4.90	4.18	3.87	3.48	3.31	2.94	2.81	2.74
1.84	1.66	1.51	1.42	1.37	1.27	1.12	1.11
1,272,859	1,249,126	1,215,714	1,192,770	1,164,822	1,138,470	1,112,063	1,083,646
14,076	13,451	13,034	12,522	12,067	11,485	10,194	9,052

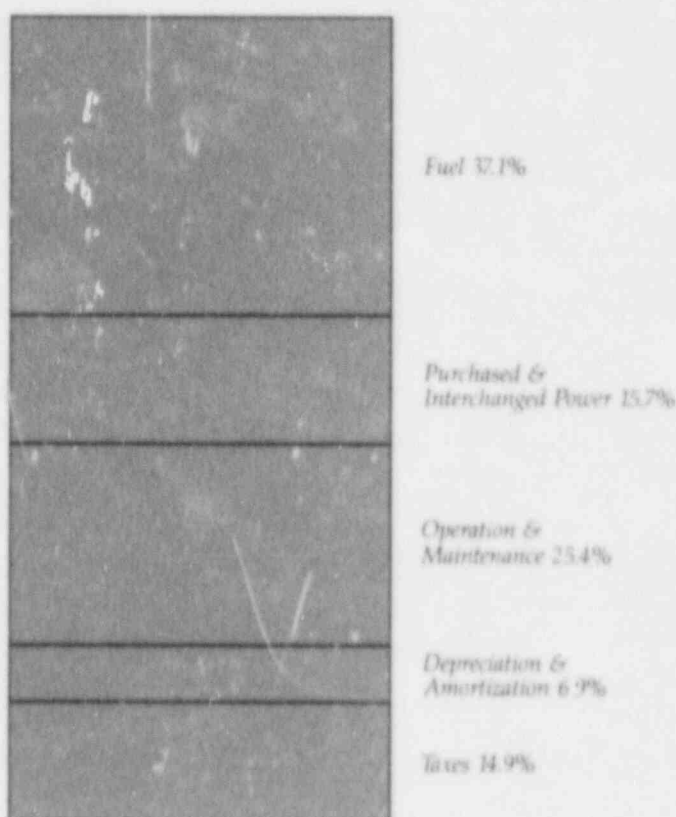
*In 1982, the Company began accruing revenues for services rendered but unbilled.

Management's Discussion & Analysis

1985 Operating Revenues



1985 Operating Expenses



Results of Operations

Georgia Power's net income after dividends on preferred stock for 1985 was \$494 million which provided a 17.95% return on average common equity. Earnings for 1985 increased \$72 million or 17.1% over 1984 earnings and \$189 million over 1983 results. Included in 1984 net income was a \$20.8 million gain, net of taxes, on the sale of a 5% interest in Plant V gtle.

Revenues Increases in total operating revenues over the prior year, along with the major components and their contribution to the total increases, have been as follows (in millions of dollars):

	1985	1984	1983
Retail Rate Increases	\$ 0	\$153	\$ 40
Retail KWH Sales	124	92	86
Territorial Sales for Resale	(34)	3	(9)
Off-System Sales	232	127	176
Other Operating Revenues (including fuel cost recovery)	(11)	27	(20)
Total Increase	\$311	\$402	\$273
Percent Increase	9.9%	14.7%	11.1%

The Company was granted annual retail rate increases of \$108.9 million and \$86.5 million in September 1983 and October 1983, respectively. Increases in retail kilowatthour sales are due primarily to an expanding economy within the Company's service area. The decline in territorial sales for resale revenue in 1985 resulted from increased generation at plants the Company owns jointly with its territorial resale customers. Off-system sales increased 51.4%, to \$682.6 million, for 1985 over 1984, due primarily to an additional customer and increased capacity sales under unit power sales agreements. See "Off-System Sales Agreements" in Note 4 to the financial statements for additional information on these agreements.

Total kilowatthour sales increased 9.9% in 1985 and 10.6% in 1984 for a cumulative increase of 21.6% from 53.4 billion kilowatthours in 1983 to 64.9 billion kilowatthours in 1985. The primary reason for this increase was more retail sales and additional sales to off-system utilities. Retail sales rose 11.4% to 43.9 billion kilowatthours and off-system sales increased 101.1% to 14.3 billion kilowatthours from 1983 to 1985. The combined 1985 demand of the Company's customers and the customers of Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia (MEAG), and the City of Dalton reached a summer peak of 13,291 megawatts in June, 1985 and a winter peak of 11,547 megawatts in January, 1985. The 1984 summer and winter peak demands were 12,061 and 10,073 megawatts, respectively.

Expenses Total operation and maintenance expenses, including fuel and purchased power, increased in 1985 due primarily to increased energy requirements. These expenses totaled \$2.3 billion in 1985, an increase of 9.6% over 1984 and 27.8% over 1983. Net purchased power expenses increased from \$340 million in 1983 to \$455.4 million in 1985. This increase was primarily the result of the purchase of capacity and energy from jointly owned plants in accordance with contractual agreements. Fuel costs increased \$193.1 million from 1983 to 1985. Under fuel cost recovery provisions, the Company is entitled to recover the actual cost of fuel burned and the energy portion of purchased power transactions. See Note 2 to the financial statements for information concerning an application to the Georgia Public Service Commission (GPSC) for an increase in the fuel cost recovery rate.

Increases in depreciation and amortization each year are due principally to the continued growth in depreciable plant in service. The composite straight-line depreciation rate was approximately 3.7% in 1985, 1984 and 1983.

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

Net interest charges increased to \$239 million in 1985 from \$219.5 million in 1983. While the Company has increased long-term borrowings to finance its construction program, the effect of this has been largely offset by an increase in the capitalized portion of interest charges.

While the rate of inflation has decreased, inflation continues to have an adverse effect on the Company due to regulatory constraints and the large investment in utility plant. See Note 10 to the financial statements for supplementary information concerning the estimated effects of inflation.

Allowance for Funds Used During Construction

Allowance for Funds Used During Construction (AFUDC) represents the cost of capital for utility plant under construction which is presently not included in rate base. The equity portion of this credit represents non-cash income. However, normalization of the income tax effect of the debt portion results in a non-cash charge against income. Additionally, previously capitalized amounts are increasing current cash flow significantly since revenues are higher because of increased rate base and additional depreciation expense. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock amounted to 68% in 1985, 57% in 1984 and 52% in 1983. This ratio has risen because of an increasing level of construction work in progress, a significant portion of which is applicable to the Company's ownership interest in Plant Vogtle (nuclear) and Plant Scherer (fossil).

continued

Management's Discussion & Analysis

Future Earnings Potential Future earnings potential is contingent upon successful completion and inclusion in rates of the Company's construction program, including Plant Vogtle, a two-unit nuclear facility currently under construction. See Note 3 to the financial statements for further information about the construction program.

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

Financial Condition

Gross property additions for the period 1983 through 1985 totaled \$3.8 billion. These additions included construction of major generating projects and the installation and upgrading of transmission and distribution lines, substations and other facilities. The funds for gross property additions were provided as follows:

	Dollars in Thousands (1983 through 1985)	Percent of Total Funds Provided
Net Funds Provided by:		
Operations	\$1,359,533	35.8%
Financing and Capital Contributions	1,901,661	50.1
Other Sources	535,108	14.1
Total	\$3,796,302	100.0%

See the Statements of Sources of Funds for Gross Property Additions for further details.

Capital Structure The Company's capitalization ratios continued to improve during 1985. The Company's common equity ratio was 39.4% at December 31, 1985, as compared to 38.1% at the end of 1984 and 36.1% at December 31, 1983. The composite interest rate on long-term debt decreased from 10.62% at December 31, 1984 to 10.61% at December 31, 1985, and the composite dividend rate on preferred stock decreased from 9.91% to 9.80% during this same period.

It is anticipated that the funds required for construction and other purposes will be derived from sources in form and quantity similar to those used in the past. However, the type and timing of financing will depend on market conditions, maintenance of adequate earnings and regulatory authority.

The ability to maintain the required coverages, to generate funds for day-to-day operations and to finance the construction program is dependent on receiving adequate and timely rate increases. The Company is committed to maintaining financial integrity by continued emphasis on operating efficiency and by pursuit of rate increases when appropriate. Should the Company be unable to obtain funds from external sources in amounts which, together with internally generated funds, will be adequate to carry out the present construction program, delays or cancellations of certain projects could become necessary. A delay could result in significant additional construction costs. In the event of cancellation of any project, there is no assurance that the Company would be able to recover the costs associated with such project.

At December 31, 1985, the Company had \$589 million of temporary cash investments to assist in meeting cash requirements. To provide additional financing flexibility, the Company also had revolving credit agreements totaling \$1.565 billion with eleven banks. The agreements cover the six-year period ending December 31, 1990. During the term of these agreements, the Company may convert short-term borrowings into term loans. Such term loans would be payable in 12 equal quarterly installments during the years 1991 through 1993, or at an earlier date at the Company's option. Such term loans are subject to authorization from the GPSC and the Securities and Exchange Commission (SEC). Also, the Company has \$120 million in other lines of credit subject to annual renewal. No short-term bank loans associated with the revolving credit agreement or lines of credit were outstanding at year-end.

To provide flexibility, the Company issues senior securities in advance of actual cash requirements, placing the proceeds from these sales in temporary cash investments. To indicate the impact on the common equity ratio which results from this prospective financing approach, this ratio also is computed on an adjusted basis. The adjustment deducts temporary cash investments, up to the amount of senior securities issued during the year, from long-term debt and total capitalization before computing the common equity ratio. This adjustment would result in an increase in the reported 1985 common equity ratio from 39.4% to 41.8%.

