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ALABAMA POWER
A SOUTHERN COMPANY

April 17, 2018

FILED
APR 2018
SECRETARY

Alabama Public Service Commission
RSA Union Building
100 North Union Street, Suite 950
Montgomery, Alabama 36130

Attention: Mr. Walter L. Thomas, Jr.
Secretary

Re: Revisions to Rate RSE (Rate Stabilization and Equalization)
Docket Nos. 18117 and 18416

Dear Commissioners:

In accordance with Alabama Code § 37-1-81, Alabama Power Company ("Alabama Power" or "Company") submits the following revisions to Rate RSE (Rate Stabilization and Equalization). The purpose of these revisions is to enable the Company to take steps to mitigate the credit quality impacts resulting from the passage of the Tax Cuts and Jobs Act ("TCJA"),[1] while preserving rate stability for customers. As explained below, these proposed revisions have been reviewed with the Staff, and the filing includes its input. If approved by the Commission, these changes would be effective June 1, 2018, for application to January 2019 billings and thereafter.

Background

President Trump signed the TCJA into law on December 22, 2017, with most provisions taking effect January 1, 2018. The changes largely apply evenly to all U.S. corporations, but some specifically affect regulated utilities. Of specific relevance to utilities such as Alabama Power are the corporate tax rate reduction, the interest expense deduction, and the elimination of bonus depreciation. As has been widely publicized, the corporate tax rate reduction creates the opportunity for secondary benefits, with many corporations taking the opportunity to pass along the cost reductions to their personnel in the form of bonuses or wage increases. For Alabama Power, the reduction represents a decrease in its cost of providing service, which translates into a lower revenue requirement that puts downward pressure on rates for customers.

Rate RSE is the mechanism by which the Company recovers, among other things, its tax-related costs. When the Company submitted the required calculations under Rate RSE for cost year 2018, the TCJA had not yet been enacted. Thus, the changes resulting from the reduced corporate tax rate were not reflected in that submittal. However, Alabama Power has a rate on

[1] Tax Cuts & Jobs Act of 2017, Pub. L. No.115-97, 131 Stat. 2054 (2017).

file that addresses such a situation, namely Rate T (Tax Adjustment). This rate provides for the development of an "Income Tax Adjustment Percentage" to capture the effect of the change in the composite tax rate using the Company's original projections for a given cost year, as submitted to the Commission.[2] For cost year 2019 and thereafter, the changed tax rate will be reflected in the tax expense included in the annual filing under Rate RSE.

While a positive development overall, the TCJA is causing some adverse impacts on regulated utilities like Alabama Power, most notably stress on the Company's credit metrics. The primary source of this pressure is decreased cash flows resulting from the TCJA, which is driven by the following: (i) less revenue collected for the payment of current taxes; (ii) lower revenue requirements due to the flow back of excess accumulated deferred income taxes ("ADIT");[3] and (iii) decelerated tax depreciation for future capital investments in the absence of bonus depreciation. To varying degrees, each of these items serves to reduce operational cash available to the Company. The effects of the first two items are self-evident, in that the lower tax obligation means less revenue collected to pay federal taxes as well as a reduction in the ADIT balance, both of which serve as sources of cash for ongoing operations. As to the third item, corporations have been permitted for tax purposes to expense varying amounts of capital expenditures, sometimes as much as 100 percent.[4] However, the TCJA eliminates such bonus depreciation for regulated utilities, and instead requires the use of modified accelerated cost recovery system depreciation for tax purposes. Under this process, utilities continue to accrue deferred taxes, but at a slower rate than under bonus depreciation. This too lessens the amount of cash available for operations.

As the Commission knows, credit ratings influence both the cost of capital to the Company as well as the ease with which the Company can access capital markets. Credit metrics are established by rating agencies, which employ a number of measures in determining what a given company's credit rating should be.[5] Strong, investment grade credit ratings are

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[2] To this end, and contemporaneously with this filing, the Company is submitting to the Staff its calculation of the Income Tax Adjustment Percentage that will be credited to customers. The adjustment percentage equates to a credit of approximately $257 million, which reflects a change in the Company's federal corporate tax obligation for all of cost year 2018. The adjustment percentage will be reflected on customer billings beginning in July and continuing through the remainder of 2018. The derivation of the Income Tax Adjustment Percentage has been reviewed with the Staff prior to its submission.

