Southern Company Services, Inc.
241 Ralph McGill Boulevard NE
Atlanta, Georgia 30308-3374

Letter of Comment No: 4
File Reference: FSPFAS13-A
Date Received:

September 12, 2005

Mr. Lawrence W. Smith
Director, Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Subject: Proposed FSP No. FAS 13-a

Dear Mr. Smith:

The Southern Company appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or the Board) Proposed FASB Staff Position -FAS 13-a (the FSP).

Southern Company (NYSE: SO) is one of the largest generators of electricity in the United States. Southern is the parent firm of Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric, all integrated, cost-based regulated utility companies, as well as Southern Power, a market-based generation company. In addition, we are the parent of Southern Company Holdings, Inc., an intermediate holding subsidiary for Southern Company's investments in synthetic fuels and leveraged leases, as well as various other energy-related businesses. We are concerned about how the changes proposed in the FSP would affect our company. Through this letter, we hope to provide some additional information for consideration before the tentative conclusions on these issues are finalized.

Pursuant to Paragraph 46 of FASB Statement No. 13, *Accounting for Leases*, (FAS 13), all important assumptions which affect estimated total net income from a leveraged lease must be reviewed at least annually. If assumptions have changed in a manner to affect the estimated total net income of the lease, the rate of return and allocation of income to positive investment years must be recalculated from inception using the

revised assumptions. Changes which do not affect total net income are not to be recalculated. This guidance has been consistently followed for many years.

The FSP would conclude that the timing of cash flows relating to income taxes generated by a leveraged lease is an important assumption, requiring recalculation of the lease even though total net income is not affected. We do not agree with this conclusion, as FAS 13 (paragraph 46) clearly provides that the leveraged lease is to be recalculated only if estimated total net income from the lease changes. As such, the treatment prescribed in the proposed FSP clearly represents a change in generally accepted accounting principles which, if adopted, should apply only to transactions entered into after the effective date and to changes in tax cash flows resulting from events occurring after the effective date.

Should the FSP be adopted as currently written, several clarifications would be needed to facilitate compliance:

(1) Definition of "net investment balance" in paragraph 9, e.g. are deferred taxes included as would be implied by SFAS 13, paragraph 43? If so, this would result in a change in deferred taxes being reported in pre tax income.
(2) Definition and example of "actual cash flows" e.g. are settlement payments to the IRS incorporated into the recalculation of the lease as of the day payment is actually made or when payment becomes probable? Is alternative minimum tax included?
(3) The recalculation includes actual cash flows that occurred up to and including the point of actual settlement or expected settlement. Define "expected settlement." How do you determine the cash flow date of an "expected settlement?"

Thank you for your consideration of our opinions about the proposed Staff Position. Should you have any questions about our comments, please call me at 404-506-4302.

Sincerely,

W. Dean Hudson
Comptroller and Chief Accounting Officer