The Company must comply with certain earnings coverage requirements contained in its mortgage indenture and corporate charter to issue additional first mortgage bonds and preferred stock. An earnings coverage of two times annual interest charges on first mortgage bonds is required for the issuance of additional bonds and a coverage of one and one-half times annual interest charges and preferred stock dividends is required for the issuance of additional preferred stock. The coverages for the years ended December 31, 1985 and 1984, were 2.81 and 2.51, respectively, for bonds and 1.89 and 1.77, respectively, for preferred stock. The improvement in first mortgage bond and preferred stock coverages is primarily due to improved earnings in 1985.

Capital Requirements The Company currently estimates that gross property additions during the period 1986 through 1988 will total approximately \$3.9 billion. These estimated additions are based upon the Company's current ownership interests in the generating units under construction and include AFUDC (net of income taxes) of \$851 million.

The construction program is reviewed periodically, and actual construction costs to be incurred may vary from the above estimates because of factors such as

changes in business conditions, fluctuating rates of load growth; environmental requirements; design changes in nuclear plants to meet changing requirements; unforeseen nuclear plant licensing requirements; equipment delivery schedules; increasing costs of labor, equipment and materials; cost of capital and the granting of timely and adequate wholesale and retail rate increases by appropriate commissions. Georgia Power's construction program includes Plant Scherer (fossil) located near Forsyth, Plant Vogtle (nuclear) located near Augusta and the Rocky Mountain Hydro Project located near Rome.

The construction budget estimates set forth above reflect the Company's announcement on August 5, 1985 of an increase of \$472 million (15.3%) in the cost estimate for Plant Vogtle, a two-unit nuclear generating facility, and a three-month delay in the planned fuel load and commercial operation dates for Unit No. 1 of the plant. Estimated total plant additions at completion for the entire plant (including all co-owners' financing costs and contingency allowances) have been increased from \$7.2 billion to \$8.4 billion. See Note 3 to the financial statements for additional information.

continued

Management's Discussion & Analysis

Approximately \$119 million will be required in the 1986 to 1988 period in connection with the present sinking fund requirements and maturities of long-term debt and preferred stock subject to mandatory redemption. The short-term Pollution Control Bond Anticipation Notes of \$36.4 million are due during 1986. The Company intends to refund the notes with long-term Pollution Control Bonds.

Regulatory Matters The GPSC has engaged the consulting firm of O'Brien-Kreitzberg & Associates (OKA) and its subcontractors to conduct a study of the Company's construction program, including decisions relating to planning, design, licensing and construction of Plant Vogtle. See "Prudence Audits" in Note 3 to the financial statements for further information.

The GPSC also has commenced a proceeding concerning a framework for a phase-in of Plant Vogtle's costs. The Company's filing in such proceeding presents a plan under which its investment in each unit of Plant Vogtle would be phased into rate base in equal increments over a three-year period beginning with the date of commercial operation of such unit. While a phase-in would moderate the effect on the Company's customers of inclusion of the plant in rate base, the resulting delay in the Company's recovery of its investment may adversely affect earnings, cash flow and cost of capital. See "Phase-In Plans" in Note 3 to the financial statements for further information.

It will be necessary for the Company to finance part of its construction program from the issuance of preferred stock and long-term debt. The Company must receive approval of the GPSC and the SEC before issuing such senior securities. See "Financing" in Note 3 to the financial statements for further information on the Company's financing applications.

A study by a consulting firm commissioned by the Consumers' Utility Counsel of the State of Georgia has concluded that cancellation of Plant Vogtle will provide substantial savings to ratepayers. Management believes that the methodology and assumptions used in this study are wrong and, as such, the conclusions of the study are without merit.

The GPSC's order effective May 16, 1985, granting the Company's request for financing authority included restrictions related to the Rocky Mountain project. The GPSC's financing order concludes that completion of the Rocky Mountain pumped storage project is not economically justifiable and reasonable and withholds authorization for the Company to spend funds from the approved securities issuances on that project. The Company has determined to delay the planned commercial operation date of the Rocky Mountain project from 1991 to 1999. Such action is subject to approval by the Federal

Energy Regulatory Commission (FERC) of an appropriate amendment to the Company's license for the project. The receipt of such amendment cannot be assured. If the Company does not obtain an appropriate amendment to its FERC license, the Rocky Mountain project may be cancelled. In such event, the recovery of the project's costs cannot be assured. The Company is also exploring the sale of the project. At December 31, 1985, the Company's investment in Rocky Mountain amounted to approximately \$163 million.

Future Considerations for Capital Requirements

The U.S. Environmental Protection Agency has promulgated new air quality control regulations relating to the stack height requirements of the Clean Air Act. The ultimate impact of these regulations cannot be accurately determined until the state environmental agencies determine what actions must be taken by the Company to comply with the regulations. However, it is expected that either the use of more expensive low-sulfur fuel or construction of costly flue-gas desulfurization equipment may be required at certain facilities.

In addition, legislation being considered by Congress concerning acid rain would make additional pollution control equipment compulsory for certain coal-fired electric power plants. The enactment of legislation mandating reductions in sulfur dioxide emissions in the service area of the Company would substantially increase the Company's capital requirements and operating costs.

Tax legislation has been proposed that would eliminate investment tax credits and curtail cash flow derived from deferred income taxes. If legislation is ultimately passed which contains provisions which reduce internal cash flow, the Company will be required to obtain the funds from other sources, primarily the capital markets.

STATEMENTS OF

Income IN THOUSANDS

Georgia Power Company

Years Ended December 31	1985	1984	1983
Operating Revenues	\$ 3,444,298	\$ 3,132,880	\$ 2,730,574
Operating Expenses			
Operation —			
Fuel	1,077,092	1,000,434	884,137
Purchased and interchanged power, net	455,412	429,522	339,958
Other	482,468	412,803	361,642
Maintenance	254,510	228,377	190,766
Depreciation and amortization	201,524	191,205	176,735
Taxes other than income taxes	120,320	106,908	95,797
Federal and state income taxes	311,151	268,654	231,535
Total operating expenses	<u>2,902,477</u>	<u>2,637,903</u>	<u>2,280,000</u>
Operating Income	541,821	494,977	450,574
Other Income (Expense)			
Allowance for equity funds used during construction	227,950	162,057	107,682
Gains on sales of facilities	—	48,914	—
Interest income	41,546	34,074	37,231
Other, net	(3,398)	(601)	(893)
Income taxes applicable to other income	(9,114)	(37,678)	(14,924)
Income Before Interest Charges	798,805	701,743	579,667
Interest Charges			
Interest on long-term debt	421,764	351,855	315,445
Allowance for debt funds used during construction	(216,233)	(150,931)	(99,845)
Amortization of debt discount, premium and expense, net	2,335	1,680	1,485
Interest on interim obligations	20,516	13,387	—
Other interest charges	10,593	8,416	2,461
Net interest charges	<u>238,975</u>	<u>224,407</u>	<u>219,544</u>
Net Income	559,830	477,336	360,123
Dividends on Preferred Stock	66,113	55,617	55,568
Net Income After Dividends on Preferred Stock	\$ 493,717	\$ 421,719	\$ 304,555

STATEMENTS OF

*Earnings Retained
in the Business* IN THOUSANDS

Years Ended December 31	1985	1984	1983
Balance, beginning of period	\$ 723,064	\$ 528,223	\$ 413,299
Add (deduct):			
Net income after dividends on preferred stock	493,717	421,719	304,555
Cash dividends paid on common stock	(277,500)	(225,500)	(189,600)
Preferred stock issuance expense	(3,698)	(1,378)	(31)
Balance, end of period	\$ 935,583	\$ 723,064	\$ 528,223

STATEMENTS OF

Other Paid-In Capital IN THOUSANDS

Years Ended December 31	1985	1984	1983
Balance, beginning of period	\$ 1,415,800	\$ 1,213,800	\$ 990,800
Cash contribution to capital by parent company	315,000	202,000	223,000
Balance, end of period	\$ 1,730,800	\$ 1,415,800	\$ 1,213,800

Balance Sheets

IN THOUSANDS

Georgia Power Company

December 31,

1985

1985

1984

Utility Plant

Plant in service, at original cost	\$6,573,090	\$6,195,791
Less-accumulated provision for depreciation	1,859,166	1,701,484
	<u>4,713,924</u>	<u>4,494,307</u>
Nuclear fuel, at amortized cost	253,418	231,456
Construction work in progress: Plant Vogtle	2,435,310	1,891,550
Plant Scherer	599,996	372,663
Other	545,762	430,415
Total	<u>3,581,068</u>	<u>2,694,628</u>
Less—property-related accumulated deferred income taxes	920,047	873,024
Total	<u>7,628,363</u>	<u>6,547,367</u>

Other Property and Investments

Southern Electric Generating Company, at equity	16,946	16,804
Nonutility property, net	22,411	21,339
Total	<u>39,357</u>	<u>38,143</u>

Current Assets

Cash	13,986	22,608
Temporary cash investments, at cost	588,543	462,403
Receivables—		
Customer accounts receivable	231,591	233,505
Accrued utility revenues	55,403	44,504
Other accounts and notes receivable	108,584	86,665
Affiliated companies	32,614	32,627
Accumulated provision for uncollectible accounts	(5,563)	(2,600)
Fossil fuel stock, at average cost	210,604	289,807
Materials and supplies, at average cost	69,397	67,861
Prepayments	8,506	6,697
Vacation pay deferred	28,700	26,600
Total	<u>1,342,365</u>	<u>1,270,677</u>

Deferred Charges

Debt expenses—being amortized	12,450	11,218
Miscellaneous	8,083	12,667
Total	<u>20,533</u>	<u>23,885</u>