[3] The income tax portion of the revenue requirement collected in rates covers the amount of taxes the Company actually pays to the federal government, with any unpaid amounts deferred over time for later payment. The ADIT balance serves as a low-cost source of capital for the Company and further benefits customers by decreasing rate base. Because the deferred tax liability represents taxes collected from customers but not yet paid to taxing authorities, and because the Company collected these taxes at the 35 percent rate and will now pay taxes at the lower 21 percent rate, the accumulated balance of the ADIT must be revalued. The difference in the ADIT balance stemming from the reduced corporate tax rate is recorded as a regulatory liability.

[4] The amount that could be expensed in excess of accelerated depreciation is commonly referred to as "bonus" depreciation.

[5] One of the more important metrics utilized by rating agencies is the utility's ratio of cash flow to total debt obligations, or FFO-to-debt ratio, with a higher ratio required for a higher credit rating. Another, somewhat related metric examined by the rating agencies is a company's capital structure, with a higher credit rating typically associated with companies having higher equity ratios. At present, those companies with a similar "A" rating (excluding Alabama Power) are less highly leveraged, with an average equity ratio of over 55 percent. By comparison, Alabama Power's equity ratio is approximately 47 percent.

important for utilities, which are inherently capital intensive, as they translate into savings for customers. For Alabama Power, a strong credit rating has translated into annual interest expense that is considerably lower than that of its peers.

Deteriorating credit metrics lead to a lower credit rating, and a lower credit rating in turn increases borrowing costs and, in extreme cases, could impair access to the credit markets. The Company presently has credit ratings of A1 (negative outlook) by Moody's, A- (negative outlook) by Standard & Poor's, and A+ (stable) by Fitch.[6] In the event of a downgrade, the Company and its customers would experience increased interest costs associated with long-term debt. For example, over the life of a typical $500 million 30-year debt issuance, just a single downgrade could cause the Company's interest expense to be $15 million to $35 million higher over the life of the issuance. Since Alabama Power accesses capital markets virtually every year (and sometimes more than once a year), such cost increases would accumulate with every new issuance, and the cost exposure would only worsen should there be multiple downgrades. In addition, a downgrade could require the Company to transition its tax-exempt variable rate bonds to fixed rate, at an additional annual cost to customers of about $25 million. All of these impacts are separate and apart from the corresponding cost increases that the Company would experience in the shorter-term capital markets.

In summary, the anticipated cash flow impacts of the TCJA are placing pressure on the Company's credit quality, with the benefits of the TCJA threatened by sustained increases in borrowing costs (particularly for long-term debt issuances). Alabama Power has considered how it can address this credit metric impact—an impact amplified by its lower-than-peer-average equity ratio—in a manner that does not create upward pressure on the rates of customers. In the Company's view, the most effective means to accomplish these goals is through a revision to the refund mechanism in Rate RSE. The proposed changes preserve the opportunity for customers to realize an immediate benefit associated with revenues exceeding the top of the designated weighted equity return range, while also enabling a portion to be used for their longer-term benefit through the protection of the Company's credit quality. This will enable Alabama Power to reduce growth in its total debt by increasing its equity, with corresponding reductions in debt issuances, thereby countering the impact of reduced cash flows and improving its FFO-to-debt ratio.[7]

Proposed Modifications

Set forth below is a package of proposed modifications and other related commitments to address the negative impacts of the TCJA on the Company's credit metrics, and to do so while maintaining rate stability and without a near-term increase in rates. The Company would note

[6] The negative outlooks are directly impacted by passage of the TCJA. Prior to the TCJA, Alabama Power's FFO-to-debt ratio was expected to remain within the range for "A" rated utilities. Absent a plan to mitigate the adverse cash flow impacts resulting from the TCJA, the ratio is estimated to fall below that range. The most direct way to address this issue would be to deleverage the Company's current capital structure. As explained herein, the proposed revisions to Rate RSE are intended to accomplish this goal.

