

SOUTHERN CO
Form 10-Q
November 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
 ☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 For the quarterly period ended September 30, 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 September 30, 2017
The Southern Company	Par Value \$5 Per Share	1,003,627,691
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
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC, a joint venture to construct and operate a natural gas pipeline in which Southern Company Gas has a 5% ownership interest
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 Settlement Agreement	The December 31, 2015 agreement between Westinghouse and the Vogtle Owners resolving disputes between the Vogtle Owners and the EPC Contractor under the Vogtle 3 and 4 Agreement
Cooperative Energy	Electric cooperative in Mississippi formerly known as South Mississippi Electric Power Association (SMEPA)
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
EPC Contractor	Westinghouse and its affiliate, WECTEC (formerly known as CB&I Stone & Webster, Inc.), formerly a subsidiary of The Shaw Group Inc. and Chicago Bridge & Iron Company N.V.; the former engineering, procurement, and construction contractor for Plant Vogtle Units 3 and 4
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

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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

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DEFINITIONS

(continued)

Term	Meaning
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany interchange contract
Illinois Commission	Illinois Commerce Commission, the state regulatory agency for Nicor Gas
IRC	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
ITC	Investment tax credit
Kemper IGCC	Mississippi Power's IGCC project in Kemper County, Mississippi
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied natural gas
Loan Guarantee Agreement	Loan guarantee agreement entered into by Georgia Power with the DOE in 2014, 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
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
NRC	U.S. Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange, Inc.
OCI	Other comprehensive income
PennEast Pipeline	PennEast Pipeline Company, LLC, a joint venture to construct and operate a natural gas pipeline in which Southern Company Gas has a 20% ownership interest
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

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DEFINITIONS

(continued)

Term	Meaning
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
Rate CNP Compliance	Alabama Power's Rate Certificated New Plant Compliance
Rate CNP PPA	Alabama Power's Rate Certificated New Plant Power Purchase Agreement
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
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 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 EPC 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 3 and 4 Agreement	Agreement entered into with the EPC Contractor in 2008 by Georgia Power, acting for itself and as agent for the Vogtle Owners, pursuant to which the EPC Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4
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, completion of announced acquisitions or dispositions, 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, 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 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;

- 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;

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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

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actions related to cost recovery for the Kemper IGCC, including ongoing settlement discussions, Mississippi PSC review of the prudence of Kemper IGCC costs and approval of further permanent rate recovery plans, and related legal or regulatory proceedings;

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, including the proposed disposition by a wholly-owned subsidiary of Southern Company Gas of Elizabethtown Gas and Elkton Gas, 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 September 30, 2017 2016 (in millions)		For the Nine Months Ended September 30, 2017 2016 (in millions)	
Operating Revenues:				
Retail electric revenues	\$4,615	\$4,808	\$11,786	\$11,932
Wholesale electric revenues	718	613	1,867	1,455
Other electric revenues	168	181	510	529
Natural gas revenues	532	518	2,746	518
Other revenues	168	144	494	281
Total operating revenues	6,201	6,264	17,403	14,715
Operating Expenses:				
Fuel	1,285	1,400	3,372	3,334
Purchased power	256	227	646	581
Cost of natural gas	134	133	1,085	133
Cost of other sales	90	84	293	161
Other operations and maintenance	1,287	1,411	3,918	3,616
Depreciation and amortization	767	695	2,236	1,805
Taxes other than income taxes	303	309	941	821
Estimated loss on Kemper IGCC	34	88	3,155	222
Total operating expenses	4,156	4,347	15,646	10,673
Operating Income	2,045	1,917	1,757	4,042
Other Income and (Expense):				
Allowance for equity funds used during construction	18	52	133	150
Earnings from equity method investments	32	29	100	28
Interest expense, net of amounts capitalized	(407)	(374)	(1,248)	(913)
Other income (expense), net	11	(8)	2	(66)
Total other income and (expense)	(346)	(301)	(1,013)	(801)
Earnings Before Income Taxes	1,699	1,616	744	3,241
Income taxes	590	439	317	917
Consolidated Net Income	1,109	1,177	427	2,324
Less:				
Dividends on preferred and preference stock of subsidiaries	10	11	32	34
Net income attributable to noncontrolling interests	30	27	48	39
Consolidated Net Income Attributable to Southern Company	\$1,069	\$1,139	\$347	\$2,251
Common Stock Data:				
Earnings per share —				
Basic	\$1.07	\$1.18	\$0.35	\$2.40
Diluted	\$1.06	\$1.17	\$0.35	\$2.38
Average number of shares of common stock outstanding (in millions)				
Basic	1,003	968	998	940
Diluted	1,010	975	1,005	945
Cash dividends paid per share of common stock	\$0.5800	\$0.5600	\$1.7200	\$1.6625

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 September 30, 2017 2016 (in millions)		For the Nine Months Ended September 30, 2017 2016 (in millions)	
Consolidated Net Income	\$1,109	\$1,177	\$427	\$2,324
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$15, \$12, \$32, and \$(74), respectively	25	19	54	(118)
Reclassification adjustment for amounts included in net income, net of tax of \$(10), \$2, \$(36), and \$13, respectively	(17)	2	(59)	20
Pension and other postretirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of \$1, \$1, \$2, and \$2, respectively	1	1	3	3
Total other comprehensive income (loss)	9	22	(2)	(95)
Comprehensive Income	1,118	1,199	425	2,229
Less:				
Dividends on preferred and preference stock of subsidiaries	10	11	32	34
Comprehensive income attributable to noncontrolling interests	30	27	48	39
Consolidated Comprehensive Income Attributable to Southern Company	\$1,078	\$1,161	\$345	\$2,156
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 Nine Months Ended September 30, 2017 2016 (in millions)	
Operating Activities:		
Consolidated net income	\$427	\$2,324
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	2,564	2,109
Deferred income taxes	15	(22)
Allowance for equity funds used during construction	(133)	(150)
Pension, postretirement, and other employee benefits	(64)	(158)
Settlement of asset retirement obligations	(137)	(117)
Hedge settlements	—	(236)
Estimated loss on Kemper IGCC	3,148	222
Other, net	(8)	(1)
Changes in certain current assets and liabilities —		
-Receivables	426	(458)
-Fossil fuel for generation	59	204
-Natural gas for sale, net of temporary LIFO liquidation	—	(222)
-Other current assets	(164)	(112)
-Accounts payable	(467)	(9)
-Accrued taxes	157	1,062
-Accrued compensation	(230)	(122)
-Retail fuel cost over recovery	(211)	(106)
-Other current liabilities	(129)	88
Net cash provided from operating activities	5,253	4,296
Investing Activities:		
Business acquisitions, net of cash acquired	(1,032)	(9,513)
Property additions	(5,242)	(5,252)
Investment in restricted cash	(16)	(750)
Distribution of restricted cash	33	746
Nuclear decommissioning trust fund purchases	(585)	(838)
Nuclear decommissioning trust fund sales	580	832
Cost of removal, net of salvage	(208)	(155)
Change in construction payables, net	120	(259)
Investment in unconsolidated subsidiaries	(134)	(1,421)
Payments pursuant to LTSAs	(189)	(125)
Other investing activities	(14)	95
Net cash used for investing activities	(6,687)	(16,640)
Financing Activities:		
Increase (decrease) in notes payable, net	(515)	655
Proceeds —		
Long-term debt	4,068	14,091
Common stock	613	3,265
Preferred stock	250	—
Short-term borrowings	1,263	—

Redemptions and repurchases —		
Long-term debt	(1,981)	(2,405)
Preferred and preference stock	(150)	—
Short-term borrowings	(409)	(475)
Distributions to noncontrolling interests	(89)	(22)
Capital contributions from noncontrolling interests	79	367
Purchase of membership interests from noncontrolling interests	—	(129)
Payment of common stock dividends	(1,716)	(1,553)
Other financing activities	(113)	(185)
Net cash provided from financing activities	1,300	13,609
Net Change in Cash and Cash Equivalents	(134)	1,265
Cash and Cash Equivalents at Beginning of Period	1,975	1,404
Cash and Cash Equivalents at End of Period	\$1,841	\$2,669
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of \$72 and \$94 capitalized for 2017 and 2016, respectively)	\$1,286	\$766
Income taxes, net	(187)	(151)
Noncash transactions — Accrued property additions at end of period	805	578
The accompanying notes as they relate to Southern Company are an integral part of these condensed consolidated financial statements.		

Table of ContentsTHE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	At September 30, 2017	At December 31, 2016
Assets		
	(in millions)	
Current Assets:		
Cash and cash equivalents	\$1,841	\$1,975
Receivables —		
Customer accounts receivable	1,744	1,583
Energy marketing receivables	427	623
Unbilled revenues	595	706
Under recovered fuel clause revenues	62	—
Income taxes receivable, current	138	544
Other accounts and notes receivable	578	377
Accumulated provision for uncollectible accounts	(43)	(43)
Materials and supplies	1,499	1,462
Fossil fuel for generation	571	689
Natural gas for sale	631	631
Prepaid expenses	365	364
Other regulatory assets, current	585	581
Other current assets	209	230
Total current assets	9,202	9,722
Property, Plant, and Equipment:		
In service	102,014	98,416
Less: Accumulated depreciation	31,164	29,852
Plant in service, net of depreciation	70,850	68,564
Nuclear fuel, at amortized cost	865	905
Construction work in progress	8,026	8,977
Total property, plant, and equipment	79,741	78,446
Other Property and Investments:		
Goodwill	6,267	6,251
Equity investments in unconsolidated subsidiaries	1,637	1,549
Other intangible assets, net of amortization of \$156 and \$62 at September 30, 2017 and December 31, 2016, respectively	902	970
Nuclear decommissioning trusts, at fair value	1,783	1,606
Leveraged leases	788	774
Miscellaneous property and investments	236	270
Total other property and investments	11,613	11,420
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,318	1,629
Unamortized loss on reacquired debt	210	223
Other regulatory assets, deferred	6,718	6,851
Other deferred charges and assets	1,513	1,406
Total deferred charges and other assets	9,759	10,109
Total Assets	\$110,315	\$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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	At September 30, 2017	At December 31, 2016
Liabilities and Stockholders' Equity		
	(in millions)	
Current Liabilities:		
Securities due within one year	\$3,505	\$2,587
Notes payable	2,579	2,241
Energy marketing trade payables	451	597
Accounts payable	2,353	2,228
Customer deposits	550	558
Accrued taxes —		
Accrued income taxes	176	193
Unrecognized tax benefits	17	385
Other accrued taxes	690	667
Accrued interest	443	518
Accrued compensation	703	915
Asset retirement obligations, current	245	378
Acquisitions payable	—	489
Other regulatory liabilities, current	139	236
Other current liabilities	752	925
Total current liabilities	12,603	12,917
Long-term Debt	44,042	42,629
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	14,321	14,092
Accumulated deferred ITCs	2,290	2,228
Employee benefit obligations	2,139	2,299
Asset retirement obligations, deferred	4,356	4,136
Other cost of removal obligations	2,708	2,748
Other regulatory liabilities, deferred	449	476
Other deferred credits and liabilities	1,048	1,278
Total deferred credits and other liabilities	27,311	27,257
Total Liabilities	83,956	82,803
Redeemable Preferred Stock of Subsidiaries	361	118
Redeemable Noncontrolling Interests	59	164
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value \$5 per share —		
Authorized — 1.5 billion shares		
Issued — September 30, 2017: 1.0 billion shares		
— December 31, 2016: 991 million shares		
Treasury — September 30, 2017: 0.9 million shares		
— December 31, 2016: 0.8 million shares		
Par value	5,018	4,952
Paid-in capital	10,300	9,661
Treasury, at cost	(35)	(31)
Retained earnings	8,981	10,356

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Accumulated other comprehensive loss	(182)	(180)
Total Common Stockholders' Equity	24,082	24,758
Preferred and Preference Stock of Subsidiaries	462	609
Noncontrolling Interests	1,395	1,245
Total Stockholders' Equity	25,939	26,612
Total Liabilities and Stockholders' Equity	\$110,315	\$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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THIRD QUARTER 2017 vs. THIRD QUARTER 2016
AND
YEAR-TO-DATE 2017 vs. YEAR-TO-DATE 2016

OVERVIEW

Southern Company is a holding company that owns all of the common stock of the traditional electric operating companies and 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 businesses 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. See FUTURE EARNINGS POTENTIAL herein for information regarding agreements entered into by a wholly-owned subsidiary of Southern Company Gas to sell two of its natural gas distribution utilities.

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.

Kemper IGCC

On June 21, 2017, the Mississippi PSC stated its intent to issue an order (which occurred on July 6, 2017) directing Mississippi Power to pursue a settlement under which the Kemper County energy facility would be operated as a natural gas plant, rather than an IGCC plant, and address all issues associated with the Kemper IGCC (Kemper Settlement Order). The Kemper Settlement Order established a new docket for the purposes of pursuing a global settlement of costs of the Kemper IGCC (Kemper IGCC Settlement Docket). The Mississippi PSC requested any such proposed settlement agreement reflect: (i) at a minimum, no rate increase to Mississippi Power customers (with a rate reduction focused on residential customers encouraged); (ii) removal of all cost risk to customers associated with the Kemper IGCC gasifier and related assets; and (iii) modification or amendment of the CPCN for the Kemper IGCC to allow only for ownership and operation of a natural gas facility.

On June 28, 2017, Mississippi Power notified the Mississippi PSC that it would begin a process to suspend operations and start-up activities on the gasifier portion of the Kemper IGCC, given the uncertainty as to the future

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of the gasifier portion of the Kemper IGCC. Mississippi Power expects to continue to operate the combined cycle portion of the Kemper IGCC as it has done since August 2014. At the time of project suspension, the total cost estimate for the Kemper IGCC was approximately \$7.38 billion, including approximately \$5.95 billion of costs subject to the construction cost cap, and was net of the \$137 million in additional grants from the DOE received on April 8, 2016 (Additional DOE Grants).

While the ultimate disposition of the gasification portions of the Kemper IGCC remains subject to the Mississippi PSC's jurisdiction, including the potential resolution of the matters addressed in the Kemper IGCC Settlement Docket, given the Mississippi PSC's stated intent regarding no further rate increase for the Kemper County energy facility, cost recovery of the gasification portions is no longer probable; therefore, Mississippi Power recorded an additional charge to income in June 2017 of \$2.8 billion (\$2.0 billion after tax), which includes estimated costs associated with the gasification portions of the plant and lignite mine. In the third quarter 2017, Mississippi Power recorded an additional charge of \$34 million (\$21 million after tax) for ongoing project costs during suspension, which includes estimated gasifier-related costs through December 31, 2017 to reflect the Mississippi PSC's schedule for the Kemper IGCC Settlement Docket, as well as mine-related costs and other suspension costs through September 30, 2017. Any extension of the suspension period beyond December 31, 2017 is currently estimated to result in additional suspension costs of approximately \$5 million per month. In the event the gasification portions of the project are ultimately canceled, additional pre-tax costs, which include mine and Kemper IGCC plant closure costs and contract termination costs, currently estimated at approximately \$100 million to \$200 million are expected to be incurred.

Total pre-tax charges to income for the estimated probable losses on the Kemper IGCC were \$34 million (\$21 million after tax) for the third quarter 2017 and \$3.2 billion (\$2.2 billion after tax) for the nine months ended September 30, 2017. In the aggregate, since the Kemper IGCC project started, Mississippi Power has incurred charges of \$6.0 billion (\$4.0 billion after tax) through September 30, 2017.

Mississippi Power reached and filed a settlement agreement on August 21, 2017 with certain parties (not including the Mississippi Public Utilities Staff (MPUS)), which it believes met the conditions of the Kemper Settlement Order. The settlement agreement provides for an annual revenue requirement of \$126 million for Kemper IGCC-related costs, which would (i) be effective January 1, 2018, (ii) represent no rate increase for customers, and (iii) include no recovery for the costs associated with the gasifier portion of the Kemper IGCC in 2018 or at any future date. In addition, under the settlement agreement, the CPCN for the Kemper IGCC would be modified to limit the Kemper County energy facility to natural gas combined cycle operation and Mississippi Power would, in the future, file a reserve margin plan with the Mississippi PSC. The Mississippi PSC issued a scheduling order, as amended on October 5, 2017, noting Mississippi Power and the MPUS had failed to reach a joint stipulation and ordering a full hearing. The Mississippi PSC is expected to rule on an order resolving this matter in January 2018.

As of September 30, 2017, Mississippi Power has recorded a total of approximately \$1.3 billion in costs associated with the combined cycle portion of the Kemper IGCC including transmission and related regulatory assets, of which \$0.8 billion is included in retail and wholesale rates. The \$0.5 billion not included in current rates includes costs in excess of the original 2010 estimate for the combined cycle portion of the facility, as well as the 15% that was previously contracted to Cooperative Energy. Mississippi Power has calculated the revenue requirements resulting from these remaining costs, using reasonable assumptions for amortization periods, and expects them to be recovered through rates consistent with the Mississippi PSC's requested settlement conditions. The ultimate outcome will be determined by the Mississippi PSC in the Kemper IGCC Settlement Docket proceedings.

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 FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" and "Other Matters" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein.

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Nuclear Construction

On March 29, 2017, the EPC Contractor for Plant Vogtle Units 3 and 4 filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. To provide for a continuation of work, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an interim assessment agreement with the EPC Contractor (Interim Assessment Agreement), which the bankruptcy court approved on March 30, 2017. On June 9, 2017, Georgia Power and the other Vogtle Owners and Toshiba entered into a settlement agreement regarding the Toshiba Guarantee (Guarantee Settlement Agreement). Pursuant to the Guarantee Settlement Agreement, Toshiba acknowledged the amount of its obligation under the Toshiba Guarantee is \$3.68 billion (Guarantee Obligations), of which Georgia Power's proportionate share is approximately \$1.7 billion, and that the Guarantee Obligations exist regardless of whether Plant Vogtle Units 3 and 4 are completed. On October 2, 2017, Georgia Power received the first installment of the Guarantee Obligations of \$300 million from Toshiba, of which Georgia Power's proportionate share was \$137 million. Additionally, on June 9, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into a services agreement (Services Agreement), which was amended and restated on July 20, 2017, for the EPC Contractor to transition construction management of Plant Vogtle Units 3 and 4 to Southern Nuclear and to provide ongoing design, engineering, and procurement services to Southern Nuclear. On July 27, 2017, the Services Agreement, and the EPC Contractor's rejection of the Vogtle 3 and 4 Agreement, became effective upon approval by the DOE and the Interim Assessment Agreement expired pursuant to its terms. The Services Agreement will continue until the start-up and testing of Plant Vogtle Units 3 and 4 is complete and electricity is generated and sold from both units. The Services Agreement is terminable by the Vogtle Owners upon 30 days' written notice. Effective October 23, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, entered into a construction completion agreement (Bechtel Agreement) with Bechtel Power Corporation (Bechtel), whereby Bechtel will serve as the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4. In the seventeenth Vogtle Construction Monitoring (VCM) report filed on August 31, 2017, Georgia Power recommended that construction of Plant Vogtle Units 3 and 4 be continued, with Southern Nuclear serving as project manager. Georgia Power believes that the most reasonable schedule for completing Plant Vogtle Units 3 and 4 is by November 2021 for Unit 3 and by November 2022 for Unit 4, at an additional cost of approximately \$1.41 billion, net of the Guarantee Settlement Agreement. The Georgia PSC is expected to make a decision on these matters by February 6, 2018.