Total Assets

\$9,030,618 \$7,880,072

CAPITALIZATION AND LIABILITIES

Capitalization (See accompanying statements)

Common stock equity	\$3,013,707	\$2,486,172
Preferred stock	632,844	482,844
Preferred stock subject to mandatory redemption	120,000	127,500
Long-term debt	3,878,066	3,432,606
Total	<u>7,644,617</u>	<u>6,529,122</u>

Current Liabilities

Preferred stock sinking fund requirement	7,500	3,750
Long-term debt due within one year	48,229	21,324
Pollution control bond anticipation notes payable (Note 6)	36,400	109,356
Accounts payable—		
Affiliated companies	24,020	22,837
Other	330,551	316,759
Nuclear fuel disposal fee	1,295	25,452
Customer deposits	29,752	34,838
Taxes accrued—		
Federal and state income	23,747	98,264
Other	68,281	53,174
Interest accrued	136,279	117,759
Vacation pay accrued	28,700	26,600
Miscellaneous	60,965	37,874
Total	<u>795,719</u>	<u>857,987</u>

Deferred Credits and Other Liabilities

Accumulated deferred investment tax credits	572,509	471,640
Miscellaneous	17,773	11,323
Total	<u>590,282</u>	<u>482,963</u>

Commitments and Contingent Matters (Notes 3, 4, 7, and 8)

Total Capitalization and Liabilities	<u>\$9,030,618</u>	<u>\$7,880,072</u>
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STATEMENTS OF

Capitalization IN THOUSANDS

Georgia Power Company

December 31	1985	% of Total	1984	% of Total
Common Stock Equity				
Common stock (without par value) authorized 15,000,000 shares, outstanding 7,761,500 shares	\$ 344,250		\$ 344,250	
Other paid-in capital	1,730,800		1,415,800	
Premium on preferred stock	3,074		3,058	
Earnings retained in the business	935,583		723,064	
Total common stock equity	3,013,707	39.4%	2,486,172	38.1%
Cumulative Preferred Stock (without par value) authorized 26,900,000 shares, outstanding 17,578,439 shares				
Class				
\$100 stated value—				
\$4.60 to \$6.60 Series	117,844		117,844	
\$7.72 to \$7.80 Series	105,000		105,000	
\$8.20 to \$9.08 Series	35,000		35,000	
\$25 stated value—				
\$2.52 Series	50,000		50,000	
\$2.56 Series	50,000		50,000	
\$3.00 Series	50,000		—	
\$3.44 Series	75,000		75,000	
Adjustable Rate— at January 1, 1986:				
9.72%	50,000		50,000	
8.72%	50,000		—	
9.17%	50,000		—	
Total [annual dividend requirement \$57,475(000)]	632,844	8.3	482,844	7.4
Cumulative Preferred Stock Subject to Mandatory Redemption (without par value) authorized and outstanding 5,100,000 shares				
\$25 stated value—				
\$2.75 Series	52,500		56,250	
\$3.76 Series	75,000		75,000	
[annual dividend requirement \$17,055(000)]				
Less amount due within one year	7,500		3,750	
Total, excluding amount due within one year	120,000	1.6	127,500	1.9
Long-Term Debt				
First Mortgage Bonds				
Maturity	Interest Rates			
May 1, 1985	3½%	—	11,988	
April 1, 1986	3½%	12,000	12,000	
June 1, 1987	5¼%	8,978	8,978	
March 1, 1988	4½%	24,000	24,000	
November 1, 1990	4½%	12,000	12,000	
October 1, 1991	17½%	121,250	122,500	
1991-1995	4½% to 4¾%	127,500	127,500	
1996-2000	5½% to 11½%	402,823	402,823	
2001-2005	7½% to 11½%	825,968	825,968	
2006-2010	9½% to 14½%	548,000	548,000	
2011-2015	13½% to 16¼%	689,500	694,000	
Total first mortgage bonds		2,772,019	2,789,757	
Other long-term debt (Note 6)		1,203,065	702,946	
Unamortized debt premium (discount), net		(48,789)	(38,773)	
Total long-term debt [annual interest requirement \$465,714 (000)]		3,926,295	3,453,930	
Less amount due within one year		48,229	21,324	
Long-term debt, excluding amount due within one year		3,878,066	3,432,606	52.6
Total Capitalization (Note 6)	\$ 7,644,617	100.0%	\$ 6,529,122	100.0%

STATEMENTS OF

Sources of Funds for Gross Property Additions

IN THOUSANDS

Georgia Power Company

Years Ended December 31	1985	1984	1983
Funds from Operations:			
Net income	\$ 559,830	\$ 477,336	\$ 360,123
Add (deduct) principal noncash items—			
Depreciation and amortization	248,256	219,301	209,733
Deferred income taxes, net	104,102	145,266	143,511
Deferred investment tax credits	115,144	61,252	83,266
Allowance for equity funds used during construction	(227,950)	(162,057)	(107,682)
	<u>799,382</u>	<u>741,098</u>	<u>688,951</u>
Less—			
Dividends on common stock	277,500	225,500	189,600
Dividends on preferred stock	66,113	55,617	35,368
	<u>343,613</u>	<u>281,117</u>	<u>245,168</u>
Net funds provided from operations	<u>455,769</u>	<u>459,981</u>	<u>443,783</u>
Funds from Financings and Capital Contributions:			
First mortgage bonds	—	150,000	125,000
Bonds retired, reacquired, or refunded at maturity	(17,738)	(26,084)	(18,273)
Preferred stock	150,000	50,000	—
Preferred stock reacquired	(3,750)	(2,380)	(4,378)
Capital contributions from parent company	315,000	202,000	223,000
Pollution control bonds	500,962	190,577	28,827
Increase (decrease) in other long-term debt	(843)	(276)	3,617
Pollution control bond anticipation notes payable	(72,956)	109,356	—
Net funds provided from financings and capital contributions	<u>870,675</u>	<u>673,193</u>	<u>357,793</u>
Funds from Other Sources:			
Decrease (increase) in temporary cash investments	(126,140)	(164,540)	238,746
Decrease (increase) in other net current assets (excluding notes payable and long-term debt and preferred stock due within one year)	24,485	108,400	(64,287)
Sales of property, net book value	—	269,283	—
Other — net (including allowance for equity funds used during construction)	159,393	50,529	39,239
Net funds provided from other sources	<u>57,738</u>	<u>263,672</u>	<u>213,698</u>
Gross Property Additions [including allowance for funds used during construction in the amount of \$337,671(000) in 1985, \$240,798(000) in 1984 and \$158,455(000) in 1983]	<u>\$ 1,384,182</u>	<u>\$ 1,396,846</u>	<u>\$1,015,274</u>

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies:

General. The Company is a wholly owned subsidiary of The Southern Company which is the parent company of four operating companies, a system service company, Southern Electric International, Inc. (International) and Southern Electric Investments, Inc. (Investments). The operating companies provide electric service in four southeastern states. Contracts among the companies dealing with jointly owned generating facilities, interconnecting transmission lines, and exchange of electric power are regulated by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission (SEC). The system service company provides, at cost, technical and other specialized services to The Southern Company and to each of the subsidiary companies. International markets to utilities and industrial concerns the technical expertise of the Southern electric system in planning and operating electric power facilities. Investments was formed in 1985 for the purpose of researching, developing, and investing in new business opportunities.

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

Utility Plant. Utility plant is stated at original cost. This cost includes appropriate administrative and general costs; payroll-related costs such as taxes, pensions, 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 accounts. The cost of property replacements (exclusive of minor items of property) is charged to utility plant.

Revenues. The Company accrues revenues for service rendered but unbilled.

Fuel Costs. Fuel costs are expensed as the fuel is used. The Company is authorized by state law and FERC regulations to recover fuel costs and net purchased energy costs through fuel cost recovery provisions which may be adjusted as necessary to reflect increases or decreases in such costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current rates. (See Note 2 for recent regulatory events concerning fuel cost recovery.)

The cost of nuclear fuel is amortized to fuel expense based on the estimated thermal units utilized to generate electric energy and includes a provision for the disposal of spent nuclear fuel. Total charges for nuclear fuel included in fuel expense amounted to \$39,722,000 in 1985, \$17,851,000 in 1984 and \$22,240,000 in 1983. The Company has a contract with the Department of Energy (DOE) that provides for the permanent disposal of spent nuclear fuel. The services provided by DOE are scheduled to begin in 1998. Pending permanent disposition of the spent fuel, sufficient storage capacity is presently available at Plant Hatch until the year 2001 and will be available at Plant Vogtle until the year 2003.

Pension Costs. The Company has a defined benefit, trustee, and noncontributory pension plan which covers substantially all regular employees. The policy of the Company is to fund each year's accrued pension cost as determined using its actuarial cost method, the "entry age normal method with frozen initial liability." In 1984, changes were made in certain actuarial assumptions used in determining annual plan cost and contributions to reflect plan experience. The most significant changes were an increase in the assumed rate of return on plan investments from 5% to 7% and an increase in the assumed annual rate of salary increases from 4% to 6%. These changes decreased 1984 contributions to the plan by \$15,669,000. Accrued pension cost amounted to \$34,858,000 in 1985, \$33,617,000 in 1984 and \$46,304,000 in 1983 which represented 7.1%, 7.3% and 11.2%, respectively, of employee salaries and wages in each year. Of these amounts, \$16,535,000 in 1985, \$16,407,000 in 1984 and \$25,672,000 in 1983 were charged to operating expenses, and the balance was charged to construction and other accounts. In 1985 and 1984, the Company also provided approximately \$12,181,000 and \$13,000,000, respectively, to cover the estimated cost of early retirement incentive programs. Accumulated pension benefit information as of the valuation dates (January 1 of each year) follows (in thousands):

	1985	1984
Actuarial present value of accumulated plan benefits—		
Vested	\$274,826	\$256,710
Nonvested	5,986	3,684
Total actuarial present value of accumulated plan benefits	\$280,812	\$260,394
Weighted average rates of return assumed in determining actuarial present value of accumulated plan benefits	8%	8%
Net assets available for benefits	\$51,052	\$456,318

The actuarial present value of accumulated plan benefits was determined on the basis of accrued benefits as of January 1 of the respective years, whereas the plan is funded based on the premise that the plan will continue in existence, which requires that future events be considered. Financial Accounting Standards Board Statement No. 87 ("Employers' Accounting for Pensions"), which must be implemented in 1987 and 1989, or earlier, will require changes in the Company's accounting for pension costs. These changes are not expected to materially impact the Company's financial position or the results of operations. However, pension costs are expected initially to be somewhat lower but more volatile than in the past.

