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SOUTHERN COMPANY
Energy to Serve Your World®

February 23, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549-1090

RE: SEC File Number S7-24-06

FILED ELECTRONICALLY (rule-comments@sec.gov)

Dear Ms. Morris:

We appreciate the Securities and Exchange Commission's ("SEC") effort to solicit feedback on the proposed interpretive guidance for management regarding its evaluation of internal control over financial reporting ("ICFR"). Overall, we continue to support the intent and goals of Section 404 of the Sarbanes Oxley Act ("Act") and believe our Company continues to derive benefit from Section 404's requirements on management.

We also believe that we are spending more time and resources on complying with Section 404 than is beneficial to our investors. While we think that the SEC's proposed guidance gives management the flexibility to build efficiency into the implementation of Sarbanes-Oxley Section 404, we think that the public accounting influence on management's assessment process negates this flexibility.

The SEC has acknowledged the possibility of a strong interaction between its own proposed interpretive guidance with the proposed guidance issued by the Public Company Accounting Oversight Board ("PCAOB"). The SEC states the question as follows (page fifty of the proposed interpretive guidance): "Considering the PCAOB's proposed new auditing standards, <u>An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements</u> and <u>Considering and Using the Work of Others In an Audit</u>, are there any areas of incompatibility that limit the effectiveness or efficiency of an evaluation conducted in accordance with the proposed guidance? If so, what are those areas and how would you propose to solve the incompatibility?"

We believe that a strong interaction, as discussed above, does exist between the SEC guidance and the proposed PCAOB auditing standards. Further, we believe the SEC guidance for management is ultimately incompatible with the PCAOB's proposed new auditing standards. Management will continually seek to perform an ICFR assessment that is, foremost, effective and efficient. The public accountant will continue to perform an assessment that, foremost, contains quantities of evidence ample enough to defend its opinion and protect against litigation. Thus, from the public accounting perspective, more evidence equals less risk. Effectiveness and efficiency can only be sought after the public accounting firm's ability to defend its audit opinion is fully satisfied. The best evidence of the reality of this conflict is the need for entirely separate guidance for management and the public accountant regarding the performance of a review of the same process, that is, of internal control over financial reporting.

Accordingly, we believe the solution most likely to overcome the inherent incompatibility between management's assessment process and the public accountant's assessment process includes the steps outlined below:

- **Eliminate the Section 404 (b) requirement for a public accountant opinion on ICFR.** The current proposal provides no incentive for public accounting firms to limit the amount of controls documentation and testing they require in order to provide an opinion on ICFR. This results in a "more is better" tendency on the part of public accounting firms when gathering evidence of control effectiveness. More evidence obviously places the public accountant in a better position to defend their opinions. While the current proposal directs public accountants to the most important controls, there is no standard for management to rely on when debating with the public accountant the appropriate balance of coverage.

  Results of audits conducted by the PCAOB typically reinforce the public accountant's tendency to create additional evidence. The PCAOB's own audit reports resulting from the review of public accounting firms frequently cite a lack of evidence for a firm's opinion. The net result is that when management presents a risk based evaluation of the number of controls to be documented and tested in its assessment of ICFR, any reductions will likely be perceived by the public accountant as imposing additional risk on the public accounting firm.

  The public accountant response to a risk based management assessment that covers primarily the highest risk, most important controls will likely be "if management won't test all internal controls over financial reporting, then we (the public accountant) will have to do more work. Thus, the most effective way to provide relief from the public accounting propensity to require more testing is to eliminate the public accountant's opinion on ICFR required by Section 404 (b). Subsequently, the public accountant would revert to the previously utilized auditing standard covering internal controls, that is, Statement of Auditing Standard No. 55, Consideration of Internal Control in a Financial Statement Audit (SAS 55). Adherence to SAS 55 by the public accountant, along with the certification of internal controls provided by management under Section 404 (a), would be sufficient to provide assurance of internal control effectiveness to the investing public.

- **Define the scope of the Section 404 (a) Management Assessment to eliminate or reduce compliance requirements for subsidiary registrants.** Due to the existence of corporations that contain multiple subsidiary SEC registrants, certain corporations find themselves having to certify multiple times within the same corporation. We believe that the multiple certifications required under current SEC rules is incompatible with the goal of efficiency stated by both the SEC and the PCAOB. To alleviate this inefficiency and redundancy, we suggest expanding the SEC Audit Committee exemption to encompass Section 404 (a) —effectively exempting or reducing compliance requirements for (subsidiary) registrants. Specifically, we recommend exemption for SEC registrants whose common stock is owned entirely by a registered holding company that also fully complies with Section 404 (a). Having management certify each subsidiary individually is an inherently redundant exercise with limited benefit to investors. A single management certification at the holding company level would provide sufficient assurance to investors that controls surrounding the financial reporting process are adequate to assure financial statements are properly stated.

- **Develop guidance that is compatible between the SEC and the PCAOB, thus enhancing the ability of the public accountant to rely on work performed by management that reflects SEC guidance.** Any incompatibility between the SEC guidance and the proposed PCAOB auditing standards ultimately lessens the ability of the public accountant to rely on work performed by management. This lessens the efficiency of the assessment and contributes to redundancy. The SEC guidance, taken alone, allows management to perform an internal control assessment with efficiency. When management alters their assessment to allow for utilization by the public accountant, the PCAOB guidance forces management to perform procedures and tests that exceed those levels suggested by the SEC's guidance, thus contributing to inefficiency.

Lastly, we would like to add our endorsement of the response from the Edison Electric Institute ("EEI"). EEI is the association of United States shareholder-owned electric companies, whose members serve 97 percent of the ultimate customers in the shareholder owned segment of the industry.

We thank you for the opportunity to provide feedback on this important release. We look forward to your future guidance to help facilitate cost effective implementation of the Sarbanes-Oxley Act. If you would like to discuss our response, please contact me.

Sincerely,

/s/Thomas A. Fanning