[7] While Alabama Power cannot guarantee current credit ratings preservation, approval of this petition by the Commission would afford the Company the ability to maintain credit metrics that will support its existing credit ratings.

that these items, along with several non-tariff commitments the Company has agreed to make, include several modifications recommended by the Commission Staff.[8] The elements of the package are as follows:

1. Proposed revisions to Rate RSE, as incorporated in the attached rate sheets, including:

    i. Lowering the top of the weighted equity return range, from 6.21 percent to 6.15 percent.

    ii. Revisions to the refund mechanism related to prior year actual results, including additional restrictions applicable to the revised mechanism for any cost year in which there is an upward adjustment under Rate RSE, along with a ceiling on the amounts the Company will be allowed to utilize for the protection of its credit quality.

    iii. Various ministerial revisions, both to the body of the rate and to its Appendices, which clarify existing provisions of the rate and specify certain additional accounts to be reflected in the determination of projected retail common equity.

    These revisions are proposed to become effective June 1, for application to January 2019 billings and thereafter.

2. In conjunction with the described modifications to Rate RSE, the Company would commit to a two-year moratorium on any upward adjustments under Rate RSE. This would promote rate stability by ensuring that the Company's efforts to address the pressures on its credit quality (by adding equity and reducing its debt) do not somehow produce a rate increase for customers under Rate RSE in calendar years 2019 or 2020. The moratorium would neither foreclose a downward adjustment in rates caused by the operation of Rate RSE nor prevent the issuance of refunds under the revised mechanism.

3. The reduced tax cost resulting from the TCJA will be reflected in the Rate RSE submittal for calendar year 2019. Separate and apart from that normal Rate RSE process, the Company proposes to credit to customers $50 million in 2019.

4. Contemporaneously with this filing, the Company has requested authority to establish a regulatory liability account in which to record the excess federal deferred income taxes associated with the TCJA for the calendar year ended December 31, 2018. The Company also has requested authority to create a regulatory asset account in which it will record up to $30 million, which would correspond to under-recovered balances that would otherwise be included in the

[8] These improvements were developed over the course of various discussions between the Company and the Staff, as part of the Staff's customary oversight and monitoring of the Company and its inquiries into the operation of Rate T, the implications of the TCJA, and potential responsive actions by the Company.

calculations of Rate ECR.[9] The Company then will amortize the balances in the regulatory asset account created above consistent with the manner by which the affected excess federal deferred income taxes (recorded in the regulatory liability) would otherwise have flowed back to customers, thus having no impact on net income. This treatment will help offset pressures on Rate ECR, for the benefit of customers.

As noted at the outset, the TCJA, while largely a positive development, is causing some adverse impacts on regulated utilities like Alabama Power, and most notably stress on the Company's credit metrics. The described revisions, commitments and authorizations comprise a package proposal. They have been developed in consultation with the Staff and are designed to position Alabama Power to deleverage its capital structure and take positive steps to address the growing pressure on its credit quality, all in a manner that will not increase retail rates in the near term. These steps will be taken as quickly as reasonably possible, but as a practical matter several years will be required in order to effect the needed changes to the Company's capital structure. That said, the Company's goal is to achieve an equity ratio of approximately 55 percent by the end of 2025.

If the Commission or the Staff has any questions regarding this filing, please contact the undersigned or Mr. Richard Hutto (205-257-2941).

Sincerely,

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[9] The actual amount to be recorded in the regulatory asset will depend on the actual amount placed in the regulatory liability, which as noted will not be known until later in 2019, at the earliest.

RATE RSE
RATE STABILIZATION AND EQUALIZATION FACTOR

Alabama Power

By orders of the Alabama Public Service Commission in Dockets #18117 and #18416.

Effective for December 1982 billings and thereafter; modified effective for July 1985 billings and thereafter; modified effective for April 1990 billings and thereafter; modified effective for April 1998 billings and thereafter; modified effective May 1, 2002 for application to March 2003 billings and thereafter; modified effective October 16, 2005 for application to January 2007 billings and thereafter; modified effective September 20, 2013 for application to January 2014 billings and thereafter; modified effective June 1, 2018, for application to January 2019 billings and thereafter.

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AVAILABILITY

Same as the specific rate incorporating this Rate RSE by reference.

APPLICABILITY

Applicable as an integral part of each rate schedule of the Company in which reference is made to this Rate RSE.