The Company also provides certain health care and life insurance benefits for retired employees. Substantially all employees will become eligible for these benefits if they reach normal retirement age while still working for the Company. The costs of such benefits are recognized as payments are made and amounted to \$6,041,000 and \$5,550,000 for 1985 and 1984, respectively.

Vacation Pay. The Company's employees earn their vacation in one year and take it in the subsequent year. However, for ratemaking purposes vacation pay is recognized as an allowable expense only when paid. Consistent with this ratemaking treatment, the Company accrues a current liability for earned vacation pay and records a current asset representing the future recoverability of this cost. Such amounts were \$28,700,000 and \$26,600,000 at December 31, 1985 and 1984, respectively. In 1986, approximately 59% of the 1985 vacation liability will be expensed, and the balance will be charged to construction and other accounts.

Depreciation. Depreciation is provided on the original cost of depreciable utility plant in service, principally on a straight-line basis over the estimated composite service life of the property. The depreciation provisions approximated 3.7% in 1985, 1984 and 1983 of the average cost of depreciable utility plant. Such provisions include a factor to provide for the expected cost of decommissioning nuclear facilities. This factor is currently based on an estimated decommissioning cost (based on ratemaking treatment) of approximately \$32,000,000 each for the Company's portion of the two units at Plant Hatch. The Company's current estimate of the decommissioning cost is approximately \$73,000,000 for the Company's portion of each unit. An updated estimate will be included in the next retail rate application. 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.

Income Taxes. The Company, which is included in the consolidated federal income tax return filed by The Southern Company, follows deferred income tax accounting for all income tax timing differences. Investment tax credits utilized are deferred and amortized over the average lives of the related property. Provisions for property-related deferred income taxes (e.g. accelerated cost recovery and liberalized depreciation) reflect consumption of part of the value of the plant and equipment to which they relate. Consequently, they are similar to depreciation provisions, and the related accumulated deferred income taxes, like the accumulated provision for depreciation, is a valuation reserve deducted from the plant investment in the accompanying Balance Sheets and in arriving at the rate base used in ratemaking proceedings. Other deferred income taxes are included in taxes accrued. See Note 5 for further information regarding income taxes.

Allowance for Funds Used During Construction (AFUDC). AFUDC represents the estimated debt and equity costs of capital funds which are applicable to utility plant while under construction. While cash is not realized currently from such allowance, it is realized over the service life of the plant through increased revenues resulting from a higher rate base and higher depreciation expense. For the years 1983 through 1985, the AFUDC rate was adjusted monthly and compounded semi-annually and ranged from 8.74% to 9.61%, net of income tax. The Company accounts for the income tax effect of 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 \$106,512,000, \$72,190,000 and \$49,072,000 in 1985, 1984 and 1983, respectively. AFUDC, net of income taxes, as a percent of net income after dividends on preferred stock amounted to 68%, 57%, and 52% for 1985, 1984 and 1983, respectively.

Note 2. Rate Proceedings:

Effective October 1, 1983, the GPSC granted the Company an annual increase in retail revenues of \$86,500,000 in addition to a \$108,900,000 increase previously granted effective September 7, 1983. A consumer group appealed the GPSC's final order to the Superior Court of Fulton County, alleging that the \$86,500,000 additional increase resulted from procedural irregularities. The Court dismissed the case, finding that the group lacked standing to seek judicial review. After further appeals, on December 2, 1985, the Supreme Court of Georgia affirmed a decision by the Court of Appeals to permit the consumer group to proceed with its appeal to the Superior Court of Fulton County.

On April 16, 1984, the Company filed a request for an increase in the fuel cost recovery rate with the GPSC. The GPSC granted an allowance which was deficient in covering the Company's prior fuel cost by approximately \$22,300,000. Disallowed costs related to coal procurement policies for Plant Scherer and to higher cost replacement energy while Plant Hatch Unit No. 2 (nuclear)

was out of service for replacement of recirculation pipe. Following appeals in the courts, the matter was returned to the GPSC for further consideration. In January 1986, the GPSC vacated its original disallowance order pending results of a prudence audit being conducted (see Note 3). In management's opinion, the outcome of this issue will not have a material impact on the financial position and results of operations of the Company.

Note
3. **Construction Program:**

The Company is engaged in a continuous construction program and presently estimates gross property additions to be approximately \$1.74 billion in 1986; \$1.12 billion in 1987; and \$1.02 billion in 1988. These estimated additions include AFUDC (net of income taxes) of \$416 million in 1986, \$269 million in 1987 and \$166 million in 1988. At December 31, 1985, substantial purchase commitments were outstanding in connection with the construction program.

Major Projects. The chart below shows the status of major construction projects as of December 31, 1985:

materials, cost of capital and the granting of timely and adequate wholesale and retail rate increases by appropriate commissions.

On August 5, 1985, the Company announced an increased cost estimate for Plant Vogtle, a two-unit nuclear generating facility under construction near Augusta, Georgia, and a three-month delay in the planned fuel load and commercial operation dates for Unit No. 1 of the plant. The Company now estimates that total plant additions at completion for its 45.7% ownership interest in Plant Vogtle will be approximately \$3.6 billion (including \$1.1 billion of AFUDC), an increase of \$472 million (15.3%) from the prior estimate. The revised budget for Plant Vogtle includes a contingency allowance of 10% of unexpended estimated direct construction costs and associated financing costs. Such contingency allowance for the Company's interest in the plant amounts to \$84 million (including \$10 million of AFUDC). The estimated total cost of the plant at completion (including all co-owners' financing costs and contingency allowances) has been increased from \$7.2 billion to \$8.4 billion. The current budget estimates for Plant Vogtle reflect, among

continued

**Generating Units
under Construction**
(dollars in thousands)

	Plant Scherer		Plant Vogtle (1)		Rocky Mountain (2)
	Unit No. 3	Unit No. 4	Unit No. 1 and Common Facilities	Unit No. 2	
Fuel Type	Coal	Coal	Nuclear	Nuclear	Pumped Storage
Planned Commercial Operation Date	1987	1989	1987	1988	1999
Current Company Ownership	75.0%	100.0%	45.7%	45.7%	100.0%
Kilowatts of Nameplate Capacity (current ownership)	613,500	818,000	530,120	530,120	847,800
Total Plant Additions through December 31, 1985	\$396,349	\$203,647	\$2,068,619	\$ 382,424	\$ 163,077
Estimated Plant Additions at Completion excluding AFUDC	\$416,000	\$617,000	\$1,773,000	\$ 706,000	\$ 818,000
Estimated AFUDC at Completion (3)	\$ 97,000	\$154,000	\$ 781,000	\$ 297,000	\$ 375,000
Estimated Total Plant Additions at Completion	\$513,000	\$771,000	\$2,554,000	\$1,003,000	\$1,193,000
Estimated Percentage of Completion at December 31, 1985 (4)	86%	17%	88%	53%	21%

NOTES:

(1) Dollar amounts for Plant Vogtle exclude nuclear fuel.

(2) The completion of the Rocky Mountain project has been deferred from 1991 to 1999.

(3) Estimated AFUDC at completion assumes no phase in of plants into rate base before or after completion of construction.

(4) Plant Vogtle estimated percentage of completion figures are based on quantities of materials installed and reflect an equal allocation of common facilities between Unit No. 1 and Unit No. 2.

The construction program is reviewed periodically, and actual construction costs to be incurred and planned commercial operation dates may vary from current estimates because of factors such as changes in business conditions; fluctuating rates of load growth; environmental requirements; design and licensing changes to meet regulatory requirements; equipment delivery schedules; increasing costs of labor, equipment and

other things, a downward revision of projected productivity rates and an increase in costs for greater quantities of electrical materials (wire, cable and conduit).

In August 1985, the Company also decreased its estimated expenditures relating to non-generating categories and other major generating projects for the remaining period of construction of Plant Vogtle by amounts which more than offset the increase in the cost estimate for its interest in Plant Vogtle.

Unit No. 1 of Plant Vogtle is now planned for commercial operation in June 1987. The planned commercial operation date of September 1988, for Unit No. 2, has not been changed. If there is further delay in commercial operation of either unit, then the AFUDC charged to the Company's share of Plant Vogtle will increase approximately \$21 million per month (based on the current cost estimate) in the case of Unit No. 1 and common facilities and \$8 million per month in the case of Unit No. 2. Further delay in commercial operation of either unit may also result in a substantial increase in the direct construction costs of such unit.

During 1985, the Company has determined to delay the planned commercial operation date of the Rocky Mountain pumped storage hydroelectric project from 1991 to 1999. Such action is subject to approval by the FERC of an appropriate amendment to the Company's license for the project. The receipt of such amendment cannot be assured. If the Company does not obtain an appropriate amendment to its FERC license or negotiate a sale of the project, the project may be canceled. In such event, the recovery of the project's costs cannot be assured. As of December 31, 1985, the Company's investment in the project amounted to approximately \$163,000,000. Effective December 1985, AFUDC accrued on the Rocky Mountain project is not being credited to income or included in gross property additions. The outcome of this matter currently cannot be determined.