On September 28, 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately \$1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. 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.

An inability or other failure by Toshiba to perform its obligations under the Guarantee Settlement Agreement 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 cannot be determined at this time. See FUTURE EARNINGS POTENTIAL – "Construction Program – Nuclear Construction" herein for additional information on Plant Vogtle Units 3 and 4, including Georgia Power's cost-to-complete and cancellation cost assessments for Plant Vogtle Units 3 and 4.

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RESULTS OF OPERATIONS

Net Income

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(70) (6.1)	\$(1,904) (84.6)

Consolidated net income attributable to Southern Company was \$1.07 billion (\$1.07 per share) for the third quarter 2017 compared to \$1.14 billion (\$1.18 per share) for the corresponding period in 2016. The decrease was primarily due to a decrease in retail electric revenues due to milder weather and lower customer usage, a decrease in tax benefits at Southern Power, and an increase in depreciation and amortization. These changes were partially offset by higher retail electric revenues resulting from increases in base rates and a decrease in operations and maintenance expenses. Consolidated net income attributable to Southern Company was \$347 million (\$0.35 per share) for year-to-date 2017 compared to \$2.3 billion (\$2.40 per share) for the corresponding period in 2016. The decrease was primarily due to charges of \$3.2 billion and \$222 million for year-to-date 2017 and 2016, respectively, related to the Kemper IGCC at Mississippi Power. Also contributing to the change was an increase of \$299 million in net income from Southern Company Gas reflecting the nine-month period in 2017 compared to the three-month period following the Merger closing on July 1, 2016, higher retail electric revenues resulting from increases in base rates, and increases in renewable energy sales at Southern Power, partially offset by a decrease in retail electric revenues due to milder weather and lower customer usage, higher interest expense, and an increase in depreciation and amortization. See Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information regarding the Kemper IGCC and Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information on the Merger.

Retail Electric Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(193) (4.0)	\$(146) (1.2)

In the third quarter 2017, retail electric revenues were \$4.6 billion compared to \$4.8 billion for the corresponding period in 2016. For year-to-date 2017, retail electric revenues were \$11.8 billion compared to \$11.9 billion for the corresponding period in 2016.

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

	Third Quarter 2017 (in millions) (% change)		Year-to-Date 2017 (in millions) (% change)	
Retail electric – prior year	\$4,808		\$11,932	
Estimated change resulting from –				
Rates and pricing	138	2.9	338	2.8
Sales decline	(52)	(1.1)	(74)	(0.6)
Weather	(162)	(3.4)	(351)	(2.9)
Fuel and other cost recovery	(117)	(2.4)	(59)	(0.5)
Retail electric – current year	\$4,615	(4.0)%	\$11,786	(1.2)%

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2017 when compared to the corresponding periods in 2016 primarily due to a Rate RSE increase at Alabama Power effective

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January 1, 2017, the recovery of Plant Vogtle Units 3 and 4 construction financing costs under the NCCR tariff at Georgia Power, and an increase in retail base revenues effective July 2017 and in environmental cost recovery effective November 2016 at Gulf Power.

See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Alabama Power," " – Georgia Power – Rate Plans," and " – Gulf Power – Retail Base Rate Cases" 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 third quarter and year-to-date 2017 when compared to the corresponding periods in 2016. Weather-adjusted residential KWH sales decreased 2.0% and 0.6% in the third quarter and year-to-date 2017, respectively, primarily due to decreased customer usage resulting from an increase in penetration of energy efficient residential appliances, partially offset by customer growth. Weather-adjusted commercial KWH sales decreased 1.4% and 1.1% in the third quarter and year-to-date 2017, respectively, primarily due to decreased customer usage resulting from customer initiatives in energy savings and an ongoing migration to the electronic commerce business model, partially offset by customer growth. Industrial KWH sales decreased 0.5% and 1.1% in the third quarter and year-to-date 2017, respectively, primarily in the paper sector, partially offset by increased sales in the primary metals and textile sectors. Despite a more stable dollar and improving global economy, the industrial sector remains constrained by economic policy uncertainty. Additionally, Hurricane Irma negatively impacted customer usage for all customer classes.

Fuel and other cost recovery revenues decreased \$117 million and \$59 million in the third quarter and year-to-date 2017, respectively, when compared to the corresponding periods in 2016 primarily due to lower energy sales resulting from milder weather and lower coal 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

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$105 17.1	\$412 28.3

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. Energy 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 related to the energy. 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.

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In the third quarter 2017, wholesale electric revenues were \$718 million compared to \$613 million for the corresponding period in 2016. This increase was primarily related to a \$78 million increase in energy revenues and a \$27 million increase in capacity revenues. For year-to-date 2017, wholesale electric revenues were \$1.9 billion compared to \$1.5 billion for the corresponding period in 2016. This increase was primarily related to a \$354 million increase in energy revenues and a \$58 million increase in capacity revenues. The increases in energy revenues primarily relate to Southern Power increases in renewable energy sales arising from new solar and wind facilities and non-PPA revenues from short-term sales. The increases in capacity revenues primarily resulted from PPAs related to new natural gas facilities and additional customer capacity requirements at Southern Power.

Other Electric Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016		
(change in millions) (%) change)	(change in millions) (%) change)		
\$(13) (7.2)	\$(19) (3.6)		

In the third quarter 2017, other electric revenues were \$168 million compared to \$181 million for the corresponding period in 2016. The decrease was primarily related to lower open access transmission tariff revenues, primarily as a result of the expiration of long-term transmission services contracts at Georgia Power and rate adjustments at Alabama Power, and a decrease in solar application fee revenues at Georgia Power.

For year-to-date 2017, other electric revenues were \$510 million compared to \$529 million for the corresponding period in 2016. The decrease was primarily due to a \$14 million adjustment in 2016 for customer temporary facilities services revenues and a \$12 million decrease in open access transmission tariff revenues, primarily as a result of the expiration of long-term transmission services contracts at Georgia Power, partially offset by a \$10 million increase in outdoor lighting sales revenues primarily attributable to LED conversions at Georgia Power.

Natural Gas Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016		
(change in millions) (%) change)	(change in millions) (%) change)		
\$14 2.7	\$2,228 N/M		

N/M - Not meaningful

Natural gas revenues represent sales from the natural gas distribution utilities and certain non-regulated operations of Southern Company Gas. In the third quarter 2017, natural gas revenues were \$532 million compared to \$518 million for the corresponding period in 2016. This increase is primarily due to infrastructure replacement programs and increases in base rate revenues at Southern Company Gas.

For year-to-date 2017, natural gas revenues were \$2.7 billion compared to \$518 million for the corresponding period in 2016. The increase reflects the inclusion of Southern Company Gas results for the nine-month period in 2017 compared to the three-month period subsequent to the Merger closing on July 1, 2016.

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

Other Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016		
(change in millions) (%) change)	(change in millions) (%) change)		
\$24 16.7	\$213 75.8		

In the third quarter 2017, other revenues were \$168 million compared to \$144 million for the corresponding period in 2016. For year-to-date 2017, other revenues were \$494 million compared to \$281 million for the corresponding

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period in 2016. These increases were primarily due to increases of \$5 million and \$135 million for the third quarter and year-to-date 2017, respectively, from products and services at PowerSecure, which was acquired on May 9, 2016, and \$8 million and \$70 million for the third quarter and year-to-date 2017, respectively, of revenues from gas marketing products and services at Southern Company Gas following the Merger. Additionally, revenues from certain non-regulated sales of products and services at the traditional electric operating companies increased \$5 million and \$13 million for the third quarter and year-to-date 2017, respectively, primarily due to additional third-party infrastructure services.

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

	Third Quarter 2017 vs. Third Quarter 2016 (change in millions)	Year-to-Date 2017 vs. Year-to-Date 2016 (change in millions)
Fuel	\$(115) (8.2)	\$ 38 1.1
Purchased power	29 12.8	65 11.2
Total fuel and purchased power expenses	\$(86)	\$ 103

In the third quarter 2017, total fuel and purchased power expenses were \$1.5 billion compared to \$1.6 billion for the corresponding period in 2016. The decrease was primarily the result of a \$104 million net decrease in the volume of KWHs generated and purchased, partially offset by an \$18 million net increase in the average cost of fuel and purchased power primarily due to higher natural gas prices.

For year-to-date 2017, total fuel and purchased power expenses were \$4.0 billion compared to \$3.9 billion for the corresponding period in 2016. The increase was primarily the result of a \$277 million increase in the average cost of fuel and purchased power primarily due to higher natural gas prices, partially offset by a \$174 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:

	Third Quarter 2017	Third Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in billions of KWHs)	54	56	147	145
Total purchased power (in billions of KWHs)	6	6	14	15
Sources of generation (percent) —				
Coal	31	38	30	33
Nuclear	15	15	16	16
Gas	47	44	46	46
Hydro	2	1	2	3
Other	5	2	6	2
Cost of fuel, generated (in cents per net KWH) —				
Coal	2.82	2.97	2.82	3.10
Nuclear	0.80	0.81	0.80	0.82
Gas	2.92	2.74	2.93	2.40
Average cost of fuel, generated (in cents per net KWH)	2.54	2.54	2.51	2.38
Average cost of purchased power (in cents per net KWH)(*)	4.96	4.98	5.32	4.75

(*) 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 third quarter 2017, fuel expense was \$1.3 billion compared to \$1.4 billion for the corresponding period in 2016. The decrease was primarily due to a 21.4% decrease in the volume of KWHs generated by coal and a 5.1% decrease in the average cost of coal per KWH generated, partially offset by a 6.6% increase in the average cost of natural gas per KWH generated and a 1.2% increase in the volume of KWHs generated by natural gas.

For year-to-date 2017, fuel expense was \$3.4 billion compared to \$3.3 billion for the corresponding period in 2016. The increase was primarily due to a 22.1% increase in the average cost of natural gas per KWH generated, partially offset by a 9.0% decrease in the average cost of coal per KWH generated, a 7.4% decrease in the volume of KWHs generated by coal, and a 3.7% decrease in the volume of KWHs generated by natural gas.

Purchased Power

In the third quarter 2017, purchased power expense was \$256 million compared to \$227 million for the corresponding period in 2016. The increase was primarily due to a 10.1% increase in the volume of KWHs purchased, partially offset by a 0.4% decrease in the average cost per KWH purchased.

For year-to-date 2017, purchased power expense was \$646 million compared to \$581 million for the corresponding period in 2016. The increase was primarily due to a 12.0% increase in the average cost per KWH purchased, primarily as a result of higher natural gas prices, partially offset by a 1.3% 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.

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Cost of Natural Gas

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$1 0.8	\$952 N/M

N/M - Not meaningful

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. In the third quarter 2017, cost of natural gas was \$134 million compared to \$133 million for the corresponding period in 2016. For year-to-date 2017, cost of natural gas was \$1.1 billion compared to \$133 million for the corresponding period in 2016. The year-to-date increase reflects the inclusion of Southern Company Gas results for the nine-month period in 2017 compared to the three-month period subsequent to the Merger closing on July 1, 2016.

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

Cost of Other Sales

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$6 7.1	\$132 82.0

In the third quarter 2017, cost of other sales was \$90 million compared to \$84 million for the corresponding period in 2016. For year-to-date 2017, cost of other sales was \$293 million compared to \$161 million for the corresponding period in 2016. The year-to-date increase primarily reflects costs related to sales of products and services by PowerSecure, which was acquired on May 9, 2016, and costs related to gas marketing products and services at Southern Company Gas following the Merger closing on July 1, 2016. See Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information.

Other Operations and Maintenance Expenses

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(124) (8.8)	\$302 8.4

In the third quarter 2017, other operations and maintenance expenses were \$1.3 billion compared to \$1.4 billion for the corresponding period in 2016. The decrease was primarily due to cost containment and modernization activities implemented at Georgia Power in the third quarter 2016 that contributed to decreases of \$37 million in maintenance costs, \$9 million in customer accounts, service, and sales costs, and \$8 million in other employee compensation and benefits. Other factors include a \$40 million decrease in acquisition-related expenses and a \$31 million decrease in employee compensation and benefits including pension costs.

For year-to-date 2017, other operations and maintenance expenses were \$3.9 billion compared to \$3.6 billion for the corresponding period in 2016. The increase was primarily due to increases of \$420 million and \$32 million in operations and maintenance expenses as a result of the inclusion of Southern Company Gas and PowerSecure results for the nine-month period in 2017, respectively, a \$48 million increase associated with new solar, wind, and gas facilities at Southern Power, and \$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). These increases were partially offset due to cost containment and modernization activities implemented at Georgia Power in the third quarter 2016 that contributed to decreases of \$79 million in maintenance costs and \$34 million in other employee compensation and benefits. Other factors

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include a \$32 million decrease in acquisition-related expenses, a \$25 million decrease in customer accounts, service, and sales costs primarily at Georgia Power, a \$19 million increase in gains from sales of integrated transmission system assets at Georgia Power, and a \$16 million decrease in scheduled outage and maintenance costs at generation facilities.

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

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$72 10.4	\$431 23.9

In the third quarter 2017, depreciation and amortization was \$767 million compared to \$695 million for the corresponding period in 2016. The increase is primarily related to additional plant in service at the traditional electric operating companies, Southern Power, and Southern Company Gas.

For year-to-date 2017, depreciation and amortization was \$2.2 billion compared to \$1.8 billion for the corresponding period in 2016. The increase reflects \$254 million as a result of the inclusion of Southern Company Gas for the nine-month period in 2017 compared to the three-month period subsequent to the Merger closing on July 1, 2016. Additionally, the increase reflects \$170 million related to additional plant in service at the traditional electric operating companies and Southern Power. The increase was partially offset by a \$34 million increase in the reductions in depreciation authorized in Gulf Power's 2013 rate case settlement approved by the Florida PSC as compared to the corresponding period in 2016.

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 Notes (B) and (I) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" and "Southern Company – Merger with Southern Company Gas," respectively, herein for additional information.

Taxes Other Than Income Taxes

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(6) (1.9)	\$120 14.6

For year-to-date 2017, taxes other than income taxes were \$941 million compared to \$821 million for the corresponding period in 2016. The increase primarily reflects the inclusion of Southern Company Gas taxes for the nine-month period in 2017 compared to the three-month period subsequent to the Merger closing on July 1, 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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Estimated Loss on Kemper IGCC

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(54) (61.4)	\$2,933 N/M

N/M - Not meaningful

Estimated probable losses on the Kemper IGCC of \$34 million and \$3.2 billion were recorded at Mississippi Power in the third quarter and year-to-date 2017, respectively, compared to \$88 million and \$222 million in the third quarter and year-to-date 2016, respectively. While the ultimate disposition of the gasification portions of the Kemper IGCC remains subject to the Mississippi PSC's jurisdiction, including the potential resolution of the matters addressed in the Kemper IGCC Settlement Docket, given the Mississippi PSC's stated intent regarding no further rate increase for the Kemper County energy facility, cost recovery of the gasification portions is no longer probable. As a result, Mississippi Power suspended the project on June 28, 2017, and recorded \$34 million and \$2.9 billion of additional charges to income in the third quarter and year-to-date 2017, respectively, for the estimated costs associated with the gasification portions of the plant and lignite mine.

Prior to the project's suspension, Mississippi Power recorded losses for revisions of estimated costs expected to be incurred on 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 (construction cost increase demonstrated to produce efficiencies that 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.

Allowance for Equity Funds Used During Construction

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(34) (65.4)	\$(17) (11.3)

In the third quarter 2017, AFUDC equity was \$18 million compared to \$52 million in the corresponding period in 2016. For year-to-date 2017, AFUDC equity was \$133 million compared to \$150 million in the corresponding period in 2016. These decreases primarily resulted from Mississippi Power's suspension of the Kemper IGCC project in June 2017.

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

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$3 10.3	\$72 N/M

N/M - Not meaningful

In the third quarter 2017, earnings from equity method investments were \$32 million compared to \$29 million in the corresponding period in 2016. For year-to-date 2017, earnings from equity method investments were \$100 million

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compared to \$28 million in the corresponding period in 2016. These increases were primarily related to Southern Company Gas' equity method investment in SNG in September 2016.

See Note 12 to the financial statements of Southern Company under "Southern Company – Investment in Southern Natural Gas" in Item 8 of the Form 10-K for additional information.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$33 8.8	\$335 36.7

In the third quarter 2017, interest expense, net of amounts capitalized was \$407 million compared to \$374 million in the corresponding period in 2016. The increase was primarily due to an increase in average outstanding long-term debt and a \$16 million decrease in interest capitalized, partially offset by a net reduction of \$33 million following Mississippi Power's settlement with the IRS related to research and experimental (R&E) deductions.

For year-to-date 2017, interest expense, net of amounts capitalized was \$1.2 billion compared to \$913 million in the corresponding period in 2016. The increase was primarily due to an increase in average outstanding long-term debt and a \$31 million decrease in interest capitalized, partially offset by a net reduction of \$33 million following Mississippi Power's settlement with the IRS related to R&E deductions. In addition, year-to-date 2017 includes an additional \$106 million reflecting the nine-month period of interest expense for Southern Company Gas compared to the three-month period subsequent to the Merger closing on July 1, 2016.

See FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Section 174 Research and Experimental Deduction" and Notes (E) and (G) to the Condensed Financial Statements herein for additional information.

Other Income (Expense), Net

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$19 N/M	\$68 N/M

N/M - Not meaningful

In the third quarter 2017, other income (expense), net was \$11 million compared to \$(8) million for the corresponding period in 2016. For year-to-date 2017, other income (expense), net was \$2 million compared to \$(66) million for the corresponding period in 2016. These changes were primarily due to \$14 million and \$16 million from settlement of contractor litigation claims at Southern Company Gas in the third quarter and year-to-date 2017, respectively, and increases of \$6 million and \$10 million in customer contributions in aid of construction and contract service revenue at Georgia Power in the third quarter and year-to-date 2017, respectively. Additionally, the year-to-date change reflects \$30 million of expenses incurred in 2016 associated with bridge financing for the Merger. These changes also include increases of \$36 million and \$152 million in currency losses arising from a translation of euro-denominated fixed-rate notes into U.S. dollars for the third quarter and year-to-date 2017, respectively, fully offset by an equal change in gains on the foreign currency hedges that were reclassified from accumulated OCI into earnings at Southern Power.

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

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Income Taxes

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$151 34.4	\$(600) (65.4)

In the third quarter 2017, income taxes were \$590 million compared to \$439 million for the corresponding period in 2016. The increase was primarily due to a \$61 million decrease in income tax benefits from solar ITCs at Southern Power, a \$23 million increase in deferred income tax expenses associated with new State of Illinois tax legislation and new tax apportionment factors at Southern Company Gas, and a \$21 million decrease in tax benefits related to estimated losses on the Kemper IGCC at Mississippi Power.