EXPLANATORY STATEMENT

It is the purpose of Rate RSE to lessen the impact, frequency and size of retail rate increase requests by permitting the Company, through the operation of a filed and approved rate, to adjust its charges more readily to achieve the rate of return allowed it in the rate order of the Commission. By provisions in the rate, the charges are increased if projections for the upcoming year show that the designated rate of return range will not be met and are decreased if such projections show that the designated rate of return range will be exceeded. Other provisions limit the impact of any one adjustment (as well as the impact of any consecutive increases), and also test whether actual results exceeded the weighted equity return range.

APPLICATION OF RATE RSE AND CALCULATION PROCEDURES

Monthly billings on and after January 2019 shall be adjusted (increased or decreased) by the application of a rate stabilization and equalization factor ("RSE Factor") in accordance with the procedure herein described. By December 1, 2018, and by each December 1 thereafter, the Company's weighted return on projected average common equity, separated to retail electric service ("WRRCE"), shall be computed annually for the upcoming twelve-month period ending December 31 (such twelve-month period being the "rate year"). The WRRCE shall be computed on the basis of cost estimates and budgets prepared by the Company in the ordinary course of its business and in a manner consistent with the Uniform System of Accounts through the tabulations specified on Appendix B hereto. If the resulting WRRCE is less than 5.75% or more than 6.15% (5.75% - 6.15% being "the weighted equity return range"), then monthly bills under the respective rate schedules subject to this Rate RSE shall be increased or decreased by amounts per kilowatt-hour necessary, in total, to restore the WRRCE to 5.98% (the "adjusting point" in the weighted equity return range) plus a possible performance-based adder of 0.07%.

The performance-based adder shall be added to the adjusting point if, at the time of the annual Rate RSE filing, the Company satisfies at least one of the following criteria: (i) an "A" credit rating equivalent with at least one of the recognized rating agencies, or (ii) a ranking in the top third of the most recent customer value benchmark survey or its successor in function. The above-described increases and decreases are accomplished through the application of an RSE Factor, which is developed by the formula contained in Appendix A hereto. Both Appendix A and Appendix B constitute an integral part of this Rate RSE. The RSE Factor shall be revised annually for application to billings beginning January of each rate year if the WRRCE computed with respect to that rate year is outside of the weighted equity return range. (For example, any revision of the RSE Factor for use beginning with January 2019 billings would be derived from the WRRCE computed for the upcoming twelve-month period ending December 31, 2019.)

For monthly billings commencing January 2019 and thereafter, the kilowatt-hour charges under the respective rate schedules shall be adjusted by applying the current annual revision (if any) of the RSE Factor to the existing kilowatt-hour charges, as theretofore adjusted for the cumulative effect of all prior RSE Factors and other adjustments (such as, for example, adjustments pursuant to Rate CNP).

ADJUSTMENT LIMITATIONS

Consecutive increases derived by the annual operation of Rate RSE shall be limited such that adjustments for any consecutive two-year period, when averaged together, do not exceed four percent (4%). Thus, the limitation governing any such consecutive increase shall be the percentage that, when combined with the percentage adjustment that was made applicable to monthly billings for the current year, produces an average of four percent (4%). Notwithstanding the foregoing, the maximum increase in any one year associated with the operation of Rate RSE shall not exceed five percent (5%) of the projected total retail revenues of the Company ("RR") for the rate year used to compute the WRRCE. Hypothetical examples of the application of these limitations in the context of consecutive years include: 4.5% and 3.5%; 5.0% and 3.0%; 3.2% and 4.8%; 3.0% and 5.0%, and so forth.

PRIOR YEAR ACTUAL RESULTS

On or before March 1 of each year, the Company shall submit to the Commission a calculation of its actual weighted return on average retail common equity ("AWRRCE") for the immediately preceding calendar year ("review year") under this Rate RSE.

This AWRRCE will be calculated in the same manner as set forth under Appendix B, except that actual data will be substituted for the projected data used to develop the WRRCE for the same twelve-month period. If the AWRRCE derived through this calculation is above the weighted equity return range, then the Company shall determine the amount of revenue that caused the AWRRCE for the review year to exceed the top end of the designated range. The amount of revenue to be returned to customers shall be determined in the manner set forth in Appendix A ("refund factor") and, unless otherwise directed by the Commission, shall be refunded to retail customers by rate schedule. The implementation of any refunds to customers shall be accomplished through the application of credits on customer billings for the month of April following the review year.

