

ALABAMA POWER CO

Form 10-Q

May 03, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-3526	The Southern Company (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-0690070
1-3164	Alabama Power Company (An Alabama Corporation) 600 North 18 th Street Birmingham, Alabama 35203 (205) 257-1000	63-0004250
1-6468	Georgia Power Company (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
001-31737	Gulf Power Company (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
001-11229	Mississippi Power Company (A Mississippi Corporation) 2992 West Beach Boulevard Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
001-37803	Southern Power Company	58-2598670

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(A Delaware Corporation)
30 Ivan Allen Jr. Boulevard, N.W.
Atlanta, Georgia 30308
(404) 506-5000

1-14174	Southern Company Gas (A Georgia Corporation) Ten Peachtree Place, N.E. Atlanta, Georgia 30309 (404) 584-4000	58-2210952
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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Registrant	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
The Southern Company	X				
Alabama Power Company			X		
Georgia Power Company			X		
Gulf Power Company			X		
Mississippi Power Company			X		
Southern Power Company			X		
Southern Company Gas			X		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐ (Response applicable to all registrants.)

Registrant	Description of Common Stock	Shares Outstanding at March 31, 2017
The Southern Company	Par Value \$5 Per Share	994,598,783
Alabama Power Company	Par Value \$40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	7,392,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value \$0.01 Per Share	1,000
Southern Company Gas	Par Value \$0.01 Per Share	100

This combined Form 10-Q is separately filed by The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Southern Power Company, and Southern Company Gas. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

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DEFINITIONS

Term	Meaning
2012 MPSC CPCN Order	A detailed order issued by the Mississippi PSC in April 2012 confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing the acquisition, construction, and operation of the Kemper IGCC
2013 ARP	Alternative Rate Plan approved by the Georgia PSC in 2013 for Georgia Power for the years 2014 through 2016 and subsequently extended through 2019
AFUDC	Allowance for funds used during construction
Alabama Power	Alabama Power Company
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Atlanta Gas Light	Atlanta Gas Light Company, a wholly-owned subsidiary of Southern Company Gas
Baseload Act	State of Mississippi legislation designed to enhance the Mississippi PSC's authority to facilitate development and construction of baseload generation in the State of Mississippi
CCR	Coal combustion residuals
Clean Power Plan	Final action published by the EPA in 2015 that established guidelines for states to develop plans to meet EPA-mandated CO ₂ emission rates or emission reduction goals for existing electric generating units
CO ₂	Carbon dioxide
COD	Commercial operation date
Contractor	Westinghouse and its affiliate, WECTEC Global Project Services Inc. (formerly known as CB&I Stone & Webster, Inc.), formerly a subsidiary of The Shaw Group Inc. and Chicago Bridge & Iron Company N.V.
CPCN	Certificate of public convenience and necessity
CWIP	Construction work in progress
Dalton Pipeline	A 50% undivided ownership interest of Southern Company Gas in a pipeline facility in Georgia
DOE	U.S. Department of Energy
ECO Plan	Mississippi Power's Environmental Compliance Overview Plan
Eligible Project Costs	Certain costs of construction relating to Plant Vogtle Units 3 and 4 that are eligible for financing under the Title XVII Loan Guarantee Program
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FFB	Federal Financing Bank
Fitch	Fitch Ratings, Inc.
Form 10-K	Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, and Southern Company Gas for the year ended December 31, 2016, as applicable
GAAP	U.S. generally accepted accounting principles
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
Heating Degree Days	A measure of weather, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Horizon Pipeline	Horizon Pipeline Company, LLC
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany interchange contract
Illinois Commission	Illinois Commerce Commission, the state regulatory agency for Nicor Gas

Internal Revenue Code	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
ITC	Investment tax credit
Kemper IGCC	IGCC facility under construction by Mississippi Power in Kemper County, Mississippi

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DEFINITIONS

(continued)

Term	Meaning
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied natural gas
LOCOM	Lower of weighted average cost or current market price
LTSA	Long-term service agreement
MATS rule	Mercury and Air Toxics Standards rule
Merger	The merger, effective July 1, 2016, of a wholly-owned, direct subsidiary of Southern Company with and into Southern Company Gas, with Southern Company Gas continuing as the surviving corporation
Mirror CWIP	A regulatory liability used by Mississippi Power to record customer refunds resulting from a 2015 Mississippi PSC order
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
MRA	Municipal and Rural Associations
MW	Megawatt
natural gas distribution utilities	Southern Company Gas' seven natural gas distribution utilities (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, Elizabethtown Gas, Florida City Gas, Chattanooga Gas Company, and Elkton Gas)
NCCR	Georgia Power's Nuclear Construction Cost Recovery
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor Gas	Northern Illinois Gas Company, a wholly-owned subsidiary of Southern Company Gas
Nicor Gas Credit Facility	\$700 million credit facility entered into by Nicor Gas to support its commercial paper program
NRC	U.S. Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange, Inc.
OCI	Other comprehensive income
PennEast Pipeline	PennEast Pipeline Company, LLC
PEP	Mississippi Power's Performance Evaluation Plan
Piedmont	Piedmont Natural Gas Company, Inc.
Pivotal Utility Holdings	Pivotal Utility Holdings, Inc., a wholly-owned subsidiary of Southern Company Gas, doing business as Elizabethtown Gas, Elkton Gas, and Florida City Gas
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Georgia Power's Plant Vogtle
PowerSecure	PowerSecure, Inc.
power pool	The operating arrangement whereby the integrated generating resources of the traditional electric operating companies and Southern Power (excluding subsidiaries) are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power purchase agreements, as well as, for Southern Power, contracts for differences that provide the owner of a renewable facility a certain fixed price for the electricity sold to the grid
PSC	Public Service Commission
PTC	Production tax credit
Rate CNP	Alabama Power's Rate Certificated New Plant Alabama Power's Rate Certificated New Plant Compliance

Rate CNP

Compliance

Rate CNP PPA Alabama Power's Rate Certificated New Plant Power Purchase Agreement

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DEFINITIONS

(continued)

Term	Meaning
Rate ECR	Alabama Power's Rate Energy Cost Recovery
Rate NDR	Alabama Power's Rate Natural Disaster Reserve
Rate RSE	Alabama Power's Rate Stabilization and Equalization plan
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power Company, and Southern Company Gas
ROE	Return on equity
S&P	S&P Global Ratings, a division of S&P Global Inc.
scrubber	Flue gas desulfurization system
SCS	Southern Company Services, Inc. (the Southern Company system service company)
SEC	U.S. Securities and Exchange Commission
SMEPA	South Mississippi Electric Power Association (now known as Cooperative Energy)
SNG	Southern Natural Gas Company, L.L.C.
Southern Company	The Southern Company
Southern Company Gas	Southern Company Gas and its subsidiaries
Southern Company Gas Capital	Southern Company Gas Capital Corporation, a 100%-owned subsidiary of Southern Company Gas
Southern Company Gas Credit Facility	\$1.3 billion credit agreement entered into by Southern Company Gas Capital to support its commercial paper program
Southern Company system	Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas (as of July 1, 2016), Southern Electric Generating Company, Southern Nuclear, SCS, Southern Communications Services, Inc., PowerSecure (as of May 9, 2016), and other subsidiaries
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company and its subsidiaries
SouthStar	SouthStar Energy Services, LLC
STRIDE	Atlanta Gas Light's Strategic Infrastructure Development and Enhancement program
Toshiba	Toshiba Corporation, parent company of Westinghouse
Toshiba Guarantee	Certain payment obligations of the Contractor guaranteed by Toshiba
traditional electric operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Triton	Triton Container Investments, LLC
Virginia Commission	Virginia State Corporation Commission, the state regulatory agency for Virginia Natural Gas
Virginia Natural Gas	Virginia Natural Gas, Inc., a wholly-owned subsidiary of Southern Company Gas
Vogtle Owners	Georgia Power, Oglethorpe Power Corporation, the Municipal Electric Authority of Georgia, and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners
WACOG	Weighted average cost of gas
WECTEC	WECTEC Global Project Services Inc.
Westinghouse	Westinghouse Electric Company LLC

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning regulated rates, the strategic goals for the wholesale business, customer and sales growth, economic conditions, fuel and environmental cost recovery and other rate actions, current and proposed environmental regulations and related compliance plans and estimated expenditures, pending or potential litigation matters, access to sources of capital, financing activities, completion dates of construction projects, filings with state and federal regulatory authorities, federal income tax benefits, estimated sales and purchases under power sale and purchase agreements, and estimated construction and other plans and expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including environmental laws regulating emissions, discharges, and disposal to air, water, and land, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, including potential tax reform legislation, as well as changes in application of existing laws and regulations;

- current and future litigation, regulatory investigations, proceedings, or inquiries;

- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;

- variations in demand for electricity and natural gas, including those relating to weather, the general economy and recovery from the last recession, population and business growth (and declines), the effects of energy conservation and efficiency measures, including from the development and deployment of alternative energy sources such as self-generation and distributed generation technologies, and any potential economic impacts resulting from federal fiscal decisions;

- available sources and costs of natural gas and other fuels;

- limits on pipeline capacity;

- effects of inflation;

- the ability to control costs and avoid cost overruns during the development, construction and operation of facilities, which include the development and construction of generating facilities with designs that have not been finalized or previously constructed, including changes in labor costs and productivity, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, sustaining nitrogen supply, contractor or supplier delay, non-performance under construction, operating, or other agreements, operational readiness, including specialized operator training and required site safety programs, unforeseen engineering or design problems, start-up activities (including major equipment failure and system integration), and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by any PSC);

- the results of the Contractor's bankruptcy filing and the impact of any inability or other failure of Toshiba to perform its obligations under the Toshiba Guarantee, including any effect on the construction of Plant Vogtle Units 3 and 4, as well as the engineering, procurement, and construction agreement for Plant Vogtle Units 3 and 4 and Georgia Power's DOE loan guarantees;

- the ability to construct facilities in accordance with the requirements of permits and licenses, to satisfy any environmental performance standards and the requirements of tax credits and other incentives, and to integrate facilities into the Southern Company system upon completion of construction;

- investment performance of the Southern Company system's employee and retiree benefit plans and nuclear decommissioning trust funds;

- advances in technology;

- ongoing renewable energy partnerships and development agreements;

-

state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;

• legal proceedings and regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals and NRC actions;

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

(continued)

actions related to cost recovery for the Kemper IGCC, including the ultimate impact of the 2015 decision of the Mississippi Supreme Court and related legal or regulatory proceedings, Mississippi PSC review of the prudence of Kemper IGCC costs and approval of further permanent rate recovery plans, actions relating to proposed securitization, satisfaction of requirements to utilize grants, and the ultimate impact of the termination of the proposed sale of an interest in the Kemper IGCC to SMEPA;

the ability to successfully operate the electric utilities' generating, transmission, and distribution facilities and Southern Company Gas' natural gas distribution and storage facilities and the successful performance of necessary corporate functions;

- the inherent risks involved in operating and constructing nuclear generating facilities, including environmental, health, regulatory, natural disaster, terrorism, and financial risks;

the inherent risks involved in transporting and storing natural gas;

the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;

internal restructuring or other restructuring options that may be pursued;

potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;

the possibility that the anticipated benefits from the Merger cannot be fully realized or may take longer to realize than expected, the possibility that costs related to the integration of Southern Company and Southern Company Gas will be

greater than expected, the ability to retain and hire key personnel and maintain relationships with customers, suppliers, or other business partners, and the diversion of management time on integration-related issues;

the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;

the ability to obtain new short- and long-term contracts with wholesale customers;

the direct or indirect effect on the Southern Company system's business resulting from cyber intrusion or terrorist incidents and the threat of terrorist incidents;

- interest rate fluctuations and financial market conditions and the results of financing efforts;

changes in Southern Company's and any of its subsidiaries' credit ratings, including impacts on interest rates, access to capital markets, and collateral requirements;

the impacts of any sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on foreign currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the benefits of the DOE loan guarantees;

the ability of Southern Company's electric utilities to obtain additional generating capacity (or sell excess generating capacity) at competitive prices;

catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events such as influenzas, or other similar occurrences;

the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S.

electric grid, natural gas pipeline infrastructure, or operation of generating or storage resources;

the effect of accounting pronouncements issued periodically by standard-setting bodies; and

other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the registrants from time to time with the SEC.

The registrants expressly disclaim any obligation to update any forward-looking statements.

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THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Operating Revenues:		
Retail electric revenues	\$3,394	\$3,377
Wholesale electric revenues	531	396
Other electric revenues	175	181
Natural gas revenues	1,530	—
Other revenues	141	38
Total operating revenues	5,771	3,992
Operating Expenses:		
Fuel	996	911
Purchased power	179	165
Cost of natural gas	719	—
Cost of other sales	88	19
Other operations and maintenance	1,329	1,107
Depreciation and amortization	716	541
Taxes other than income taxes	330	256
Estimated loss on Kemper IGCC	108	53
Total operating expenses	4,465	3,052
Operating Income	1,306	940
Other Income and (Expense):		
Allowance for equity funds used during construction	57	53
Earnings from equity method investments	39	—
Interest expense, net of amounts capitalized	(416)	(246)
Other income (expense), net	(6)	(29)
Total other income and (expense)	(326)	(222)
Earnings Before Income Taxes	980	718
Income taxes	315	217
Consolidated Net Income	665	501
Less:		
Dividends on preferred and preference stock of subsidiaries	11	11
Net income (loss) attributable to noncontrolling interests	(4)	1
Consolidated Net Income Attributable to Southern Company	\$658	\$489
Common Stock Data:		
Earnings per share (EPS) —		
Basic EPS	\$0.66	\$0.53
Diluted EPS	\$0.66	\$0.53
Average number of shares of common stock outstanding (in millions)		
Basic	993	916
Diluted	1,000	922
Cash dividends paid per share of common stock	\$0.5600	\$0.5425
The accompanying notes as they relate to Southern Company are an integral part of these condensed consolidated financial statements.		

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Consolidated Net Income	\$665	\$501
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of \$(5) and \$(72), respectively	(9)	(117)
Reclassification adjustment for amounts included in net income, net of tax of \$(1) and \$1, respectively	(1)	2
Pension and other post retirement benefit plans:		
Reclassification adjustment for amounts included in net income, net of tax of \$- and \$1, respectively	1	1
Total other comprehensive income (loss)	(9)	(114)
Less:		
Dividends on preferred and preference stock of subsidiaries	11	11
Comprehensive income (loss) attributable to noncontrolling interests	(4)	1
Consolidated Comprehensive Income Attributable to Southern Company	\$649	\$375
The accompanying notes as they relate to Southern Company are an integral part of these condensed consolidated financial statements.		