For year-to-date 2017, income taxes were \$317 million compared to \$917 million for the corresponding period in 2016. The decrease was primarily due to \$866 million in tax benefits related to estimated losses on the Kemper IGCC at Mississippi Power, partially offset by a \$226 million increase reflecting the nine-month period of income taxes at Southern Company Gas in 2017 compared to the three-month period subsequent to the Merger closing on July 1, 2016 and a \$44 million net decrease in tax benefits from renewable tax credits at Southern Power.

See Notes (B), (G), and (I) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle," "Effective Tax Rate," and "Southern Company – Merger with Southern Company Gas," respectively, 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. Matters related to Plant Vogtle Units 3 and 4 construction and rate recovery and the ability to recover costs for the remainder of the Kemper County energy facility not included in current rates are also 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 federal 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 the pace of economic growth that may be affected

by changes in regional and global economic conditions, which may

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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.

Southern Power is considering the sale of up to a one-third equity interest in its solar asset portfolio. The ultimate outcome of this matter cannot be determined at this time.

On October 15, 2017, a wholly-owned subsidiary of Southern Company Gas entered into agreements for the sale of the assets of two of its natural gas distribution utilities, Elizabethtown Gas and Elkton Gas, to South Jersey Industries, Inc. for a total cash purchase price of \$1.7 billion. As of September 30, 2017, the net book value of the assets to be disposed of in the sale was approximately \$1.5 billion, which includes approximately \$0.5 billion of goodwill. The goodwill is not deductible for tax purposes and as a result, a deferred tax liability has not yet been provided for goodwill. Through the completion of the sale, Southern Company Gas intends to invest approximately \$0.1 billion in capital expenditures which are required for ordinary business operations. The completion of each sale is subject to the satisfaction or waiver of certain closing conditions, including, among others, (i) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act; (ii) the receipt of required regulatory approvals, including the FERC, the Federal Communications Commission, the New Jersey BPU, and, with respect to the sale of Elkton Gas, the Maryland PSC; and (iii) other customary closing conditions. The sales are expected to be completed by the end of the third quarter 2018. The ultimate outcome of these matters cannot be determined at this time.

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

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Environmental Statutes and Regulations

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Southern Company in Item 7 of the Form 10-K for additional information regarding the EPA's eight-hour ozone National Ambient Air Quality Standard (NAAQS).

On June 2, 2017, the EPA published a final rule redesignating a 15-county area within metropolitan Atlanta to attainment for the 2008 eight-hour ozone NAAQS.

On June 18, 2017, the EPA published a notice delaying attainment designations for the 2015 eight-hour ozone NAAQS by one year, setting a revised deadline of October 1, 2018. However, on August 2, 2017, the EPA issued a withdrawal notice of the one-year extension and reinstated the original October 1, 2017 designation deadline. The ultimate outcome of this matter cannot be determined at this time.

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 effluent guidelines rule and the final rule revising the regulatory definition of waters of the U.S. for all Clean Water Act (CWA) programs.

On April 25, 2017, the EPA published a notice announcing it would reconsider the effluent guidelines rule, which had been finalized in November 2015. On September 18, 2017, the EPA published a final rule establishing a stay of the compliance deadlines for certain effluent limitations and pretreatment standards under the rule.

On June 27, 2017, the EPA and the U.S. Army Corps of Engineers proposed to rescind 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.

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 U.S. 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. On October 16, 2017, the EPA published a proposed rule to repeal the Clean Power Plan. The EPA has not determined whether or when it will promulgate a replacement rule.

On June 1, 2017, the U.S. President announced that the United States will withdraw from the non-binding Paris Agreement and begin renegotiation of its terms.

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

Natural Gas Storage

A wholly-owned subsidiary of Southern Company Gas owns and operates a natural gas storage facility consisting of two salt dome caverns in Louisiana. Periodic integrity tests are required in accordance with rules of the Louisiana Department of Natural Resources (LDNR). In August 2017, in connection with an ongoing integrity project, updated seismic mapping indicated the proximity of one of the caverns to the edge of the salt dome may be less than the required minimum and could result in Southern Company Gas retiring the cavern early. At September 30, 2017, the facility's property, plant, and equipment had a net book value of \$111 million, of which the cavern itself

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represents approximately 20%. A potential early retirement of this cavern is dependent upon several factors including the results of ongoing third-party technical engineering reviews, testing, and compliance with an order from the LDNR detailing the requirements to place the cavern back in service, which includes, among other things, obtaining a core sample to determine the composition of the sheath surrounding the edge of the salt dome. Early retirement of the cavern could trigger impairment of other long-lived assets associated with the natural gas storage facility. The ultimate outcome of this matter cannot be determined at this time, but could have a significant impact on Southern Company's financial statements.

FERC Matters

Market-Based Rate Authority

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters – Market-Based Rate Authority" of Southern Company in Item 7 of the Form 10-K for additional information regarding the traditional electric operating companies' and Southern Power's market power proceeding and amendment to their market-rate tariff.

On May 17, 2017, the FERC accepted the traditional electric operating companies' and Southern Power's compliance filing accepting the terms of the FERC's February 2, 2017 order regarding an amendment by the traditional electric operating companies and Southern Power to their market-based rate tariff. While the FERC's order references the traditional electric operating companies' and Southern Power's market power proceeding related to their 2014 triennial updated market power analysis, that proceeding remains a separate, ongoing matter.

On October 25, 2017, the FERC issued an order in response to the traditional electric operating companies' and Southern Power's June 30, 2017 triennial updated market power analysis. The FERC directed the traditional electric operating companies and Southern Power to show cause within 60 days why market-based rate authority should not be revoked in certain areas adjacent to the area presently under mitigation in accordance with the February 2, 2017 order, or to provide a mitigation plan to further address market power concerns. The traditional electric operating companies and Southern Power expect to make a filing within the specified 60 days responding to the FERC's order.

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

Southern Company Gas

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters – Southern Company Gas" of Southern Company in Item 7 and Note 4 to the financial statements of Southern Company in Item 8 of the Form 10-K for additional information regarding Southern Company Gas' pipeline projects.

On August 1, 2017, the Dalton Pipeline was placed in service as authorized by the FERC and transportation service for customers commenced.

On October 13, 2017, the Atlantic Coast Pipeline project received FERC approval.

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

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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.

On May 16, 2017, the Georgia PSC approved Georgia Power's request to build, own, and operate a 139-MW solar generation facility at a U.S. Air Force base that is expected to be placed in service by the end of 2019.

During the nine months ended September 30, 2017, Georgia Power continued construction of a 31-MW solar generation facility at a U.S. Marine Corps base that is expected to be placed in service in the fourth quarter 2017.

In 2015, the Florida PSC approved Gulf Power's three energy purchase agreements totaling 120 MWs of utility-scale solar generation located at three military installations in northwest Florida. Purchases under these agreements began in the summer of 2017.

Mississippi Power placed in service three solar projects in January, June, and October 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.

On August 17, 2017, the Mississippi PSC approved Mississippi Power's CPCN for the construction, operation, and maintenance of a 52.5-MW solar energy generating facility, which is expected to be placed in service by January 2020.

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

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.

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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 incurred of approximately \$50 million 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.

Storm Damage Recovery

Georgia Power is accruing \$30 million annually through December 31, 2019, as provided in the 2013 ARP, for incremental operating and maintenance costs of damage from major storms to its transmission and distribution facilities. During September 2017, Hurricane Irma caused significant damage to Georgia Power's transmission and distribution facilities. The total amount of incremental restoration costs related to this hurricane is estimated to be approximately \$150 million. As of September 30, 2017, Georgia Power had deferred approximately \$145 million in a regulatory asset related to storm damage. As of September 30, 2017, the total balance in Georgia Power's regulatory asset related to storm damage was \$360 million. The rate of storm damage cost recovery is expected to be adjusted as part of Georgia Power's next base rate case required to be filed by July 1, 2019. As a result of this regulatory treatment, costs related to storms are not expected to have a material impact on Southern Company's financial statements. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Storm Damage Recovery" in Item 8 of the Form 10-K for additional information regarding Georgia Power's storm damage reserve.

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 intervenors with respect to Gulf Power's request to increase retail base rates. Among the terms of the 2017 Rate Case Settlement Agreement, Gulf Power increased rates effective with the first billing cycle in July 2017 to provide an annual overall net customer impact of approximately \$54.3 million. The net customer impact consisted of a \$62.0 million increase in annual base revenues less an annual equivalent credit of approximately \$7.7 million for 2017 for certain wholesale revenues to be provided through December 2019 through the purchased power capacity cost recovery clause. In addition, Gulf Power continued its authorized retail ROE midpoint (10.25%) and range (9.25% to 11.25%) and is deemed to have an equity ratio of 52.5% for all retail regulatory purposes. Gulf Power will also 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 will 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.

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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. 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 a ROE of 10.7%. The Illinois Commission is expected to rule on the requested increase in December 2017, 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. Following Mississippi Power's suspension of the Kemper IGCC construction, the largest construction project currently underway in the Southern Company system is Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in the two units, each with approximately 1,100 MWs). In August 2017, Georgia Power filed its seventeenth VCM report with the Georgia PSC, in which it recommended that construction of Plant Vogtle Units 3 and 4 be continued, with Southern Nuclear serving as project manager. Georgia Power believes that the most reasonable schedule for completing Plant Vogtle Units 3 and 4 is by November 2021 for Unit 3 and by November 2022 for Unit 4, at an additional cost of approximately \$1.41 billion, net of the Guarantee Settlement Agreement. The Georgia PSC is expected to make a decision on these and other related matters by February 6, 2018. 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.

For additional information, see Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" and " – Southern Company Gas – Regulatory Infrastructure Programs" 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 " – Southern Company Gas – Regulatory Infrastructure Programs" and "Integrated Coal Gasification Combined Cycle" herein. Also 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.

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.

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Integrated Coal Gasification Combined Cycle

The Kemper IGCC 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 combined cycle and associated common facilities portion of the Kemper IGCC were placed in service in August 2014. In December 2015, the Mississippi PSC issued an order (In-Service Asset Rate Order), based on a stipulation between Mississippi Power and the 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. As required by the In-Service Asset Rate Order, on June 5, 2017, Mississippi Power made a rate filing requesting to adjust the amortization schedules of the regulatory assets reviewed and determined prudent in a manner that would not change customer rates or annual revenues. On June 28, 2017, the Mississippi PSC suspended this filing. On July 6, 2017, the Mississippi PSC issued an order requiring Mississippi Power to establish a regulatory liability account to maintain current rates related to the Kemper IGCC following the July 2017 completion of the amortization period for certain regulatory assets approved in the In-Service Asset Rate Order that would allow for subsequent refund if the Mississippi PSC deems the rates unjust and unreasonable. At September 30, 2017, the related regulatory liability totaled \$7 million.

The initial production of syngas began on July 14, 2016 for gasifier "B" and on September 13, 2016 for gasifier "A." Mississippi Power achieved integrated operation of both gasifiers on January 29, 2017, including the production of electricity from syngas in both combustion turbines. During testing, the plant produced and captured CO₂, and produced sulfuric acid and ammonia, each of acceptable quality under the related off-take agreements. However, Mississippi Power experienced numerous challenges during the extended start-up process to achieve integrated operation of the gasifiers on a sustained basis. In May 2017, after achieving these milestones, Mississippi Power determined that a critical system component, the syngas coolers, would need replacement sooner than originally planned, which would require significant lead time and significant cost. In addition, the long-term natural gas price forecast has decreased significantly and the estimated cost of operating and maintaining the facility during the first five full years of operations has increased significantly since certification.

On June 21, 2017, the Mississippi PSC stated its intent to issue the Kemper Settlement Order (which occurred on July 6, 2017) directing Mississippi Power to pursue a settlement under which the Kemper County energy facility would be operated as a natural gas plant, rather than an IGCC plant, and address all issues associated with the Kemper IGCC. The Kemper Settlement Order established the Kemper IGCC Settlement Docket for the purposes of pursuing a global settlement of costs of the Kemper IGCC. The Mississippi PSC requested any such proposed settlement agreement reflect: (i) at a minimum, no rate increase to Mississippi Power customers (with a rate reduction focused on residential customers encouraged); (ii) removal of all cost risk to customers associated with the Kemper IGCC gasifier and related assets; and (iii) modification or amendment of the CPCN for the Kemper IGCC to allow only for ownership and operation of a natural gas facility.

On June 28, 2017, Mississippi Power notified the Mississippi PSC that it would begin a process to suspend operations and start-up activities on the gasifier portion of the Kemper IGCC, given the uncertainty as to the future of the gasifier portion of the Kemper IGCC. Mississippi Power expects to continue to operate the combined cycle portion of the Kemper IGCC as it has done since August 2014. At the time of project suspension, the total cost estimate for the Kemper IGCC was approximately \$7.38 billion, including approximately \$5.95 billion of costs subject to the construction cost cap, and was net of the \$137 million in Additional DOE Grants.

While the ultimate disposition of the gasification portions of the Kemper IGCC remains subject to the Mississippi PSC's jurisdiction, including the potential resolution of the matters addressed in the Kemper IGCC Settlement Docket, given the Mississippi PSC's stated intent regarding no further rate increase for the Kemper County energy facility, cost recovery of the gasification portions is no longer probable; therefore, Mississippi Power recorded an additional charge to income in June 2017 of \$2.8 billion (\$2.0 billion after tax), which includes estimated costs associated with the gasification portions of the plant and lignite mine. In the third quarter 2017, Mississippi Power recorded an additional

charge of \$34 million (\$21 million after tax) for ongoing project costs during suspension,

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which includes estimated gasifier-related costs through December 31, 2017 to reflect the Mississippi PSC's schedule for the Kemper IGCC Settlement Docket, as well as mine-related costs and other suspension costs through September 30, 2017. Any extension of the suspension period beyond December 31, 2017 is currently estimated to result in additional suspension costs of approximately \$5 million per month. In the event the gasification portions of the project are ultimately canceled, additional pre-tax costs, which include mine and Kemper IGCC plant closure costs and contract termination costs, currently estimated at approximately \$100 million to \$200 million are expected to be incurred.

Total pre-tax charges to income for the estimated probable losses on the Kemper IGCC were \$34 million (\$21 million after tax) for the third quarter 2017 and \$3.2 billion (\$2.2 billion after tax) for the nine months ended September 30, 2017. In the aggregate, since the Kemper IGCC project started, Mississippi Power has incurred charges of \$6.0 billion (\$4.0 billion after tax) through September 30, 2017.

Mississippi Power reached and filed a settlement agreement on August 21, 2017 with certain parties (not including the MPUS), which it believes met the conditions of the Kemper Settlement Order. The settlement agreement provides for an annual revenue requirement of \$126 million for Kemper IGCC-related costs, which would (i) be effective January 1, 2018, (ii) represent no rate increase for customers, and (iii) include no recovery for the costs associated with the gasifier portion of the Kemper IGCC in 2018 or at any future date. In addition, under the settlement agreement, the CPCN for the Kemper IGCC would be modified to limit the Kemper County energy facility to natural gas combined cycle operation and Mississippi Power would, in the future, file a reserve margin plan with the Mississippi PSC. The Mississippi PSC issued a scheduling order, as amended on October 5, 2017, noting Mississippi Power and the MPUS had failed to reach a joint stipulation and ordering a full hearing. The Mississippi PSC is expected to rule on an order resolving this matter in January 2018.

As of September 30, 2017, Mississippi Power has recorded a total of approximately \$1.3 billion in costs associated with the combined cycle portion of the Kemper IGCC including transmission and related regulatory assets, of which \$0.8 billion is included in retail and wholesale rates. The \$0.5 billion not included in current rates includes costs in excess of the original 2010 estimate for the combined cycle portion of the facility, as well as the 15% that was previously contracted to Cooperative Energy. Mississippi Power has calculated the revenue requirements resulting from these remaining costs, using reasonable assumptions for amortization periods, and expects them to be recovered through rates consistent with the Mississippi PSC's requested settlement conditions. The ultimate outcome will be determined by the Mississippi PSC in the Kemper IGCC Settlement Docket proceedings.

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 FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" and "Other Matters" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein. Also see "Litigation" 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. The individual plaintiff 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 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 June 23, 2017, the Circuit

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Court ruled in favor of motions by Southern Company and Mississippi Power and dismissed the case. On July 7, 2017, the plaintiffs filed notice of an appeal.

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 moved to compel arbitration pursuant to the terms of the CO₂ contract, which the court granted on May 4, 2017. On June 28, 2017, Treetop and other related parties filed a claim for arbitration requesting \$500 million in damages.

Southern Company believes these legal challenges have no merit; however, an adverse outcome in these proceedings could have a material 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, VCM reports, the NCCR tariff, and the Contractor Settlement Agreement.

Vogtle 3 and 4 Agreement and EPC Contractor Bankruptcy

In 2008, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Vogtle 3 and 4 Agreement, pursuant to which the EPC Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4. 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.

Georgia Power's proportionate share of Plant Vogtle Units 3 and 4 is 45.7%.

The Vogtle 3 and 4 Agreement also provided for liquidated damages upon the EPC 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 (approximately \$420 million based on Georgia Power's ownership interest). Under the Toshiba Guarantee, Toshiba guaranteed certain payment obligations of the EPC Contractor, including any liability of the EPC Contractor for abandonment of work. 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 EPC 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.

Under the terms of the Vogtle 3 and 4 Agreement, the EPC Contractor did not have the right to terminate the Vogtle 3 and 4 Agreement for convenience. In the event of an abandonment of work by the EPC Contractor, the maximum liability of the EPC Contractor under the Vogtle 3 and 4 Agreement was 40% of the contract price (approximately \$1.7 billion based on Georgia Power's ownership interest).

On March 29, 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. To provide for a continuation of work at Plant Vogtle Units 3 and 4, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Interim Assessment Agreement, which the bankruptcy court approved on March 30, 2017.

The Interim Assessment Agreement provided, among other items, that during the term of the Interim Assessment Agreement Georgia Power was obligated to pay, on behalf of the Vogtle Owners, all costs accrued by the EPC Contractor for subcontractors and vendors for services performed or goods provided. The Interim Assessment Agreement, as amended, expired on July 27, 2017.

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Subsequent to the EPC Contractor bankruptcy filing, a number of subcontractors to the EPC Contractor, including Fluor Enterprises, Inc., a subsidiary of Fluor Corporation, alleged non-payment by the EPC 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, actions to remove liens filed by these subcontractors through the posting of surety bonds. Georgia Power estimates the aggregate liability, through September 30, 2017, of the Vogtle Owners for the removal of subcontractor liens and payment of other EPC Contractor pre-petition accounts payable to total approximately \$386 million, of which \$340 million had been paid or accrued as of September 30, 2017. Georgia Power's proportionate share of this aggregate liability totaled approximately \$176 million.