OTHER LIMITATIONS AND PROVISIONS

Jurisdictional Allocations. In the computation of WRRCE and the RSE Factor, it is necessary for jurisdictional purposes that allocations be made as between electric and nonelectric operations and then as between retail electric service and electric service other than retail. For the applications of this Rate RSE, the Company will prepare and file by May 1 of each year, a cost-of-service study based upon data from the prior calendar year. The most recently filed cost-of-service study shall be used in the computation of WRRCE, RSE Factor, and the Refund Factor. Corrections or revisions proposed thereto, if not accepted by the Company, may be made the subject of a limited complaint proceeding under the Special Rules Governing Operation of this Rate. If such a complaint proceeding is instituted and not completed before the next annual RSE computation, the lower of the existing factors or the newly filed factors shall be used in computations under this Rate until such complaint proceeding is resolved.

RATE RSE
RATE STABILIZATION AND EQUALIZATION FACTOR

Alabama Power

By orders of the Alabama Public Service Commission in Dockets #18117 and #18416.

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COMMISSION-REQUIRED ADJUSTMENTS

Advertising Expense. In its decision in Alabama Power Co. v. Alabama Public Service Commission, 359 So. 2d 776 (Ala. 1978), the Supreme Court of Alabama recognized advertising expense as an allowable expense for a utility company in a ratemaking proceeding. However, as an additional constraint upon expenditures by the Company, in each computation under Rate RSE one-half (1/2) of the amounts in Accounts 909 and 930.1 will be disallowed.

Lobbying Expense. The expenses of lobbying are appropriately charged to Account 426.4 and will not be charged to the ratepayer in any computation of this Rate RSE or otherwise.

Donations. In its decisions in Alabama Power Co. v. Alabama Public Service Commission, 359 So. 2d 776 (Ala. 1978) and Alabama Power Co. v. Alabama Public Service Commission, 390 So. 2d 1017 (Ala. 1980), the Supreme Court of Alabama has ruled that charitable donations (Account 426.1) cannot be proper expenses of a utility company for ratemaking purposes. Unless and until this matter is dealt with otherwise by legislation or subsequent court rulings, the Company will not undertake to move such expenditures from "below-the-line" to "above-the-line" status in any computation under this Rate RSE or in any ratemaking proceeding.

Civic Club Dues. Civic club dues are properly charged to Account 426.5 and will not be charged to the ratepayer in any computation of this Rate RSE or otherwise.

SPECIAL RULES

The Special Rules Governing Operation of Rates RSE and CNP constitute an integral part of this Rate.

RATE RSE – APPENDIX A
RATE STABILIZATION AND EQUALIZATION FACTOR

Alabama Power

By orders of the Alabama Public Service Commission in Dockets #18117 and #18416.

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DEVELOPMENT OF RSE FACTOR

The rate stabilization and equalization factor (RSE Factor) will be initially developed, and thereafter changed whenever the WRRCE for the rate year is not within the weighted equity return range. The RSE Factor shall be calculated for each respective affected rate schedule in accordance with the formula set out below and shall be applied in that schedule so as to adjust the kilowatt-hour charges as the same may have been adjusted by any previous applications of Rate RSE:

If $\dfrac{\dfrac{((AROR - WRRCE)/CEP)(RCE)}{1 - T}}{RR}$ is greater than L%, then $\dfrac{(L\% \times RR)\,\dfrac{BR_s}{BR_t}}{KWH_s}$ = RSE Factor*

If $\dfrac{\dfrac{((AROR - WRRCE)/CEP)(RCE)}{1 - T}}{RR}$ is equal to, or less than L%, then $\dfrac{\dfrac{((AROR-WRRCE)/CEP)(RCE)}{1 - T}\,\dfrac{BR_s}{BR_t}}{KWH_s}$ = RSE Factor*

*Rounded to nearest 0.0001 cent

Where, for the twelve-month period constituting the rate year,

AROR = Adjusting point of Weighted Equity Return Range, plus any earned performance-based adder.