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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31,	
	2017	2016
	(in millions)	
Operating Activities:		
Consolidated net income	\$ 665	\$ 501
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	823	639
Deferred income taxes	161	(4)
Allowance for equity funds used during construction	(57)	(53)
Stock based compensation expense	61	58
Estimated loss on Kemper IGCC	108	53
Mark-to-market adjustments	(81)	(2)
Other, net	(11)	(6)
Changes in certain current assets and liabilities —		
-Receivables	312	235
-Prepayments	(111)	(65)
-Natural gas for sale, net of temporary LIFO liquidation	411	—
-Other current assets	(31)	(7)
-Accounts payable	(533)	(72)
-Accrued taxes	(212)	(57)
-Accrued compensation	(438)	(332)
-Retail fuel cost over recovery	(122)	25
-Other current liabilities	(48)	(35)
Net cash provided from operating activities	897	878
Investing Activities:		
Business acquisitions, net of cash acquired	(1,020)	(114)
Property additions	(1,488)	(1,872)
Investment in restricted cash	(13)	(289)
Distribution of restricted cash	26	292
Nuclear decommissioning trust fund purchases	(224)	(316)
Nuclear decommissioning trust fund sales	218	311

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Cost of removal, net of salvage	(61))	(52))
Change in construction payables, net	(170))	(94))
Investment in unconsolidated subsidiaries	(81))	—	
Payments pursuant to LTSAs	(55)	)	(49))
Other investing activities	65		(14))
Net cash used for investing activities	(2,803)	)	(2,197))
Financing Activities:				
Increase in notes payable, net	573		294	
Proceeds —				
Long-term debt	1,409		1,997	
Common stock	186		270	
Short-term borrowings	4		—	
Redemptions and repurchases —				
Long-term debt	(608)	)	(888))
Short-term borrowings	—		(475))
Distributions to noncontrolling interests	(18)	)	(4))
Capital contributions from noncontrolling interests	71		131	
Purchase of membership interests from noncontrolling interests	—		(129))
Payment of common stock dividends	(556)	)	(497))
Other financing activities	(36)	)	(30))
Net cash provided from financing activities	1,025		669	
Net Change in Cash and Cash Equivalents	(881)	)	(650))
Cash and Cash Equivalents at Beginning of Period	1,975		1,404	
Cash and Cash Equivalents at End of Period	\$ 1,094		\$ 754	
Supplemental Cash Flow Information:				
Cash paid (received) during the period for —				
Interest (net of \$25 and \$30 capitalized for 2017 and 2016, respectively)	\$ 461		\$ 224	
Income taxes, net	(6)	)	(141))
Noncash transactions —				
Accrued property additions at end of period	578		731	

The accompanying notes as they relate to Southern Company are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	\$1,094	\$1,975
Receivables —		
Customer accounts receivable	1,560	1,565
Energy marketing receivable	493	623
Unbilled revenues	589	706
Under recovered regulatory clause revenues	47	18
Income taxes receivable, current	544	544
Other accounts and notes receivable	433	377
Accumulated provision for uncollectible accounts	(53)	(43)
Materials and supplies	1,477	1,462
Fossil fuel for generation	687	689
Natural gas for sale	346	631
Prepaid expenses	401	364
Other regulatory assets, current	560	581
Other current assets	249	230
Total current assets	8,427	9,722
Property, Plant, and Equipment:		
In service	99,774	98,416
Less: Accumulated depreciation	30,330	29,852
Plant in service, net of depreciation	69,444	68,564
Nuclear fuel, at amortized cost	902	905
Construction work in progress	9,465	8,977
Total property, plant, and equipment	79,811	78,446
Other Property and Investments:		
Goodwill	6,251	6,251
Equity investments in unconsolidated subsidiaries	1,615	1,549
Other intangible assets, net of amortization of \$97 and \$62 at March 31, 2017 and December 31, 2016, respectively	935	970
Nuclear decommissioning trusts, at fair value	1,678	1,606
Leveraged leases	780	774
Miscellaneous property and investments	293	270
Total other property and investments	11,552	11,420
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,647	1,629
Unamortized loss on reacquired debt	218	223
Other regulatory assets, deferred	6,748	6,851
Other deferred charges and assets	1,357	1,406
Total deferred charges and other assets	9,970	10,109
Total Assets	\$109,760	\$109,697

The accompanying notes as they relate to Southern Company are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholders' Equity	At March 31, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	\$3,269	\$2,587
Notes payable	2,818	2,241
Energy marketing trade payables	471	597
Accounts payable	1,750	2,228
Customer deposits	541	558
Accrued taxes —		
Accrued income taxes	258	193
Unrecognized tax benefits	400	385
Other accrued taxes	326	667
Accrued interest	453	518
Accrued compensation	461	915
Asset retirement obligations, current	386	378
Liabilities from risk management activities, net of collateral	63	107
Acquisitions payable	—	489
Other regulatory liabilities, current	221	236
Other current liabilities	867	818
Total current liabilities	12,284	12,917
Long-term Debt	42,786	42,629
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	14,307	14,092
Deferred credits related to income taxes	215	219
Accumulated deferred investment tax credits	2,264	2,228
Employee benefit obligations	2,234	2,299
Asset retirement obligations, deferred	4,170	4,136
Accrued environmental remediation	388	397
Other cost of removal obligations	2,724	2,748
Other regulatory liabilities, deferred	237	258
Other deferred credits and liabilities	873	880
Total deferred credits and other liabilities	27,412	27,257
Total Liabilities	82,482	82,803
Redeemable Preferred Stock of Subsidiaries	118	118
Redeemable Noncontrolling Interests	164	164
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value \$5 per share —		
Authorized — 1.5 billion shares		
Issued — March 31, 2017: 995 million shares		
— December 31, 2016: 991 million shares		
Treasury — March 31, 2017: 0.9 million shares		
— December 31, 2016: 0.8 million shares		
Par value	4,973	4,952

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Paid-in capital	9,884	9,661
Treasury, at cost	(33) (31
Retained earnings	10,459	10,356
Accumulated other comprehensive loss	(189	) (180
Total Common Stockholders' Equity	25,094	24,758
Preferred and Preference Stock of Subsidiaries	609	609
Noncontrolling Interests	1,293	1,245
Total Stockholders' Equity	26,996	26,612
Total Liabilities and Stockholders' Equity	\$109,760	\$109,697

The accompanying notes as they relate to Southern Company are an integral part of these condensed consolidated financial statements.

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SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
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FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FIRST QUARTER 2017 vs. FIRST QUARTER 2016

OVERVIEW

Southern Company is a holding company that owns all of the common stock of the traditional electric operating companies and of the parent entities of Southern Power and Southern Company Gas and owns other direct and indirect subsidiaries. Discussion of the results of operations is focused on the Southern Company system's primary business of electricity sales by the traditional electric operating companies and Southern Power and the distribution of natural gas by Southern Company Gas. The four traditional electric operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages power generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. Southern Company Gas distributes natural gas through natural gas distribution utilities in seven states and is involved in several other complementary businesses including gas marketing services, wholesale gas services, and gas midstream operations. Southern Company's other business activities include providing energy technologies and services to electric utilities and large industrial, commercial, institutional, and municipal customers. Customer solutions include distributed generation systems, utility infrastructure solutions, and energy efficiency products and services. Other business activities also include investments in telecommunications, leveraged lease projects, and gas storage facilities. For additional information, see BUSINESS – "The Southern Company System – Traditional Electric Operating Companies," " – Southern Power," " – Southern Company Gas," and " – Other Businesses" in Item 1 of the Form 10-K.

Southern Company continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, electric and natural gas system reliability, execution of major construction projects, and earnings per share.

Construction Program

See RESULTS OF OPERATIONS – "Estimated Loss on Kemper IGCC," FUTURE EARNINGS POTENTIAL – "Construction Program," and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information regarding the construction program. For information about Southern Power's acquisitions and construction of renewable energy facilities, see Note (I) to the Condensed Financial Statements under "Southern Power" herein. On March 29, 2017, Westinghouse and WECTEC each filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. Also on March 29, 2017, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an interim assessment agreement with the Contractor and WECTEC Staffing Services LLC (WECTEC Staffing) to provide for a continuation of work with respect to Plant Vogtle Units 3 and 4. In February 2017, the Contractor provided Georgia Power with revised forecasted in-service dates of December 2019 and September 2020 for Plant Vogtle Units 3 and 4, respectively. However, based on information subsequently made available during Westinghouse and WECTEC's bankruptcy proceedings and pursuant to the interim assessment agreement, Georgia Power and the Vogtle Owners do not believe the revised in-service dates are achievable. Georgia Power, along with the other Vogtle Owners, is undertaking a comprehensive schedule and cost-to-complete assessment, as well as a cancellation cost assessment. It is reasonably possible these assessments result in estimated incremental costs to complete, including owners' costs, that materially exceed the value of the Toshiba Guarantee. Georgia Power intends to work with the Georgia PSC and the other Vogtle Owners to determine future actions related to Plant Vogtle Units 3 and 4. Georgia Power, for itself and as agent for the other Vogtle Owners, is also negotiating a new service agreement which would, if necessary, engage the Contractor to provide design, engineering, and procurement services to Southern Nuclear, in the event Southern Nuclear assumes control over construction management. The Contractor's bankruptcy filing is expected to have a material impact on the construction cost and schedule of, as well as the cost recovery for, Plant Vogtle Units 3 and 4 and could have a material impact on

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Southern Company's financial statements. In addition, an inability or other failure by Toshiba to perform its obligations under the Toshiba Guarantee could have a further material impact on the net cost to the Vogtle Owners to complete construction of Plant Vogtle Units 3 and 4 and, therefore, on Southern Company's financial statements. The ultimate outcome of these matters also is dependent on the results of the assessments currently underway, as well as the related regulatory treatment, and cannot be determined at this time.

RESULTS OF OPERATIONS

Net Income

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$169 34.6

Consolidated net income attributable to Southern Company was \$658 million (\$0.66 per share) for the first quarter 2017 compared to \$489 million (\$0.53 per share) for the corresponding period in 2016. Consolidated net income increased by \$239 million as a result of earnings from Southern Company Gas, which was acquired on July 1, 2016, and decreased \$12 million as a result of a loss at PowerSecure, which was acquired on May 9, 2016. Also contributing to the increase were higher retail electric revenues resulting from increases in non-fuel retail base rates, an increase in renewable energy sales and income tax benefits at Southern Power, and a decrease in non-fuel operations and maintenance expenses. These increases were partially offset by a decrease in retail electric revenues resulting from milder weather, higher interest expense, higher depreciation and amortization, and higher charges related to revisions of the estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC in the first quarter 2017 compared to the corresponding period in 2016.

See Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information on the Merger and the acquisition of PowerSecure and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information regarding the Kemper IGCC.

Retail Electric Revenues

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$17 0.5

In the first quarter 2017, retail electric revenues were \$3.39 billion compared to \$3.38 billion for the corresponding period in 2016.

Details of the changes in retail electric revenues were as follows:

	First Quarter 2017	
	(in millions) (% change)	
Retail electric – prior year	\$3,377	
Estimated change resulting from –		
Rates and pricing	118	3.5
Sales decline	(11)	(0.3)
Weather	(137)	(4.1)
Fuel and other cost recovery	47	1.4
Retail electric – current year	\$3,394	0.5 %

Revenues associated with changes in rates and pricing increased in the first quarter 2017 when compared to the corresponding period in 2016 primarily due to a Rate RSE increase at Alabama Power effective January 1, 2017, the

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rate pricing effect of decreased customer usage and higher contributions from commercial and industrial customers under a rate plan allowing for variable demand-driven pricing at Georgia Power, and an ECO Plan rate increase at Mississippi Power implemented in the third quarter 2016.

See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Alabama Power" and " – Georgia Power – Rate Plans" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements herein for additional information.

Revenues attributable to changes in sales decreased in the first quarter 2017 when compared to the corresponding period in 2016. Industrial KWH sales decreased 2.2% in the first quarter 2017 primarily in the chemicals, stone, clay, and glass, and paper sectors. A strong dollar, low oil prices, weak global economic conditions, and economic policy uncertainty have constrained sales in the industrial sector. Weather-adjusted commercial KWH sales decreased 1.9% in the first quarter 2017 primarily due to decreased customer usage resulting from an increase in electronic commerce transactions and energy saving initiatives, partially offset by customer growth. Weather-adjusted residential KWH sales increased 0.8% in the first quarter 2017 primarily due to customer growth, partially offset by decreased customer usage primarily resulting from efficiency improvements in residential appliances and lighting.

Fuel and other cost recovery revenues increased \$47 million in the first quarter 2017 when compared to the corresponding period in 2016 primarily due to an increase in fuel prices. Electric rates for the traditional electric operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the energy component of PPA costs, and do not affect net income. The traditional electric operating companies each have one or more regulatory mechanisms to recover other costs such as environmental and other compliance costs, storm damage, new plants, and PPA capacity costs.

Wholesale Electric Revenues

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$135	34.1
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Wholesale electric revenues consist of PPAs primarily with investor-owned utilities and electric cooperatives and short-term opportunity sales. Wholesale electric revenues from PPAs (other than solar and wind PPAs) have both capacity and energy components. Capacity revenues generally represent the greatest contribution to net income and are designed to provide recovery of fixed costs plus a return on investment. Energy revenues will vary depending on fuel prices, the market prices of wholesale energy compared to the Southern Company system's generation, demand for energy within the Southern Company system's electric service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. Electricity sales from solar and wind PPAs do not have a capacity charge and customers either purchase the energy output of a dedicated renewable facility through an energy charge or through a fixed price for electricity. As a result, Southern Company's ability to recover fixed and variable operations and maintenance expenses is dependent upon the level of energy generated from these facilities, which can be impacted by weather conditions, equipment performance, and other factors. Wholesale electric revenues at Mississippi Power include FERC-regulated municipal and rural association sales as well as market-based sales. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Southern Company system's variable cost to produce the energy.

In the first quarter 2017, wholesale electric revenues were \$531 million compared to \$396 million for the corresponding period in 2016. This increase was primarily related to a \$118 million increase in energy revenues and a \$17 million increase in capacity revenues. The increase in energy revenues primarily related to Southern Power increases in renewable energy sales arising from new solar and wind facilities, sales from new natural gas PPAs, and

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non-PPA revenues from short-term sales. The increase in capacity revenues was primarily due to PPAs related to new natural gas facilities and additional customer load requirements at Southern Power.

Natural Gas Revenues

Natural gas revenues represent sales from the natural gas distribution utilities and certain non-regulated operations of Southern Company Gas. Following the Merger, \$1.5 billion of natural gas revenues are included in the consolidated statements of income for the first quarter 2017.

See Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

Other Revenues

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$103 N/M

N/M - Not meaningful

In the first quarter 2017, other revenues were \$141 million compared to \$38 million for the corresponding period in 2016. The increase was primarily due to \$70 million from products and services at PowerSecure, which was acquired on May 9, 2016, and \$30 million of revenues from gas marketing products and services at Southern Company Gas following the Merger.

See Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information on the Merger and the acquisition of PowerSecure.

Fuel and Purchased Power Expenses

First Quarter 2017

vs.

First Quarter 2016

(change in millions)

Fuel \$ 85 9.3

Purchased power 14 8.5

Total fuel and purchased power expenses \$ 99

In the first quarter 2017, total fuel and purchased power expenses were \$1.2 billion compared to \$1.1 billion for the corresponding period in 2016. The increase was primarily the result of a \$121 million increase in the average cost of fuel and purchased power primarily due to higher natural gas prices, partially offset by a \$22 million decrease in the volume of KWHs generated and purchased.

Fuel and purchased power energy transactions at the traditional electric operating companies are generally offset by fuel revenues and do not have a significant impact on net income. See FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Fuel Cost Recovery" herein for additional information. Fuel expenses incurred under Southern Power's PPAs are generally the responsibility of the counterparties and do not significantly impact net income.

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Details of the Southern Company system's generation and purchased power were as follows:

	First Quarter 2017	First Quarter 2016
Total generation (in billions of KWHs)	44	44
Total purchased power (in billions of KWHs)	4	4
Sources of generation (percent) —		
Coal	29	27
Nuclear	17	17
Gas	46	47
Hydro	2	7
Other	6	2
Cost of fuel, generated (in cents per net KWH) —		
Coal	2.88	3.24
Nuclear	0.79	0.82
Gas	2.92	2.16
Average cost of fuel, generated (in cents per net KWH)	2.50	2.23
Average cost of purchased power (in cents per net KWH)(*)	6.11	5.27

(*) Average cost of purchased power includes fuel purchased by the Southern Company system for tolling agreements where power is generated by the provider.

Fuel

In the first quarter 2017, fuel expense was \$996 million compared to \$911 million for the corresponding period in 2016. The increase was primarily due to a 35.2% increase in the average cost of natural gas per KWH generated and a 5.5% increase in the volume of KWHs generated by coal, partially offset by an 11.1% decrease in the average cost of coal per KWH generated and an 8.4% decrease in the volume of KWHs generated by natural gas.

Purchased Power

In the first quarter 2017, purchased power expense was \$179 million compared to \$165 million for the corresponding period in 2016. The increase was primarily due to a 15.9% increase in the average cost per KWH purchased, primarily as a result of higher natural gas prices, partially offset by a 3.6% decrease in the volume of KWHs purchased.

Energy purchases will vary depending on demand for energy within the Southern Company system's electric service territory, the market prices of wholesale energy as compared to the cost of the Southern Company system's generation, and the availability of the Southern Company system's generation.

Cost of Natural Gas

Cost of natural gas represents the cost of natural gas sold by the natural gas distribution utilities and certain non-regulated operations of Southern Company Gas. Following the Merger, \$719 million of natural gas costs were included in the consolidated statements of income for the first quarter 2017.

See Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

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Cost of Other Sales

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$69 N/M

N/M - Not meaningful

In the first quarter 2017, cost of other sales were \$88 million compared to \$19 million for the corresponding period in 2016. The increase was primarily due to costs related to sales of products and services by PowerSecure, which was acquired on May 9, 2016.

See Note (I) to the Condensed Financial Statements under "Southern Company – Acquisition of PowerSecure" herein for additional information.

Other Operations and Maintenance Expenses

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$222 20.1

In the first quarter 2017, other operations and maintenance expenses were \$1.3 billion compared to \$1.1 billion for the corresponding period in 2016. The increase was primarily due to \$253 million in operations and maintenance expenses at Southern Company Gas following the Merger, \$32.5 million resulting from the write-down of Gulf Power's ownership of Plant Scherer Unit 3 in accordance with a settlement agreement approved by the Florida PSC on April 4, 2017 (2017 Rate Case Settlement Agreement), and \$21 million in operations and maintenance expenses at PowerSecure, which was acquired on May 9, 2016, partially offset by a decrease of \$38 million in scheduled outage and maintenance costs at generation facilities and a \$19 million increase in gains from sales of integrated transmission system assets at Georgia Power.

See Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" herein for additional information regarding the 2017 Rate Case Settlement Agreement and Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information related to the Merger and the acquisition of PowerSecure.

Depreciation and Amortization

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$175 32.3

In the first quarter 2017, depreciation and amortization was \$716 million compared to \$541 million for the corresponding period in 2016. Following the Merger, \$120 million in depreciation and amortization for Southern Company Gas is included in the consolidated statements of income for the first quarter 2017. Additionally, the increase reflects \$60 million related to additional plant in service at the traditional electric operating companies and Southern Power, partially offset by \$20 million more of a reduction in depreciation in the first quarter 2017 compared to the corresponding period in 2016 at Gulf Power, as authorized in its 2013 rate case settlement approved by the Florida PSC.

See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" herein for additional information. Also, see Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

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Taxes Other Than Income Taxes

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$74 28.9

In the first quarter 2017, taxes other than income taxes were \$330 million compared to \$256 million for the corresponding period in 2016. The increase primarily related to \$70 million in taxes other than income taxes associated with Southern Company Gas following the Merger.

See Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

Estimated Loss on Kemper IGCC

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$55 N/M

N/M - Not meaningful

In the first quarter 2017 and 2016, estimated probable losses on the Kemper IGCC of \$108 million and \$53 million, respectively, were recorded at Southern Company. These losses reflect revisions of estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC in excess of the \$2.88 billion cost cap established by the Mississippi PSC, net of \$245 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (Initial DOE Grants) and excluding the cost of the lignite mine and equipment, the cost of the CO₂ pipeline facilities, AFUDC, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on customers relative to the original proposal for the CPCN) (Cost Cap Exceptions).

See FUTURE EARNINGS POTENTIAL – "Construction Program – Integrated Coal Gasification Combined Cycle" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.

Earnings from Equity Method Investments

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$39 N/M

N/M - Not meaningful

In the first quarter 2017, earnings from equity method investments were \$39 million, primarily related to earnings from Southern Company Gas' equity method investment in SNG effective September 2016.

See Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

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Interest Expense, Net of Amounts Capitalized

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$170 69.1

In the first quarter 2017, interest expense, net of amounts capitalized was \$416 million compared to \$246 million in the corresponding period in 2016. The increase was primarily due to an increase in average outstanding long-term debt primarily related to the financing of the Merger and the funding of Southern Power's growth strategy and continuous construction program. In addition, following the Merger, \$46 million in interest expense of Southern Company Gas is included in the consolidated statements of income for the first quarter 2017.

See Note (E) to the Condensed Financial Statements herein and Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

Other Income (Expense), Net

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$23 79.3

In the first quarter 2017, other income (expense), net was \$(6) million compared to \$(29) million for the corresponding period in 2016. The change was primarily due to parent company expenses incurred in 2016 associated with bridge financing for the Merger. The change also includes a currency loss of \$17 million at Southern Power arising from a translation of euro-denominated fixed-rate notes into U.S. dollars, fully offset by a gain of \$17 million on the related foreign currency hedge that was reclassified from accumulated OCI into earnings.

See Note (H) to the Condensed Financial Statements under "Foreign Currency Derivatives" herein for additional information.

Income Taxes

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$98 45.2

In the first quarter 2017, income taxes were \$315 million compared to \$217 million for the corresponding period in 2016. The increase was primarily due to \$150 million in taxes at Southern Company Gas following the Merger and a \$12 million increase related to a decrease in tax benefits from solar ITCs at Southern Power, partially offset by increases in tax benefits of \$30 million from wind PTCs at Southern Power, \$21 million related to the estimated probable losses on construction of the Kemper IGCC at Mississippi Power, and \$9 million from state apportionment rate changes at Southern Power.

See Note (G) to the Condensed Financial Statements herein and Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of the Southern Company system's primary businesses of selling electricity and distributing natural gas. These factors include the traditional electric operating companies' and the natural gas distribution utilities' ability to maintain a constructive regulatory environment that allows for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. The completion of construction and resolution of cost recovery relating to the Kemper IGCC and the

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impact of the Contractor's bankruptcy on the construction cost and schedule of, as well as the cost recovery for, Plant Vogtle Units 3 and 4 are other major factors. In addition, the profitability of Southern Power's competitive wholesale business and successful additional investments in renewable and other energy projects are also major factors.

Current proposals related to potential tax reform legislation are primarily focused on reducing the corporate income tax rate, allowing 100% of capital expenditures to be deducted, and eliminating the interest deduction. The ultimate impact of any tax reform proposals, including any potential changes to the availability or realizability of ITCs and PTCs, is dependent on the final form of any legislation enacted and the related transition rules and cannot be determined at this time, but could have a material impact on Southern Company's financial statements.

Future earnings for the electricity and natural gas businesses will be driven primarily by customer growth. Earnings in the electricity business will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies, increasing volumes of electronic commerce transactions, and higher multi-family home construction. Earnings for both the electricity and natural gas businesses are subject to a variety of other factors. These factors include weather, competition, new energy contracts with other utilities and other wholesale customers, energy conservation practiced by customers, the use of alternative energy sources by customers, the prices of electricity and natural gas, the price elasticity of demand, and the rate of economic growth or decline in the service territory. In addition, the level of future earnings for the wholesale electric business also depends on numerous factors including regulatory matters, creditworthiness of customers, total electric generating capacity available and related costs, future acquisitions and construction of electric generating facilities, the impact of tax credits from renewable energy projects, and the successful remarketing of capacity as current contracts expire. Demand for electricity and natural gas is primarily driven by economic growth. The pace of economic growth and electricity and natural gas demand may be affected by changes in regional and global economic conditions, which may impact future earnings. In addition, the volatility of natural gas prices has a significant impact on the natural gas distribution utilities' customer rates, long-term competitive position against other energy sources, and the ability of Southern Company Gas' gas marketing services and wholesale gas services businesses to capture value from locational and seasonal spreads. Additionally, changes in commodity prices subject a significant portion of Southern Company Gas' operations to earnings variability.

As part of its ongoing effort to adapt to changing market conditions, Southern Company continues to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, partnerships, and acquisitions involving other utility or non-utility businesses or properties, disposition of certain assets or businesses, internal restructuring, or some combination thereof. Furthermore, Southern Company may engage in new business ventures that arise from competitive and regulatory changes in the utility industry. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations, risks, and financial condition of Southern Company.

For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Southern Company in Item 7 of the Form 10-K and RISK FACTORS in Item 1A herein.

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis for the traditional electric operating companies and the natural gas distribution utilities or through long-term wholesale agreements for the traditional electric operating companies and Southern Power. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified, as compliance plans are revised or updated, and as legal challenges to rules are completed. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity and natural gas, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL –

"Environmental Matters" of Southern Company in Item 7 and Note 3 to the financial

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statements of Southern Company under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Southern Company in Item 7 of the Form 10-K for additional information regarding the final rule revising the regulatory definition of waters of the U.S. for all Clean Water Act (CWA) programs and the final effluent guidelines rule.

On March 1, 2017, the EPA and the U.S. Army Corps of Engineers released a notice of intent to review and rescind or further revise the final rule that revised the regulatory definition of waters of the U.S. for all CWA programs. The final rule has been stayed since October 2015 by the U.S. Court of Appeals for the Sixth Circuit.

On April 25, 2017, the EPA published a notice announcing it would reconsider the effluent guidelines rule, which had been finalized in November 2015. As part of its planned reconsideration, the EPA also announced it is administratively staying the compliance deadlines under the rule and will conduct additional rulemaking to that effect. The ultimate outcome of these matters cannot be determined at this time.

Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Southern Company in Item 7 of the Form 10-K for additional information.

On March 28, 2017, the President signed an executive order directing agencies to review actions that potentially burden the development or use of domestically produced energy resources. The executive order specifically directs the EPA to review the Clean Power Plan and final greenhouse gas emission standards for new, modified, and reconstructed electric generating units and, if appropriate, take action to suspend, revise, or rescind those rules. The ultimate outcome of this matter cannot be determined at this time.

Regulatory Matters

Fuel Cost Recovery

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Fuel Cost Recovery" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company under "Regulatory Matters – Alabama Power – Rate ECR" and "Regulatory Matters – Georgia Power – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information regarding fuel cost recovery for the traditional electric operating companies.

The traditional electric operating companies each have established fuel cost recovery rates approved by their respective state PSCs. Fuel cost recovery revenues are adjusted for differences in actual recoverable fuel costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will not have a significant effect on Southern Company's revenues or net income, but will affect cash flow. The traditional electric operating companies continuously monitor their under or over recovered fuel cost balances and make appropriate filings with their state PSCs to adjust fuel cost recovery rates as necessary.

Renewables

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Renewables" of Southern Company in Item 7 of the Form 10-K for additional information regarding the Southern Company system's renewables activity.

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Of the three Mississippi Power solar projects expected to be in service in 2017, one was placed in service in the first quarter 2017, while the remaining two are expected to be placed in service in June and July 2017. Mississippi Power may retire the renewable energy credits (REC) generated on behalf of its customers or sell the RECs, separately or bundled with energy, to third parties.

Alabama Power

Alabama Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Alabama PSC. Alabama Power currently recovers its costs from the regulated retail business primarily through Rate RSE, Rate CNP, Rate ECR, and Rate NDR. In addition, the Alabama PSC issues accounting orders to address current events impacting Alabama Power. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Alabama Power" in Item 8 of the Form 10-K for additional information regarding Alabama Power's rate mechanisms and accounting orders. The recovery balance of each regulatory clause for Alabama Power is reported in Note (B) to the Condensed Financial Statements herein.

Georgia Power

Georgia Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Georgia PSC. Georgia Power currently recovers its costs from the regulated retail business through the 2013 ARP, which includes traditional base tariff rates, Demand-Side Management tariffs, Environmental Compliance Cost Recovery tariffs, and Municipal Franchise Fee tariffs. In addition, financing costs related to the construction of Plant Vogtle Units 3 and 4 are being collected through the NCCR tariff and fuel costs are collected through a separate fuel cost recovery tariff. See Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" herein and Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding Georgia Power's NCCR tariff. Also see Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Fuel Cost Recovery" herein for additional information regarding Georgia Power's fuel cost recovery.

Integrated Resource Plan

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Georgia Power – Integrated Resource Plan" of Southern Company in Item 7 of the Form 10-K for additional information regarding Georgia Power's triennial Integrated Resource Plan.

On March 7, 2017, the Georgia PSC approved Georgia Power's decision to suspend work at a future generation site in Stewart County, Georgia, due to changing economics, including load forecasts and lower fuel costs. The timing of recovery for costs of approximately \$50 million incurred through March 31, 2017 will be determined by the Georgia PSC in a future base rate case. The ultimate outcome of this matter cannot be determined at this time.

Gulf Power

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Gulf Power" of Southern Company in Item 7 of the Form 10-K for additional information regarding Gulf Power's October 2016 request to the Florida PSC to increase retail base rates and Gulf Power's ownership of Plant Scherer Unit 3.

On April 4, 2017, the Florida PSC approved the 2017 Rate Case Settlement Agreement among Gulf Power and three of the intervenors to Gulf Power's retail base rate case, with respect to Gulf Power's request to increase retail base rates. Under the terms of the 2017 Rate Case Settlement Agreement, Gulf Power will, among other things, increase rates effective July 1, 2017 to provide an annual overall net customer impact of approximately \$54.3 million. The net customer impact consists of a \$62.0 million increase in annual base revenues less an annual credit for certain wholesale revenues to be provided through December 2019 through the purchased power capacity cost recovery clause, which is estimated to be approximately \$7.7 million for 2017. Gulf Power also will (1) continue its current authorized retail ROE midpoint (10.25%) and range (9.25% to 11.25%); (2) be deemed to have an equity ratio of

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52.5% for all retail regulatory purposes; (3) begin amortizing the regulatory asset associated with the investment balances remaining after the retirement of Plant Smith Units 1 and 2 (357 MWs) over 15 years effective January 1, 2018; and (4) implement new depreciation rates effective January 1, 2018. The 2017 Rate Case Settlement Agreement also resulted in a \$32.5 million write-down of Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs), which was recorded in the first quarter 2017. The remaining issues related to the inclusion of Gulf Power's investment in Plant Scherer Unit 3 in retail rates have been resolved as a result of the 2017 Rate Case Settlement Agreement, including recoverability of certain costs associated with the ongoing ownership and operation of the unit through the environmental cost recovery clause rate approved by the Florida PSC in November 2016.

Southern Company Gas

Natural Gas Cost Recovery

Southern Company Gas has established natural gas cost recovery rates approved by the relevant state regulatory agencies in the states in which it serves. Natural gas cost recovery revenues are adjusted for differences in actual recoverable natural gas costs and amounts billed in current regulated rates. Accordingly, changes in the billing factor will not have a significant effect on Southern Company's revenues or net income, but will affect cash flows.

Base Rate Cases

On March 10, 2017, Nicor Gas filed a general base rate case with the Illinois Commission requesting a \$208 million increase in annual base rate revenues. The requested increase is based on a 2018 projected test year and an ROE of 10.7%. The Illinois Commission is expected to rule on the requested increase within the 11-month statutory time limit, after which rate adjustments will be effective. The ultimate outcome of this matter cannot be determined at this time.

Construction Program

Overview

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. The Southern Company system intends to continue its strategy of developing and constructing new electric generating facilities, adding environmental modifications to certain existing units, expanding the electric transmission and distribution systems, and updating and expanding the natural gas distribution systems. For the traditional electric operating companies, major generation construction projects are subject to state PSC approval in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. Southern Company Gas is engaged in various infrastructure improvement programs designed to update or expand the natural gas distribution systems of the natural gas distribution utilities to improve reliability and meet operational flexibility and growth. The natural gas distribution utilities recover their investment and a return associated with these infrastructure programs through their regulated rates.

The two largest construction projects currently underway in the Southern Company system are Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in the two units, each with approximately 1,100 MWs) and Mississippi Power's 582-MW Kemper IGCC. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information. For additional information about costs relating to Southern Power's acquisitions that involve construction of renewable energy facilities, see Note 12 to the financial statements of Southern Company under "Southern Power – Construction Projects" in Item 8 of the Form 10-K and Note (I) to the Condensed Financial Statements under "Southern Power" herein. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Southern Company Gas – Regulatory Infrastructure Programs" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Southern Company Gas –

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Regulatory Infrastructure Programs" herein for information regarding infrastructure improvement programs at the natural gas distribution utilities.

Also see FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein for additional information regarding Southern Company's capital requirements for its subsidiaries' construction programs.

Integrated Coal Gasification Combined Cycle

Mississippi Power continues to progress toward completing the construction and start-up of the Kemper IGCC, which was approved by the Mississippi PSC in the 2010 CPCN proceedings, subject to a construction cost cap of \$2.88 billion, net of \$245 million of Initial DOE Grants and excluding the Cost Cap Exceptions. The current cost estimate for the Kemper IGCC in total is approximately \$7.16 billion, which includes approximately \$5.75 billion of costs subject to the construction cost cap and is net of the \$137 million in additional grants from the DOE received on April 8, 2016 (Additional DOE Grants), which are expected to be used to reduce future rate impacts to customers.