On June 9, 2017, Georgia Power and the other Vogtle Owners and Toshiba entered into the Guarantee Settlement Agreement. Pursuant to the Guarantee Settlement Agreement, Toshiba acknowledged the amount of its obligation under the Toshiba Guarantee is \$3.68 billion, of which Georgia Power's proportionate share is approximately \$1.7 billion, and that the Guarantee Obligations exist regardless of whether Plant Vogtle Units 3 and 4 are completed. The Guarantee Settlement Agreement also provides for a schedule of payments for the Guarantee Obligations, which will reduce CWIP, beginning in October 2017 and continuing through January 2021. In the event Toshiba receives certain payments, including sale proceeds, from or related to Westinghouse (or its subsidiaries) or Toshiba Nuclear Energy Holdings (UK) Limited (or its subsidiaries), it will hold a portion of such payments in trust for the Vogtle Owners and promptly pay them as offsets against any remaining Guarantee Obligations. Under the Guarantee Settlement Agreement, the Vogtle Owners will forbear from exercising certain remedies, including drawing on the Westinghouse Letters of Credit, until June 30, 2020, unless certain events of nonpayment, insolvency, or other material breach of the Guarantee Settlement Agreement by Toshiba occur. If such an event occurs, the balance of the Guarantee Obligations will become immediately due and payable, and the Vogtle Owners may exercise any and all rights and remedies, including drawing on the Westinghouse Letters of Credit without restriction. In addition, the Guarantee Settlement Agreement does not restrict the Vogtle Owners from fully drawing on the Westinghouse Letters of Credit in the event they are not renewed or replaced prior to the expiration date. On October 2, 2017, Georgia Power received the first installment of the Guarantee Obligations of \$300 million from Toshiba, of which Georgia Power's proportionate share was \$137 million. Georgia Power is considering potential options with respect to its right to future payments under the Guarantee Settlement Agreement and its claims against the EPC Contractor in the EPC Contractor's bankruptcy proceeding, including a potential sale of those payment rights and bankruptcy claims. Any such transaction cannot be assured and would be subject to DOE consents and related approvals under the Loan Guarantee Agreement and related agreements.

On August 10, 2017, Toshiba released its financial results for the quarter ended June 30, 2017, which reflected a negative shareholders' equity balance of approximately \$4.5 billion as of June 30, 2017. Toshiba previously announced the existence of material events and conditions that raise substantial doubt about Toshiba's ability to continue as a going concern. As a result, substantial risk regarding the Vogtle Owners' ability to fully collect the Guarantee Obligations continues to exist. An inability or other failure by Toshiba to perform its obligations under the Guarantee Settlement Agreement 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. Additionally, on June 9, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into the Services Agreement, which was amended and restated on July 20, 2017, for the EPC Contractor to transition construction management of Plant Vogtle Units 3 and 4 to Southern Nuclear and to provide ongoing design, engineering, and procurement services to Southern Nuclear. On July 20, 2017, the bankruptcy court approved the EPC Contractor's motion seeking authorization to (i) enter into the Services Agreement, (ii) assume and assign to the Vogtle Owners certain project-related contracts, (iii) join the Vogtle Owners as counterparties to certain assumed project-related contracts, and (iv) reject the Vogtle 3 and 4 Agreement. The Services Agreement, and the EPC Contractor's rejection of the Vogtle 3 and 4 Agreement, became effective upon approval by the DOE on July 27, 2017. The Services Agreement will continue until the start-up and testing of Plant Vogtle Units 3 and 4 is complete.

and electricity is generated and sold from both units. The Services Agreement is terminable by the Vogtle Owners upon 30 days' written notice.

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Effective October 23, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, entered into the Bechtel Agreement, whereby Bechtel will serve as the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4. Facility design and engineering remains the responsibility of the EPC Contractor under the Services Agreement. The Bechtel Agreement is a cost reimbursable plus fee arrangement, whereby Bechtel will be reimbursed for actual costs plus a fee and an at-risk fee, which is subject to adjustment based on Bechtel's performance against cost and schedule targets. Each Vogtle Owner is severally (not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to Bechtel under the Bechtel Agreement. The Vogtle Owners may terminate the Bechtel Agreement at any time for their convenience, provided that the Vogtle Owners will be required to pay amounts related to work performed prior to the termination (including the applicable portion of the base fee), certain termination-related costs, and, at certain stages of the work, the at-risk fee. Bechtel may terminate the Bechtel Agreement under certain circumstances, including certain Vogtle Owner suspensions of work, certain breaches of the Bechtel Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events. Pursuant to the Loan Guarantee Agreement, Georgia Power is required to obtain the DOE's approval of the Bechtel Agreement prior to obtaining any further advances under the Loan Guarantee Agreement.

In connection with the recommendation to continue with construction of Plant Vogtle Units 3 and 4 (described below), the Vogtle Owners agreed on a term sheet to amend the existing joint ownership agreements to provide for additional Vogtle Owner approval requirements. Under the term sheet, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction if certain adverse events occur, including (i) the bankruptcy of Toshiba or a material breach by Toshiba of the Guarantee Settlement Agreement; (ii) termination or rejection in bankruptcy of certain agreements, including the Services Agreement or the Bechtel Agreement; (iii) the Georgia PSC determines that any of Georgia Power's costs relating to the construction of Plant Vogtle Units 3 and 4 will not be recovered in retail rates because such costs are deemed unreasonable or imprudent; or (iv) an increase in the construction budget contained in the seventeenth VCM report by more than \$1 billion or extension of the project schedule contained in the seventeenth VCM report by more than one year. In addition, under the term sheet, the required approval of holders of ownership interests in Plant Vogtle Units 3 and 4 is at least (i) 90% for a change of the primary construction contractor and (ii) 67% for material amendments to the Services Agreement or agreements with the primary construction contractor or Southern Nuclear.

The term sheet also confirms that the Vogtle Owners' sole recourse against Georgia Power or Southern Nuclear for any action or inaction in connection with their performance as agent for the Vogtle Owners is limited to removal of Georgia Power and/or Southern Nuclear as agent, except in cases of willful misconduct.

The ultimate outcome of these matters 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. As of September 30, 2017, Georgia Power had recovered approximately \$1.5 billion of financing costs. Georgia Power expects to file on November 1, 2017 to increase the NCCR tariff by approximately \$90 million, effective January 1, 2018, pending Georgia PSC approval.

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

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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.

The Georgia PSC has approved sixteen VCM reports covering the periods through December 31, 2016, including construction capital costs incurred, which through that date totaled \$3.9 billion. Georgia Power filed its seventeenth VCM report, covering the period from January 1 through June 30, 2017, requesting approval of \$542 million of construction capital costs incurred during that period, with the Georgia PSC on August 31, 2017.

In the seventeenth VCM report, Georgia Power recommended that construction of Plant Vogtle Units 3 and 4 be continued, with Southern Nuclear serving as project manager. Georgia Power believes that the most reasonable schedule for completing Plant Vogtle Units 3 and 4 is by November 2021 for Unit 3 and by November 2022 for Unit 4. Georgia Power's recommendation to go forward with completion of Vogtle Units 3 and 4 is based on the following assumptions about the regulatory treatment of this recommendation, if the recommendation to go forward is adopted by the Georgia PSC: (i) that pursuant to Georgia law, the Georgia PSC in the seventeenth VCM proceeding approves the new cost and schedule forecast and finds that it is a reasonable basis for going forward, and that if the Georgia PSC disapproves all or part of the proposed cost and schedule revisions, Georgia Power may cancel Plant Vogtle Units 3 and 4 and recover its actual investment in Plant Vogtle Units 3 and 4; (ii) that the Vogtle Cost Settlement Agreement remains in full force and effect, including Georgia Power retaining the burden of proving all capital costs above \$5.680 billion were prudent; (iii) that while the Georgia PSC will make no prudence finding in the seventeenth VCM proceeding, nor will the certified amount be amended consistent with the Vogtle Cost Settlement Agreement, the Georgia PSC recognizes that the certified amount is not a cap, and all costs that are approved and presumed or shown to be prudently incurred will be recoverable by Georgia Power; (iv) that Georgia Power is not a guarantor of the Toshiba Guarantee, and the failure of Toshiba to pay the Toshiba Guarantee, the failure of the U.S. Congress to extend the PTCs for Plant Vogtle Units 3 and 4, or the failure of the DOE to extend the Loan Guarantee Agreement with Georgia Power to reflect the increased capital amounts, will not reduce the amount of investment Georgia Power is otherwise allowed to collect; and (v) that as conditions change and assumptions are either proven or disproven, Georgia Power and the Georgia PSC may reconsider the decision to go forward. The Georgia PSC is expected to make a decision on these matters by February 6, 2018.

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

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Revised Cost and Schedule

Georgia Power's approximate proportionate share of the remaining estimated cost to complete Plant Vogtle Units 3 and 4 is as follows:

	(in billions)
Estimated cost to complete	\$ 4.2
CWIP as of September 30, 2017	4.6
Guarantee Obligations	(1.7)
Estimated capital costs	\$ 7.1
Vogtle Cost Settlement Agreement Revised Forecast	(5.7)
Estimated net additional capital costs	\$ 1.4

Georgia Power's estimated financing costs during the construction period total approximately \$3.4 billion, of which approximately \$1.5 billion had been incurred through September 30, 2017.

Georgia Power's cancellation cost estimate results indicate that its proportionate share of the estimated costs to cancel both units is approximately \$350 million. As a result, as of September 30, 2017, total estimated costs subject to evaluation by Georgia Power and the Georgia PSC in the event of a cancellation decision are as follows:

	Cancellation Cost Estimate (in billions)
CWIP as of September 30, 2017	\$ 4.6
Financing costs collected, net of tax	1.5
Cancellation costs ^(*)	0.4
Guarantee Obligations	(1.7)
Estimated net cancellation cost	\$ 4.8

^(*) The estimate for cancellation costs includes, but is not limited to, costs to terminate contracts for construction and other services, as well as costs to secure the Plant Vogtle Units 3 and 4 construction site.

The Guarantee Obligations continue to exist in the event of cancellation. In addition, under Georgia law, prudently incurred costs related to certificated projects cancelled by the Georgia PSC are allowed recovery, including carrying costs, in future retail rates. Georgia Power will continue working with the Georgia PSC and the other Vogtle Owners to determine future actions related to Plant Vogtle Units 3 and 4, including, but not limited to, the status of construction and rate recovery.

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

Other Matters

As of September 30, 2017, Georgia Power had borrowed \$2.6 billion related to Plant Vogtle Units 3 and 4 costs through the Loan Guarantee Agreement and a multi-advance credit facility among Georgia Power, the DOE, and the FFB, which provides for borrowings of up to \$3.46 billion, subject to the satisfaction of certain conditions. On September 28, 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately \$1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. 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.

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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 while construction proceeds. Processes are in place 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 while 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.

While construction continues, the risk remains that challenges with management of contractors, subcontractors, and vendors, 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.

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 EPC 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.

Bonus Depreciation

Excluding the Kemper IGCC, approximately \$830 million of positive cash flows is expected to result from bonus depreciation for the 2017 tax year. All projected tax benefits previously received for bonus depreciation related to the Kemper IGCC were repaid in connection with third quarter 2017 estimated tax payments. If the suspension of the Kemper IGCC start-up activities ultimately results in an abandonment for income tax purposes, the related deduction would be claimed in the year of the abandonment. See Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein and Note (G) to the Condensed Financial Statements herein for additional information. The ultimate outcome of this matter cannot be determined at this time.

Section 174 Research and Experimental Deduction

Southern Company has reflected deductions for R&E expenditures related to the Kemper IGCC in its federal income tax calculations since 2013 and filed amended federal income tax returns for 2008 through 2013 to also include such deductions. In December 2016, Southern Company and the IRS reached a proposed settlement, which was approved on September 8, 2017 by the U.S. Congress Joint Committee on Taxation (JCT), resolving a methodology for these deductions. As a result of the JCT approval, Southern Company recognized \$176 million of previously unrecognized tax benefits and reversed \$36 million of associated accrued interest. See Notes (B) and (G) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" and "Section 174 Research and Experimental Deduction," respectively, herein for additional information.

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Southern Power

During the third quarter 2017, Southern Power began a legal entity reorganization of various direct and indirect subsidiaries that own and operate solar facilities, including certain subsidiaries owned in partnership with various third parties. Southern Power's ownership interests in the various solar entities and facilities will not be affected by the reorganization. The reorganization is expected to result in estimated tax benefits totaling approximately \$40 million that will be recorded in the fourth quarter 2017 related to certain changes in state apportionment rates and net operating loss carryforward utilization. The ultimate outcome of this matter cannot be determined at this time.

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 or regulatory matters 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 former Mississippi Power 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 former Mississippi Power officers made materially false and misleading statements regarding the Kemper IGCC in violation of certain provisions under the Securities Exchange Act of 1934, as amended. The complaint seeks, among other things, compensatory damages and litigation costs and attorneys' fees. On June 12, 2017, the plaintiffs filed an amended complaint that provided additional detail about their claims, increased the purported class period by one day, and added certain other former Mississippi Power officers as defendants. On July 27, 2017, the defendants filed a motion to dismiss the plaintiffs' amended complaint with prejudice, to which the plaintiffs filed an opposition on September 11, 2017.

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 former Mississippi Power 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.

On May 15, 2017, Helen E. Piper Survivor's Trust filed a shareholder derivative lawsuit in the Superior Court of Gwinnett County, State of Georgia and, on May 31, 2017, Judy Mesirov filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of Georgia. Each of these lawsuits names as defendants Southern

Company, certain of its directors, certain of its officers, and certain former Mississippi Power officers. Each

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complaint alleges that the individual defendants, among other things, breached their fiduciary duties in connection with schedule delays and cost overruns associated with the construction of the Kemper IGCC. Each complaint further alleges that the individual defendants authorized or failed to correct false and misleading statements regarding the Kemper IGCC schedule and cost and failed to implement necessary internal controls to prevent harm to Southern Company. Each plaintiff seeks to recover, on behalf of Southern Company, unspecified actual damages and disgorgement of profits and, on its behalf, attorneys' fees and costs in bringing the lawsuit. Each plaintiff also seeks certain unspecified changes to Southern Company's corporate governance and internal processes. On August 15, 2017, these two shareholder derivative lawsuits were consolidated in the U.S. District Court for the Northern District of Georgia and the court deferred the consolidated case until 30 days after certain further action in the purported securities class action complaint discussed above.

Southern Company believes these legal challenges have no merit; however, an adverse outcome in any of 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, the ultimate outcome of which 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. 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 Rate Recovery

For periods prior to the second quarter 2017, significant accounting estimates included Kemper IGCC estimated construction costs, project completion date, and rate recovery. See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Kemper IGCC Estimated Construction Costs, Project Completion Date, and Rate Recovery" of Southern Company in Item 7 of the Form 10-K for additional information. Mississippi Power recorded total pre-tax charges to income related to the Kemper IGCC of \$428 million (\$264 million after tax) in 2016, \$365 million (\$226 million after tax) in 2015, \$868 million (\$536 million after tax) in 2014, and \$1.2 billion (\$729 million after tax) in prior years.

As a result of the Mississippi PSC's June 21, 2017 stated intent to issue an order (which occurred on July 6, 2017) directing Mississippi Power to pursue a settlement under which the Kemper County energy facility would be operated as a natural gas plant rather than an IGCC plant, as well as Mississippi Power's June 28, 2017 suspension of the operation and start-up of the gasifier portion of the Kemper IGCC, the estimated construction costs and project completion date are no longer considered significant accounting estimates. Significant accounting estimates

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for the September 30, 2017 financial statements presented herein include the overall assessment of rate recovery for the Kemper County energy facility and the estimated costs for the potential cancellation of the Kemper IGCC. While the ultimate disposition of the gasification portions of the Kemper IGCC remains subject to the Mississippi PSC's jurisdiction, including the potential resolution of the matters addressed in the Kemper IGCC Settlement Docket, given the Mississippi PSC's stated intent regarding no further rate increase for the Kemper County energy facility, cost recovery of the gasification portions is no longer probable; therefore, Mississippi Power recorded an additional charge to income in June 2017 of \$2.8 billion (\$2.0 billion after tax), which includes estimated costs associated with the gasification portions of the plant and lignite mine. In the third quarter 2017, Mississippi Power recorded an additional charge of \$34 million (\$21 million after tax) for ongoing project costs during suspension, which includes estimated gasifier-related costs through December 31, 2017 to reflect the Mississippi PSC's schedule for the Kemper IGCC Settlement Docket, as well as mine-related costs and other suspension costs through September 30, 2017. Any extension of the suspension period beyond December 31, 2017 is currently estimated to result in additional suspension costs of approximately \$5 million per month. In the event the gasification portions of the project are ultimately canceled, additional pre-tax costs, which include mine and Kemper IGCC plant closure costs and contract termination costs, currently estimated at approximately \$100 million to \$200 million are expected to be incurred. As of September 30, 2017, Mississippi Power has recorded a total of approximately \$1.3 billion in costs associated with the combined cycle portion of the Kemper IGCC including transmission and related regulatory assets, of which \$0.8 billion is included in retail and wholesale rates. The \$0.5 billion not included in current rates includes costs in excess of the original 2010 estimate for the combined cycle portion of the facility, as well as the 15% that was previously contracted to Cooperative Energy. Mississippi Power has calculated the revenue requirements resulting from these remaining costs, using reasonable assumptions for amortization periods, and expects them to be recovered through rates consistent with the Mississippi PSC's requested settlement conditions. The ultimate outcome will be determined by the Mississippi PSC in the Kemper IGCC Settlement Docket proceedings. In the aggregate, since the Kemper IGCC project started, Mississippi Power has incurred charges of \$6.00 billion (\$3.96 billion after tax) through September 30, 2017. Mississippi Power recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC of \$34 million (\$21 million after tax) and \$88 million (\$54 million after tax) in the third quarter 2017 and the third quarter 2016, respectively, and total pre-tax charges of \$3.2 billion (\$2.2 billion after tax) and \$222 million (\$137 million after tax) year-to-date in 2017 and 2016, respectively. Given the significant judgment involved in estimating the costs to cancel the gasifier portion of the Kemper IGCC, the ultimate rate recovery for the Kemper IGCC, including the \$0.5 billion of combined cycle-related costs not yet in rates, and the 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

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Southern Company in Item 7 of the Form 10-K for additional information.

In 2014, the FASB issued ASC 606, Revenue from Contracts with Customers (ASC 606), 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

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contractual term, as well as longer-term contractual commitments, including PPAs and non-derivative natural gas asset management and optimization arrangements. Southern Company expects the adoption of ASC 606 will not result in a significant shift from the current timing of revenue recognition for such transactions.

Southern Company's ongoing evaluation of other revenue streams and related contracts includes unregulated sales to customers. Some revenue arrangements, such as certain PPAs, energy-related derivatives, and alternative revenue programs, are excluded from the scope of ASC 606 and, therefore, will be accounted for and disclosed or presented separately from revenues under ASC 606 on Southern Company's financial statements. In addition, the power and utilities industry continues to evaluate 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 intends to use the modified retrospective method of adoption effective January 1, 2018. Southern Company has also elected to utilize practical expedients which allow it to apply the standard to open contracts at the date of adoption and to reflect the aggregate effect of all modifications when identifying performance obligations and allocating the transaction price for contracts modified before the effective date. Under the modified retrospective method of adoption, prior year reported results are not restated; however, a cumulative-effect adjustment to retained earnings at January 1, 2018 is recorded. In addition, disclosures will include comparative information on 2018 financial statement line items under current guidance. While the adoption of ASC 606, including the cumulative-effect adjustment, is not expected to have a material impact on either the timing or amount of revenues recognized in Southern Company's financial statements, Southern Company will continue to evaluate the requirements, as well as any additional clarifying guidance that may be issued.