WRRCE = Projected weighted return on average retail common equity.

CEP= Projected common equity percentage of capital structure.

RCE = Projected average retail common equity.

T = Combined Federal and State income taxes = $\dfrac{F + S - 2\,FS}{1 - FS}$

F being the effective statutory Federal income tax rate and S being the effective statutory State income tax rate.

RATE RSE – APPENDIX A
RATE STABILIZATION AND EQUALIZATION FACTOR

Alabama Power

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RR = Projected total retail revenues from sale of electricity for the rate year.

L% = The applicable percentage limitation for the rate year.

BR_s = The projected base rate revenue from each respective retail rate schedule for the rate year. "Base rate revenue" from any schedule excludes amounts from Rate ECR and Rate T.

BR_t = The projected total base rate revenues from all retail rate schedules for the rate year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

KWH_s = The projected kilowatt-hour sales by retail rate schedule for the rate year.

DEVELOPMENT OF REFUND FACTOR

The refund factor for the review year will be developed whenever the AWRRCE exceeds the top of the weighted equity return range (TROR). The refund factor shall be calculated for each affected rate schedule in accordance with the formula set forth below. The application of bill credits derived hereunder (or such other disposition as may be directed by the Commission) shall fully satisfy the Company's refund requirement under this Rate RSE.

If an upward adjustment under Rate RSE (or an upward adjustment in lieu of Rate RSE) did not occur in the review year, then calculate REF as follows:

If AET ≤ 0.005

$$\text{REF} = \frac{(((\text{AET})(0.25))/\text{ACEP})(\text{ARCE})}{1-\text{T}}$$

If AET > 0.005 and ≤ 0.010

$$\text{REF} = \frac{((0.00125+((\text{AET}-0.005)(0.40)))/\text{ACEP})(\text{ARCE})}{1-\text{T}}$$

If AET > 0.010 and ≤ 0.015

$$\text{REF} = \frac{((0.00325+((\text{AET}-0.010)(0.75)))/\text{ACEP})(\text{ARCE})}{1-\text{T}}$$

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If AET > 0.015

$$REF = \frac{((0.007+(AET-0.015))/ACEP)(ARCE)}{1-T}$$

If an upward adjustment under Rate RSE (or an upward adjustment in lieu of Rate RSE) occurred in the review year, then calculate REF as follows:

If AET ≤ 0.0075

$$REF = \frac{(((AET)(0.50))/ACEP)(ARCE)}{1-T}$$

If AET > 0.0075

$$REF = \frac{((0.00375+(AET-0.0075))/ACEP)(ARCE)}{1-T}$$

In all review years, calculate the AREF as follows:

If AWRRCE > (ACEP)(0.138), then

$$AREF = \frac{((AWRRCE-((ACEP)(0.138)))/ACEP)(ARCE)}{1-T}$$

Otherwise, AREF = 0

Develop the refund factor,

If REF ≥ AREF, then

$$\frac{(REF)\,\frac{BR_{sa}}{BR_{ta}}}{KWH_s} = \text{Refund Factor*}$$

Otherwise,

$$\frac{(AREF)\,\frac{BR_{sa}}{BR_{ta}}}{KWH_s} = \text{Refund Factor*}$$

*Rounded to nearest 0.0001 cent

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Where, for the review year,

AWRRCE = Actual weighted return on average retail common equity.

TROR = Top of weighted equity return range.

AET = Amount exceeding top = AWRRCE - TROR

ACEP = Actual common equity percentage of capital structure.

ARCE = Actual average retail common equity.

REF = Amount to refund to customers.

AREF = Alternate amount to refund to customers.

T = Combined Federal and State income taxes = $\frac{F + S - 2\,FS}{1 - FS}$

F being the effective statutory Federal income tax rate and S being the effective statutory State income tax rate.

BR_{sa} = The billed base rate revenue recorded from each respective retail rate schedule for the review year. “Base rate revenue” from any schedule excludes amounts from Rate ECR and Rate T.

BR_{ta} = The total billed base rate revenues recorded from all retail rate schedules for the review year. Such base rate revenues exclude amounts from Rate ECR and Rate T.