Mississippi Power does not intend to seek any rate recovery for any related costs that exceed the \$2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. Southern Company recorded pre-tax charges to income for revisions to the cost estimate subject to the construction cost cap totaling \$108 million (\$67 million after tax) in the first quarter 2017. Since 2013, in the aggregate, Southern Company has incurred charges of \$2.87 billion (\$1.77 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through March 31, 2017. The current cost estimate includes costs through May 31, 2017, as well as identified costs to be incurred beyond May 31, 2017, expected to be subject to the \$2.88 billion cost cap. Additional improvement projects to enhance plant performance, safety, and/or operations ultimately may be completed after the remainder of the Kemper IGCC is placed in service. These projects have yet to be fully evaluated, have not been included in the current cost estimate, and may be subject to the \$2.88 billion cost cap.

The expected completion date of the Kemper IGCC at the time of the Mississippi PSC's approval in 2010 was May 2014. The combined cycle and the associated common facilities portion of the Kemper IGCC were placed in service in August 2014. The remainder of the plant, including the gasifiers and the gas clean-up facilities, represents first-of-a-kind technology. Mississippi Power achieved integrated operation of both gasifiers on January 29, 2017, including the production of electricity from syngas in both combustion turbines. Mississippi Power continues to work toward achieving sustained operation sufficient to place the remainder of the plant in service. The plant has, however, produced and captured CO₂, and has produced sulfuric acid and ammonia, all of acceptable quality under the related off-take agreements. As a result of ongoing challenges associated with the ash removal and gas cleanup sour water systems, efforts to improve reliability and reach sustained operation of both gasifiers and production of electricity from syngas in both combustion turbines remain in process. Mississippi Power currently expects the remainder of the Kemper IGCC, including both gasifiers, will be placed in service by the end of May 2017.

In December 2015, the Mississippi PSC issued an order, based on a stipulation between Mississippi Power and the Mississippi Public Utilities Staff (MPUS), authorizing rates that provide for the recovery of approximately \$126 million annually related to the combined cycle and associated common facilities portion of Kemper IGCC assets previously placed in service. Upon placing the remainder of the plant in service, Mississippi Power will be focused primarily on completing the regulatory cost recovery process.

Mississippi Power is required to file a rate case to address Kemper IGCC cost recovery by June 3, 2017 (2017 Rate Case). Costs incurred through March 31, 2017 totaled \$6.93 billion, net of the Initial and Additional DOE Grants. Of this total, \$2.87 billion of costs has been recognized through income as a result of the \$2.88 billion cost cap, \$0.83 billion is included in retail and wholesale rates for the assets in service, and the remainder will be the subject of the 2017 Rate Case to be filed with the Mississippi PSC and expected subsequent wholesale Municipal and Rural Associations rate filing with the FERC. Mississippi Power continues to believe that all costs related to the Kemper IGCC that remain subject to recovery have been prudently incurred in accordance with the requirements of the 2012 MPSC CPCN Order. Mississippi Power recognizes significant areas of potential challenge during future regulatory

proceedings (and any subsequent, related legal challenges) exist. As described further herein, these challenges include, but are not limited to, prudence issues associated with capital costs, financing costs (AFUDC), and future

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operating costs, net of chemical revenues; potential operating parameters; income tax issues; costs deferred as regulatory assets; and the 15% portion of the project previously contracted to SMEPA.

In connection with the 2017 Rate Case, Mississippi Power expects to request authority from the Mississippi PSC, and separately from the FERC, to defer all Kemper IGCC costs incurred after the in-service date that cannot be capitalized, are not included in current rates, and are not required to be charged against earnings as a result of the \$2.88 billion cost cap until such time as the Mississippi PSC completes its review and includes the resulting allowable costs in rates. In the event that the Mississippi PSC does not grant Mississippi Power's request for an accounting order, monthly expenses in the amount of \$25 million per month will be charged to income as incurred and will not be recoverable through rates. In addition, after the remainder of the plant is placed in service, AFUDC equity of approximately \$12 million per month will no longer be recorded in income.

Although the 2017 Rate Case has not yet been filed and is subject to future developments with either the Kemper IGCC or the Mississippi PSC, consistent with its approach in the 2013 and 2015 rate proceedings in accordance with the law passed in 2013 authorizing multi-year rate plans, Mississippi Power is developing both a traditional rate case requesting full cost recovery of the \$3.37 billion (net of \$137 million in Additional DOE Grants) not currently in rates and a rate mitigation plan that together represent Mississippi Power's probable filing strategy. Mississippi Power has evaluated various scenarios in connection with its processes to prepare the 2017 Rate Case and recognized an \$80 million charge to income in 2016, which is the estimated minimum probable amount of the \$3.37 billion of Kemper IGCC costs not currently in rates that would not be recovered under the probable rate mitigation plan to be filed by June 3, 2017. Mississippi Power expects that timely resolution of the 2017 Rate Case will likely require a settlement agreement between Mississippi Power and the MPUS (and other parties) that may include other operational or cost recovery alternatives and would be subject to the approval of the Mississippi PSC. While Mississippi Power intends to pursue any available settlement alternatives, the ability to achieve a negotiated settlement is uncertain. If a settlement is achieved, full regulatory recovery of the amounts not currently in rates is unlikely and could result in further material charges; however, the impact of such an agreement on Southern Company's financial statements would depend on the method, amount, and type of cost recovery ultimately excluded, none of which can be reasonably determined at this time. Certain costs, including operating costs, would be recorded to income in the period incurred, while other costs, including investment-related costs, would be charged to income when it is probable they will not be recovered and the amounts can be reasonably estimated. In the event an agreement acceptable to the parties cannot be reached, Mississippi Power intends to fully litigate its request for full recovery through the Mississippi PSC regulatory process and any subsequent legal challenges. Given the variety of potential scenarios and the uncertainty of the outcome of future regulatory proceedings with the Mississippi PSC (and any subsequent related legal challenges), the ultimate outcome of these matters cannot now be determined but could result in further charges that could have a material impact on Southern Company's results of operations, financial condition, and liquidity.

For additional information on the Kemper IGCC, including information on the project economic viability analysis, pending lawsuits, and an ongoing SEC investigation, see Note 3 to the financial statements of Southern Company under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein. Also see "Litigation" and "Other Matters" herein.

Litigation

On April 26, 2016, a complaint against Mississippi Power was filed in Harrison County Circuit Court (Circuit Court) by Biloxi Freezing & Processing Inc., Gulfside Casino Partnership, and John Carlton Dean, which was amended and refiled on July 11, 2016 to include, among other things, Southern Company as a defendant. On August 12, 2016, Southern Company and Mississippi Power removed the case to the U.S. District Court for the Southern District of Mississippi. The plaintiffs filed a request to remand the case back to state court, which was granted on November 17, 2016. The individual plaintiff, John Carlton Dean, alleges that Mississippi Power and Southern Company violated the Mississippi Unfair Trade Practices Act. All plaintiffs have alleged that Mississippi Power and Southern Company

concealed, falsely represented, and failed to fully disclose important facts concerning the cost

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and schedule of the Kemper IGCC and that these alleged breaches have unjustly enriched Mississippi Power and Southern Company. The plaintiffs seek unspecified actual damages and punitive damages; ask the Circuit Court to appoint a receiver to oversee, operate, manage, and otherwise control all affairs relating to the Kemper IGCC; ask the Circuit Court to revoke any licenses or certificates authorizing Mississippi Power or Southern Company to engage in any business related to the Kemper IGCC in Mississippi; and seek attorney's fees, costs, and interest. The plaintiffs also seek an injunction to prevent any Kemper IGCC costs from being charged to customers through electric rates. On December 7, 2016, Southern Company filed motions to dismiss, which the Circuit Court is expected to address in the second quarter 2017.

On June 9, 2016, Treetop Midstream Services, LLC (Treetop) and other related parties filed a complaint against Mississippi Power, Southern Company, and SCS in the state court in Gwinnett County, Georgia. The complaint relates to the cancelled CO₂ contract with Treetop and alleges fraudulent misrepresentation, fraudulent concealment, civil conspiracy, and breach of contract on the part of Mississippi Power, Southern Company, and SCS and seeks compensatory damages of \$100 million, as well as unspecified punitive damages. Southern Company, Mississippi Power, and SCS have moved to compel arbitration pursuant to the terms of the CO₂ contract, which the court is expected to address in the second quarter 2017.

Southern Company believes these legal challenges have no merit; however, an adverse outcome in these proceedings could have an impact on Southern Company's results of operations, financial condition, and liquidity. Southern Company will vigorously defend itself in these matters, and the ultimate outcome of these matters cannot be determined at this time.

Nuclear Construction

See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding the construction of Plant Vogtle Units 3 and 4, Vogtle Construction Monitoring (VCM) reports, the NCCR tariff, the Vogtle Construction Litigation (as defined below), and the Contractor Settlement Agreement (as defined below).

Vogtle 3 and 4 Agreement and Contractor Bankruptcy

In 2008, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an agreement with the Contractor, pursuant to which the Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4 (Vogtle 3 and 4 Agreement). Under the terms of the Vogtle 3 and 4 Agreement, the Vogtle Owners agreed to pay a purchase price subject to certain price escalations and adjustments, including fixed escalation amounts and index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. The Vogtle 3 and 4 Agreement also provides for liquidated damages upon the Contractor's failure to fulfill the schedule and certain performance guarantees, each subject to an aggregate cap of 10% of the contract price, or approximately \$920 million. In addition, the Vogtle 3 and 4 Agreement provides for limited cost sharing by the Vogtle Owners for Contractor costs under certain conditions with maximum additional capital costs under this provision attributable to Georgia Power (based on Georgia Power's ownership interest) of approximately \$114 million. Each Vogtle Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Contractor under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%. In the event of a credit rating downgrade below investment grade of any Vogtle Owner, such Vogtle Owner will be required to provide a letter of credit or other credit enhancement.

On December 31, 2015, Westinghouse and the Vogtle Owners entered into a definitive settlement agreement (Contractor Settlement Agreement) to resolve disputes between the Vogtle Owners and the Contractor under the Vogtle 3 and 4 Agreement, including litigation that was pending in the U.S. District Court for the Southern District of Georgia (Vogtle Construction Litigation). Among other things, the Contractor Settlement Agreement and the related amendment to the Vogtle 3 and 4 Agreement (i) revised the guaranteed substantial completion dates to June 30, 2019 for Unit 3 and June 30, 2020 for Unit 4; (ii) provided that delay liquidated damages will commence if the nuclear fuel loading date for each unit does not occur by December 31, 2018 for Unit 3 and December 31, 2019 for Unit 4; and

(iii) provided that, pursuant to the amendment to the Vogtle 3 and 4 Agreement, Georgia Power, based

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on its ownership interest, pay to the Contractor and capitalize to the project cost approximately \$350 million in settlement of disputed claims. Further, as a consequence of the settlement and Westinghouse's acquisition of WECTEC, Westinghouse engaged Fluor Enterprises, Inc. (Fluor Enterprises), a subsidiary of Fluor Corporation (Fluor), as a new construction subcontractor.

Under the terms of the Vogtle 3 and 4 Agreement, the Contractor does not have a right to terminate the Vogtle 3 and 4 Agreement for convenience. The Contractor may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including certain Vogtle Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events. In the event of an abandonment of work by the Contractor, the maximum liability of the Contractor under the Vogtle 3 and 4 Agreement is increased to 40% of the contract price (approximately \$1.7 billion based on Georgia Power's ownership interest). The Vogtle Owners may terminate the Vogtle 3 and 4 Agreement at any time for convenience, provided that the Vogtle Owners will be required to pay certain termination costs. In addition, the Vogtle Owners may terminate the Vogtle 3 and 4 Agreement for certain Contractor breaches, including abandonment of work by the Contractor.

Under the Toshiba Guarantee, Toshiba has guaranteed certain payment obligations of the Contractor, including any liability of the Contractor for abandonment of work. However, due to Toshiba's financial situation described below, substantial risk regarding the Vogtle Owners' ability to fully collect under the Toshiba Guarantee exists. In January 2016, Westinghouse delivered to the Vogtle Owners \$920 million of letters of credit from financial institutions (Westinghouse Letters of Credit) to secure a portion of the Contractor's potential obligations under the Vogtle 3 and 4 Agreement. The Westinghouse Letters of Credit are subject to annual renewals through June 30, 2020 and require 60 days' written notice to Georgia Power in the event the Westinghouse Letters of Credit will not be renewed. In the event of such notice, the Vogtle Owners would be able to draw on the entire balance of the Westinghouse Letters of Credit. The Westinghouse Letters of Credit remain in place in accordance with the terms of the Vogtle 3 and 4 Agreement.

On March 29, 2017, Westinghouse and WECTEC each filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an interim assessment agreement with the Contractor and WECTEC Staffing, as of March 29, 2017 (Interim Assessment Agreement), to provide for a continuation of work with respect to Plant Vogtle Units 3 and 4. Georgia Power's entry into the Interim Assessment Agreement was conditioned upon South Carolina Electric & Gas Company entering into a similar interim assessment agreement with the Contractor relating to V.C. Summer, which also occurred on March 29, 2017. The provisions in the Interim Assessment Agreement became effective upon approval of the Interim Assessment Agreement by the bankruptcy court on March 30, 2017. The term of the Interim Assessment Agreement was originally scheduled to expire on April 28, 2017. On April 28, 2017, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an amendment to the Interim Assessment Agreement with the Contractor and WECTEC Staffing solely to extend the term of the Interim Assessment Agreement through the earlier of (i) May 12, 2017 and (ii) termination of the Interim Assessment Agreement by any party upon five business days' notice (Interim Assessment Period).

The Interim Assessment Agreement provides, among other items, that (i) Georgia Power will be obligated to pay, on behalf of the Vogtle Owners, all costs accrued by the Contractor for subcontractors and vendors for services performed or goods provided during the Interim Assessment Period, with these amounts to be paid to the Contractor, except for amounts accrued for Fluor, which will be paid directly to Fluor; (ii) during the Interim Assessment Period, the Contractor shall provide certain engineering, procurement, and management services for Plant Vogtle Units 3 and 4, to the same extent as contemplated by the Vogtle 3 and 4 Agreement, and Georgia Power, on behalf of the Vogtle Owners, will make payments of \$5.4 million per week for these services; (iii) Georgia Power will have the right to make payments, on behalf of the Vogtle Owners, directly to subcontractors and vendors who have accounts past due with the Contractor; (iv) during the Interim Assessment Period, the Contractor will use its commercially reasonable

efforts to provide information reasonably requested by Georgia Power as is necessary to continue construction and investigate the completion status of Plant Vogtle Units 3 and 4; (v) the Contractor will reject or accept the Vogtle 3 and 4 Agreement by the termination of the Interim Assessment

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Agreement; and (vi) during the Interim Assessment Period, Georgia Power will not exercise any remedies against Toshiba under the Toshiba Guarantee. Under the Interim Assessment Agreement, all parties expressly reserve all rights and remedies under the Vogtle 3 and 4 Agreement, all related security and collateral, under applicable law. A number of subcontractors to the Contractor, including Fluor Enterprises, have alleged non-payment by the Contractor for amounts owed for work performed on Plant Vogtle Units 3 and 4. Georgia Power, acting for itself and as agent for the Vogtle Owners, has taken, and continues to take, action to remove liens filed by these subcontractors through the posting of surety bonds.

Georgia Power estimates the aggregate liability for the Vogtle Owners under the Interim Assessment Agreement and the removal of subcontractor liens to be approximately \$470 million, of which Georgia Power's proportionate share would total approximately \$215 million. As of March 31, 2017, \$245 million of this aggregate liability had been paid or accrued. Georgia Power is evaluating remedies available to the Vogtle Owners for these payments, including draws under the Westinghouse Letters of Credit and enforcement of the Toshiba Guarantee.

In February 2017, the Contractor provided Georgia Power with revised forecasted in-service dates of December 2019 and September 2020 for Plant Vogtle Units 3 and 4, respectively. However, based on information subsequently made available during Westinghouse and WEC TEC's bankruptcy proceedings and pursuant to the Interim Assessment Agreement, Georgia Power and the Vogtle Owners do not believe the revised in-service dates are achievable. Georgia Power, along with the other Vogtle Owners, is undertaking a comprehensive schedule and cost-to-complete assessment, as well as a cancellation cost assessment. It is reasonably possible these assessments result in estimated incremental costs to complete, including owners' costs, that materially exceed the value of the Toshiba Guarantee.