Licensing. Before operation of a nuclear unit, an operating license for such unit must be obtained from the Nuclear Regulatory Commission (NRC). Procedures for obtaining operating licenses afford an opportunity for interested parties to request a public hearing on health and safety, environmental and antitrust issues. Issuance of operating licenses by the NRC may be conditioned upon requiring substantial changes in proposed operation or upon installing additional equipment to meet upgraded or new safety or environmental regulations, with consequent delay and added cost.

The Company applied for operating licenses for Plant Vogtle Unit Nos. 1 and 2 in September 1983. Following a detailed review of the applications, the NRC staff issued the required Final Environmental Statement and Safety Evaluation Report in March 1985 and June 1985, respectively. In August 1985, the Advisory Committee on Reactor Safeguards issued a report advising the NRC, that subject to completion of construction, staffing, preoperational testing, and resolution of the remaining open issues identified by the NRC staff, there is reasonable assurance that the Vogtle units can be operated at full power without undue risk to the health and safety of the public.

The Atomic Safety and Licensing Board (ASLB) of the NRC will ultimately recommend to the NRC whether the Vogtle licenses should be granted. The ASLB held a Prehearing Conference in May 1984 to define the issues to be addressed in the Plant Vogtle licensing hearings. Subsequently, the ASLB granted intervenor status to two organizations and docketed certain of their contentions for consideration during the public licensing hearings. All but three of the contentions have been dismissed by the ASLB. The contentions admitted by the ASLB for public hearing involve possible ground water contamination, the ability of certain valves to operate under emergency conditions and of certain organic materials to withstand long-term exposure to radiation, and the adequacy of the Company's emergency planning. The Company's request for summary judgement on the emergency planning contention is currently pending. The public hearings are now scheduled to begin in March 1986. Another step in the licensing process is an emergency drill involving Company personnel and various government agencies, now planned for May 1986. Interveners will have the opportunity to file additional contentions based on the results of that drill. If the licensing process proceeds on schedule, fuel loading at Unit 1 is expected to take place in December 1986. The Company would then begin low-power testing and move to full-power operation and commercial start-up as early as June 1987.

Phase-In Plans. By order dated July 25, 1985, the GPSC directed the Company to file a proposed plan for phasing Plant Vogtle costs into retail rates. The Company's response presented a base case under which its investment in each unit of Plant Vogtle would be phased into rate base in equal increments over a three-year period beginning with the date of commercial operation of each unit. Additional financing costs resulting from the deferral would be deferred and amortized over years four through ten following commercial operation. The Company also presented three options to the base case.

Under the first option, the Company's contractual obligations to purchase declining fractions of the capacity of Plant Vogtle owned by Oglethorpe Power Corporation (OPC) and the Municipal Electric Authority of Georgia (MEAG) would be leveled over the term of such obligations. The second option would divide costs associated with common facilities equally between each unit. The third option proposed by the Company is a combination of options one and two.

The Company's investment in each unit, including its direct construction costs and associated interest costs, as well as the capacity costs of the declining buybacks from OPC and MEAG, would be subject to the phase-in. Other Plant Vogtle costs, including operation and maintenance, depreciation, property taxes and nuclear fuel, as well as related investment tax credit amortization and accumulated deferred income taxes, would be handled through the normal ratemaking process.

In December 1985, the GPSC held preliminary hearings regarding the above phase-in proposal and further hearings were held in February 1986. While a phase-in would moderate the effect on the Company's consumers of inclusion of the plant in rate base, the resulting delay in recovery of its investment may adversely affect earnings.

cash flow and cost of capital. In addition, the Financial Accounting Standards Board has issued proposed rules for phase-in plans. The adoption of a phase-in plan that is not in conformity with those rules could adversely affect earnings.

At the commencement of the 1986 legislative session, a bill was pending before the Georgia House of Representatives which would require the GPSC to phase the Company's prudently incurred construction costs for each unit of Plant Vogtle into its retail rate base in equal annual installments over a period of not less than three nor more than six years from the date of commercial operation of such unit. The bill was passed by the Georgia Senate in the 1985 session. Further action on the bill is not expected in light of the aforementioned action by the GPSC regarding Vogtle phase-in.

Prudence Audits. In June 1985, the GPSC engaged the consulting firm of O'Brien-Kreitzberg & Associates (OKA) and its subcontractors to conduct audits examining the prudence of the Company's decisions relating to planning, design, licensing, and construction of Plant Vogtle and Plant Scherer Unit Nos. 3 and 4, as well as the prudence of the Company's load forecast and generation expansion plans. Certain fuel-related matters are also being examined, including the Company's coal procurement policies and practices, its decision to burn low-sulfur coal at Plant Scherer rather than install flue-gas desulfurization equipment and certain aspects of the Company's operation of Plant Scherer Unit Nos. 1 and 2, as well as the cracking and subsequent replacement of the recirculation system piping at Plant Hatch Unit No. 2, an operating nuclear facility.

Management believes that the Company's construction and other costs have been prudently incurred. However, similar studies of other utilities' construction programs, including all such studies performed by OKA, have recommended exclusions of significant amounts from rate base and cost recovery. Any costs said to have been imprudently incurred by the Company may be excluded from rate base and cost recovery. Under present accounting rules, such exclusion would not require a write-down of the plant cost if the Company sustains an earnings capacity related to the plant that justifies carrying the plant at its full cost. However, the Financial Accounting Standards Board has proposed a change in the accounting for rate regulated enterprises that would require immediate write-off of such excluded costs.

A study released in December 1985 by a consulting firm commissioned by the Consumers' Utility Counsel of the State of Georgia has concluded that cancellation of Plant Vogtle will provide substantial savings to ratepayers. Management believes that the methodology and assumptions used in this study are wrong and, as such, the conclusions of the study are without merit.

Financing. The Company's gross property additions are expected to be financed from the issuance of preferred stock and long-term debt, the receipt of common equity contributions from The Southern Company and internal sources. Should the Company be unable to obtain funds from such methods of financing, the Company would use short-term indebtedness or other alternative and possibly costlier means of financing or it could become necessary to cancel or delay certain construction projects.

A delay could result in significant additional construction costs. In the event of cancellation of any project, there is no assurance that the Company would be able to recover the costs associated with such project.

During 1985, the Company issued \$550 million in long-term pollution control obligations and \$150 million in preferred stock. As of December 31, 1985, the Company had revolving credit agreements aggregating \$1.565 billion with 11 banks. The agreements are effective until December 31, 1990. During the term of these agreements, the Company may convert short-term borrowings into term loans. Such term loans would be payable in 12 equal quarterly installments during the years 1991 through 1993, or at an earlier date at the Company's option. Such term loans would be subject to authorization from the GPSC and the SEC. Additionally, the Company has \$120 million in other lines of credit subject to annual renewal.

In connection with the credit agreements and the lines of credit, the Company has agreed to pay certain fees and/or maintain compensating balances with the banks. These balances are not legally restricted as to withdrawal by the Company. Average compensating balances during 1985 were approximately \$9.2 million and at December 31, 1985, were approximately \$2.8 million.

The GPSC's May 16, 1985 order authorizing the Company's 1985 financings provides that "no portion of the approved securities or any monies associated with these securities be allowed for ratemaking purposes until such time as there has been a thorough study of the prudence of (the Company's) construction programs which have been used to justify the need for these securities." The order further states the Company "is placed on notice that the (GPSC) will scrutinize closely any future financing application, especially one based on increased projected costs to complete Plant Vogtle...to ensure that (the Company) has sought sources of financing other than (GPSC) approved securities." The GPSC's 1985 financing order also concludes that completion of the Rocky Mountain pumped storage project is not economically justifiable and reasonable and withholds authorization for the Company to spend funds from the approved securities issuances on that project.

In its pending GPSC financing application, the Company requests authorization to issue up to \$550 million in first mortgage bonds or pollution control obligations and up to \$100 million in preferred stock through March 1987. The application also seeks permission to borrow up to \$1 billion in term loans from the banks participating in the revolving credit agreements. The amount of term loan authority available to the Company will subsequently be reduced by the net cash proceeds realized from the sale of first mortgage bonds or pollution control obligations, preferred stock, or capital contributions from its parent, The Southern Company. A hearing was held in January 1986. The Company is currently preparing, at the request of the GPSC, additional economic justification of the Company's construction program. Hearings are scheduled to resume in late March.

In view of these cumulative developments occurring in 1985, the final outcome of the regulatory process related to Plant Vogtle currently cannot be determined.

continued

Note Facility Sales, Joint Ownership Agreements and Off-System Sales Agreements:
4.

Facility Sales. The Company has sold undivided interests in Plants Hatch, Wansley, Scherer and Vogtle in varying amounts, together with transmission facilities, to Oglethorpe Power Corporation (An Electric Membership Generation & Transmission Corporation) (OPC), the Municipal Electric Authority of Georgia, a public corporation and an instrumentality of the State of Georgia (MEAG) and the City of Dalton, Georgia. These sales resulted in a gain, after income taxes, of \$21,250,000 in 1984. There were no such sales in 1985 or 1983. The gain in 1984 resulted primarily from the sale of a 5% additional undivided interest in Plant Vogtle to MEAG. The Company has also sold a 25% interest in Plant Scherer Unit No. 3 to Gulf Power Company, an affiliate.