KWH_s = The kilowatt-hour sales recorded for each respective retail rate schedule for the review year.

RATE RSE – APPENDIX B
RATE STABILIZATION AND EQUALIZATION FACTOR

Alabama Power

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DETERMINATION OF PROJECTED AVERAGE RETAIL COMMON EQUITY (RCE) AS OF DECEMBER 31, __________:

	Column 1 Total Amount (Projected 12-mo. avg. bal.)		Column 2 Non-Electric (Projected 12-mo. avg. bal.)
Investment			
1. Electric Plant in Service (Account 101)	$ __________	(E)	$ __________
2. Electric Plant Held for Future Use (Account 105)	__________		
3. Construction Work in Progress-Electric (Account 107)	__________		__________
4. Accumulated Provision for Depreciation and Amortization of Electric Utility Plant-Credit (Accounts 108 and 111)	__________	(E)	
5. Electric Plant Acquisition Adjustments-Net (Accounts 114 and 115)	__________		
6. Steam Heat Plant (Account 118)	__________		__________
7. Accumulated Provision for Depreciation of Steam Heat Plant-Credit (Account 119)	__________		__________
8. Nuclear Fuel-Net (Account 120)	__________		
9. Nonutility Property (Account 121)	__________		__________
10. Accumulated Provision for Depreciation and Amortization of Nonutility Property-Credit (Account 122)	__________		__________
11. Investment in Subsidiary Companies (Account 123)	__________		__________
12. Other Investments (Account 124)	__________		__________
13. Fuel Stock (Account 151)	__________		__________
14. Materials and Supplies (Account 154)	__________		__________
15. Merchandise (Account 155)	__________		__________
16. Allowance Inventory (Account 158)	__________		
17. Total	$ ==========		$ ==========

DETERMINATION OF PROJECTED AVERAGE RETAIL COMMON EQUITY (RCE)

RATE RSE – APPENDIX B
RATE STABILIZATION AND EQUALIZATION FACTOR

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AS OF DECEMBER 31, __________:

		Column 1 Total Amount (Projected 12-mo.avg. bal.)	Column 2 Non-Electric (Projected 12-mo. avg. bal.)
18. Electric Investment Percent (Line 17, [Col. 1 - Col. 2 less UPS Investment of $_____] ÷ Col. 1)		__________ % (D)	
19. Retail Electric Investment Factor		__________ %	
20. Retail Investment Separation Factor (Line 18 x Line 19)		__________ %	
Common Equity Percentage of Capital Structure			
21. Common Equity (Accounts 201, 211 and 216)	$	__________	
22. Debt (Accounts 221-226 and 231)		__________	
23. Preferred Stock (Accounts 204-207 and 214)		__________	
24. Total (Line 21 + Line 22 + Line 23)	$	==============	
25. Common Equity Percentage of Capital Structure (CEP) (Line 21/Line 24)		============== %	
Retail Common Equity (RCE)			
26. Retail Common Equity (Line 20 x Line 21)	$	==============	

RATE RSE – APPENDIX B
RATE STABILIZATION AND EQUALIZATION FACTOR

Alabama Power

By orders of the Alabama Public Service Commission in Dockets #18117 and #18416.

Effective for December 1982 billings and thereafter; modified effective for July 1985 billings and thereafter; modified effective for April 1990 billings and thereafter; modified effective for April 1998 billings and thereafter; modified effective May 1, 2002 for application to March 2003 billings and thereafter; modified effective October 16, 2005 for application to January 2007 billings and thereafter; modified effective September 20, 2013 for application to January 2014 billings and thereafter; modified effective June 1, 2018, for application to January 2019 billings and thereafter.