Georgia Power intends to work with the Georgia PSC and the other Vogtle Owners to determine future actions related to Plant Vogtle Units 3 and 4. Georgia Power, for itself and as agent for the other Vogtle Owners, is also negotiating a new service agreement which would, if necessary, engage the Contractor to provide design, engineering, and procurement services to Southern Nuclear, in the event Southern Nuclear assumes control over construction management. In addition, Georgia Power, on behalf of itself and the other Vogtle Owners, intends to take all actions available to it to enforce its rights related to the Vogtle 3 and 4 Agreement, including enforcing the Toshiba Guarantee, subject to the Interim Assessment Agreement, and accessing the Westinghouse Letters of Credit.

On April 11, 2017, Toshiba filed its unaudited financial statements as of and for the nine months ended December 31, 2016, which reflected a negative shareholders' equity balance of \$1.9 billion, with Japanese regulators. Toshiba also announced that further substantial charges may be required in the quarter ended March 31, 2017 in connection with the bankruptcy filing of Westinghouse and WEC TEC and that there are material events and conditions that raise substantial doubt about Toshiba's ability to continue as a going concern.

The Contractor's bankruptcy filing is expected to have a material impact on the construction cost and schedule of, as well as the cost recovery for, Plant Vogtle Units 3 and 4 and could have a material impact on Southern Company's financial statements. In addition, an inability or other failure by Toshiba to perform its obligations under the Toshiba Guarantee could have a further material impact on the net cost to the Vogtle Owners to complete construction of Plant Vogtle Units 3 and 4 and, therefore, on Southern Company's financial statements.

The ultimate outcome of these matters also is dependent on the results of the assessments currently underway, as well as the related regulatory treatment, and cannot be determined at this time.

Regulatory Matters

In 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 with a certified capital cost of \$4.418 billion. In addition, in 2009 the Georgia PSC approved inclusion of the Plant Vogtle Units 3 and 4 related CWIP accounts in rate base, and the State of Georgia enacted the Georgia Nuclear Energy Financing Act, which allows Georgia Power to recover financing costs for nuclear construction projects certified by the Georgia PSC. Financing costs are recovered on all applicable certified costs through annual adjustments to the NCCR tariff by including the related CWIP accounts in rate base during the construction period.

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On December 20, 2016, the Georgia PSC voted to approve a settlement agreement (Vogtle Cost Settlement Agreement) resolving the following prudence matters: (i) none of the \$3.3 billion of costs incurred through December 31, 2015 and reflected in the fourteenth VCM report will be disallowed from rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement is reasonable and prudent and none of the amounts paid or to be paid pursuant to the Contractor Settlement Agreement should be disallowed from rate base on the basis of imprudence; (iii) financing costs on verified and approved capital costs will be deemed prudent provided they are incurred prior to December 31, 2019 and December 31, 2020 for Plant Vogtle Units 3 and 4, respectively; and (iv) (a) the in-service capital cost forecast will be adjusted to \$5.680 billion (Revised Forecast), which includes a contingency of \$240 million above Georgia Power's then current forecast of \$5.440 billion, (b) capital costs incurred up to the Revised Forecast will be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, and (c) Georgia Power would have the burden to show that any capital costs above the Revised Forecast are reasonable and prudent. Under the terms of the Vogtle Cost Settlement Agreement, the certified in-service capital cost for purposes of calculating the NCCR tariff will remain at \$4.418 billion. Construction capital costs above \$4.418 billion will accrue AFUDC through the date each unit is placed in service. The ROE used to calculate the NCCR tariff was reduced from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016. For purposes of the AFUDC calculation, the ROE on costs between \$4.418 billion and \$5.440 billion will also be 10.00% and the ROE on any amounts above \$5.440 billion would be Georgia Power's average cost of long-term debt. If the Georgia PSC adjusts Georgia Power's ROE rate setting point in a rate case prior to Plant Vogtle Units 3 and 4 being placed into retail rate base, then the ROE for purposes of calculating both the NCCR tariff and AFUDC will likewise be 95 basis points lower than the revised ROE rate setting point. If Plant Vogtle Units 3 and 4 are not placed in service by December 31, 2020, then (i) the ROE for purposes of calculating the NCCR tariff will be reduced an additional 300 basis points, or \$8 million per month, and may, at the Georgia PSC's discretion, be accrued to be used for the benefit of customers, until such time as the units are placed in service and (ii) the ROE used to calculate AFUDC will be Georgia Power's average cost of long-term debt.

Under the terms of the Vogtle Cost Settlement Agreement, Plant Vogtle Units 3 and 4 will be placed into retail rate base on December 31, 2020 or when placed in service, whichever is later. The Georgia PSC will determine for retail ratemaking purposes the process of transitioning Plant Vogtle Units 3 and 4 from a construction project to an operating plant no later than Georgia Power's base rate case required to be filed by July 1, 2019.

The Georgia PSC has approved fifteen VCM reports covering the periods through June 30, 2016, including construction capital costs incurred, which through that date totaled \$3.7 billion. Georgia Power filed its sixteenth VCM report, covering the period from July 1 through December 31, 2016, requesting approval of \$222 million of construction capital costs incurred during that period, with the Georgia PSC on February 27, 2017. Georgia Power's CWIP balance for Plant Vogtle Units 3 and 4 was approximately \$4.1 billion as of March 31, 2017 and Georgia Power had incurred \$1.3 billion in financing costs through March 31, 2017.

The ultimate outcome of these matters cannot be determined at this time.

Other Matters

As of March 31, 2017, Georgia Power had borrowed \$2.6 billion related to Plant Vogtle Units 3 and 4 costs through a loan guarantee agreement between Georgia Power and the DOE and a multi-advance credit facility among Georgia Power, the DOE, and the FFB. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information, including applicable covenants, events of default, mandatory prepayment events, and conditions to borrowing.

The IRS has allocated PTCs to Plant Vogtle Units 3 and 4 which require that the applicable unit be placed in service prior to 2021. The net present value of Georgia Power's PTCs is estimated at approximately \$400 million per unit. There have been technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4 at the federal and state level and additional challenges may arise as construction proceeds. Processes are in place

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that are designed to assure compliance with the requirements specified in the Westinghouse Design Control Document and the combined construction and operating licenses, including inspections by Southern Nuclear and the NRC that occur throughout construction. As a result of such compliance processes, certain license amendment requests have been filed and approved or are pending before the NRC. Various design and other licensing-based compliance matters, including the timely resolution of Inspections, Tests, Analyses, and Acceptance Criteria and the related approvals by the NRC, may arise as construction proceeds, which may result in additional license amendments or require other resolution. If any license amendment requests or other licensing-based compliance issues are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs.

As construction continues, the risk remains that challenges with labor productivity, fabrication, delivery, assembly, and installation of plant systems, structures, and components, or other issues could arise and may further impact project schedule and cost. Georgia Power's previously estimated owner's costs of approximately \$10 million per month and financing costs of approximately \$30 million per month for Plant Vogtle Units 3 and 4 are being evaluated as part of the comprehensive schedule and cost-to-complete analysis being performed as a result of the Contractor's bankruptcy.

The ultimate outcome of these matters cannot be determined at this time.

See RISK FACTORS of Southern Company in Item 1A of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world. See additional risks in Item 1A herein regarding the Contractor's bankruptcy.

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Southern Company in Item 7 of the Form 10-K and Note (G) to the Condensed Financial Statements herein for additional information.

Other Matters

Southern Company and its subsidiaries are involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO₂ and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Southern Company and its subsidiaries cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Company's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

On January 20, 2017, a purported securities class action complaint was filed against Southern Company, certain of its officers, and certain of Mississippi Power's former officers in the U.S. District Court for the Northern District of Georgia, Atlanta Division, by Monroe County Employees' Retirement System on behalf of all persons who purchased shares of Southern Company's common stock between April 25, 2012 and October 29, 2013. The complaint alleges that Southern Company, certain of its officers, and certain of Mississippi Power's former officers made materially false and misleading statements regarding the Kemper IGCC in violation of certain provisions

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under the Securities Exchange Act of 1934, as amended. The complaint seeks, among other things, compensatory damages and litigation costs and attorneys' fees. Southern Company believes this legal challenge has no merit; however, an adverse outcome in this proceeding could have an impact on Southern Company's results of operations, financial condition, and liquidity. Southern Company will vigorously defend itself in this matter, and the ultimate outcome of this matter cannot be determined at this time.

On February 27, 2017, Jean Vineyard filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of Georgia that names as defendants Southern Company, certain of its directors, certain of its officers, and certain of Mississippi Power's former officers. The complaint alleges that the defendants caused Southern Company to make false or misleading statements regarding the Kemper IGCC cost and schedule. Further, the complaint alleges that the defendants were unjustly enriched and caused the waste of corporate assets. The plaintiff seeks to recover, on behalf of Southern Company, unspecified actual damages and, on her own behalf, attorneys' fees and costs in bringing the lawsuit. The plaintiff also seeks certain changes to Southern Company's corporate governance and internal processes. On March 27, 2017, the court deferred this lawsuit until 30 days after certain further action in the purported securities class action complaint discussed above. Southern Company believes that this legal challenge has no merit; however, an adverse outcome in this proceeding could have an impact on Southern Company's results of operations, financial condition, and liquidity. Southern Company will vigorously defend itself in this matter, and the ultimate outcome of this matter cannot be determined at this time.

The SEC is conducting a formal investigation of Southern Company and Mississippi Power concerning the estimated costs and expected in-service date of the Kemper IGCC. Southern Company believes the investigation is focused primarily on periods subsequent to 2010 and on accounting matters, disclosure controls and procedures, and internal controls over financial reporting associated with the Kemper IGCC. See ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" herein for additional information on the Kemper IGCC estimated construction costs and expected in-service date. The ultimate outcome of this matter cannot be determined at this time; however, it is not expected to have a material impact on the financial statements of Southern Company.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Southern Company prepares its consolidated financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Southern Company in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Southern Company's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Southern Company in Item 7 of the Form 10-K for a complete discussion of Southern Company's critical accounting policies and estimates related to Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, Goodwill and Other Intangible Assets, Derivatives and Hedging Activities, and Contingent Obligations.

Kemper IGCC Estimated Construction Costs, Project Completion Date, and Rate Recovery

During 2017, Mississippi Power further revised its cost estimate to complete construction and start-up of the Kemper IGCC to an amount that exceeds the \$2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. Mississippi Power does not intend to seek any rate recovery for any costs related to the construction of the Kemper IGCC that exceed the \$2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions.

As a result of revisions to the cost estimate, Southern Company recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC subject to the construction cost cap of \$108 million (\$67 million after tax) in the first quarter 2017, \$127 million (\$78 million after tax) in the fourth quarter 2016, \$88 million (\$54 million after tax) in the third quarter 2016, \$81 million (\$50 million after tax) in the second quarter 2016, \$53

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million (\$33 million after tax) in the first quarter 2016, \$183 million (\$113 million after tax) in the fourth quarter 2015, \$150 million (\$93 million after tax) in the third quarter 2015, \$23 million (\$14 million after tax) in the second quarter 2015, \$9 million (\$6 million after tax) in the first quarter 2015, \$70 million (\$43 million after tax) in the fourth quarter 2014, \$418 million (\$258 million after tax) in the third quarter 2014, \$380 million (\$235 million after tax) in the first quarter 2014, \$40 million (\$25 million after tax) in the fourth quarter 2013, \$150 million (\$93 million after tax) in the third quarter 2013, \$450 million (\$278 million after tax) in the second quarter 2013, and \$540 million (\$333 million after tax) in the first quarter 2013. In the aggregate, Southern Company has incurred charges of \$2.87 billion (\$1.77 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through March 31, 2017.

Mississippi Power's revised cost estimate reflects an expected in-service date of May 31, 2017 and includes certain post-in-service costs which are expected to be subject to the cost cap. Mississippi Power has experienced, and may continue to experience, material changes in the cost estimate for the Kemper IGCC. Further cost increases and/or extensions of the expected in-service date may result from factors including, but not limited to, difficulties integrating the systems required for sustained operations, sustaining nitrogen supply, continued issues with ash removal systems, major equipment failure, unforeseen engineering or design problems including any repairs and/or modifications to systems, and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by the Mississippi PSC).

In addition to the current construction cost estimate, Mississippi Power is also identifying potential improvement projects to enhance plant performance, safety, and/or operations that ultimately may be completed subsequent to placing the remainder of the Kemper IGCC in service. Approximately \$12 million of related potential costs was recorded in 2016 and included in the current construction cost estimate. Other projects have yet to be fully evaluated, have not been included in the current cost estimate, and may be subject to the \$2.88 billion cost cap. In subsequent periods, any further changes in the estimated costs of the Kemper IGCC subject to the \$2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions, will be reflected in Southern Company's statements of income and these changes could be material.

Any extension of the in-service date beyond the end of May 2017 is currently estimated to result in additional base costs of approximately \$25 million to \$35 million per month, which includes maintaining necessary levels of start-up labor, materials, and fuel, as well as operational resources required to execute start-up and commissioning activities. However, additional costs may be required for remediation of any further equipment and/or design issues identified. Any extension of the in-service date beyond the end of May 2017 would also increase costs for the Cost Cap Exceptions, which are not subject to the \$2.88 billion cost cap established by the Mississippi PSC. These costs include AFUDC, which is currently estimated to total approximately \$16 million per month, as well as carrying costs and operating expenses on Kemper IGCC assets placed in service and consulting and legal fees of approximately \$3 million per month.

Mississippi Power continues to believe that all costs related to the Kemper IGCC that remain subject to recovery have been prudently incurred in accordance with the requirements of the 2012 MPSC CPCN Order. Mississippi Power also recognizes significant areas of potential challenge during future regulatory proceedings (and any subsequent, related legal challenges) exist. As described further in Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs," " – Prudence," " – Lignite Mine and CO Pipeline Facilities," " – Termination of Proposed Sale of Undivided Interest," and " – Income Tax Matters" herein, these challenges include, but are not limited to, prudence issues associated with capital costs, financing costs (AFUDC), and future operating costs, net of chemical revenues; potential operating parameters; income tax issues; costs deferred as regulatory assets; and the 15% portion of the project previously contracted to SMEPA.

Although the 2017 Rate Case has not yet been filed and is subject to future developments with either the Kemper IGCC or the Mississippi PSC, consistent with its approach in the 2013 and 2015 rate proceedings in accordance with the law passed in 2013 authorizing multi-year rate plans, Mississippi Power is developing both a traditional rate case

requesting full cost recovery of the amounts not currently in rates and a rate mitigation plan that together

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represent Mississippi Power's probable filing strategy. Mississippi Power has evaluated various scenarios in connection with its processes to prepare the 2017 Rate Case and recognized an \$80 million charge to income in 2016, which is the estimated minimum probable amount of the \$3.37 billion of Kemper IGCC costs not currently in rates that would not be recovered under the probable rate mitigation plan to be filed by June 3, 2017. Mississippi Power expects that timely resolution of the 2017 Rate Case will likely require a settlement agreement between Mississippi Power and the MPUS (and other parties) that may include other operational or cost recovery alternatives and would be subject to the approval of the Mississippi PSC. While Mississippi Power intends to pursue any available settlement alternatives, the ability to achieve a negotiated settlement is uncertain. If a settlement is achieved, full regulatory recovery of the amounts not currently in rates is unlikely and could result in further material charges; however, the impact of such an agreement on Southern Company's financial statements would depend on the method, amount, and type of cost recovery ultimately excluded, none of which can be reasonably determined at this time. Certain costs, including operating costs, would be recorded to income in the period incurred, while other costs, including investment-related costs, would be charged to income when it is probable they will not be recovered and the amounts can be reasonably estimated. In the event an agreement acceptable to the parties cannot be reached, Mississippi Power intends to fully litigate its request for full recovery through the Mississippi PSC regulatory process and any subsequent legal challenges.

Given the significant judgment involved in estimating the future costs to complete construction and start-up, the project completion date, the ultimate rate recovery for the Kemper IGCC, and the potential impact on Southern Company's results of operations, Southern Company considers these items to be critical accounting estimates. See Note 3 to the financial statements of Southern Company under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.