Joint Ownership Agreements. At December 31, 1985, the Company's percentage ownership and investment, exclusive of nuclear fuel, in these jointly owned facilities were as follows (dollars in thousands):

Type	Total Megawatt Capacity	Percent Company Ownership*	Plant in Service	Construction Work in Progress
Plant Hatch Nuclear	1,630	50.1%	\$650,926	\$ 61,102
Plant Wansley Coal	1,779	53.5	288,939	440
Plant Scherer— Unit Nos. 1 and 2 . . . Coal	1,636	8.4	82,358	83
Unit No. 3 Coal	818	75.0	—	356,211
Facilities Common to All Units	—	23.5	68,325	9,619
Facilities Common to Unit Nos. 3 and 4	—	87.5	—	33,762
Plant Vogtle Nuclear	2,320	45.7	15,733	2,435,310

*Joint Owners are OPC, MEAG and the City of Dalton except for Plant Scherer Unit No. 3, and facilities common to Unit Nos. 3 and 4 of which Gulf Power Company, an affiliate, owns interests of 25% and 12.5%, respectively.

The Company has contracted to complete those jointly owned units under construction and to operate and maintain the units as agent for the joint owners. Each participant provides its own construction financing. The Company would have to obtain additional financing in the event of a participant being unable to obtain sufficient financing. The Company includes its proportionate share of plant operating expenses in the corresponding operating expenses in the Statements of Income.

In connection with these sales, the Company has entered into agreements whereby the Company is required to purchase declining fractions of OPC's and MEAG's capacity and energy of the respective generating units during periods of up to ten years following commercial operation (and with regard to a portion of a 5% interest in Plant Vogtle owned by MEAG, until the later of the retirement of the plant or the latest stated maturity date of MEAG's bonds issued to finance such ownership interest), with the payments for such capacity made whether or not any capacity is available. The energy cost of such purchases is a function of each entity's variable operating costs. The cost of such capacity and energy is included in purchased and interchanged power in the Company's Statements of Income. The capacity payments totaled \$187,131,000, \$211,352,000 and \$115,737,000 in 1985, 1984 and 1983, respectively. The current projected capacity payments for the next five years are as follows: \$148 million in 1986; \$372 million in 1987; \$528 million in 1988; \$546 million in 1989; and \$459 million in 1990. The increase in capacity payments in 1987 through 1990 reflects the additional buybacks from the scheduled commercial operation of Plant Vogtle Unit Nos. 1 and 2.

The Company and an affiliate, Alabama Power Company, 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 the units has been sold equally to the Company and Alabama Power Company under a contract expiring in 1994 which, in substance, requires payments sufficient to provide for the operating expenses, taxes and debt service, including return on investment, whether or not SEGCO has any capacity and energy available. The Company's share of such amounts totaled \$93,908,000, \$82,570,000 and \$80,704,000 in 1985, 1984 and 1983, respectively, and these amounts are included in purchased and interchanged power in the Statements of Income. At December 31, 1985, the capitalization of SEGCO consisted of \$33,892,000 of equity and \$50,467,000 of long-term debt on which the annual interest requirement is \$4,062,000.

Off-System Sales Agreements. The Company and its three affiliated operating companies of the Southern electric system have entered into several long-term agreements for the sale of capacity and energy to other utilities. Some of these agreements are non firm and are based on capacity of the system in general. Others are firm and are specific to certain generating units. Since the energy is generally sold at cost under these agreements, it is the capacity revenues that primarily impact the Company's profitability. Off-system capacity revenues have been as follows (in thousands):

Year	Unit Power Sales	Long-Term Non-Firm
1982	\$ —	\$ 41,831
1983	92,006	41,070
1984	112,352	66,972
1985	229,647	68,297

Long-term power is being sold to Florida Power & Light Company, Jacksonville Electric Authority, Florida Power Corporation and Mississippi Power & Light Company under contracts that expire in 1986. Similar contracts with Gulf States Utilities Company (Gulf States) and the City of Tallahassee, Florida, expire in 1992.

Unit power from Plant Scherer is being sold to Florida Power & Light Company, Jacksonville Electric Authority and Gulf States. These agreements average 952 megawatts for 1986. They reach a maximum of 1,946 megawatts in mid-1989, decline gradually thereafter, and expire in 1995.

Gulf States has requested that negotiations commence and proceed quickly for consideration of the elimination or suspension of capacity sales and purchases under its unit power sales agreement. That agreement provides for the purchase by Gulf States of approximately 190 megawatts of the Company's capacity during 1986, rising to a peak of 439 megawatts in 1989, declining thereafter and ending in May 1992. In making its request, Gulf States indicated that the electric requirements for its customers are below forecasted levels. During 1985, Gulf States purchased approximately 185 megawatts of capacity under the agreement, providing revenues of approximately \$63.3 million (including associated energy charges of \$25 million). The Company intends to discuss this matter with Gulf States, the outcome of which cannot now be determined.

Capacity and energy sales under unit power and other long-term power contracts with Florida Power & Light Company provided revenues of \$407,302,000 in 1985. These revenues accounted for 11.8% of the Company's total 1985 operating revenues.

Note 5. Income Taxes:

A detail of the federal and state income tax provisions is set forth as follows (in thousands):

	1985	1984	1983
Total provision for income taxes			
Federal—			
Currently payable	\$ 78,848	\$ 81,700	\$ 6,069
Deferred—Current year	153,651	209,304	195,215
—Reversal of prior years	(65,681)	(82,114)	(67,366)
Deferred investment tax credits	115,144	61,252	83,266
	<u>281,962</u>	<u>270,142</u>	<u>217,184</u>
State—			
Currently payable	22,171	18,114	13,647
Deferred—Current year	24,916	29,182	24,807
—Reversal of prior years	(8,784)	(11,106)	(9,145)
	<u>38,303</u>	<u>36,190</u>	<u>29,309</u>
Total	<u>320,265</u>	<u>306,332</u>	<u>246,493</u>
Less—			
Income taxes charged to other income	9,114	37,678	14,928
Federal and state income taxes charged to operations	<u>\$311,151</u>	<u>\$268,654</u>	<u>\$231,565</u>

Deferred income taxes result from the Company's use of accelerated methods of depreciation and other write-offs of property costs, as provided for by the in-

come tax laws, being currently greater than the book depreciation of such costs. Other deferred income taxes are provided for certain costs or revenues that are recognized for income tax purposes in different periods than for book purposes. Income taxes deferred in prior years are reversed (credited to income) when the book depreciation of property costs exceeds the related tax deductions or when other timing differences reverse. The provision for income taxes currently payable includes the tax effects of reversals of prior years' timing differences for which deferred income taxes were not provided. At December 31, 1985, the remaining balance of such timing differences was approximately \$132 million for which deferred income taxes of approximately \$65 million have not been provided.

The total provision for federal income tax as a percent of income before income tax amounted to 33.5%, 36.1%, and 37.6% for 1985, 1984 and 1983, respectively. The difference between the 1985, 1984 and 1983 rates and the federal statutory rate of 46% was due primarily to the exclusion from taxable income of the allowance for equity funds used during construction (12.5% in 1985, 10.0% in 1984 and 8.6% in 1983).

Note 6. Capitalization:

Common Stock Dividend Restrictions. The Company's first mortgage bond indenture contains various common stock dividend restrictions which remain in effect so long as the bonds are outstanding. At December 31, 1985, \$273,575,000 of retained earnings was restricted against the payment of cash dividends on common stock under terms of the mortgage indenture. The terms of the sinking funds for the Company's presently outstanding \$2.75 and \$3.76 Class A Preferred Stock prohibit the payment of cash dividends on common stock during a default in the performance of the sinking fund obligations. No such default has occurred.

The Company's charter limits cash dividends on common stock to 75% of net income available for such stock during a prior period of twelve months if, calculated on a corporate basis, the ratio of common stock equity to total capitalization, including retained earnings, adjusted to reflect the payment of the proposed dividend, is below 25% and to 50% of such net income if such ratio is less than 20%. At December 31, 1985, the ratio was 39%.

Cumulative Preferred Stock Subject to Mandatory Redemption. The \$2.75 Class A Preferred Stock has a cumulative sinking fund provision requiring the redemption of 150,000 shares annually through 1999 at the stated value of \$25.00 per share. The Company has the option to purchase and cancel the required number of shares annually. The gains on such reacquisitions amounted to \$16,000, \$160,000 and \$61,000 for the years 1985, 1984 and 1983, respectively, and are included with premium on preferred stock in the Company's Statements of Capitalization.

continued

The Company issued 3,000,000 shares of \$3.76 Class A Preferred Stock in 1981. On or before June 1, 1986, and annually through 2005, a total of 150,000 shares must be redeemed through the operation of a cumulative sinking fund at the stated value of \$25.00 per share. The Company has the option to purchase and cancel the required number of shares annually.