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. Southern Company is evaluating the standard and expects to early adopt ASU 2017-04 effective January 1, 2018.

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. 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.

On August 28, 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), amending the hedge accounting recognition and presentation requirements. ASU 2017-12 makes more financial and non-financial hedging strategies eligible for

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hedge accounting, amends the related presentation and disclosure requirements, and simplifies hedge effectiveness assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. Southern Company is evaluating the standard and expects to early adopt ASU 2017-12 effective January 1, 2018. The adoption of ASU 2017-12 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 September 30, 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 \$5.3 billion for the first nine months of 2017, an increase of \$1.0 billion from the corresponding period in 2016. The increase in net cash provided from operating activities was primarily due to an increase of \$1.5 billion in net cash provided from operating activities of Southern Company Gas, which was acquired on July 1, 2016, partially offset by the timing of vendor payments. Net cash used for investing activities totaled \$6.7 billion for the first nine months of 2017 primarily due to the traditional electric operating companies' installation of equipment to comply with environmental standards and construction of electric generation, transmission, and distribution facilities, capital expenditures for Southern Company Gas' infrastructure replacement programs, and Southern Power's renewable acquisitions. Net cash provided from financing activities totaled \$1.3 billion for the first nine months of 2017 primarily due to net issuances of long-term and short-term debt, partially offset by 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 nine months of 2017 include an increase of \$1.3 billion in total property, plant, and equipment primarily related to the traditional electric operating companies' installation of equipment to comply with environmental standards and construction of electric generation, transmission, and distribution facilities, Southern Company Gas' infrastructure replacement programs, and Southern Power's renewable acquisitions, largely offset by the \$2.9 billion write-down of the gasification portions of the Kemper IGCC; a decrease of \$0.4 billion in income taxes receivable, current and unrecognized tax benefits primarily related to income tax refunds associated with deductible R&E expenditures; a decrease of \$0.5 billion in acquisitions payable related to Southern Power; an increase of \$2.3 billion in long-term debt (including amounts due within one year) primarily to fund the Southern Company system's continuous construction programs and for general corporate purposes; and a decrease of \$0.7 billion in total common stockholder's equity primarily related to the estimated probable losses on the Kemper IGCC, partially offset by the issuance of additional shares of common stock.

At the end of the third quarter 2017, the market price of Southern Company's common stock was \$49.14 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was \$23.99 per share, representing a market-to-book ratio of 205%, compared to \$49.19, \$25.00, and 197%, respectively, at the end of 2016. Southern Company's common stock dividend for the third quarter 2017 was \$0.58 per share compared to \$0.56 per share in the third 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

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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. Subsequent to September 30, 2017, Alabama Power repaid at maturity \$325 million aggregate principal amount of its Series Q 5.50% Senior Notes due October 15, 2017. An additional \$3.2 billion will be required through September 30, 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" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" herein for information regarding additional factors that may impact construction expenditures, including Georgia Power's cost-to-complete and cancellation cost assessments for Plant Vogtle Units 3 and 4.

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. In addition, Southern Power plans to utilize tax equity partnership contributions. 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 Southern Company in Item 7 of the Form 10-K for additional information.

In addition, in 2014, Georgia Power entered into the 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 (i) Eligible Project Costs, less (ii) amounts received from Toshiba under the Guarantee Settlement Agreement and amounts received from the Westinghouse bankruptcy proceeding) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. As of September 30, 2017, Georgia Power had borrowed \$2.6 billion under the FFB Credit Facility. On July 27, 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement, which provides that further advances are conditioned upon the DOE's approval of any agreements entered into in

replacement of the Vogtle 3 and 4 Agreement and satisfaction of certain other conditions.

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On September 28, 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately \$1.67 billion of additional guaranteed loans under the Loan Guarantee Agreement. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. 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 additional 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.

As of September 30, 2017, Southern Company's current liabilities exceeded current assets by \$3.4 billion due to long-term debt that is due within one year of \$3.5 billion (comprised of approximately \$1.0 billion at the parent company, \$0.3 billion at Alabama Power, \$0.3 billion at Georgia Power, \$1.0 billion at Mississippi Power, and \$0.9 billion at Southern Power) and notes payable of \$2.6 billion (comprised of approximately \$1.1 billion at the parent company, \$0.4 billion at Georgia Power, \$0.1 billion at Southern Power, and \$0.9 billion at Southern Company Gas). 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.

At September 30, 2017, Southern Company and its subsidiaries had approximately \$1.8 billion of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2017 were as follows:

Company	Expires					Total	Unused	Executable Term Loans		Expires Within One Year	
	2017	2018	2019	2020	2022			One Year	Two Years	Term Out	No Term Out
	(in millions)										
Southern Company ^(a)	\$—	\$—	\$—	\$—	\$2,000	\$2,000	\$2,000	\$—	\$—	\$—	\$—
Alabama Power	—	35	—	500	800	1,335	1,335	—	—	—	35
Georgia Power	—	—	—	—	1,750	1,750	1,732	—	—	—	—
Gulf Power	30	195	25	30	—	280	280	45	—	—	40
Mississippi Power	100	—	—	—	—	100	100	—	—	—	100
Southern Power Company ^(b)	—	—	—	—	750	750	728	—	—	—	—
Southern Company Gas ^(c)	—	—	—	—	1,900	1,900	1,861	—	—	—	—
Other	—	30	—	—	—	30	30	20	—	20	10
Southern Company Consolidated	\$130	\$260	\$25	\$530	\$7,200	\$8,145	\$8,066	\$65	\$—	\$20	\$185

(a) Represents the Southern Company parent entity.

Does not include Southern Power's \$120 million continuing letter of credit facility for standby letters of credit

(b) expiring in 2019, of which \$111 million has been used for letters of credit and \$9 million remains unused at September 30, 2017.

Southern Company Gas, as the parent entity, guarantees the obligations of Southern Company Gas Capital, which is the borrower of \$1.2 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.

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SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

As reflected in the table above, in May 2017, Southern Company, Alabama Power, Georgia Power, and Southern Power Company each amended certain of their multi-year credit arrangements, which, among other things, extended the maturity dates from 2020 to 2022. Southern Company and Southern Power Company increased their borrowing ability under these arrangements to \$2.0 billion from \$1.25 billion and to \$750 million from \$600 million, respectively. Southern Company also terminated its \$1.0 billion facility maturing in 2018. Also in May 2017, Southern Company Gas Capital and Nicor Gas terminated their existing credit arrangements for \$1.3 billion and \$700 million, respectively, which were to mature in 2017 and 2018, and entered into a new multi-year credit arrangement currently allocated for \$1.2 billion and \$700 million, respectively, with a maturity date of 2022. Pursuant to the new multi-year credit arrangement, the allocations may be adjusted. In September 2017, Alabama Power amended its \$500 million multi-year credit arrangement, which, among other things, extended the maturity date from 2018 to 2020. Most of these bank credit arrangements, as well as the term loan arrangements of Southern Company, Alabama Power, Georgia 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 September 30, 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 September 30, 2017 was approximately \$1.5 billion as compared to \$1.9 billion at December 31, 2016. In June 2017, Georgia Power remarketed \$318 million of variable rate pollution control bonds in index rate modes, reducing the liquidity support utilized under Georgia Power's bank credit arrangement. In addition, at September 30, 2017, the traditional electric operating companies had approximately \$699 million of pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to September 30, 2017, \$40 million of these pollution control revenue bonds of Georgia Power which were in an index rate mode were remarketed to the public in a long-term fixed rate mode.

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 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.

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Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 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	\$1,725	1.5 %		\$1,895	1.5 %		\$ 2,284
Short-term bank debt	854	2.0 %		938	2.1 %		1,017
Total	\$2,579	1.7 %		\$2,833	1.7 %		

^(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2017.

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 September 30, 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, and interest rate management.

The maximum potential collateral requirements under these contracts at September 30, 2017 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements (in millions)
At BBB and/or Baa2	\$ 38
At BBB- and/or Baa3	\$ 647
At BB+ and/or Ba1 ^(*)	\$ 2,352

^(*) 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.

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.

On June 22, 2017, Moody's placed the ratings of Mississippi Power on review for downgrade. On September 21, 2017, Moody's revised its rating outlook for Mississippi Power from under review to stable.

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Financing Activities

During the first nine months of 2017, Southern Company issued approximately 10.6 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately \$479 million.

In addition, during the second and third quarters of 2017, Southern Company issued a total of approximately 2.7 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of approximately \$134 million, net of \$1.1 million in fees and commissions.

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

Company	Senior Note Issuances	Senior Note Maturities and Redemptions	Revenue Bond Maturities, Redemptions, and Repurchases	Other Long-Term Debt Issuances	Other Long-Term Debt Redemptions and Maturities ^(a)
	(in millions)				
Southern Company ^(b)	\$ 300	\$ 400	\$ —	\$ 500	\$ 400
Alabama Power	550	200	36	—	—
Georgia Power	1,350	450	65	370	13
Gulf Power	300	85	—	6	—
Mississippi Power	—	—	—	40	893
Southern Power	—	—	—	43	4
Southern Company Gas ^(c)	450	—	—	200	22
Other	—	—	—	—	12
Elimination ^(d)	—	—	—	(40)	(599)
Southern Company Consolidated	\$2,950	\$ 1,135	\$ 101	\$ 1,119	\$ 745

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

(b) Represents the Southern Company parent entity.

(c) The senior notes were issued by Southern Company Gas Capital and guaranteed by the Southern Company Gas parent entity. Other long-term debt issued represents first mortgage bonds issued by Nicor Gas.

Includes intercompany loans from Southern Company to Mississippi Power and reductions in affiliate capital lease

(d) obligations at Georgia Power. These transactions are eliminated in Southern Company's Consolidated Financial Statements.

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

In June 2017, Southern Company issued \$500 million aggregate principal amount of Series 2017A 5.325% Junior Subordinated Notes due June 21, 2057 and \$300 million aggregate principal amount of Series 2017A Floating Rate Senior Notes due September 30, 2020, which bear interest at a floating rate based on three-month LIBOR. The proceeds were used to repay short-term indebtedness and for other general corporate purposes.

Also in June 2017, Southern Company entered into two \$100 million aggregate principal amount floating rate bank term loan agreements, which mature on June 21, 2018 and June 29, 2018 and bear interest based on one-month LIBOR. The proceeds were used for working capital and other general corporate purposes.

In August 2017, Southern Company borrowed \$250 million pursuant to an uncommitted bank credit arrangement, which bears interest at a rate agreed upon by Southern Company and the bank from time to time and is payable on no less than 30 days' demand by the bank. The proceeds were used for working capital and other general corporate purposes.

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SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
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Also in August 2017, Southern Company repaid at maturity \$400 million aggregate principal amount of Series 2014A 1.30% Senior Notes.

Except as described herein, 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 September 2017, Alabama Power issued 10 million shares (\$250 million aggregate stated capital) of 5.00% Class A Preferred Stock, Cumulative, Par Value \$1 Per Share (Stated Capital \$25 Per Share). The proceeds were used in October 2017 to redeem all 2 million shares (\$50 million aggregate stated capital) of Alabama Power's 6.50% Series Preference Stock, 6 million shares (\$150 million aggregate stated capital) of Alabama Power's 6.45% Series Preference Stock, and 1.52 million shares (\$38 million aggregate stated capital) of Alabama Power's 5.83% Class A Preferred Stock and for other general corporate purposes, including Alabama Power's continuous construction program.

Subsequent to September 30, 2017, Alabama Power repaid at maturity \$325 million aggregate principal amount of Series Q 5.50% Senior Notes due October 15, 2017.

In June 2017, Georgia Power entered into three floating rate bank loans in aggregate principal amounts of \$50 million, \$150 million, and \$100 million, with maturity dates of December 1, 2017, May 31, 2018, and June 28, 2018, respectively, which bear interest based on one-month LIBOR. Also in June 2017, Georgia Power borrowed \$500 million pursuant to an uncommitted bank credit arrangement, which bears interest at a rate agreed upon by Georgia Power and the bank from time to time and is payable on no less than 30 days' demand by the bank. The proceeds from these bank loans were used to repay a portion of Georgia Power's existing indebtedness and for working capital and other general corporate purposes, including Georgia Power's continuous construction program.

In August 2017, Georgia Power repaid its \$50 million floating rate bank loan due December 1, 2017 and \$250 million of the \$500 million aggregate principal amount outstanding pursuant to its uncommitted bank credit arrangement.

Also in August 2017, Georgia Power amended its \$100 million floating rate bank loan to extend the maturity date from June 28, 2018 to October 26, 2018.

As reflected in the table above under other long-term debt issuances, in September 2017, Georgia Power issued \$270 million aggregate principal amount of Series 2017A 5.00% Junior Subordinated Notes due October 1, 2077. The proceeds were used in October 2017 to redeem all 1.8 million shares (\$45 million aggregate liquidation amount) of Georgia Power's 6.125% Series Class A Preferred Stock and 2.25 million shares (\$225 million aggregate liquidation amount) of Georgia Power's 6.50% Series 2007A Preference Stock.

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 and subsequently repaid the loan in May 2017.

A portion of the proceeds of Gulf Power's senior note issuances was used in June 2017 to redeem 550,000 shares (\$55 million aggregate liquidation amount) of Gulf Power's 6.00% Series Preference Stock, 450,000 shares (\$45 million aggregate liquidation amount) of Gulf Power's Series 2007A 6.45% Preference Stock, and 500,000 shares (\$50 million aggregate liquidation amount) of Gulf Power's Series 2013A 5.60% Preference Stock.

In June 2017, Mississippi Power prepaid \$300 million of the outstanding principal amount under its \$1.2 billion unsecured term loan, which matures on March 30, 2018.

In September 2017, Southern Power amended its \$60 million aggregate principal amount floating rate bank loan to, among other things, increase the aggregate principal amount to \$100 million and extend the maturity date from September 2017 to October 2018. The additional \$40 million of proceeds were used to repay existing indebtedness and for other general corporate purposes.

In July 2017, Nicor Gas agreed to issue \$400 million aggregate principal amount of first mortgage bonds in a private placement. On August 10, 2017, Nicor Gas issued \$100 million aggregate principal amount of First Mortgage Bonds 3.03% Series due August 10, 2027 and \$100 million aggregate principal amount of First Mortgage

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Bonds 3.62% Series due August 10, 2037. The proceeds were used to repay short-term indebtedness incurred under the Nicor Gas commercial paper program and for other working capital needs. The remaining \$200 million is expected to be issued in November 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 nine months ended September 30, 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 third 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 September 30, 2017 2016 (in millions)		For the Nine Months Ended September 30, 2017 2016 (in millions)	
Operating Revenues:				
Retail revenues	\$1,595	\$1,629	\$4,155	\$4,139
Wholesale revenues, non-affiliates	77	82	210	211
Wholesale revenues, affiliates	18	18	83	49
Other revenues	50	56	158	162
Total operating revenues	1,740	1,785	4,606	4,561
Operating Expenses:				
Fuel	343	410	944	973
Purchased power, non-affiliates	57	63	132	139
Purchased power, affiliates	55	41	117	129
Other operations and maintenance	391	348	1,134	1,097
Depreciation and amortization	185	177	549	524
Taxes other than income taxes	93	96	284	286
Total operating expenses	1,124	1,135	3,160	3,148
Operating Income	616	650	1,446	1,413
Other Income and (Expense):				
Allowance for equity funds used during construction	11	7	27	23
Interest expense, net of amounts capitalized	(76)	(77)	(229)	(224)
Other income (expense), net	(5)	(5)	(8)	(16)
Total other income and (expense)	(70)	(75)	(210)	(217)
Earnings Before Income Taxes	546	575	1,236	1,196
Income taxes	216	219	493	462
Net Income	330	356	743	734
Dividends on Preferred and Preference Stock	5	4	14	13
Net Income After Dividends on Preferred and Preference Stock	\$325	\$352	\$729	\$721

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30, 2017 2016 (in millions)		For the Nine Months Ended September 30, 2017 2016 (in millions)	
Net Income	\$330	\$356	\$743	\$734
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of \$-, \$-, \$-, and \$(1), respectively	—	—	—	(2)
	1	1	3	3

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Reclassification adjustment for amounts included in net income,
net of tax of \$1, \$1, \$2, and \$2, respectively

Total other comprehensive income (loss)	1	1	3	1
Comprehensive Income	\$ 331	\$ 357	\$ 746	\$ 735

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 Nine Months Ended September 30, 2017 2016 (in millions)	
Operating Activities:		
Net income	\$743	\$734
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	666	634
Deferred income taxes	260	267
Allowance for equity funds used during construction	(27)	(23)
Pension, postretirement, and other employee benefits	(4)	(14)
Other, net	43	(12)
Changes in certain current assets and liabilities —		
-Receivables	(163)	(4)
-Fossil fuel stock	34	18
-Other current assets	(58)	(46)
-Accounts payable	(125)	(113)
-Accrued taxes	159	207
-Accrued compensation	(48)	(22)
-Retail fuel cost over recovery	(76)	(104)
-Other current liabilities	7	19
Net cash provided from operating activities	1,411	1,541
Investing Activities:		
Property additions	(1,211)	(947)
Nuclear decommissioning trust fund purchases	(174)	(275)
Nuclear decommissioning trust fund sales	174	275
Cost of removal, net of salvage	(82)	(70)
Change in construction payables	105	(37)
Other investing activities	(29)	(28)
Net cash used for investing activities	(1,217)	(1,082)
Financing Activities:		
Proceeds —		
Senior notes	550	400
Capital contributions from parent company	337	253
Preferred stock	250	—
Other long-term debt	—	45
Redemptions —		
Pollution control revenue bonds	(36)	—
Senior notes	(200)	(200)
Payment of common stock dividends	(536)	(574)
Other financing activities	(26)	(21)
Net cash provided from (used for) financing activities	339	(97)
Net Change in Cash and Cash Equivalents	533	362

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Cash and Cash Equivalents at Beginning of Period	420	194
Cash and Cash Equivalents at End of Period	\$953	\$556
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of \$10 and \$8 capitalized for 2017 and 2016, respectively)	\$217	\$215
Income taxes, net	146	(70)
Noncash transactions — Accrued property additions at end of period	189	84
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 September 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	\$953	\$ 420
Receivables —		
Customer accounts receivable	428	348
Unbilled revenues	149	146
Other accounts and notes receivable	47	27
Affiliated	45	40
Accumulated provision for uncollectible accounts	(8) (10
Fossil fuel stock	171	205
Materials and supplies	455	435
Prepaid expenses	58	34
Other regulatory assets, current	122	149
Other current assets	5	11
Total current assets	2,425	1,805
Property, Plant, and Equipment:		
In service	26,619	26,031
Less: Accumulated provision for depreciation	9,463	9,112
Plant in service, net of depreciation	17,156	16,919
Nuclear fuel, at amortized cost	314	336
Construction work in progress	928	491
Total property, plant, and equipment	18,398	17,746
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	65	66
Nuclear decommissioning trusts, at fair value	869	792
Miscellaneous property and investments	121	112
Total other property and investments	1,055	970
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	525	525
Deferred under recovered regulatory clause revenues	17	150
Other regulatory assets, deferred	1,191	1,157
Other deferred charges and assets	178	163
Total deferred charges and other assets	1,911	1,995
Total Assets	\$23,789	\$ 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 September 30, 2017	At December 31, 2016
Liabilities and Stockholder's Equity		
	(in millions)	
Current Liabilities:		
Securities due within one year	\$ 325	\$ 561
Accounts payable —		
Affiliated	275	297
Other	376	433
Customer deposits	92	88
Accrued taxes —		
Accrued income taxes	115	45
Other accrued taxes	128	42
Accrued interest	75	78
Accrued compensation	151	193
Other regulatory liabilities, current	4	85
Other current liabilities	50	76
Total current liabilities	1,591	1,898
Long-term Debt	7,083	6,535
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,919	4,654
Deferred credits related to income taxes	60	65
Accumulated deferred ITCs	118	110
Employee benefit obligations	289	300
Asset retirement obligations	1,564	1,503
Other cost of removal obligations	630	684
Other regulatory liabilities, deferred	93	100
Other deferred credits and liabilities	51	63
Total deferred credits and other liabilities	7,724	7,479
Total Liabilities	16,398	15,912
Redeemable Preferred Stock	329	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	2,961	2,613
Retained earnings	2,711	2,518
Accumulated other comprehensive loss	(28)	(30)
Total common stockholder's equity	6,866	6,323
Total Liabilities and Stockholder's Equity	\$ 23,789	\$ 22,516

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSTHIRD QUARTER 2017 vs. THIRD QUARTER 2016
AND
YEAR-TO-DATE 2017 vs. YEAR-TO-DATE 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

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(27) (7.7)	\$8 1.1

Alabama Power's net income after dividends on preferred and preference stock for the third quarter 2017 was \$325 million compared to \$352 million for the corresponding period in 2016. The decrease was primarily related to a decrease in retail revenues associated with milder weather and lower customer usage in the third quarter 2017 compared to the corresponding period in 2016 and an increase in non-fuel operations and maintenance expenses. The decrease was partially offset by an increase in rates under Rate RSE effective January 1, 2017.

Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2017 was \$729 million compared to \$721 million for the corresponding period in 2016. The increase was primarily related to an increase in rates under Rate RSE effective January 1, 2017, partially offset by a decrease in retail revenues associated with milder weather and lower customer usage for year-to-date 2017 compared to the corresponding period in 2016, and an increase in non-fuel operations and maintenance expenses.

Retail Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(34) (2.1)	\$16 0.4

In the third quarter 2017, retail revenues were \$1.60 billion compared to \$1.63 billion for the corresponding period in 2016. For year-to-date 2017, retail revenues were \$4.16 billion compared to \$4.14 billion for the corresponding period in 2016.

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Details of the changes in retail revenues were as follows:

	Third Quarter 2017		Year-to-Date 2017	
	(in millions)		(in millions)	
	(\$ change)		(\$ change)	
Retail – prior year	\$1,629		\$4,139	
Estimated change resulting from –				
Rates and pricing	85	5.2	240	5.8
Sales decline	(18)	(1.1)	(31)	(0.7)
Weather	(50)	(3.1)	(116)	(2.8)
Fuel and other cost recovery	(51)	(3.1)	(77)	(1.9)
Retail – current year	\$1,595	(2.1)%	\$4,155	0.4 %

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2017 when compared to the corresponding periods 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 decreased in the third quarter and year-to-date 2017 when compared to the corresponding periods in 2016. Weather-adjusted residential KWH sales decreased 2.4% and 1.1% for the third quarter and year-to-date 2017, respectively, primarily due to lower customer usage resulting from an increase in penetration of energy efficient residential appliances, partially offset by customer growth. Weather-adjusted commercial KWH sales decreased 2.3% and 1.4% for the third quarter and year-to-date 2017, respectively, primarily due to lower customer usage resulting from customer initiatives in energy savings and an ongoing migration to the electronic commerce business model, partially offset by customer growth. Industrial KWH sales increased 1.8% and 0.6% for the third quarter and year-to-date 2017, respectively, as a result of an increase in demand resulting from changes in production levels primarily in the primary metals, chemicals, and mining sectors, partially offset by a decrease in demand from the pipeline sector.

Revenues resulting from changes in weather decreased in the third quarter and year-to-date 2017 due to milder weather experienced in Alabama Power's service territory compared to the corresponding periods in 2016. For the third quarter 2017, the resulting decreases were 5.1% and 2.4% for residential and commercial sales revenues, respectively. For year-to-date 2017, the resulting decreases were 5.2% and 1.8% for residential and commercial sales revenues, respectively.

Fuel and other cost recovery revenues decreased in the third quarter and year-to-date 2017 when compared to the corresponding periods in 2016 primarily due to a decrease in KWH generation and a decrease 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

Third Quarter 2017 vs. Third		Year-to-Date 2017 vs.	
Quarter 2016		Year-to-Date 2016	
(change in millions) (% change)		(change in millions) (% change)	
\$—	—	\$34	69.4

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

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marginal cost and energy purchases are generally offset by energy revenues through Alabama Power's energy cost recovery clauses.

For year-to-date 2017, wholesale revenues from sales to affiliates were \$83 million compared to \$49 million for the corresponding period in 2016. The increase was primarily due to a 52% increase in KWH sales as a result of supporting Southern Company system transmission reliability and an 11% increase in the price of energy due to an increase in natural gas prices.

Other Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(6) (10.7)	\$(4) (2.5)

In the third quarter 2017, other revenues were \$50 million compared to \$56 million for the corresponding period in 2016. The decrease was primarily due to lower open access transmission tariff revenues as a result of rate adjustments.

Fuel and Purchased Power Expenses

	Third Quarter 2017 vs. Third Quarter 2016 (change in millions) (% change)	Year-to-Date 2017 vs. Year-to-Date 2016 (change in millions) (% change)
Fuel	\$(67) (16.3)	\$ (29) (3.0)
Purchased power – non-affiliates	(6) (9.5)	(7) (5.0)
Purchased power – affiliates	14 34.1	(12) (9.3)
Total fuel and purchased power expenses	\$(59)	\$ (48)

In the third quarter 2017, fuel and purchased power expenses were \$455 million compared to \$514 million for the corresponding period in 2016. The decrease was primarily due to a \$43 million net decrease related to the volume of KWHs generated and purchased and a \$16 million decrease related to the average cost of fuel.

For year-to-date 2017, fuel and purchased power expenses were \$1.19 billion compared to \$1.24 billion for the corresponding period in 2016. The decrease was primarily due to a \$53 million decrease in the volume of KWHs purchased and a \$34 million decrease related to the average cost of fuel. This decrease was partially offset by a \$35 million increase in the average cost of purchased power.

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.

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

	Third Quarter 2017	Third Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in billions of KWHs)	16	18	46	46
Total purchased power (in billions of KWHs)	2	2	5	6
Sources of generation (percent) —				
Coal	52	59	49	51
Nuclear	24	22	25	24
Gas	19	18	20	19
Hydro	5	1	6	6
Cost of fuel, generated (in cents per net KWH) —				
Coal	2.61	2.73	2.61	2.80
Nuclear	0.75	0.77	0.75	0.78
Gas	2.72	2.85	2.74	2.62
Average cost of fuel, generated (in cents per net KWH) ^(a)	2.17	2.32	2.15	2.25
Average cost of purchased power (in cents per net KWH) ^(b)	5.65	5.70	5.57	4.81

(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 third quarter 2017, fuel expense was \$343 million compared to \$410 million for the corresponding period in 2016. The decrease was primarily due to an 18.4% decrease in the volume of KWHs generated by coal, a 4.6% decrease in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, and a 4.4% decrease in average cost of coal per KWH generated. In addition, there was a 194.0% increase in the volume of KWHs generated by hydro facilities as a result of significantly more rainfall in 2017.

For year-to-date 2017, fuel expense was \$944 million compared to \$973 million for the corresponding period in 2016. The decrease was primarily due to a 6.8% decrease in the average cost of coal per KWH generated and a 2.0% decrease in the volume of KWHs generated by coal. The decrease was partially offset by a 4.8% increase in the volume of KWHs generated by natural gas and a 4.6% increase in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements.

Purchased Power – Affiliates

In the third quarter 2017, purchased power expense from affiliates was \$55 million compared to \$41 million for the corresponding period in 2016. The increase was primarily related to a 55.2% increase in the amount of energy purchased due to an increase in plant outages and increased purchases from Southern Electric Generating Company (SEGCO). The increase was partially offset by a 14.5% decrease in the average cost per KWH of capacity and energy at SEGCO. See Note 4 to the financial statements of Alabama Power in Item 8 of the Form 10-K for additional information.

For year-to-date 2017, purchased power expense from affiliates was \$117 million compared to \$129 million for the corresponding period in 2016. The decrease was primarily related to a 26.6% decrease in the amount of energy purchased due to a decrease in demand as a result of milder weather in 2017, partially offset by a 22.9% increase in the average cost of purchased power per KWH as a result of higher natural gas prices.

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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

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$43 12.4	\$37 3.4

In the third quarter 2017, other operations and maintenance expenses were \$391 million compared to \$348 million for the corresponding period in 2016. The increase was primarily due to increases of \$26 million in scheduled generation outage costs, \$11 million in vegetation management costs, and \$3 million in employee compensation and benefit costs, including pension costs.

For year-to-date 2017, other operations and maintenance expenses were \$1.13 billion compared to \$1.10 billion for the corresponding period in 2016. The increase was primarily due to increases of \$31 million in vegetation management costs, \$10 million in nuclear generation plant improvement costs, and \$7 million in employee compensation and benefit costs, including pension costs, partially offset by an \$11 million decrease in contract services.

Depreciation and Amortization

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$8 4.5	\$25 4.8

In the third quarter 2017, depreciation and amortization was \$185 million compared to \$177 million for the corresponding period in 2016. For year-to-date 2017, depreciation and amortization was \$549 million compared to \$524 million for the corresponding period in 2016. These increases were primarily due to additional plant in service and an increase in depreciation rates, effective January 1, 2017, associated with compliance-related steam projects and asset retirement obligation recovery, partially offset by a decrease in distribution-related depreciation rates. See Note 1 to the financial statements of Alabama Power under "Depreciation and Amortization" in Item 8 of the Form 10-K for additional information.

Income Taxes

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(3) (1.4)	\$31 6.7

For year-to-date 2017, income taxes were \$493 million compared to \$462 million for the corresponding period in 2016. The increase was primarily due to higher pre-tax earnings, unrecognized tax benefits related to certain state deductions for federal income taxes, and prior year tax return actualization.

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

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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 the pace of economic growth that may be affected by changes in regional and global economic conditions, which may impact future earnings. Current proposals related to potential federal 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 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 effluent guidelines rule and the final rule revising the regulatory definition of waters of the U.S. for all Clean Water Act (CWA) programs.

On April 25, 2017, the EPA published a notice announcing it would reconsider the effluent guidelines rule, which had been finalized in November 2015. On September 18, 2017, the EPA published a final rule establishing a stay of the compliance deadlines for certain effluent limitations and pretreatment standards under the rule.

On June 27, 2017, the EPA and the U.S. Army Corps of Engineers proposed to rescind 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.

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 U.S. 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

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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. On October 16, 2017, the EPA published a proposed rule to repeal the Clean Power Plan. The EPA has not determined whether or when it will promulgate a replacement rule.

On June 1, 2017, the U.S. President announced that the United States will withdraw from the non-binding Paris Agreement and begin renegotiation of its terms.

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

FERC Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Alabama Power in Item 7 of the Form 10-K for additional information regarding the traditional electric operating companies' and Southern Power's market power proceeding and amendment to their market-rate tariff.

On May 17, 2017, the FERC accepted the traditional electric operating companies' (including Alabama Power's) and Southern Power's compliance filing accepting the terms of the FERC's February 2, 2017 order regarding an amendment by the traditional electric operating companies (including Alabama Power) and Southern Power to their market-based rate tariff. While the FERC's order references the traditional electric operating companies' (including Alabama Power's) and Southern Power's market power proceeding related to their 2014 triennial updated market power analysis, that proceeding remains a separate, ongoing matter.

On October 25, 2017, the FERC issued an order in response to the traditional electric operating companies' (including Alabama Power's) and Southern Power's June 30, 2017 triennial updated market power analysis. The FERC directed the traditional electric operating companies (including Alabama Power) and Southern Power to show cause within 60 days why market-based rate authority should not be revoked in certain areas adjacent to the area presently under mitigation in accordance with the February 2, 2017 order, or to provide a mitigation plan to further address market power concerns. The traditional electric operating companies (including Alabama Power) and Southern Power expect to make a filing within the specified 60 days responding to the FERC's order.

The ultimate outcome of these matters 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 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.

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The ultimate outcome of such pending or potential litigation or regulatory matters 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

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Alabama Power in Item 7 of the Form 10-K for additional information.

In 2014, the FASB issued ASC 606, Revenue from Contracts with Customers (ASC 606), 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, as well as longer-term contractual commitments, including PPAs. Alabama Power expects that the revenue from contracts with these customers 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 unregulated sales to customers. Some revenue arrangements, such as alternative revenue programs, are excluded from the scope of ASC 606 and, therefore, will be accounted for and disclosed or presented separately from revenues under ASC 606 on Alabama Power's financial statements, if material. In addition, the power and utilities industry continues to evaluate 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 intends to use the modified retrospective method of adoption effective January 1, 2018. Alabama Power has also elected to utilize practical expedients which allow it to apply the standard to open contracts at the date of adoption and to reflect the aggregate effect of all modifications when identifying performance obligations and allocating the transaction price for contracts modified before the effective date. Under the modified retrospective method of adoption, prior year reported results are not restated; however, a cumulative-effect adjustment to retained

earnings at January 1, 2018 is recorded. In addition, disclosures will include comparative information on 2018 financial statement line items under current guidance. While the adoption of ASC 606, including the cumulative-

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effect adjustment, is not expected to have a material impact on either the timing or amount of revenues recognized in Alabama Power's financial statements, Alabama Power will continue to evaluate the requirements, as well as any additional clarifying guidance that may be issued.

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. 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.

On August 28, 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), amending the hedge accounting recognition and presentation requirements. ASU 2017-12 makes more financial and non-financial hedging strategies eligible for hedge accounting, amends the related presentation and disclosure requirements, and simplifies hedge effectiveness assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. Alabama Power is evaluating the standard and expects to early adopt ASU 2017-12 effective January 1, 2018. The adoption of ASU 2017-12 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 September 30, 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 \$1.4 billion for the first nine months of 2017, a decrease of \$130 million as compared to the first nine 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. Net cash used for investing activities totaled \$1.2 billion for the first nine months of 2017 primarily due to gross property additions related to distribution, environmental, transmission, and steam generation. Net cash provided from financing activities totaled \$339 million for the first nine months of 2017 primarily due to an issuance of long-term debt and preferred stock 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 nine months of 2017 include increases of \$652 million in property, plant, and equipment primarily due to additions to distribution, transmission, and steam generation, \$548 million in long-term debt primarily due to the issuance of additional senior notes, \$533 million in cash and cash equivalents, \$348 million in additional paid-in capital due to capital contributions from Southern Company, \$265 million in

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accumulated deferred income taxes primarily due to bonus depreciation, and \$244 million in redeemable preferred stock primarily due to the September 2017 issuance, as well as a decrease of \$236 million in securities due within one year.

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. Subsequent to September 30, 2017, Alabama Power repaid at maturity \$325 million aggregate principal amount of Series Q 5.50% Senior Notes due October 15, 2017. No additional funds will be required through September 30, 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.

Alabama Power's Board of Directors approved its construction program that is currently estimated to total \$2.2 billion for 2018, \$1.6 billion for 2019, \$1.6 billion for 2020, \$1.7 billion for 2021, and \$1.4 billion for 2022. The construction program includes capital expenditures related to contractual purchase commitments for nuclear fuel and capital expenditures covered under LTSAs. Estimated capital expenditures to comply with environmental statutes and regulations included in these amounts are \$0.6 billion for 2018, \$0.1 billion for 2019, \$0.2 billion for 2020, \$0.3 billion for 2021, and \$0.3 billion for 2022. These estimated expenditures do not include any potential compliance costs that may arise from the EPA's final rules and guidelines or future state plans that would limit CO₂ emissions from new, existing, modified, or reconstructed fossil-fuel-fired electric generating units.

Alabama Power also anticipates costs associated with closure in place and monitoring of ash ponds in accordance with the Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule), which are reflected in Alabama Power's asset retirement obligation liabilities. These costs, which could change as Alabama Power continues to refine its assumptions underlying the cost estimates and evaluate the method and timing of compliance activities, are estimated to be \$27 million for 2018, \$101 million for 2019, \$105 million for 2020, \$107 million for 2021, and \$109 million for 2022. See Note 1 to the financial statements of Alabama Power under "Asset Retirement Obligations and Other Costs of Removal" in Item 8 of the Form 10-K for additional information. Costs associated with the CCR Rule are expected to be recovered through Rate CNP Compliance.

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

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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 September 30, 2017, Alabama Power had approximately \$953 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2017 were as follows:

					Expires
					Within One
					Year
					Term
					Out
2018	2020	2022	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.

In May 2017 and September 2017, Alabama Power amended its \$800 million and \$500 million multi-year credit arrangements, which, among other things, extended the maturity dates from 2020 to 2022 and 2018 to 2020, respectively, as reflected in the table above.

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 September 30, 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 \$854 million as of September 30, 2017. At September 30, 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Details of commercial paper borrowings were as follows:

	Short-term Debt During the Period(*)		
	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)	%	(in millions)

Commercial paper	\$30	1.3	%	\$	220
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(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2017. No short-term debt was outstanding at September 30, 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 September 30, 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.

The maximum potential collateral requirements under these contracts at September 30, 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	\$	338

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 July 2017, Alabama Power repaid at maturity \$36.1 million aggregate principal amount of Series 1993-A, 1993-B, and 1993-C Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Refunding Bonds (Alabama Power Company Project).

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ALABAMA POWER COMPANY
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In September 2017, Alabama Power issued 10 million shares (\$250 million aggregate stated capital) of 5.00% Class A Preferred Stock, Cumulative, Par Value \$1 Per Share (Stated Capital \$25 Per Share). The proceeds were used in October 2017 to redeem all 2 million shares (\$50 million aggregate stated capital) of 6.50% Series Preference Stock, 6 million shares (\$150 million aggregate stated capital) of 6.45% Series Preference Stock, and 1.52 million shares (\$38 million aggregate stated capital) of 5.83% Class A Preferred Stock and for other general corporate purposes, including Alabama Power's continuous construction program.