Recently Issued Accounting Standards

In 2014, the FASB issued ASC 606, Revenue from Contracts with Customers, replacing the existing accounting standard and industry specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The underlying principle of the standard is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. The new standard also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers.

While Southern Company expects most of its revenue to be included in the scope of ASC 606, it has not fully completed its evaluation of all revenue arrangements. The majority of Southern Company's revenue, including energy provided to customers, is from tariff offerings that provide electricity or natural gas without a defined contractual term. For such arrangements, Southern Company expects that the revenue from contracts with these customers will continue to be equivalent to the electricity or natural gas supplied and billed in that period (including unbilled revenues) and the adoption of ASC 606 will not result in a significant shift in the timing of revenue recognition for such sales.

Southern Company's ongoing evaluation of other revenue streams and related contracts includes longer term contractual commitments and unregulated sales to customers. Some revenue arrangements, such as certain PPAs and alternative revenue programs, are excluded from the scope of ASC 606 and, therefore, will be accounted for and presented separately from revenues under ASC 606 on Southern Company's financial statements. In addition, the power and utilities industry is currently addressing other specific industry issues, including the applicability of ASC 606 to contributions in aid of construction (CIAC). Although final implementation guidance has not been issued, Southern Company expects CIAC to be out of the scope of ASC 606.

The new standard is effective for interim and annual reporting periods beginning after December 15, 2017. Southern Company must select a transition method to be applied either retrospectively to each prior reporting period presented or retrospectively with a cumulative effect adjustment to retained earnings at the date of initial adoption. As the

ultimate impact of the new standard has not yet been determined, Southern Company has not elected its transition method.

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On January 26, 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 removes the requirement to compare the implied fair value of goodwill with the carrying amount as part of Step 2 of the goodwill impairment test. Under the new standard, the goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value, not exceeding the total amount of goodwill allocated to that reporting unit, which may increase the frequency of goodwill impairment charges if a future goodwill impairment test does not pass the Step 1 evaluation. ASU 2017-04 is effective prospectively for annual and interim periods beginning on or after December 15, 2019, and early adoption is permitted on testing dates after January 1, 2017.

On March 10, 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs and requires the other components of net periodic pension and postretirement benefit costs to be separately presented in the income statement outside income from operations. Additionally, only the service cost component is eligible for capitalization, when applicable. However, all cost components remain eligible for capitalization under FERC regulations. ASU 2017-07 will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension and postretirement benefit costs in the income statement. The capitalization of the service cost component of net periodic pension and postretirement benefit costs in assets will be applied on a prospective basis. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Southern Company is currently evaluating the new standard. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in Southern Company's operating income and an increase in other income for 2016 and 2017 and are expected to result in a decrease in operating income and an increase in other income for 2018. The adoption of ASU 2017-07 is not expected to have a material impact on Southern Company's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Company in Item 7 of the Form 10-K for additional information. Southern Company's financial condition remained stable at March 31, 2017. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled \$897 million for the first three months of 2017, an increase of \$19 million from the corresponding period in 2016. The increase in net cash provided from operating activities was primarily due to \$758 million of net cash provided from operating activities of Southern Company Gas, which was acquired on July 1, 2016, largely offset by the timing of vendor payments and a decrease in fuel cost recovery. Net cash used for investing activities totaled \$2.8 billion for the first three months of 2017 primarily due to the construction of electric generation, transmission, and distribution facilities, installation of equipment to comply with environmental standards, and Southern Power's acquisition and construction of renewable facilities. Net cash provided from financing activities totaled \$1.0 billion for the first three months of 2017 primarily due to issuances of long-term debt, partially offset by redemptions of long-term debt and common stock dividend payments. Cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities. Significant balance sheet changes for the first three months of 2017 include an increase of \$1.4 billion in total property, plant, and equipment primarily related to Southern Power's wind facility acquisition and the traditional electric operating companies' installation of equipment to comply with environmental standards and construction of electric generation, transmission, and distribution facilities; a decrease of \$0.9 billion in cash and cash equivalents primarily related to acquisition payments at Southern Power; an increase of \$0.6 billion in notes payable primarily

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related to an increase in commercial paper borrowings; and a decrease of \$0.5 billion in accounts payable primarily due to the timing of vendor payments.

At the end of the first quarter 2017, the market price of Southern Company's common stock was \$49.78 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was \$25.23 per share, representing a market-to-book ratio of 197%, compared to \$49.19, \$25.00, and 197%, respectively, at the end of 2016. Southern Company's common stock dividend for the first quarter 2017 was \$0.56 per share compared to \$0.5425 per share in the first quarter 2016.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for the construction programs of the Southern Company system, including estimated capital expenditures for new electric generating facilities and to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, pipeline charges, storage capacity, and gas supply, asset management agreements, standby letters of credit and performance/surety bonds, trust funding requirements, and unrecognized tax benefits. Approximately \$3.3 billion will be required through March 31, 2018 to fund maturities of long-term debt. See "Sources of Capital" herein for additional information.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in electric generating plants, including unit retirements and replacements and adding or changing fuel sources at existing electric generating units, to meet regulatory requirements; changes in FERC rules and regulations; state regulatory agency approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. Additionally, planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power's ability to execute its growth strategy. See Note 12 to the financial statements of Southern Company under "Southern Power" in Item 8 of the Form 10-K and Note (I) to the Condensed Financial Statements under "Southern Power" herein for additional information regarding Southern Power's plant acquisitions. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for information regarding additional factors that may impact construction expenditures.

Sources of Capital

Southern Company intends to meet its future capital needs through operating cash flows, short-term debt, term loans, and external security issuances. Equity capital can be provided from any combination of Southern Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital and debt issuances in 2017, as well as in subsequent years, will be contingent on Southern Company's investment opportunities and the Southern Company system's capital requirements and will depend upon prevailing market conditions and other factors. See "Capital Requirements and Contractual Obligations" herein for additional information.

Except as described herein, the traditional electric operating companies, Southern Power, and Southern Company Gas plan to obtain the funds required for construction and other purposes from operating cash flows, external security issuances, term loans, short-term borrowings, and equity contributions or loans from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS –

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In addition, Georgia Power has entered into a loan guarantee agreement (Loan Guarantee Agreement) with the DOE, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its construction of Plant Vogtle Units 3 and 4. Under the Loan Guarantee Agreement, the DOE agreed to guarantee borrowings of up to \$3.46 billion (not to exceed 70% of Eligible Project Costs) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. Eligible Project Costs incurred through March 31, 2017 would allow for borrowings of up to \$2.8 billion under the FFB Credit Facility, of which Georgia Power has borrowed \$2.6 billion. The Contractor's bankruptcy and failure to perform its obligations under the Vogtle 3 and 4 Agreement could impact Georgia Power's ability to make further borrowings under the Loan Guarantee Agreement. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information regarding the Loan Guarantee Agreement, including applicable covenants, events of default, mandatory prepayment events, and conditions to borrowing. Also see Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

Mississippi Power received \$245 million of Initial DOE Grants in prior years that were used for the construction of the Kemper IGCC. An additional \$25 million of grants from the DOE is expected to be received for commercial operation of the Kemper IGCC. In April 2016, Mississippi Power received approximately \$137 million in Additional DOE Grants for the Kemper IGCC, which are expected to be used to reduce future rate impacts for customers. See Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for information regarding legislation related to the securitization of certain costs of the Kemper IGCC.

As of March 31, 2017, Southern Company's current liabilities exceeded current assets by \$3.9 billion, primarily due to long-term debt that is due within one year of \$3.3 billion, including approximately \$0.4 billion at the parent company, \$0.4 billion at Alabama Power, \$0.5 billion at Georgia Power, \$0.1 billion at Gulf Power, \$1.3 billion at Mississippi Power, and \$0.6 billion at Southern Power. To meet short-term cash needs and contingencies, the Southern Company system has substantial cash flow from operating activities and access to capital markets and financial institutions. Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas intend to utilize operating cash flows, as well as commercial paper, lines of credit, bank notes, and securities issuances, as market conditions permit, as well as, under certain circumstances for the traditional electric operating companies, Southern Power, and Southern Company Gas, equity contributions and/or loans from Southern Company to meet their short-term capital needs.

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At March 31, 2017, Southern Company and its subsidiaries had approximately \$1.1 billion of cash and cash equivalents. Committed credit arrangements with banks at March 31, 2017 were as follows:

Company	Expires				Unused	Executable Term Loans		Expires Within One Year	
	2017	2018	2020	Total		One Year	Two Years	Term Out	No Term Out
	(in millions)								
Southern Company ^(a)	\$—	\$1,000	\$1,250	\$2,250	\$2,250	\$—	\$—	\$—	\$—
Alabama Power	35	500	800	1,335	1,335	—	—	—	35
Georgia Power	—	—	1,750	1,750	1,732	—	—	—	—
Gulf Power	85	195	—	280	280	45	—	25	70
Mississippi Power	173	—	—	173	141	—	13	13	160
Southern Power Company	—	—	600	600	524	—	—	—	—
Southern Company Gas ^(b)	75	1,925	—	2,000	1,949	—	—	—	75
Other	55	—	—	55	55	20	—	20	35
Southern Company Consolidated	\$423	\$3,620	\$4,400	\$8,443	\$8,266	\$ 65	\$ 13	\$58	\$ 375

(a) Represents the Southern Company parent entity.

(b) Southern Company Gas, as the parent entity, guarantees the obligations of Southern Company Gas Capital, which is the borrower of \$1.3 billion of these arrangements. Southern Company Gas' committed credit arrangements also include \$700 million for which Nicor Gas is the borrower and which is restricted for working capital needs of Nicor Gas.

See Note 6 to the financial statements of Southern Company under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

Most of these bank credit arrangements, as well as the term loan arrangements of Alabama Power, Gulf Power, Mississippi Power, and Southern Power Company, contain covenants that limit debt levels and contain cross acceleration or cross default provisions to other indebtedness (including guarantee obligations) that are restricted only to the indebtedness of the individual company. Such cross default provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness or guarantee obligations over a specified threshold. Such cross acceleration provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness, the payment of which was then accelerated. At March 31, 2017, Southern Company, the traditional electric operating companies, Southern Power Company, Southern Company Gas, and Nicor Gas were in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

Subject to applicable market conditions, Southern Company and its subsidiaries expect to renew or replace their bank credit arrangements as needed, prior to expiration. In connection therewith, Southern Company and its subsidiaries may extend the maturity dates and/or increase or decrease the lending commitments thereunder.

A portion of the unused credit with banks is allocated to provide liquidity support to the pollution control revenue bonds of the traditional electric operating companies and the commercial paper programs of Southern Company, the traditional electric operating companies, Southern Power Company, Southern Company Gas, and Nicor Gas. The amount of variable rate pollution control revenue bonds of the traditional electric operating companies outstanding requiring liquidity support as of March 31, 2017 was approximately \$1.9 billion. In addition, at March 31, 2017, the traditional electric operating companies had approximately \$386 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.

Southern Company, the traditional electric operating companies (other than Mississippi Power), Southern Power Company, Southern Company Gas, and Nicor Gas make short-term borrowings primarily through commercial paper

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programs that have the liquidity support of the committed bank credit arrangements described above. Short-term borrowings are included in notes payable in the balance sheets.

Details of short-term borrowings were as follows:

	Short-term Debt at March 31, 2017			Short-term Debt During the Period ^(*)			
	Amount	Weighted Average Interest Rate		Amount	Weighted Average Interest Rate		Maximum Amount Outstanding
	(in millions)			(in millions)			(in millions)
Commercial paper	\$2,682	1.2 %		\$2,355	1.1 %		\$ 2,885
Short-term bank debt	136	2.2 %		125	1.8 %		349
Total	\$2,818	1.3 %		\$2,480	1.1 %		

^(*) Average and maximum amounts are based upon daily balances during the three-month period ended March 31, 2017.

In addition, in connection with the construction of the Roserock solar facility, RE Roserock LLC, an indirect subsidiary of Southern Power, previously entered into a credit agreement that was fully repaid on January 31, 2017. For the three-month period ended March 31, 2017, this credit agreement had a maximum amount outstanding of \$209 million and an average amount outstanding of \$70 million at a weighted average interest rate of 2.1%.

Southern Company believes the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, bank term loans, and operating cash flows.

Credit Rating Risk

At March 31, 2017, Southern Company and its subsidiaries did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change of certain subsidiaries to BBB and/or Baa2 or below. These contracts are for physical electricity and natural gas purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, transmission, interest rate management, foreign currency risk management, and construction of new generation at Plant Vogtle Units 3 and 4.

The maximum potential collateral requirements under these contracts at March 31, 2017 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements (in millions)
At BBB and/or Baa2	\$ 39
At BBB- and/or Baa3	\$ 659
At BB+ and/or Ba1 ^(*)	\$ 2,649

^(*) Any additional credit rating downgrades at or below BB- and/or Ba3 could increase collateral requirements up to an additional \$38 million.

Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, a credit rating downgrade could impact the ability of Southern Company and its subsidiaries to access capital markets, and would be likely to impact the cost at which they do so.

On March 1, 2017, Moody's downgraded the senior unsecured debt rating of Mississippi Power to Ba1 from Baa3.

On March 20, 2017, Moody's revised its rating outlook for Georgia Power from stable to negative.

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On March 24, 2017, S&P revised its consolidated credit rating outlook for Southern Company and its subsidiaries (including the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, and Nicor Gas) from stable to negative.

On March 30, 2017, Fitch placed the ratings of Southern Company, Georgia Power, and Mississippi Power on rating watch negative.

Financing Activities

During the first three months of 2017, Southern Company issued approximately 4.2 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately \$186 million.

The following table outlines the long-term debt financing activities for Southern Company and its subsidiaries for the first three months of 2017:

Company ^(a)	Senior Note Issuances	Senior Note Maturities and Redemptions	Other Long-Term Debt Issuances	Other Long-Term Debt Redemptions and Maturities ^(b)
	(in millions)			
Southern Company ^(c)	\$—	\$ —	\$ —	\$ 400
Alabama Power	550	200	—	—
Georgia Power	850	—	—	2
Gulf Power	—	—	6	—
Southern Power	—	—	3	2
Other	—	—	—	4
Southern Company Consolidated	\$1,400	\$ 200	\$ 9	\$ 408

(a) Mississippi Power and Southern Company Gas did not issue or redeem any long-term debt during the first three months of 2017.

(b) Includes reductions in capital lease obligations resulting from cash payments under capital leases.

(c) Represents the Southern Company parent entity.

In March 2017, Southern Company repaid at maturity a \$400 million 18-month floating rate bank loan.

Southern Company's subsidiaries used the proceeds of the debt issuances shown in the table above for their redemptions and maturities shown in the table above, to repay short-term indebtedness, and for general corporate purposes, including their continuous construction programs.

In March 2017, Gulf Power extended the maturity of a \$100 million short-term floating rate bank loan bearing interest based on one-month LIBOR from April 2017 to October 2017.

In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Southern Company and its subsidiaries plan to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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PART I

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the three months ended March 31, 2017, there were no material changes to Southern Company's, Alabama Power's, Georgia Power's, Mississippi Power's, and Southern Power's disclosures about market risk. For additional market risk disclosures relating to Gulf Power and Southern Company Gas, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Gulf Power and Southern Company Gas, respectively, herein. For an in-depth discussion of each registrant's market risks, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of each registrant in Item 7 of the Form 10-K and Note 1 to the financial statements of each registrant under "Financial Instruments," Note 11 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 10 to the financial statements of Gulf Power, Mississippi Power, and Southern Company Gas, and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K. Also, see Note (C) and Note (H) to the Condensed Financial Statements herein for information relating to derivative instruments.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, and Southern Company Gas conducted separate evaluations under the supervision and with the participation of each company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based upon these evaluations, the Chief Executive Officer and the Chief Financial Officer, in each case, concluded that the disclosure controls and procedures are effective.

(b) Changes in internal controls over financial reporting.

There have been no changes in Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, Southern Power's, or Southern Company Gas' internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the first quarter 2017 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, Southern Power's, or Southern Company Gas' internal control over financial reporting.

