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SOUTHERN COMPANY
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August 29, 2002

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06586-5116

Letter of Comment No: 111
File Reference: 1082-200
Date Received: 08/29/02

Re: Consolidation of Certain Special-Purpose Entities, an interpretation of ARB Number 51, File Reference No. 1082-200

Dear Ms. Bielstein and Members of the Financial Accounting Standards Board:

Southern Company (NYSE: SO), a public utility holding company and one of the largest generators of electricity in the United States, appreciates the opportunity to comment on the Exposure Draft ("ED") of this proposed interpretation. Southern Company is the parent company of five operating companies (Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric) that provide electric service in four Southeastern states, and other direct and indirect subsidiaries. The operating companies are subject to the regulatory provisions of their respective state public service commissions, the Federal Energy Regulatory Commission, and the Public Utility Holding Company Act.

Southern Company supports the comments submitted by the Edison Electric Institute (EEI). While Southern Company fully supports the Board's efforts to clarify the consolidation rules in regards to special purpose entities, we have the same concerns expressed by EEI regarding the current proposed interpretation and the impact that it will have on entities subject to cost based rate regulation. Our comments are as follows:

Grandfathering Existing Transactions

Southern Company *is not* opposed to the Board's substantive criteria approach that the proposed interpretation is suggesting in determining when an entity is consolidated. However, we disagree with the Board's decision to apply a new interpretation to existing transactions, specifically those that have been previously approved by a public service commission and reflected in cost-based rates.

Our argument is not based on theory, but is one of equity. Without repeating the comments made by EEI, we believe rate-regulated companies that have these structures deserve special consideration by the Board. Under utility rate regulation, the utility's financial statements as prepared in accordance with generally accepted accounting principles provide the fundamental basis for establishing the company's overall economics, including its credit ratings. The regulator then uses this basis to set rates.

Southern Company currently participates in a structured transaction that will either have to be consolidated or restructured to comply with the new requirements. This power plant leasing arrangement with an independent special purpose entity has been reviewed on numerous occasions from its inception by external auditors, rating agencies, the public service commission, the state public utilities staff, customer intervenors, and was the subject of substantial inquiry through data requests by outside parties in recently concluded rate proceedings. At the very early stages, long term decisions were made according to accounting guidance and accepted practice that existed prior to the issuance of the new proposed interpretation. However, we are now in a situation, absent a grandfathering provision in the final rule, in which an economic cost (not limited to direct cost only) will be incurred to comply with the new accounting standard. In one form or another, this cost will ultimately get reflected in the rates our customers will have to pay. Absent a grandfathering provision in the final rule, retroactive application of an accounting rule change will have negative consequences for regulated entities and the customers they serve.

Fair Value Accounting

The proposed rules would require that the primary beneficiary of a special-purpose entity must consolidate the entity's assets and liabilities at fair value. Southern Company does not support consolidation at fair value if the special purpose entity's main asset is a long-lived asset. Absent asset impairment, the historical cost of that asset, as determined under generally accepted accounting principles, should be the basis for consolidation rather than fair value. Outside of a third party purchase or acquisition, the current historical cost accounting model for an existing long-lived assets does not support the recognition of increased value. The effect of this change in an accounting rule would be that certain companies would be able to write-up a long-lived asset and others similarly situated would not be able to. However, special purpose entities that mainly contain financial assets, whose increases and decreases in value must be recognized, could be appropriately consolidated at fair value.

Transition Period

Finally, Southern Company believes that the transition period provided in the proposed interpretation is not long enough. Southern Company, like many others, has a fiscal period that ends with the calendar year. The first quarter of each year is the busiest time for all calendar year based corporations. An April 1, 2003, effective date does not provide enough time for proper review and adoption (such as new appraisal for long-lived assets) of any new interpretation that may have significant impacts on a reporting entity. This is especially true for a rate regulated enterprise that may have to seek additional regulatory review as a result of proposed changes to past accounting practice. Southern Company believes that any new interpretation should be effective for all fiscal periods beginning after December 15, 2003.

We appreciate the opportunity to express our concerns and hope that our comments will be helpful to the Board as you complete the standard-setting process. If we can provide further clarification, please contact me at 404-506-4302.

Sincerely,

/s/ W. Dean Hudson
W. Dean Hudson
Comptroller and Chief Accounting Officer