Subsequent to September 30, 2017, Alabama Power repaid at maturity \$325 million aggregate principal amount of Series Q 5.50% Senior Notes due October 15, 2017.

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30, 2017 2016 (in millions)		For the Nine Months Ended September 30, 2017 2016 (in millions)	
Operating Revenues:				
Retail revenues	\$2,402	\$2,540	\$5,995	\$6,164
Wholesale revenues, non-affiliates	45	49	124	131
Wholesale revenues, affiliates	6	9	23	24
Other revenues	93	100	284	302
Total operating revenues	2,546	2,698	6,426	6,621
Operating Expenses:				
Fuel	482	575	1,297	1,390
Purchased power, non-affiliates	119	102	310	277
Purchased power, affiliates	161	142	470	392
Other operations and maintenance	413	496	1,194	1,393
Depreciation and amortization	225	215	669	639
Taxes other than income taxes	112	114	311	311
Total operating expenses	1,512	1,644	4,251	4,402
Operating Income	1,034	1,054	2,175	2,219
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(105)	(98)	(310)	(290)
Other income (expense), net	5	11	41	35
Total other income and (expense)	(100)	(87)	(269)	(255)
Earnings Before Income Taxes	934	967	1,906	1,964
Income taxes	350	363	705	734
Net Income	584	604	1,201	1,230
Dividends on Preferred and Preference Stock	4	4	13	13
Net Income After Dividends on Preferred and Preference Stock	\$580	\$600	\$1,188	\$1,217

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30, 2017 2016 (in millions)		For the Nine Months Ended September 30, 2017 2016 (in millions)	
Net Income	\$584	\$604	\$1,201	\$1,230
Other comprehensive income (loss):				
Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of \$-, \$-, \$1, and \$1, respectively	1	1	2	2
Total other comprehensive income (loss)	1	1	2	2
Comprehensive Income	\$585	\$605	\$1,203	\$1,232

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 Nine Months Ended September 30, 2017 2016 (in millions)	
Operating Activities:		
Net income	\$1,201	\$1,230
Adjustments to reconcile net income to net cash provided from operating activities --		
Depreciation and amortization, total	821	794
Deferred income taxes	328	346
Allowance for equity funds used during construction	(29)	(36)
Deferred expenses	(30)	(40)
Pension, postretirement, and other employee benefits	(42)	(14)
Settlement of asset retirement obligations	(95)	(93)
Other, net	(21)	7
Changes in certain current assets and liabilities —		
-Receivables	(254)	(162)
-Fossil fuel stock	(2)	128
-Other current assets	(29)	62
-Accounts payable	(161)	39
-Accrued taxes	(52)	(22)
-Accrued compensation	(60)	(26)
-Retail fuel cost over recovery	(84)	9
-Other current liabilities	(11)	44
Net cash provided from operating activities	1,480	2,266
Investing Activities:		
Property additions	(1,907)	(1,566)
Nuclear decommissioning trust fund purchases	(411)	(563)
Nuclear decommissioning trust fund sales	406	558
Cost of removal, net of salvage	(54)	(45)
Change in construction payables, net of joint owner portion	180	(139)
Payments pursuant to LTSAs	(59)	(27)
Sale of property	63	10
Other investing activities	(52)	14
Net cash used for investing activities	(1,834)	(1,758)
Financing Activities:		
Decrease in notes payable, net	(391)	(63)
Proceeds —		
Capital contributions from parent company	412	294
Senior notes	1,350	650
FFB loan	—	300
Short-term borrowings	700	—
Other long-term debt	370	—
Redemptions and repurchases —		
Pollution control revenue bonds	(65)	(4)
Senior notes	(450)	(700)
Short-term borrowings	(300)	—

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Payment of common stock dividends	(961)	(979)
Other financing activities	(48)	(26)
Net cash provided from (used for) financing activities	617	(528)
Net Change in Cash and Cash Equivalents	263	(20)
Cash and Cash Equivalents at Beginning of Period	3	67
Cash and Cash Equivalents at End of Period	\$266	\$47
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of \$17 and \$15 capitalized for 2017 and 2016, respectively)	\$284	\$277
Income taxes, net	369	188
Noncash transactions — Accrued property additions at end of period	470	226

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 September 30, 2017 (in millions)	At December 31, 2016 (in millions)
Current Assets:		
Cash and cash equivalents	\$266	\$ 3
Receivables —		
Customer accounts receivable	670	523
Unbilled revenues	276	224
Under recovered fuel clause revenues	62	—
Joint owner accounts receivable	222	57
Other accounts and notes receivable	82	81
Affiliated	21	18
Accumulated provision for uncollectible accounts	(3) (3
Fossil fuel stock	300	298
Materials and supplies	480	479
Prepaid expenses	82	105
Other regulatory assets, current	200	193
Other current assets	27	38
Total current assets	2,685	2,016
Property, Plant, and Equipment:		
In service	34,589	33,841
Less: Accumulated provision for depreciation	11,655	11,317
Plant in service, net of depreciation	22,934	22,524
Nuclear fuel, at amortized cost	551	569
Construction work in progress	5,751	4,939
Total property, plant, and equipment	29,236	28,032
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	53	60
Nuclear decommissioning trusts, at fair value	914	814
Miscellaneous property and investments	51	46
Total other property and investments	1,018	920
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	669	676
Other regulatory assets, deferred	2,890	2,774
Other deferred charges and assets	608	417
Total deferred charges and other assets	4,167	3,867
Total Assets	\$37,106	\$ 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 September 30, 2017	At December 31, 2016
Liabilities and Stockholder's Equity		
	(in millions)	
Current Liabilities:		
Securities due within one year	\$261	\$460
Notes payable	400	391
Accounts payable —		
Affiliated	396	438
Other	1,012	589
Customer deposits	270	265
Accrued taxes	353	407
Accrued interest	121	106
Accrued compensation	164	224
Asset retirement obligations, current	214	299
Other current liabilities	192	297
Total current liabilities	3,383	3,476
Long-term Debt	11,610	10,225
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	6,328	6,000
Accumulated deferred ITCs	248	256
Employee benefit obligations	665	703
Asset retirement obligations, deferred	2,367	2,233
Other deferred credits and liabilities	232	320
Total deferred credits and other liabilities	9,840	9,512
Total Liabilities	24,833	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	7,308	6,885
Retained earnings	4,311	4,086
Accumulated other comprehensive loss	(10)	(13)
Total common stockholder's equity	12,007	11,356
Total Liabilities and Stockholder's Equity	\$37,106	\$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
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2017 vs. THIRD QUARTER 2016
AND
YEAR-TO-DATE 2017 vs. YEAR-TO-DATE 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. 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.

Nuclear Construction

Georgia Power and the Vogtle Owners have been constructing Plant Vogtle Units 3 and 4 since 2009. On March 29, 2017, the EPC Contractor for Plant Vogtle Units 3 and 4 filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. To provide for a continuation of work, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into an interim assessment agreement with the EPC Contractor (Interim Assessment Agreement), which the bankruptcy court approved on March 30, 2017. On June 9, 2017, Georgia Power and the other Vogtle Owners and Toshiba entered into a settlement agreement regarding the Toshiba Guarantee (Guarantee Settlement Agreement). Pursuant to the Guarantee Settlement Agreement, Toshiba acknowledged the amount of its obligation under the Toshiba Guarantee is \$3.68 billion (Guarantee Obligations), of which Georgia Power's proportionate share is approximately \$1.7 billion, and that the Guarantee Obligations exist regardless of whether Plant Vogtle Units 3 and 4 are completed. On October 2, 2017, Georgia Power received the first installment of the Guarantee Obligations of \$300 million from Toshiba, of which Georgia Power's proportionate share was \$137 million.

Additionally, on June 9, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into a services agreement (Services Agreement), which was amended and restated on July 20, 2017, for the EPC Contractor to transition construction management of Plant Vogtle Units 3 and 4 to Southern Nuclear and to provide ongoing design, engineering, and procurement services to Southern Nuclear. On July 27, 2017, the Services Agreement, and the EPC Contractor's rejection of the Vogtle 3 and 4 Agreement, became effective upon approval by the DOE and the Interim Assessment Agreement expired pursuant to its terms. The Services Agreement will continue until the start-up and testing of Plant Vogtle Units 3 and 4 is complete and electricity is generated and sold from both units. The Services Agreement is terminable by the Vogtle Owners upon 30 days' written notice.

Effective October 23, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, entered into a construction completion agreement (Bechtel Agreement) with Bechtel Power Corporation (Bechtel), whereby Bechtel will serve as the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4.

In the seventeenth Vogtle Construction Monitoring (VCM) report filed on August 31, 2017, Georgia Power recommended that construction of Plant Vogtle Units 3 and 4 be continued, with Southern Nuclear serving as project manager. Georgia Power believes that the most reasonable schedule for completing Plant Vogtle Units 3 and

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GEORGIA POWER COMPANY
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4 is by November 2021 for Unit 3 and by November 2022 for Unit 4, at an additional cost of approximately \$1.41 billion, net of the Guarantee Settlement Agreement. The Georgia PSC is expected to make a decision on these matters by February 6, 2018.

On September 28, 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately \$1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Georgia Power 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.

An inability or other failure by Toshiba to perform its obligations under the Guarantee Settlement Agreement 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 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, including Georgia Power's cost-to-complete and cancellation cost assessments for Plant Vogtle Units 3 and 4.

RESULTS OF OPERATIONS**Net Income**

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(20) (3.3)	\$(29) (2.4)

Georgia Power's net income after dividends on preferred and preference stock for the third quarter 2017 was \$580 million compared to \$600 million for the corresponding period in 2016. For year-to-date 2017, net income after dividends on preferred and preference stock was \$1.19 billion compared to \$1.22 billion for the corresponding period in 2016. The decreases were primarily due to lower revenues resulting from milder weather and lower customer usage as compared to the corresponding periods in 2016, partially offset by lower non-fuel operations and maintenance expenses.

Retail Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(138) (5.4)	\$(169) (2.7)

In the third quarter 2017, retail revenues were \$2.40 billion compared to \$2.54 billion for the corresponding period in 2016. For year-to-date 2017, retail revenues were \$6.00 billion compared to \$6.16 billion for the corresponding period in 2016.

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Details of the changes in retail revenues were as follows:

	Third Quarter 2017		Year-to-Date 2017	
	(in millions)		(in millions)	
	(\$ change)		(\$ change)	
Retail – prior year	\$2,540		\$6,164	
Estimated change resulting from –				
Rates and pricing	41	1.6	60	1.0
Sales decline	(39)	(1.5)	(50)	(0.8)
Weather	(94)	(3.7)	(204)	(3.3)
Fuel cost recovery	(46)	(1.8)	25	0.4
Retail – current year	\$2,402	(5.4)%	\$5,995	(2.7)%

Revenues associated with changes in rates and pricing increased in the third quarter and year-to-date 2017 when compared to the corresponding periods in 2016 primarily due to an increase in revenues related to the recovery of Plant Vogtle Units 3 and 4 construction financing costs under the NCCR tariff. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" of Georgia Power in Item 7 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction – Regulatory Matters" herein for additional information related to the NCCR tariff.

Revenues attributable to changes in sales decreased in the third quarter and year-to-date 2017 when compared to the corresponding periods in 2016. Weather-adjusted residential KWH sales decreased 3.5% and 0.8% for the third quarter and year-to-date 2017, respectively, primarily due to a decline in average customer usage due to an increase in multi-family housing and energy saving initiatives, partially offset by customer growth. Weather-adjusted commercial KWH sales decreased 1.4% and 1.1% for the third quarter and year-to-date 2017, respectively, primarily due to a decline in average customer usage resulting from an increase in energy saving initiatives and electronic commerce transactions, partially offset by customer growth. Weather-adjusted industrial KWH sales increased 0.8% in the third quarter 2017 primarily due to increased demand in the non-manufacturing, rubber, and textile sectors, partially offset by decreased demand in the chemicals and paper sectors. Weather-adjusted industrial KWH sales decreased 1.2% for year-to-date 2017 primarily due to decreased demand in the paper and chemicals sectors, partially offset by increased demand in the non-manufacturing and rubber sectors. Despite a more stable dollar and improving global economy, the industrial sector remains constrained by economic policy uncertainty. Additionally, Hurricane Irma negatively impacted customer usage for all customer classes during the third quarter and year-to-date 2017.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. In the third quarter 2017, retail fuel cost recovery revenues decreased \$46 million when compared to the corresponding period in 2016 primarily due to lower coal prices and lower energy sales resulting from milder weather. For year-to-date 2017, retail fuel cost recovery revenues increased \$25 million when compared to the corresponding period in 2016 primarily due to higher natural gas prices, partially offset by lower coal prices and lower energy sales resulting from milder weather. Electric rates include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses and do not affect net income. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" of Georgia Power in Item 7 of the Form 10-K for additional information.

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Other Revenues

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(7) (7.0)	\$(18) (6.0)

In the third quarter 2017, other revenues were \$93 million compared to \$100 million for the corresponding period in 2016. The decrease was primarily due to a \$3 million decrease in open access transmission tariff revenues, primarily as a result of the expiration of long-term transmission services contracts, and a \$3 million decrease in solar application fee revenues, partially offset by a \$3 million increase in outdoor lighting sales revenues primarily attributable to LED conversions.

For year-to-date 2017, other revenues were \$284 million compared to \$302 million for the corresponding period in 2016. The decrease was primarily due to a \$14 million adjustment in 2016 for customer temporary facilities services revenues and a \$12 million decrease in open access transmission tariff revenues, primarily as a result of the expiration of long-term transmission services contracts, partially offset by a \$10 million increase in outdoor lighting sales revenues primarily attributable to LED conversions.

Fuel and Purchased Power Expenses

	Third Quarter 2017 vs. Third Quarter 2016 (change in millions) (% change)	Year-to-Date 2017 vs. Year-to-Date 2016 (change in millions) (% change)
Fuel	\$ (93) (16.2)	\$ (93) (6.7)
Purchased power – non-affiliates	17 16.7	33 11.9
Purchased power – affiliates	19 13.4	78 19.9
Total fuel and purchased power expenses	\$ (57)	\$ 18

In the third quarter 2017, total fuel and purchased power expenses were \$762 million compared to \$819 million in the corresponding period in 2016. The decrease was primarily due to a \$59 million decrease related to the volume of KWHs generated primarily due to milder weather, resulting in lower customer demand, and slight decreases in the volume of KWHs purchased and the average cost of fuel. These decreases were partially offset by a \$7 million increase in the average cost of purchased power primarily related to higher natural gas prices.

For year-to-date 2017, total fuel and purchased power expenses were \$2.08 billion compared to \$2.06 billion in the corresponding period in 2016. The increase was primarily due to a \$97 million increase in the average cost of fuel and purchased power primarily related to higher natural gas prices, partially offset by a net decrease of \$79 million related to the volume of KWHs generated and purchased primarily due to milder weather, resulting in lower customer demand.

Fuel and purchased power energy transactions do not have a significant impact on earnings since these fuel expenses are generally offset by fuel revenues through Georgia Power's fuel cost recovery mechanism. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" of Georgia Power in Item 7 of the Form 10-K for additional information.

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

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

	Third Quarter 2017	Third Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in billions of KWHs)	18	20	48	53
Total purchased power (in billions of KWHs)	7	7	20	19
Sources of generation (percent) —				
Coal	35	44	33	37
Nuclear	23	22	24	23
Gas	41	34	41	38
Hydro	1	—	2	2
Cost of fuel, generated (in cents per net KWH) —				
Coal	3.08	3.16	3.17	3.32
Nuclear	0.84	0.85	0.84	0.85
Gas	2.63	2.61	2.71	2.27
Average cost of fuel, generated (in cents per net KWH)	2.38	2.47	2.40	2.34
Average cost of purchased power (in cents per net KWH)(*)	4.68	4.57	4.63	4.46

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

Fuel

In the third quarter 2017, fuel expense was \$482 million compared to \$575 million in the corresponding period in 2016. The decrease was primarily due to a 9.6% decrease in the volume of KWHs generated largely due to milder weather, resulting in lower customer demand, and a 3.6% decrease in the average cost of fuel per KWH generated primarily resulting from lower coal prices.

For year-to-date 2017, fuel expense was \$1.30 billion compared to \$1.39 billion in the corresponding period in 2016. The decrease was primarily due to an 8.4% decrease in the volume of KWHs generated largely due to milder weather, resulting in lower customer demand, partially offset by a 19.4% increase in the average cost of natural gas per KWH generated.

Purchased Power – Non-Affiliates

In the third quarter 2017, purchased power expense from non-affiliates was \$119 million compared to \$102 million in the corresponding period in 2016. For year-to-date 2017, purchased power expense from non-affiliates was \$310 million compared to \$277 million in the corresponding period in 2016. The increases were primarily due to increases in the volume of KWHs purchased of 14.2% and 12.6% in the third quarter and year-to-date 2017, respectively, primarily due to unplanned outages at Georgia Power-owned generating units. The increase for year-to-date 2017 was partially offset by a 1.5% decrease in the average cost per KWH purchased.

Energy purchases from non-affiliates will vary depending on the market prices of wholesale energy as compared to the cost of 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.

Purchased Power – Affiliates

In the third quarter 2017, purchased power expense from affiliates was \$161 million compared to \$142 million in the corresponding period in 2016. The increase was primarily due to a 1.5% increase in the average cost per KWH purchased primarily resulting from higher natural gas prices, partially offset by a 5.6% decrease in the volume of

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GEORGIA POWER COMPANY
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KWHs purchased due to the expiration of a PPA in May 2017 and milder weather, resulting in lower customer demand.

For year-to-date 2017, purchased power expense from affiliates was \$470 million compared to \$392 million in the corresponding period in 2016. The increase was primarily the result of a 4.3% increase in the volume of KWHs purchased to support Southern Company system transmission reliability and due to unplanned outages at Georgia Power-owned generating units and a 5.9% increase in the average cost per KWH purchased primarily resulting from higher natural gas prices.

Energy purchases from affiliates will vary depending on demand 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, all as approved by the FERC.

Other Operations and Maintenance Expenses

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(83) (16.7)	\$(199) (14.3)

In the third quarter 2017, other operations and maintenance expenses were \$413 million compared to \$496 million in the corresponding period in 2016. The decrease was primarily due to cost containment and modernization activities implemented in the third quarter 2016 that contributed to decreases of \$29 million in generation maintenance costs, \$9 million in customer accounts, service, and sales costs, \$8 million in employee benefits, and \$8 million in transmission and distribution overhead line maintenance. Other factors include decreases of \$12 million in charges related to employee attrition plans and \$8 million in scheduled generation outage costs.

For year-to-date 2017, other operations and maintenance expenses were \$1.19 billion compared to \$1.39 billion in the corresponding period in 2016. The decrease was primarily due to cost containment and modernization activities implemented in the third quarter 2016 that contributed to decreases of \$56 million in generation maintenance costs, \$34 million in other employee compensation and benefits, and \$23 million in transmission and distribution overhead line maintenance. Other factors include a \$19 million increase in gains from sales of integrated transmission system assets, a \$16 million decrease in customer assistance expenses primarily in demand-side management costs related to the timing of new programs, an \$8 million decrease in charges related to employee attrition plans, and a \$7 million decrease in billing adjustments with integrated transmission system owners.