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ALABAMA POWER COMPANY

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CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Operating Revenues:		
Retail revenues	\$1,227	\$1,193
Wholesale revenues, non-affiliates	66	63
Wholesale revenues, affiliates	33	22
Other revenues	56	53
Total operating revenues	1,382	1,331
Operating Expenses:		
Fuel	298	268
Purchased power, non-affiliates	34	36
Purchased power, affiliates	28	33
Other operations and maintenance	369	392
Depreciation and amortization	181	172
Taxes other than income taxes	96	97
Total operating expenses	1,006	998
Operating Income	376	333
Other Income and (Expense):		
Allowance for equity funds used during construction	8	10
Interest expense, net of amounts capitalized	(75)	(73)
Other income (expense), net	(5)	(8)
Total other income and (expense)	(72)	(71)
Earnings Before Income Taxes	304	262
Income taxes	126	102
Net Income	178	160
Dividends on Preferred and Preference Stock	4	4
Net Income After Dividends on Preferred and Preference Stock	\$174	\$156

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Net Income	\$178	\$160
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of \$- and \$(1), respectively	—	(2)
Reclassification adjustment for amounts included in net income, net of tax of \$1 and \$1, respectively	1	1

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Total other comprehensive income (loss)	1	(1)
Comprehensive Income	\$179	\$159

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Operating Activities:		
Net income	\$178	\$160
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	219	211
Deferred income taxes	59	68
Other, net	(3)	(14)
Changes in certain current assets and liabilities —		
-Receivables	30	191
-Fossil fuel stock	10	(27)
-Other current assets	(87)	(87)
-Accounts payable	(214)	(143)
-Accrued taxes	77	66
-Accrued compensation	(96)	(75)
-Retail fuel cost over recovery	(36)	(1)
-Other current liabilities	(9)	(8)
Net cash provided from operating activities	128	341
Investing Activities:		
Property additions	(306)	(313)
Nuclear decommissioning trust fund purchases	(63)	(105)
Nuclear decommissioning trust fund sales	63	105
Cost of removal, net of salvage	(26)	(31)
Change in construction payables	5	(15)
Other investing activities	(2)	(9)
Net cash used for investing activities	(329)	(368)
Financing Activities:		
Proceeds —		
Senior notes	550	400
Capital contributions from parent company	314	236
Other long-term debt	—	45
Redemptions and repurchases — Senior notes	(200)	(200)
Payment of common stock dividends	(179)	(191)
Other financing activities	(8)	(13)
Net cash provided from financing activities	477	277
Net Change in Cash and Cash Equivalents	276	250
Cash and Cash Equivalents at Beginning of Period	420	194
Cash and Cash Equivalents at End of Period	\$696	\$444
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of \$3 and \$4 capitalized for 2017 and 2016, respectively)	\$84	\$76
Income taxes, net	—	(162)

Noncash transactions — Accrued property additions at end of period 90 106

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2017 (in millions)	At December 31, 2016 (in millions)
Current Assets:		
Cash and cash equivalents	\$696	\$420
Receivables —		
Customer accounts receivable	326	348
Unbilled revenues	127	146
Other accounts and notes receivable	31	27
Affiliated	35	40
Accumulated provision for uncollectible accounts	(10)	(10)
Fossil fuel stock	195	205
Materials and supplies	444	435
Prepaid expenses	106	34
Other regulatory assets, current	141	149
Other current assets	8	11
Total current assets	2,099	1,805
Property, Plant, and Equipment:		
In service	26,134	26,031
Less: Accumulated provision for depreciation	9,241	9,112
Plant in service, net of depreciation	16,893	16,919
Nuclear fuel, at amortized cost	332	336
Construction work in progress	642	491
Total property, plant, and equipment	17,867	17,746
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	65	66
Nuclear decommissioning trusts, at fair value	825	792
Miscellaneous property and investments	113	112
Total other property and investments	1,003	970
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	526	525
Deferred under recovered regulatory clause revenues	—	150
Other regulatory assets, deferred	1,218	1,157
Other deferred charges and assets	156	163
Total deferred charges and other assets	1,900	1,995
Total Assets	\$22,869	\$22,516

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

Table of ContentsALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

	At March 31, 2017	At December 31, 2016
Liabilities and Stockholder's Equity		
	(in millions)	
Current Liabilities:		
Securities due within one year	\$361	\$ 561
Accounts payable —		
Affiliated	224	297
Other	232	433
Customer deposits	90	88
Accrued taxes —		
Accrued income taxes	95	45
Other accrued taxes	65	42
Accrued interest	65	78
Accrued compensation	95	193
Other regulatory liabilities, current	45	85
Other current liabilities	71	76
Total current liabilities	1,343	1,898
Long-term Debt	7,081	6,535
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,714	4,654
Deferred credits related to income taxes	65	65
Accumulated deferred investment tax credits	108	110
Employee benefit obligations	288	300
Asset retirement obligations	1,523	1,503
Other cost of removal obligations	667	684
Other regulatory liabilities, deferred	88	100
Other deferred credits and liabilities	70	63
Total deferred credits and other liabilities	7,523	7,479
Total Liabilities	15,947	15,912
Redeemable Preferred Stock	85	85
Preference Stock	196	196
Common Stockholder's Equity:		
Common stock, par value \$40 per share —		
Authorized — 40,000,000 shares		
Outstanding — 30,537,500 shares	1,222	1,222
Paid-in capital	2,936	2,613
Retained earnings	2,513	2,518
Accumulated other comprehensive loss	(30)	(30)
Total common stockholder's equity	6,641	6,323
Total Liabilities and Stockholder's Equity	\$22,869	\$22,516

The accompanying notes as they relate to Alabama Power are an integral part of these condensed financial statements.

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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FIRST QUARTER 2017 vs. FIRST QUARTER 2016

OVERVIEW

Alabama Power operates as a vertically integrated utility providing electric service to retail and wholesale customers within its traditional service territory located in the State of Alabama in addition to wholesale customers in the Southeast.

Many factors affect the opportunities, challenges, and risks of Alabama Power's business of providing electric service. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, stringent environmental standards, reliability, fuel, capital expenditures, and restoration following major storms. Alabama Power has various regulatory mechanisms that operate to address cost recovery. Effectively operating pursuant to these regulatory mechanisms and appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Alabama Power for the foreseeable future.

Alabama Power continues to focus on several key performance indicators including, but not limited to, customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock.

RESULTS OF OPERATIONS

Net Income

First Quarter 2017 vs. First
Quarter 2016

(change in millions) (% change)

\$18	11.5
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Alabama Power's net income after dividends on preferred and preference stock for the first quarter 2017 was \$174 million compared to \$156 million for the corresponding period in 2016. The increase was primarily related to an increase in rates under Rate RSE effective January 1, 2017 and a decrease in non-fuel operations and maintenance expenses. The increase to net income was partially offset by a decrease in weather-related revenues associated with milder weather in the first quarter 2017 compared to the corresponding period in 2016.

Retail Revenues

First Quarter 2017 vs. First
Quarter 2016

(change in millions) (% change)

\$34	2.8
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In the first quarter 2017, retail revenues were \$1.23 billion compared to \$1.19 billion for the corresponding period in 2016.

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Details of the changes in retail revenues were as follows:

	First Quarter 2017 (in millions) (% change)	
Retail – prior year	\$1,193	
Estimated change resulting from –		
Rates and pricing	80	6.7
Sales growth (decline)	(1)	(0.1)
Weather	(55)	(4.6)
Fuel and other cost recovery	10	0.8
Retail – current year	\$1,227	2.8 %

Revenues associated with changes in rates and pricing increased in the first quarter 2017 when compared to the corresponding period in 2016 primarily due to an increase in rates under Rate RSE effective January 1, 2017. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales remained essentially flat in the first quarter 2017 when compared to the corresponding period in 2016. Industrial KWH sales decreased 1.2% for the first quarter 2017 when compared to the corresponding period in 2016 as a result of a decrease in demand resulting from changes in production levels primarily in the pipeline sector, partially offset by an increase in the chemicals and paper sectors. Weather-adjusted commercial KWH sales decreased 1.2% for the first quarter 2017 due to lower customer usage. Weather-adjusted residential KWH sales increased 0.6% for the first quarter 2017 primarily due to customer growth.

Revenues resulting from changes in weather decreased in the first quarter 2017 due to milder weather experienced in Alabama Power's service territory compared to the corresponding period in 2016. For the first quarter 2017, the resulting decreases were 9.0% and 2.1% for residential and commercial sales revenue, respectively.

Fuel and other cost recovery revenues increased in the first quarter 2017 when compared to the corresponding period in 2016 primarily due to an increase in the average cost of fuel. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the natural disaster reserve. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not affect net income. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Wholesale Revenues – Affiliates

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$11 50.0

Wholesale revenues from sales to affiliated companies will vary depending on demand and the availability and cost of generating resources at each company. These affiliate sales are made in accordance with the IIC, as approved by the FERC. These transactions do not have a significant impact on earnings since this energy is generally sold at marginal cost and energy purchases are generally offset by energy revenues through Alabama Power's energy cost recovery clauses.

In the first quarter 2017, wholesale revenues from sales to affiliates were \$33 million compared to \$22 million for the corresponding period in 2016. The increase was primarily due to a 41.3% increase in KWH sales as a result of lower cost Alabama Power-owned generation as compared to the market cost of available energy and a 7.9% increase in the price of energy due to an increase in natural gas prices.

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Fuel and Purchased Power Expenses

	First Quarter 2017	
	vs.	
	First Quarter 2016	
	(change in millions)	
Fuel	\$ 30	11.2
Purchased power – non-affiliates	(2)	(5.6)
Purchased power – affiliates	(5)	(15.2)
Total fuel and purchased power expenses	\$ 23	

In the first quarter 2017, fuel and purchased power expenses were \$360 million compared to \$337 million for the corresponding period in 2016. The increase was primarily due to a \$41 million increase related to the volume of KWHs generated and a \$4 million net increase related to the average cost of purchased power and fuel. These increases were partially offset by a \$22 million decrease in the volume of KWHs purchased.

Fuel and purchased power energy transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Alabama Power's energy cost recovery clause. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate ECR" in Item 8 of the Form 10-K for additional information.

Details of Alabama Power's generation and purchased power were as follows:

	First Quarter 2017	First Quarter 2016
Total generation (in billions of KWHs)	15	15
Total purchased power (in billions of KWHs)	1	1
Sources of generation (percent) —		
Coal	49	40
Nuclear	26	27
Gas	20	19
Hydro	5	14
Cost of fuel, generated (in cents per net KWH) —		
Coal	2.60	2.86
Nuclear	0.74	0.77
Gas	2.77	2.46
Average cost of fuel, generated (in cents per net KWH) ^(a)	2.13	2.12
Average cost of purchased power (in cents per net KWH) ^(b)	6.70	5.16

(a) KWHs generated by hydro are excluded from the average cost of fuel, generated.

(b) Average cost of purchased power includes fuel, energy, and transmission purchased by Alabama Power for tolling agreements where power is generated by the provider.

Fuel

In the first quarter 2017, fuel expense was \$298 million compared to \$268 million for the corresponding period in 2016. The increase was primarily due to a 23.1% increase in the volume of KWHs generated by coal and a 12.6% increase in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, partially offset by a 9.1% decrease in the average cost of coal per KWH generated.

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Purchased Power – Affiliates

In the first quarter 2017, purchased power expense from affiliates was \$28 million compared to \$33 million for the corresponding period in 2016. The decrease was primarily related to a 43.6% decrease in the amount of energy purchased as a result of decreased demand in 2017, partially offset by a 47.6% increase in the average cost of purchased power per KWH as a result of fixed natural gas transportation costs for Plant Gaston.

Energy purchases from affiliates will vary depending on demand for energy and the availability and cost of generating resources at each company within the Southern Company system. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

Other Operations and Maintenance Expenses

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$(23) (5.9)

In the first quarter 2017, other operations and maintenance expenses were \$369 million compared to \$392 million for the corresponding period in 2016. The decrease was primarily due to decreases of \$23 million in scheduled steam and other power generation outage and labor costs and \$3 million in nuclear generation costs primarily due to lower amortization of prior outage costs. In addition, bad debt expense decreased \$2 million. These decreases were partially offset by a \$6 million increase in vegetation management costs.

Income Taxes

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$24 23.5

In the first quarter 2017, income taxes were \$126 million compared to \$102 million for the corresponding period in 2016. The increase was primarily due to higher pre-tax earnings and unrecognized tax benefits related to certain state deductions for federal income taxes.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Alabama Power's future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of providing electric service. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies and increasing volumes of electronic commerce transactions. Earnings are subject to a variety of other factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service territory. Demand for electricity is primarily driven by economic growth. The pace of economic growth and electricity demand may be affected by changes in regional and global economic conditions, which may impact future earnings. Current proposals related to potential tax reform legislation are primarily focused on reducing the corporate income tax rate, allowing 100% of capital expenditures to be deducted, and eliminating the interest deduction. The ultimate impact of any tax reform proposals is dependent on the final form of any legislation enacted and the related transition rules and cannot be determined at this time, but could have a material impact on Alabama Power's financial statements. For additional

information relating to these issues, see RISK FACTORS in Item 1A

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ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Alabama Power in Item 7 of the Form 10-K.

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified, as compliance plans are revised or updated, and as legal challenges to rules are completed. Environmental compliance costs are recovered through Rate CNP Compliance. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate CNP Compliance" in Item 8 of the Form 10-K for additional information. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Alabama Power in Item 7 and Note 3 to the financial statements of Alabama Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Alabama Power in Item 7 of the Form 10-K for additional information regarding the final rule revising the regulatory definition of waters of the U.S. for all Clean Water Act (CWA) programs and the final effluent guidelines rule.

On March 1, 2017, the EPA and the U.S. Army Corps of Engineers released a notice of intent to review and rescind or further revise the final rule that revised the regulatory definition of waters of the U.S. for all CWA programs. The final rule has been stayed since October 2015 by the U.S. Court of Appeals for the Sixth Circuit.

On April 25, 2017, the EPA published a notice announcing it would reconsider the effluent guidelines rule, which had been finalized in November 2015. As part of its planned reconsideration, the EPA also announced it is administratively staying the compliance deadlines under the rule and will conduct additional rulemaking to that effect. The ultimate outcome of these matters cannot be determined at this time.

Global Climate Issues

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Global Climate Issues" of Alabama Power in Item 7 of the Form 10-K for additional information.

On March 28, 2017, the President signed an executive order directing agencies to review actions that potentially burden the development or use of domestically produced energy resources. The executive order specifically directs the EPA to review the Clean Power Plan and final greenhouse gas emission standards for new, modified, and reconstructed electric generating units and, if appropriate, take action to suspend, revise, or rescind those rules. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Alabama Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Alabama PSC. Alabama Power currently recovers its costs from the regulated retail business primarily through Rate RSE, Rate CNP, Rate ECR, and Rate NDR. In addition, the Alabama PSC issues accounting orders to address current events impacting Alabama Power. See Notes 1 and 3 to the financial statements of Alabama Power under "Nuclear Outage Accounting Order" and "Retail Regulatory Matters," respectively, in Item 8

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of the Form 10-K for additional information regarding Alabama Power's rate mechanisms and accounting orders. The recovery balance of each regulatory clause for Alabama Power is reported in Note (B) to the Condensed Financial Statements herein.

Other Matters

Alabama Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Alabama Power is subject to certain claims and legal actions arising in the ordinary course of business. Alabama Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements, such as air quality and water standards, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO₂ and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters. The ultimate outcome of such pending or potential litigation against Alabama Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Alabama Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Alabama Power in Item 8 of the Form 10-K. In the application of these policies, certain estimates are made that may have a material impact on Alabama Power's results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" of Alabama Power in Item 7 of the Form 10-K for a complete discussion of Alabama Power's critical accounting policies and estimates related to Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, and Contingent Obligations.

Recently Issued Accounting Standards

In 2014, the FASB issued ASC 606, Revenue from Contracts with Customers, replacing the existing accounting standard and industry specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The underlying principle of the standard is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. The new standard also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers.

While Alabama Power expects most of its revenue to be included in the scope of ASC 606, it has not fully completed its evaluation of all revenue arrangements. The majority of Alabama Power's revenue, including energy provided to customers, is from tariff offerings that provide electricity without a defined contractual term. For such arrangements, Alabama Power expects that the revenue from contracts with these customers will continue to be equivalent to the electricity supplied and billed in that period (including unbilled revenues) and the adoption of ASC 606 will not result in a significant shift in the timing of revenue recognition for such sales.