Adjustable Rate Preferred Stock. The Company has issued three series of Adjustable Rate Preferred Stock, each consisting of 2,000,000 shares with a stated value of \$25 per share. The dividend rate for each issue, determined in the month prior to each dividend period, is the highest of the Treasury Bill Rate, the Ten Year Constant Maturity Rate, and the Twenty Year Constant Maturity Rate (each as defined); minus a factor as indicated below for each issue. However, the applicable rate for each issue shall fall within the minimum and maximum rates indicated below:

	Issue		
	Dec. 1984	Oct. 1985	Dec. 1985
Rate reduction factor25%	1.25%	.80%
Minimum rate	6.50%	6.25%	6.25%
Maximum rate	14.50%	12.75%	12.75%
Rate for 4th Qtr. 1985	10.55%	9.53%*	9.30%*
Rate for 1st Qtr. 1986	9.72%	8.72%	9.17%

*Initial rates

Other Long-Term Debt. Details of other long-term debt are as follows (in thousands):

	1985	1984
Obligations incurred in connection with the sale by public authorities of tax-exempt pollution control and industrial development revenue bonds—		
5.95% to 13.75% due 2002 to 2012	\$ 417,500	\$417,500
11.625% to 12.25% due 2014	540,000	540,000
10.125% to 10.6% due 2015	550,000	—
	<u>1,507,500</u>	<u>957,500</u>
Less funds on deposit with trustee	414,863	365,825
	<u>1,092,637</u>	<u>591,675</u>
Capitalized lease obligations—		
Rail cars	11,354	13,607
Corporate headquarters building	95,341	92,577
Other office buildings	3,418	3,988
	<u>110,113</u>	<u>110,172</u>
Miscellaneous 6% note payable — due through 1986	315	1,099
	<u>\$1,203,065</u>	<u>\$702,946</u>

The Company has authenticated and delivered to trustees an aggregate of \$382,500,000 of its first mortgage bonds which are pledged as security for its obligations under pollution control and industrial development contracts. No interest on these first mortgage bonds is

payable unless and until a default occurs on the installment purchase or loan agreements. An aggregate of \$1.125 billion of the authorities' bonds are secured by a subordinated interest in specific property of the Company.

Assets acquired under capital leases are recorded in the Company's Balance Sheets as utility plant in service and the related obligation is classified as other long-term debt. The net book value of assets acquired under capitalized leases was \$106,877,000 and \$106,878,000 at December 31, 1985 and 1984, respectively. At December 31, 1985, the composite interest rate for the leased rail cars was 9.54%, the interest rate for the corporate headquarters lease was 8.23% and the composite interest rate for the other leased buildings was 5.44%.

The current portion of other long-term debt for each year through 1990 is as follows: \$2,836,000 in 1986; \$2,198,000 in 1987; \$2,798,000 in 1988; \$3,039,000 in 1989; and \$3,164,000 in 1990.

The lease agreement for the corporate headquarters building provides for payments which are minimal in early years and escalate through the first 20 years of the lease. Through October 1986, for the first six years of the lease, the payments are not sufficient to cover the interest requirements. The accrued interest in excess of the lease payments is included in the lease obligation. Beginning in the year 2009, the aggregate lease payments will be sufficient to cover the accrued interest and begin to reduce the capitalized lease obligation. For ratemaking purposes, the GPSC has treated the lease as an operating lease and has allowed only the lease payments in cost of service. The difference between the accrued expense and the lease payments allowed for ratemaking purposes is being deferred as a cost to be recovered in the future as ordered by the GPSC. At December 31, 1985 and 1984, the amounts deferred and included in plant in service in the Balance Sheets are \$34,650,000 and \$30,145,000, respectively.

Long-Term Debt Due Within One Year. The current portion of the Company's long-term debt is as follows (in thousands):

	1985	1984
Bond improvement (sinking) fund requirement	\$28,677	\$35,352
Less —		
Portion to be satisfied by pledging property additions	—	24,602
Bonds reacquired toward requirement	—	5,000
Remaining current cash requirement	<u>28,677</u>	<u>5,750</u>
11% series sinking fund requirement	5,000	5,000
Less bonds reacquired toward requirement	284	5,000
Remaining current cash requirement	<u>4,716</u>	<u>—</u>
First mortgage bond maturities	12,000	11,988
Current portion of other long-term debt	<u>2,836</u>	<u>3,586</u>
Total	<u>\$48,229</u>	<u>\$21,324</u>

The indenture's first mortgage bond improvement (sinking) fund requirement amounts to 1% of each outstanding series of bonds authenticated under the indenture prior to January 1 of each year, other than those securing

pollution control obligations. It must be satisfied by June 1 of each year by depositing cash or reacquiring bonds, or by pledging additional property equal to one and two thirds times the requirement. The 1986 requirement was met in January 1986 by depositing cash subsequently used to reacquire bonds. A separate sinking fund requirement of \$5 million per year exists specifically for the 11% bonds. Satisfaction of this requirement can, at the Company's option, also be applied toward satisfaction of the bond improvement fund requirement. The gains on reacquisitions of debt to satisfy sinking fund requirements are included in miscellaneous deferred credits in the balance sheets and are being amortized over the remaining life of the original issue.

Assets Subject to Lien. The Company's mortgage dated as of March 1, 1941, as amended and supplemented, securing the first mortgage bonds issued by the Company, constitutes a direct lien on substantially all of the Company's fixed property and franchises.

Pollution Control Bond Anticipation Notes Payable.

During 1984 and 1985, the Company incurred obligations in connection with the sales by public authorities of tax-exempt, short-term Pollution Control Bond Anticipation Notes to various banks as follows (in thousands):

	1985	1984
Amount outstanding January 1	\$469,000	\$ --
Notes issued	36,400	595,000
Notes retired or refunded with long-term debt	(469,000)	(126,000)
Amount outstanding at December 31 (due December 26, 1986)	36,400	469,000
Less funds on deposit with trustee	--	359,644
	<u>\$ 36,400</u>	<u>\$109,356</u>

Note 7. 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 fuel. In most cases, such contracts contain provisions for price escalations, minimum production levels and other financial commitments. Additional commitments for coal and for nuclear fuels will be required in the future to supply the Company's fuel needs.

Note 8. Nuclear Insurance:

Under the Price-Anderson Act, the Company maintains agreements of indemnity with the Nuclear Regulatory Commission 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 public liability claims that could arise from a single nuclear incident to \$650,000,000. Each reactor at the Company's nuclear plant is insured against this lia-

bility to a maximum of \$160,000,000 by private insurance (the maximum amount presently available) and the remaining coverage is 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 \$5,000,000 per incident for each licensed reactor operated by it but not more than \$10,000,000 per reactor to be paid in a calendar year. On the basis of its ownership interest in the two nuclear reactors now in service, the Company could be assessed a maximum of \$5,010,000 for any incident, but not more than \$10,020,000 to be paid in any one year.

The Company is a member of Nuclear Mutual Limited (NML), a mutual insurer established to provide property damage insurance in an amount up to \$500,000,000 for members' nuclear generating facilities. The Company is subject to a retrospective premium adjustment in the event that losses exceed accumulated funds. The Company's maximum assessment is limited to \$2,600,000 for the current policy year.

Additionally, the Company has policies that provide coverage up to \$635,000,000 for losses in excess of the \$500,000,000 NML coverage. This excess insurance is provided by Nuclear Electric Insurance Limited (NEIL), a mutual insurance company and American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters and covers both decontamination and debris removal and excess property damage. NEIL also covers the extra costs which would be incurred in obtaining replacement power during a prolonged accidental outage of a member's nuclear plant. Members are insured against the increased costs of replacement power up to \$3,000,000 per unit per week (starting 26 weeks after the outage) for one year and up to \$1,500,000 per unit per week for the second year. Under each of the NEIL policies, the Company is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer under that policy. The present maximum assessments for the Company for the current policy year would be approximately \$4,700,000 under the property damage policy and \$9,400,000 under the replacement power policy.

Note 9. Quarterly Financial Data (Unaudited):

Summarized quarterly financial information for 1985 and 1984 is as follows (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1985				
Operating revenues	\$816,271	\$861,167	\$956,360	\$810,500
Operating income	132,173	138,886	162,165	108,597
Net income after dividends on preferred stock	112,247	122,295	155,504	103,671
1984				
Operating revenues	\$742,102	\$773,798	\$884,285	\$732,695
Operating income	105,083	115,917	159,702	114,275
Net income after dividends on preferred stock	102,800	88,779	137,739	92,401

continued

Note Supplementary Information on Reporting the Effects of Inflation (Unaudited):

The following information is an estimate of the economic impact inflation had on Georgia Power and the common stockholder's investment during 1985. The information is presented in accordance with the general concepts set forth in Financial Accounting Standards Board Statement No. 33, as amended, and should be viewed as an estimate of the approximate effects of inflation, rather than as a precise measure. The current cost information is expressed

in average 1985 dollars as measured by the Consumer Price Index for all Urban Consumers.

The Company is subject to rate regulation and income tax laws that are based on the recovery of historical cost only. Therefore, inflation creates an economic loss because the Company is recovering its cost of investments in dollars that have less purchasing power. Conventional accounting for historical cost does not recognize this economic loss or the partially offsetting gain that arises through financing facilities with fixed money obligations, such as long-term debt and preferred stock.

**Supplementary Information
on the Effects of Inflation (Unaudited)**

(in millions of dollars)	Current Cost
Net utility plant at year-end (historical cost or net cost recoverable through depreciation was \$8,269.3)	\$13,940.3 (a)
Erosion of common stockholder's equity due to inflation:	
Additional depreciation	\$ 243.6
Adjustment of utility plant to net recoverable cost	(173.9)
Economic gain from holding fixed money obligations	(178.1)
Excess of general level of prices (\$508.8) in the current year over increase in specific price changes (\$290.4)	218.4
Net erosion of common stockholder's equity due to inflation	<u>\$ 110.0</u>

(in millions of dollars)	Average 1985 Dollars					Percentage Increase (Decrease) From 1981 to 1985
	1985	1984	1983	1982	1981	
Operating revenue	\$3,444.3	3,258.2	2,949.0	2,727.5	2,386.8	44.3%
Earnings on common stock (b)	\$ 383.7	347.6	246.0	193.1	76.0	404.9
Economic gain from holding fixed money obligations	\$ 178.1	161.9	155.6	141.7	276.6	(35.6)
Excess of the general level of prices over increase in specific price changes	\$ 218.4	72.6	97.8	31.9	34.5	533.0
Common stockholder's investment (net assets) at year-end	\$2,953.4	2,535.9	2,214.5	1,926.3	1,688.6	74.9
Return on average common equity (b)	% 13.98	14.63	11.88	10.68	4.53	208.6
Cash dividends declared	\$ 277.5	234.5	204.8	171.7	154.6	79.5
Average consumer price index	322.2	311.1	298.4	289.1	272.4	18.3

(a) Current cost of utility plant was determined primarily by applying the Handy-Whitman Index of Public Utility Construction Costs to the applicable historical costs.