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DETERMINATION OF PROJECTED RETAIL NET INCOME FOR THE 12 MONTHS ENDING DECEMBER 31, ____________:

	Total Electric (Projected 12 mos. total)	Retail Electric (Projected 12 mos. total)	
Electric Operating Revenue:			
1. Sale of Electricity (Accounts 440-448)	$ __________	$ __________	(A)
2. Other Operating Revenues (Accounts 450-456)	__________	__________	(B)
3. Total Operating Revenues (Line 1 + Line 2)	__________	__________	
Electric Expenses:			
4. Electric Operation and Maintenance Expenses (Accounts 401 and 402)	__________		
5. Electric Depreciation and Amortization Expenses (Accounts 403-407)	__________		
6. Taxes Other than Income Taxes (Account 408.1)	__________		
7. Other Revenue Credits (Accounts 447-02xxx, 447-04xxx, 454 except 454-00904, and 456 except 456-00953)	__________ (A), (B)		
8. Electric Expenses Other than Income Taxes (Lines 4, 5, and 6 - Line 7)	__________		
9. Operating Income before Income Taxes (Line 3 - Line 8)	__________		
10. Income Taxes (Accounts 409-411)	__________		
11. Retail Expense Allocation Factor	__________ %		
12. Retail Expenses Other Than Income Taxes (Line 8 - UPS Expenses of $_____) x Line 11		__________	(D)
13. Retail Operating Income before Income Taxes (Line 3 - Line 12)		__________	
14. Retail Income Taxes (Line 13 ÷ Line 9) x Line 10		__________	
15. Net Retail Electric Operating Income (Line 13 - Line 14)		__________	

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DETERMINATION OF PROJECTED RETAIL NET INCOME FOR THE 12 MONTHS ENDING DECEMBER 31, ____________:

	Total Electric (Projected 12 mos. total)		Retail Electric (Projected 12 mos. total)	
Allowance for Funds Used During Construction				
16. Electric Allowance for Funds Used During Construction (AFUDC) - Gross	__________			
17. Retail Electric Allocation Factor	__________	%		
18. Retail Electric AFUDC (Line 16 - UPS Investment AFUDC of $_____) x Line 17			__________	(D)
Interest Income				
19. Interest Revenue (Accounts 419-00001, 419-00034, 419-00038 and 419-00066 through 419-00068) (net of tax)	__________			
20. Retail Interest Income (Line 19 x Retail Investment Separation Factor)	__________	%(C)	__________	
Interest Expense and Preferred Dividends:				
21. Interest Expense (Accounts 427-431)	__________			
22. Preferred Dividends (Account 437)	__________			
23. Total Interest Expense and Preferred Dividends [(Line 21 + Line 22) x Retail Investment Separation Factor]	__________	%(C)	__________	
Commission-Required Adjustments				
24. Commission-Required Adjustments (net of tax)	__________			
25. Retail Commission-Required Adjustments (Line 24 x Retail Expense Allocation Factor)	__________	%	__________	
Retail Net Income Available for Common Equity (RNI)				
26. Retail Net Income Available for Common Equity (Line 15 + Line 18 + Line 20 - Line 23 + Line 25)		$	==============	

Weighted Return on Average Retail Common Equity

$\frac{RNI}{RCE} \times CEP = WRRCE$ __________ %

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Notes:

Note (A): To conform with cost-of-service procedures, amounts included in Account 447 (Sales for Resale) associated with Non-Territorial Sales for Resale (subaccounts 447-02xxx and 447-04xxx) are excluded from Line 1 and included in Line 7.

Note (B): To conform with cost-of-service procedures, the total of Accounts 450 (Forfeited Discounts), 451 (Miscellaneous Service Revenues), 453 (Sales of Water and Water Power), subaccount 454-00904 (Rent from Leased Property on Customers' Premises-Other), and subaccount 456-00953 (Miscellaneous Electric Revenues-Return Check Charge) is included on Line 2. The remaining subaccounts for Accounts 454 (Rent from Electric Property) and 456 (Other Electric Revenues) are included in Line 7.

Note (C): Developed on Line 20 of retail common equity computation.

Note (D): To conform with cost-of-service procedures and to afford proper recognition of investment and associated allowance for funds and expenses associated with Unit Power Sales to Nonassociated Utilities, the investment and associated allowance for funds and expenses associated with such sales have been accounted for on Line 18 of RCE calculation and on Lines 12 and 18 of RNI calculation.

Note (E): For purposes of Rate RSE, the capitalization of asset retirement costs shall be excluded from Account 101 (Electric Plant in Service) and the associated depreciation shall be excluded from Account 108 (Accumulated Provision for Depreciation of Electric Utility Plant) pursuant to Accounting for Asset Retirement Obligations.