Alabama Power's ongoing evaluation of other revenue streams and related contracts includes longer term contractual commitments and unregulated sales to customers. Some revenue arrangements, such as certain PPAs and alternative

revenue programs, are excluded from the scope of ASC 606 and, therefore, will be accounted for and

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presented separately from revenues under ASC 606 on Alabama Power's financial statements. In addition, the power and utilities industry is currently addressing other specific industry issues, including the applicability of ASC 606 to contributions in aid of construction (CIAC). Although final implementation guidance has not been issued, Alabama Power expects CIAC to be out of the scope of ASC 606.

The new standard is effective for interim and annual reporting periods beginning after December 15, 2017. Alabama Power must select a transition method to be applied either retrospectively to each prior reporting period presented or retrospectively with a cumulative effect adjustment to retained earnings at the date of initial adoption. As the ultimate impact of the new standard has not yet been determined, Alabama Power has not elected its transition method.

On March 10, 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs and requires the other components of net periodic pension and postretirement benefit costs to be separately presented in the income statement outside income from operations. Additionally, only the service cost component is eligible for capitalization, when applicable. However, all cost components remain eligible for capitalization under FERC regulations. ASU 2017-07 will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension and postretirement benefit costs in the income statement. The capitalization of the service cost component of net periodic pension and postretirement benefit costs in assets will be applied on a prospective basis. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Alabama Power is currently evaluating the new standard. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in Alabama Power's operating income and an increase in other income for 2016 and 2017 and are expected to result in a decrease in operating income and an increase in other income for 2018. The adoption of ASU 2017-07 is not expected to have a material impact on Alabama Power's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Alabama Power in Item 7 of the Form 10-K for additional information. Alabama Power's financial condition remained stable at March 31, 2017. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled \$128 million for the first three months of 2017, a decrease of \$213 million as compared to the first three months of 2016. The decrease in net cash provided from operating activities was primarily due to the receipt of income tax refunds in 2016 as a result of bonus depreciation and the timing of vendor payments. Net cash used for investing activities totaled \$329 million for the first three months of 2017 primarily due to gross property additions related to distribution, transmission, environmental, and steam generation. Net cash provided from financing activities totaled \$477 million for the first three months of 2017 primarily due to an issuance of long-term debt and additional capital contributions from Southern Company, partially offset by common stock dividend payments and a redemption of long-term debt. Fluctuations in cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first three months of 2017 include increases of \$546 million in long-term debt, primarily due to the issuance of additional senior notes, \$323 million in additional paid-in capital due to capital contributions from Southern Company, \$276 million in cash and cash equivalents, and \$121 million in property, plant, and equipment, primarily due to additions to environmental, transmission, steam generation, and distribution. Other

significant changes include decreases of \$201 million in other accounts payable primarily due to

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the timing of vendor payments, \$200 million in securities due within one year, and \$150 million in deferred under recovered regulatory clause revenues primarily due to the application of the Rate RSE refund liability and establishment of a separate regulatory asset to eliminate the under-recovered balance in Rate CNP PPA in accordance with the accounting order issued by the Alabama PSC. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding Alabama Power's rate mechanisms.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately \$361 million will be required through March 31, 2018 to fund maturities of long-term debt.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – General" and " – Global Climate Issues" of Alabama Power in Item 7 of the Form 10-K for additional information on Alabama Power's environmental compliance strategy.

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing generating units, to meet regulatory requirements; changes in the expected environmental compliance program; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

Alabama Power plans to obtain the funds to meet its future capital needs from sources similar to those used in the past, which were primarily from operating cash flows, short-term debt, term loans, external security issuances, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Alabama Power in Item 7 of the Form 10-K for additional information.

Alabama Power's current liabilities sometimes exceed current assets because of long-term debt maturities and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs. At March 31, 2017, Alabama Power had approximately \$696 million of cash and cash equivalents. Committed credit arrangements with banks at March 31, 2017 were as follows:

					Expires
					Within One
					Year
					Term
					Out
2017	2018	2020	Total	Unused	
(in millions)					
\$35	\$500	\$800	\$1,335	\$1,335	\$— 35

See Note 6 to the financial statements of Alabama Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

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Most of these bank credit arrangements, as well as Alabama Power's term loan arrangements, contain covenants that limit debt levels and contain cross acceleration provisions to other indebtedness (including guarantee obligations) of Alabama Power. Such cross acceleration provisions to other indebtedness would trigger an event of default if Alabama Power defaulted on indebtedness, the payment of which was then accelerated. At March 31, 2017, Alabama Power was in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

Subject to applicable market conditions, Alabama Power expects to renew or replace its bank credit arrangements as needed, prior to expiration. In connection therewith, Alabama Power may extend the maturity dates and/or increase or decrease the lending commitments thereunder.

A portion of the unused credit with banks is allocated to provide liquidity support to Alabama Power's pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support was approximately \$890 million as of March 31, 2017. At March 31, 2017, Alabama Power had no fixed rate pollution control revenue bonds outstanding that were required to be reoffered within the next 12 months.

Alabama Power also has substantial cash flow from operating activities and access to capital markets, including a commercial paper program, to meet liquidity needs. Alabama Power may meet short-term cash needs through its commercial paper program. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Alabama Power and the other traditional electric operating companies. Proceeds from such issuances for the benefit of Alabama Power are loaned directly to Alabama Power. The obligations of each traditional electric operating company under these arrangements are several and there is no cross-affiliate credit support.

Details of commercial paper borrowings were as follows:

	Short-term Debt During the Period ^(*)			
	Weighted Average Amount Outstanding		Interest Rate	Maximum Amount Outstanding
	(in millions)			(in millions)
Commercial paper	\$30	0.9	%	\$ 200

^(*) Average and maximum amounts are based upon daily balances during the three-month period ended March 31, 2017. No short-term debt was outstanding at March 31, 2017.

Alabama Power believes the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and operating cash flows.

Credit Rating Risk

At March 31, 2017, Alabama Power did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB and/or Baa2 or below. These contracts are primarily for physical electricity purchases, fuel purchases, fuel transportation and storage, energy price risk management, and transmission.

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The maximum potential collateral requirements under these contracts at March 31, 2017 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements (in millions)
At BBB and/or Baa2	\$ 1
At BBB- and/or Baa3	\$ 2
Below BBB- and/or Baa3	\$ 316

Included in these amounts are certain agreements that could require collateral in the event that either Alabama Power or Georgia Power has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, a credit rating downgrade could impact the ability of Alabama Power to access capital markets and would be likely to impact the cost at which it does so.

On March 24, 2017, S&P revised its consolidated credit rating outlook for Southern Company and its subsidiaries (including Alabama Power) from stable to negative.

Financing Activities

In February 2017, Alabama Power repaid at maturity \$200 million aggregate principal amount of Series 2007A 5.55% Senior Notes.

In March 2017, Alabama Power issued \$550 million aggregate principal amount of Series 2017A 2.45% Senior Notes due March 30, 2022. The proceeds were used to repay Alabama Power's short-term indebtedness and for general corporate purposes, including Alabama Power's continuous construction program.

In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Alabama Power plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Operating Revenues:		
Retail revenues	\$1,689	\$1,717
Wholesale revenues, non-affiliates	39	41
Wholesale revenues, affiliates	8	5
Other revenues	96	109
Total operating revenues	1,832	1,872
Operating Expenses:		
Fuel	371	376
Purchased power, non-affiliates	88	83
Purchased power, affiliates	172	139
Other operations and maintenance	381	457
Depreciation and amortization	221	211
Taxes other than income taxes	98	97
Total operating expenses	1,331	1,363
Operating Income	501	509
Other Income and (Expense):		
Interest expense, net of amounts capitalized	(101)	(94)
Other income (expense), net	20	17
Total other income and (expense)	(81)	(77)
Earnings Before Income Taxes	420	432
Income taxes	156	159
Net Income	264	273
Dividends on Preferred and Preference Stock	4	4
Net Income After Dividends on Preferred and Preference Stock	\$260	\$269
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)		

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Net Income	\$264	\$273
Other comprehensive income (loss):		
Qualifying hedges:		
Changes in fair value, net of tax of \$- and \$-, respectively	—	—
Reclassification adjustment for amounts included in net income, net of tax of \$- and \$-, respectively	1	1
Total other comprehensive income (loss)	1	1

Comprehensive Income

\$265 \$274

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31, 2017 2016 (in millions)	
Operating Activities:		
Net income	\$264	\$273
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	271	261
Deferred income taxes	71	55
Allowance for equity funds used during construction	(13)	(14)
Deferred expenses	38	38
Pension, postretirement, and other employee benefits	(21)	(10)
Settlement of asset retirement obligations	(22)	(24)
Other, net	(29)	27
Changes in certain current assets and liabilities —		
-Receivables	142	155
-Fossil fuel stock	(38)	36
-Prepaid income taxes	5	38
-Other current assets	(16)	12
-Accounts payable	(155)	4
-Accrued taxes	(235)	(235)
-Accrued compensation	(87)	(66)
-Retail fuel cost over recovery	(66)	14
-Other current liabilities	2	2
Net cash provided from operating activities	111	566
Investing Activities:		
Property additions	(556)	(553)
Nuclear decommissioning trust fund purchases	(161)	(211)
Nuclear decommissioning trust fund sales	155	206
Cost of removal, net of salvage	(17)	(15)
Change in construction payables, net of joint owner portion	(36)	(101)
Payments pursuant to LTSAs	(22)	(11)
Sale of property	63	—
Other investing activities	8	(4)
Net cash used for investing activities	(566)	(689)
Financing Activities:		
Decrease in notes payable, net	(391)	(158)
Proceeds —		
Capital contributions from parent company	345	218
Senior notes	850	650
Redemptions and repurchases —		
Pollution control revenue bonds	—	(4)
Senior notes	—	(250)
Payment of common stock dividends	(320)	(326)
Other financing activities	(11)	(14)

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Net cash provided from financing activities	473	116
Net Change in Cash and Cash Equivalents	18	(7)
Cash and Cash Equivalents at Beginning of Period	3	67
Cash and Cash Equivalents at End of Period	\$21	\$60
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of \$5 and \$5 capitalized for 2017 and 2016, respectively)	\$88	\$86
Income taxes, net	(5)	(88)
Noncash transactions — Accrued property additions at end of period	320	290
The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.		

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At March 31, 2017 (in millions)	At December 31, 2016 (in millions)
Current Assets:		
Cash and cash equivalents	\$21	\$ 3
Receivables —		
Customer accounts receivable	470	523
Unbilled revenues	200	224
Joint owner accounts receivable	146	57
Other accounts and notes receivable	57	81
Affiliated	12	18
Accumulated provision for uncollectible accounts	(3	) (3
Fossil fuel stock	336	298
Materials and supplies	474	479
Prepaid expenses	35	105
Other regulatory assets, current	195	193
Other current assets	38	38
Total current assets	1,981	2,016
Property, Plant, and Equipment:		
In service	34,059	33,841
Less: Accumulated provision for depreciation	11,443	11,317
Plant in service, net of depreciation	22,616	22,524
Nuclear fuel, at amortized cost	570	569
Construction work in progress	5,183	4,939
Total property, plant, and equipment	28,369	28,032
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	58	60
Nuclear decommissioning trusts, at fair value	853	814
Miscellaneous property and investments	46	46
Total other property and investments	957	920
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	676	676
Other regulatory assets, deferred	2,792	2,774
Other deferred charges and assets	473	417
Total deferred charges and other assets	3,941	3,867
Total Assets	\$35,248	\$ 34,835

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

	At March 31, 2017	At December 31, 2016
Liabilities and Stockholder's Equity		
	(in millions)	
Current Liabilities:		
Securities due within one year	\$488	\$460
Notes payable	—	391
Accounts payable —		
Affiliated	347	438
Other	657	589
Customer deposits	268	265
Accrued taxes —		
Accrued income taxes	56	17
Other accrued taxes	115	390
Accrued interest	115	106
Accrued compensation	110	224
Asset retirement obligations, current	305	299
Other current liabilities	241	297
Total current liabilities	2,702	3,476
Long-term Debt	11,042	10,225
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	6,073	6,000
Deferred credits related to income taxes	119	121
Accumulated deferred investment tax credits	253	256
Employee benefit obligations	673	703
Asset retirement obligations, deferred	2,256	2,233
Other deferred credits and liabilities	214	199
Total deferred credits and other liabilities	9,588	9,512
Total Liabilities	23,332	23,213
Preferred Stock	45	45
Preference Stock	221	221
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — 9,261,500 shares	398	398
Paid-in capital	7,238	6,885
Retained earnings	4,026	4,086
Accumulated other comprehensive loss	(12)	(13)
Total common stockholder's equity	11,650	11,356
Total Liabilities and Stockholder's Equity	\$35,248	\$34,835

The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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FIRST QUARTER 2017 vs. FIRST QUARTER 2016

OVERVIEW

Georgia Power operates as a vertically integrated utility providing electric service to retail customers within its traditional service territory located within the State of Georgia and to wholesale customers in the Southeast. Many factors affect the opportunities, challenges, and risks of Georgia Power's business of providing electric service. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, stringent environmental standards, reliability, fuel, capital expenditures, and restoration following major storms. Georgia Power has various regulatory mechanisms that operate to address cost recovery. Effectively operating pursuant to these regulatory mechanisms and appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future.

On March 29, 2017, Westinghouse and WEC TEC each filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. Also on March 29, 2017, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an interim assessment agreement with the Contractor and WEC TEC Staffing Services LLC (WEC TEC Staffing) to provide for a continuation of work with respect to Plant Vogtle Units 3 and 4. In February 2017, the Contractor provided Georgia Power with revised forecasted in-service dates of December 2019 and September 2020 for Plant Vogtle Units 3 and 4, respectively. However, based on information subsequently made available during Westinghouse and WEC TEC's bankruptcy proceedings and pursuant to the interim assessment agreement, Georgia Power and the Vogtle Owners do not believe the revised in-service dates are achievable. Georgia Power, along with the other Vogtle Owners, is undertaking a comprehensive schedule and cost-to-complete assessment, as well as a cancellation cost assessment. It is reasonably possible these assessments result in estimated incremental costs to complete, including owners' costs, that materially exceed the value of the Toshiba Guarantee. Georgia Power intends to work with the Georgia PSC and the other Vogtle Owners to determine future actions related to Plant Vogtle Units 3 and 4. Georgia Power, for itself and as agent for the other Vogtle Owners, is also negotiating a new service agreement which would, if necessary, engage the Contractor to provide design, engineering, and procurement services to Southern Nuclear, in the event Southern Nuclear assumes control over construction management. The Contractor's bankruptcy filing is expected to have a material impact on the construction cost and schedule of, as well as the cost recovery for, Plant Vogtle Units 3 and 4 and could have a material impact on Georgia Power's financial statements. In addition, an inability or other failure by Toshiba to perform its obligations under the Toshiba Guarantee could have a further material impact on the net cost to the Vogtle Owners to complete construction of Plant Vogtle Units 3 and 4 and, therefore, on Georgia Power's financial statements. The ultimate outcome of these matters also is dependent on the results of the assessments currently underway, as well as the related regulatory treatment, and cannot be determined at this time. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" herein for additional information on Plant Vogtle Units 3 and 4.

Georgia Power continues to focus on several key performance indicators including, but not limited to, customer satisfaction, plant availability, system reliability, the execution of major construction projects, and net income after dividends on preferred and preference stock.

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RESULTS OF OPERATIONS

Net Income

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$(9) (3.3)

Georgia Power's net income after dividends on preferred and preference stock for the first quarter 2017 was \$260 million compared to \$269 million for the corresponding period in 2016. The decrease was primarily due to milder weather as compared to the corresponding period in 2016, partially offset by lower non-fuel operations and maintenance expenses.

Retail Revenues

First Quarter 2017 vs. First

Quarter 2016

(change in millions) (% change)

\$(28) (1.6)

In the first quarter 2017, retail revenues were \$1.69 billion compared to \$1.72 billion for the corresponding period in 2016.

Details of the changes in retail revenues were as follows:

	First Quarter 2017	
	(in millions) (% change)	
Retail – prior year	\$1,717	
Estimated change resulting from –		
Rates and pricing	26	1.5
Sales decline	(12)	(0.7)
Weather	(72)	(4.2)
Fuel cost recovery	30	