(b) Adjusted to reflect the net erosion of common stockholder's equity as shown above. If only the additional depreciation were deducted from the reported amount of such earnings, adjusted earnings would be \$250.1, \$194.1, \$78.3, \$12.5, and \$(54.2), respectively.

Auditors' Report

To the Board of Directors of
Georgia Power Company:

We have examined the balance sheets and statements of capitalization of Georgia Power Company (a Georgia corporation) as of December 31, 1985 and 1984, 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, 1985. 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.

As more fully discussed in Note 3 to the financial statements, uncertainties exist with respect to the full recoverability of the Company's investments in the Plant Vogtle nuclear facility and the Rocky Mountain hydroelectric project. The outcome of the uncertainties related to Plant Vogtle cannot be determined until the related regulatory process is concluded. Resolution of the un-

certainty on the Rocky Mountain project depends upon the extension of the Company's Federal Energy Regulatory Commission license or other assurance that the project's costs can be recovered.

In our opinion, subject to the effect on the 1985 financial statements of such adjustments, if any, as might have been required had the outcome of the matters discussed in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Georgia Power Company as of December 31, 1985 and 1984, 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.

Atlanta, Georgia
February 7, 1986

Report of Management

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

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

The Company's independent public accountants (Arthur Andersen & Co.) provide an objective assessment of how well management meets its responsibility for fair financial reporting. Arthur Andersen & Co. regularly reviews the system of internal accounting

controls and performs such tests and other procedures as deemed necessary to reach and express an opinion on the fairness of the financial statements.

The Audit Committee of the Board of Directors, which is composed of four outside directors, provides a broad overview of management's financial reporting and control functions. At least three times a year this committee meets with management, the internal auditors, and the independent public accountants to ensure that these groups are fulfilling their obligations and to discuss auditing, internal control, and financial reporting matters. The internal auditors and independent public accountants have access to the members of the Audit Committee at any time.

Management believes that its policies and procedures provide reasonable assurance that the Company's operations are conducted with a high standard of business ethics. In management's opinion, the financial statements present fairly the financial position, results of operations, and sources of funds for gross property additions of Georgia Power Company subject to the resolution of the uncertainties regarding full recovery of the Company's investment in the Rocky Mountain and Plant Vogtle construction projects.

Board of Directors

Edward L. Addison
President
The Southern Company
Atlanta, 1983

H. Grady Baker, Jr.
Executive Vice President
and General Manager
Georgia Power Company
Atlanta, 1980

Bennett A. Brown
Chairman of the Board and
Chief Executive Officer
Citizens & Southern
Georgia Corporation
Atlanta, 1980

William A. Fickling, Jr.
Chairman of the Board and
Chief Executive Officer
Charter Medical Corporation
Macon, 1973

Langdon S. Flowers
Chairman of the Board
Flowers Investments
Thomasville, 1982

J. A. Gantt
Senior Vice President
Division Operations
Georgia Power Company
Atlanta, 1976

L. G. Hardman, III
President and Treasurer
Harmony Grove Mills, Inc.
(textiles)
Commerce, 1979

Elmer B. Harris
Executive Vice President
Georgia Power Company
Atlanta
(effective 12/1/85)

Warren Y. Jobe
Executive Vice President
Finance
Georgia Power Company
Atlanta, 1982

Richard J. Kelly
Executive Vice President
Power Supply
Georgia Power Company
Atlanta, 1981

James H. Miller, Jr.
President
Georgia Power Company
Atlanta, 1975

William A. Parker, Jr.
Chairman of the Board
Cherokee Investment
Company
(real estate and investments)
Atlanta, 1965

H. G. Pattillo
Chairman of the Board
Pattillo Construction
Company, Inc.
Decatur, 1972

Robert W. Scherer
Chairman of the Board and
Chief Executive Officer
Georgia Power Company
Atlanta, 1969

Dr. Gloria M. Shatto
President
Berry College, Inc.
Rome, 1980

Robert Strickland
Chairman of the Board and
Chief Executive Officer
SunTrust Banks, Inc.
Atlanta, 1979

William B. Turner
Chairman of the Board and
Chief Executive Officer
W. C. Bradley Company
(manufacturing)
Columbus, 1965

Carl Ware
Vice President
The Coca-Cola Company
Atlanta, 1980

Thomas R. Williams
Chairman of the Board
First Wachovia Corporation
and First Atlanta Corporation
Atlanta, 1982

Honorary Directors

W. E. Ehrensperger
Atlanta, 1981

John W. Langdale
President
The Langdale Company
Valdosta, 1983

Allen B. Wilson
Atlanta, 1982

Board Committees

Executive Committee
Robert W. Scherer, *Chairman*
James H. Miller, Jr.
William A. Parker, Jr.
H. G. Pattillo
Robert Strickland
Carl Ware

Audit Committee
L. G. Hardman, III, *Chairman*
Bennett A. Brown
Langdon S. Flowers
Gloria M. Shatto

Compensation Committee
H. G. Pattillo, *Chairman*
William A. Fickling, Jr.
William A. Parker, Jr.
William B. Turner
Thomas R. Williams

**Nuclear Operations
Overview Committee**
L. G. Hardman, III, *Chairman*
William A. Fickling, Jr.
Langdon S. Flowers
H. G. Pattillo

General Officers

Robert W. Scherer

Chairman of the Board and
Chief Executive Officer
Age: 60
Years of Service: 39

James H. Miller, Jr.

President
Age: 63
Years of Service: 39

H. Grady Baker, Jr.

Executive Vice President and
General Manager
Age: 56
Years of Service: 35

Elmer B. Harris

Executive Vice President
Age: 46
(effective 12/1/85)
Years of Service: 27

Warren Y. Jobe

Executive Vice President
Finance
Age: 45
Years of Service: 15

Richard J. Kelly

Executive Vice President
Power Supply
Age: 63
Years of Service: 36

R. E. Conway

Senior Vice President and
Vogtle Project Director
Age: 47
Years of Service: 29

J. A. Gantt

Senior Vice President
Division Operations
Age: 62
Years of Service: 38

George F. Head

Senior Vice President
Fossil and Hydro Power
Age: 56
Years of Service: 31

R. P. Head, Jr.

Senior Vice President
Administrative Services
Age: 58
Years of Service: 38

John C. Hemby, Jr.

Senior Vice President
Marketing
Age: 57
Years of Service: 35

James P. O'Reilly

Senior Vice President
Nuclear Operations
Age: 57
Years of Service: 1

Romney E. Scott

Senior Vice President
Economic Services
Age: 42
Years of Service: 9

W. L. Westbrook

Senior Vice President
Accounting and Finance
and Secretary
Age: 46
Years of Service: 21

J. T. Beckham, Jr.

Vice President and
General Manager
Nuclear Operations

I. Otis Berkhan

Vice President
Procurement and Materials
(effective 7/17/85)

Thomas G. Boren

Vice President
Corporate Performance

Robert D. Carpenter

Vice President
Regulatory and
Consumer Affairs
(effective 5/15/85)

Jack C. Causey

Vice President and
General Manager
Fossil and Hydro Operations

Wayne T. Dahlke

Vice President and
General Manager
Fossil and Hydro Projects

James K. Davis

Vice President
Corporate Relations

D. E. Dutton

Vice President
Generating Plant Projects —
Vogtle, Scherer and
Hydroelectric Projects

E. G. Ellingson

Vice President
Marketing Services
(effective 3/20/85)

Donald O. Foster

Vice President
Vogtle Project Support

J. M. Griffith

Vice President
Governmental Relations

C. B. Harreld

Vice President and
Comptroller
(effective 2/19/86)

R. C. Kester

Vice President
Land

J. Wyman Lamb

Vice President
Risk Management

C. B. McMurkus, Jr.

Vice President
Bulk Power Delivery

J. A. Parramore, Jr.

Vice President
Customer Accounting and
Accounting Services
(effective 5/15/85)

Richard J. Pershing

Treasurer

R. H. Pincson

Vice President
Project Construction

Paul D. Rice

Vice President
Vogtle Project Engineering

John A. Roberts

Vice President
Residential and Commercial
Marketing

J. W. Talley, Jr.

Vice President
Economic Development

Ruble A. Thomas

Vice President
Project Licensing

Fred D. Williams

Vice President
Bulk Power Markets

M. T. Brown, Jr.

Assistant Comptroller

R. R. Cook

Assistant Comptroller

W. B. Poss

Assistant Comptroller

Guerry P. Strickland

Assistant Secretary

Paula F. Winn

Assistant Secretary

Charles O. Rawlins

Assistant Treasurer

Robert C. Ford

Assistant Secretary and
Assistant Treasurer

Wayne Boston

Assistant Secretary and
Assistant Treasurer
(effective 2/1/86)

Division Officers

J. O. Rittenhouse

Vice President
East Metro Division

Gene R. Hodges

Vice President
West Metro Division

Ben H. Williams

Vice President
Athens Division

B. W. Rainwater

Vice President
Augusta Division

Jack K. Widener, Jr.

Vice President
Augusta Division
(effective 1/15/86)

Freeman R. O'Neal, Jr.

Vice President
Columbus Division

E. C. Barineau

Vice President
Macon Division
(effective 5/15/85)

T. J. Allen, Jr.

Vice President
Rome Division

J. J. Cordova

Vice President
Valdosta Division

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