Depreciation and Amortization

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$10 4.7	\$30 4.7

In the third quarter 2017, depreciation and amortization was \$225 million compared to \$215 million in the corresponding period in 2016. The increase was primarily due to an \$8 million increase related to additional plant in service and a \$4 million decrease in amortization of regulatory liabilities related to other cost of removal obligations that expired in December 2016.

For year-to-date 2017, depreciation and amortization was \$669 million compared to \$639 million in the corresponding period in 2016. The increase was primarily due to a \$25 million increase related to additional plant in service and an \$11 million decrease in amortization of regulatory liabilities related to other cost of removal obligations that expired in December 2016, partially offset by a \$5 million decrease in depreciation related to generating unit retirements in 2016.

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Interest Expense, Net of Amounts Capitalized

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$7 7.1	\$20 6.9

In the third quarter 2017, interest expense, net of amounts capitalized was \$105 million compared to \$98 million in the corresponding period in 2016. For year-to-date 2017, interest expense, net of amounts capitalized was \$310 million compared to \$290 million in the corresponding period in 2016. The increases were primarily due to increases in outstanding borrowings. See FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" and "Financing Activities" herein for additional information.

Other Income (Expense), Net

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(6) (54.5)	\$6 17.1

In the third quarter 2017, other income (expense), net was \$5 million compared to \$11 million in the corresponding period in 2016. The decrease was primarily due to a decrease of \$9 million in AFUDC equity resulting from higher short-term borrowings, partially offset by increases of \$3 million in customer contributions in aid of construction and \$3 million in contract services revenue.

For year-to-date 2017, other income (expense), net was \$41 million compared to \$35 million in the corresponding period in 2016. The increase was primarily due to increases of \$6 million in contract services revenue, \$4 million in customer contributions in aid of construction, and \$4 million in gains on purchases of state tax credits, partially offset by a \$7 million decrease in AFUDC equity resulting from higher short-term borrowings.

Income Taxes

Third Quarter 2017 vs. Third Quarter 2016	Year-to-Date 2017 vs. Year-to-Date 2016
(change in millions) (% change)	(change in millions) (% change)
\$(13) (3.6)	\$(29) (4.0)

In the third quarter 2017, income taxes were \$350 million compared to \$363 million in the corresponding period in 2016. For year-to-date 2017, income taxes were \$705 million compared to \$734 million in the corresponding period in 2016. The decreases were primarily due to lower pre-tax earnings and increased state ITCs.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Georgia Power's future earnings potential. The level of Georgia Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power's business of providing electric service. These factors include Georgia 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. Matters related to Plant Vogtle Units 3 and 4 construction and rate recovery are also major factors. 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, increasing volumes of electronic commerce transactions, and higher multi-family home construction. 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 Georgia Power's service territory. Demand for electricity is primarily driven by the pace of economic

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growth that may be affected by changes in regional and global economic conditions, which may impact future earnings.

Current proposals related to potential federal 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 of nuclear 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 Georgia Power's financial statements.

For additional information relating to these issues, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Georgia Power 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. Georgia Power's Environmental Compliance Cost Recovery (ECCR) tariff allows for the recovery of capital and operations and maintenance costs related to environmental controls mandated by state and federal regulations. 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, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Georgia Power in Item 7 and Note 3 to the financial statements of Georgia Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Statutes and Regulations

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Georgia Power in Item 7 of the Form 10-K for additional information regarding the EPA's eight-hour ozone National Ambient Air Quality Standard (NAAQS).

On June 2, 2017, the EPA published a final rule redesignating a 15-county area within metropolitan Atlanta to attainment for the 2008 eight-hour ozone NAAQS.

On June 18, 2017, the EPA published a notice delaying attainment designations for the 2015 eight-hour ozone NAAQS by one year, setting a revised deadline of October 1, 2018. However, on August 2, 2017, the EPA issued a withdrawal notice of the one-year extension and reinstated the original October 1, 2017 designation deadline. The ultimate outcome of this matter cannot be determined at this time.

Water Quality

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

On April 25, 2017, the EPA published a notice announcing it would reconsider the effluent guidelines rule, which had been finalized in November 2015. On September 18, 2017, the EPA published a final rule establishing a stay of the compliance deadlines for certain effluent limitations and pretreatment standards under the rule.

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On June 27, 2017, the EPA and the U.S. Army Corps of Engineers proposed to rescind 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.

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 Georgia Power in Item 7 of the Form 10-K for additional information.

On March 28, 2017, the U.S. 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. On October 16, 2017, the EPA published a proposed rule to repeal the Clean Power Plan. The EPA has not determined whether or when it will promulgate a replacement rule.

On June 1, 2017, the U.S. President announced that the United States will withdraw from the non-binding Paris Agreement and begin renegotiation of its terms.

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

FERC Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Georgia Power in Item 7 of the Form 10-K for additional information regarding the traditional electric operating companies' and Southern Power's market power proceeding and amendment to their market-rate tariff.

On May 17, 2017, the FERC accepted the traditional electric operating companies' (including Georgia Power's) and Southern Power's compliance filing accepting the terms of the FERC's February 2, 2017 order regarding an amendment by the traditional electric operating companies (including Georgia Power) and Southern Power to their market-based rate tariff. While the FERC's order references the traditional electric operating companies' (including Georgia Power's) and Southern Power's market power proceeding related to their 2014 triennial updated market power analysis, that proceeding remains a separate, ongoing matter.

On October 25, 2017, the FERC issued an order in response to the traditional electric operating companies' (including Georgia Power's) and Southern Power's June 30, 2017 triennial updated market power analysis. The FERC directed the traditional electric operating companies (including Georgia Power) and Southern Power to show cause within 60 days why market-based rate authority should not be revoked in certain areas adjacent to the area presently under mitigation in accordance with the February 2, 2017 order, or to provide a mitigation plan to further address market power concerns. The traditional electric operating companies (including Georgia Power) and Southern Power expect to make a filing within the specified 60 days responding to the FERC's order.

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

Retail Regulatory Matters

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, ECCR 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 "Nuclear Construction" herein and Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding the NCCR tariff. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL

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– "Retail Regulatory Matters – Fuel Cost Recovery" of Georgia Power in Item 7 of the Form 10-K for additional information regarding fuel cost recovery.

Renewables

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

On May 16, 2017, the Georgia PSC approved Georgia Power's request to build, own, and operate a 139-MW solar generation facility at a U.S. Air Force base that is expected to be placed in service by the end of 2019.

During the nine months ended September 30, 2017, Georgia Power continued construction of a 31-MW solar generation facility at a U.S. Marine Corps base that is expected to be placed in service in the fourth quarter 2017.

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

Integrated Resource Plan

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Integrated Resource Plan" of Georgia Power 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 incurred of approximately \$50 million 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.

Storm Damage Recovery

Georgia Power is accruing \$30 million annually through December 31, 2019, as provided in the 2013 ARP, for incremental operating and maintenance costs of damage from major storms to its transmission and distribution facilities. During September 2017, Hurricane Irma caused significant damage to Georgia Power's transmission and distribution facilities. The total amount of incremental restoration costs related to this hurricane is estimated to be approximately \$150 million. As of September 30, 2017, Georgia Power had deferred approximately \$145 million in a regulatory asset related to storm damage. As of September 30, 2017, the total balance in the regulatory asset related to storm damage was \$360 million. The rate of storm damage cost recovery is expected to be adjusted as part of Georgia Power's next base rate case required to be filed by July 1, 2019. As a result of this regulatory treatment, costs related to storms are not expected to have a material impact on Georgia Power's financial statements. See Note 1 to the financial statements of Georgia Power under "Storm Damage Recovery" in Item 8 of the Form 10-K for additional information regarding Georgia Power's storm damage reserve.

Nuclear Construction

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

Vogtle 3 and 4 Agreement and EPC Contractor Bankruptcy

In 2008, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Vogtle 3 and 4 Agreement, pursuant to which the EPC Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4. 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. Georgia Power's proportionate share of Plant Vogtle Units 3 and 4 is 45.7%.

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The Vogtle 3 and 4 Agreement also provided for liquidated damages upon the EPC 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 (approximately \$420 million based on Georgia Power's ownership interest). Under the Toshiba Guarantee, Toshiba guaranteed certain payment obligations of the EPC Contractor, including any liability of the EPC Contractor for abandonment of work. 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 EPC 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.

Under the terms of the Vogtle 3 and 4 Agreement, the EPC Contractor did not have the right to terminate the Vogtle 3 and 4 Agreement for convenience. In the event of an abandonment of work by the EPC Contractor, the maximum liability of the EPC Contractor under the Vogtle 3 and 4 Agreement was 40% of the contract price (approximately \$1.7 billion based on Georgia Power's ownership interest).

On March 29, 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. To provide for a continuation of work at Plant Vogtle Units 3 and 4, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Interim Assessment Agreement, which the bankruptcy court approved on March 30, 2017.

The Interim Assessment Agreement provided, among other items, that during the term of the Interim Assessment Agreement Georgia Power was obligated to pay, on behalf of the Vogtle Owners, all costs accrued by the EPC Contractor for subcontractors and vendors for services performed or goods provided. The Interim Assessment Agreement, as amended, expired on July 27, 2017.

Subsequent to the EPC Contractor bankruptcy filing, a number of subcontractors to the EPC Contractor, including Fluor Enterprises, Inc., a subsidiary of Fluor Corporation, alleged non-payment by the EPC 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, actions to remove liens filed by these subcontractors through the posting of surety bonds. Georgia Power estimates the aggregate liability, through September 30, 2017, of the Vogtle Owners for the removal of subcontractor liens and payment of other EPC Contractor pre-petition accounts payable to total approximately \$386 million, of which \$340 million had been paid or accrued as of September 30, 2017. Georgia Power's proportionate share of this aggregate liability totaled approximately \$176 million.

On June 9, 2017, Georgia Power and the other Vogtle Owners and Toshiba entered into the Guarantee Settlement Agreement. Pursuant to the Guarantee Settlement Agreement, Toshiba acknowledged the amount of its obligation under the Toshiba Guarantee is \$3.68 billion, of which Georgia Power's proportionate share is approximately \$1.7 billion, and that the Guarantee Obligations exist regardless of whether Plant Vogtle Units 3 and 4 are completed. The Guarantee Settlement Agreement also provides for a schedule of payments for the Guarantee Obligations, which will reduce CWIP, beginning in October 2017 and continuing through January 2021. In the event Toshiba receives certain payments, including sale proceeds, from or related to Westinghouse (or its subsidiaries) or Toshiba Nuclear Energy Holdings (UK) Limited (or its subsidiaries), it will hold a portion of such payments in trust for the Vogtle Owners and promptly pay them as offsets against any remaining Guarantee Obligations. Under the Guarantee Settlement Agreement, the Vogtle Owners will forbear from exercising certain remedies, including drawing on the Westinghouse Letters of Credit, until June 30, 2020, unless certain events of nonpayment, insolvency, or other material breach of the Guarantee Settlement Agreement by Toshiba occur. If such an event occurs, the balance of the Guarantee Obligations will become immediately due and payable, and the Vogtle Owners may exercise any and all rights and remedies, including drawing on the Westinghouse Letters of Credit without restriction. In addition, the Guarantee Settlement Agreement does not restrict the Vogtle Owners from fully drawing on the Westinghouse Letters of Credit in the event they are not renewed or replaced prior to the expiration date. On October 2, 2017, Georgia Power received the first

installment of the Guarantee Obligations of \$300 million from Toshiba, of which Georgia Power's proportionate share was \$137 million. Georgia Power is considering potential options with respect to its right to future payments under the Guarantee Settlement Agreement and its claims against

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the EPC Contractor in the EPC Contractor's bankruptcy proceeding, including a potential sale of those payment rights and bankruptcy claims. Any such transaction cannot be assured and would be subject to DOE consents and related approvals under the Loan Guarantee Agreement and related agreements.

On August 10, 2017, Toshiba released its financial results for the quarter ended June 30, 2017, which reflected a negative shareholders' equity balance of approximately \$4.5 billion as of June 30, 2017. Toshiba previously announced the existence of material events and conditions that raise substantial doubt about Toshiba's ability to continue as a going concern. As a result, substantial risk regarding the Vogtle Owners' ability to fully collect the Guarantee Obligations continues to exist. An inability or other failure by Toshiba to perform its obligations under the Guarantee Settlement Agreement 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. Additionally, on June 9, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into the Services Agreement, which was amended and restated on July 20, 2017, for the EPC Contractor to transition construction management of Plant Vogtle Units 3 and 4 to Southern Nuclear and to provide ongoing design, engineering, and procurement services to Southern Nuclear. On July 20, 2017, the bankruptcy court approved the EPC Contractor's motion seeking authorization to (i) enter into the Services Agreement, (ii) assume and assign to the Vogtle Owners certain project-related contracts, (iii) join the Vogtle Owners as counterparties to certain assumed project-related contracts, and (iv) reject the Vogtle 3 and 4 Agreement. The Services Agreement, and the EPC Contractor's rejection of the Vogtle 3 and 4 Agreement, became effective upon approval by the DOE on July 27, 2017. The Services Agreement will continue until the start-up and testing of Plant Vogtle Units 3 and 4 is complete and electricity is generated and sold from both units. The Services Agreement is terminable by the Vogtle Owners upon 30 days' written notice.

Effective October 23, 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, entered into the Bechtel Agreement, whereby Bechtel will serve as the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4. Facility design and engineering remains the responsibility of the EPC Contractor under the Services Agreement. The Bechtel Agreement is a cost reimbursable plus fee arrangement, whereby Bechtel will be reimbursed for actual costs plus a fee and an at-risk fee, which is subject to adjustment based on Bechtel's performance against cost and schedule targets. Each Vogtle Owner is severally (not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to Bechtel under the Bechtel Agreement. The Vogtle Owners may terminate the Bechtel Agreement at any time for their convenience, provided that the Vogtle Owners will be required to pay amounts related to work performed prior to the termination (including the applicable portion of the base fee), certain termination-related costs, and, at certain stages of the work, the at-risk fee. Bechtel may terminate the Bechtel Agreement under certain circumstances, including certain Vogtle Owner suspensions of work, certain breaches of the Bechtel Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events. Pursuant to the Loan Guarantee Agreement, Georgia Power is required to obtain the DOE's approval of the Bechtel Agreement prior to obtaining any further advances under the Loan Guarantee Agreement.

In connection with the recommendation to continue with construction of Plant Vogtle Units 3 and 4 (described below), the Vogtle Owners agreed on a term sheet to amend the existing joint ownership agreements to provide for additional Vogtle Owner approval requirements. Under the term sheet, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction if certain adverse events occur, including (i) the bankruptcy of Toshiba or a material breach by Toshiba of the Guarantee Settlement Agreement; (ii) termination or rejection in bankruptcy of certain agreements, including the Services Agreement or the Bechtel Agreement; (iii) the Georgia PSC determines that any of Georgia Power's costs relating to the construction of Plant Vogtle Units 3 and 4 will not be recovered in retail rates because such costs are deemed unreasonable or imprudent; or (iv) an increase in the construction budget contained in the seventeenth VCM report by more than \$1 billion or extension of the project schedule contained in the seventeenth VCM report by more than one year. In addition, under the term sheet, the

required approval of holders of ownership interests in Plant Vogtle Units 3 and 4 is at least (i) 90% for a change of the primary construction contractor and (ii) 67% for material amendments to the Services Agreement or agreements with the primary construction contractor or Southern Nuclear.

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The term sheet also confirms that the Vogtle Owners' sole recourse against Georgia Power or Southern Nuclear for any action or inaction in connection with their performance as agent for the Vogtle Owners is limited to removal of Georgia Power and/or Southern Nuclear as agent, except in cases of willful misconduct.

The ultimate outcome of these matters 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. As of September 30, 2017, Georgia Power had recovered approximately \$1.5 billion of financing costs. Georgia Power expects to file on November 1, 2017 to increase the NCCR tariff by approximately \$90 million, effective January 1, 2018, pending Georgia PSC approval.

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.

The Georgia PSC has approved sixteen VCM reports covering the periods through December 31, 2016, including construction capital costs incurred, which through that date totaled \$3.9 billion. Georgia Power filed its seventeenth VCM report, covering the period from January 1 through June 30, 2017, requesting approval of \$542 million of construction capital costs incurred during that period, with the Georgia PSC on August 31, 2017.

In the seventeenth VCM report, Georgia Power recommended that construction of Plant Vogtle Units 3 and 4 be continued, with Southern Nuclear serving as project manager. Georgia Power believes that the most reasonable schedule for completing Plant Vogtle Units 3 and 4 is by November 2021 for Unit 3 and by November 2022 for Unit

4. Georgia Power's recommendation to go forward with completion of Vogtle Units 3 and 4 is based on the following assumptions about the regulatory treatment of this recommendation, if the recommendation to go forward

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is adopted by the Georgia PSC: (i) that pursuant to Georgia law, the Georgia PSC in the seventeenth VCM proceeding approves the new cost and schedule forecast and finds that it is a reasonable basis for going forward, and that if the Georgia PSC disapproves all or part of the proposed cost and schedule revisions, Georgia Power may cancel Plant Vogtle Units 3 and 4 and recover its actual investment in Plant Vogtle Units 3 and 4; (ii) that the Vogtle Cost Settlement Agreement remains in full force and effect, including Georgia Power retaining the burden of proving all capital costs above \$5.680 billion were prudent; (iii) that while the Georgia PSC will make no prudence finding in the seventeenth VCM proceeding, nor will the certified amount be amended consistent with the Vogtle Cost Settlement Agreement, the Georgia PSC recognizes that the certified amount is not a cap, and all costs that are approved and presumed or shown to be prudently incurred will be recoverable by Georgia Power; (iv) that Georgia Power is not a guarantor of the Toshiba Guarantee, and the failure of Toshiba to pay the Toshiba Guarantee, the failure of the U.S. Congress to extend the PTCs for Plant Vogtle Units 3 and 4, or the failure of the DOE to extend the Loan Guarantee Agreement with Georgia Power to reflect the increased capital amounts, will not reduce the amount of investment Georgia Power is otherwise allowed to collect; and (v) that as conditions change and assumptions are either proven or disproven, Georgia Power and the Georgia PSC may reconsider the decision to go forward. The Georgia PSC is expected to make a decision on these matters by February 6, 2018.

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

Revised Cost and Schedule

Georgia Power's approximate proportionate share of the remaining estimated cost to complete Plant Vogtle Units 3 and 4 is as follows:

	(in billions)
Estimated cost to complete	\$ 4.2
CWIP as of September 30, 2017	4.6
Guarantee Obligations	(1.7)
Estimated capital costs	\$ 7.1
Vogtle Cost Settlement Agreement Revised Forecast	(5.7)
Estimated net additional capital costs	\$ 1.4

Georgia Power's estimated financing costs during the construction period total approximately \$3.4 billion, of which approximately \$1.5 billion had been incurred through September 30, 2017.

Georgia Power's cancellation cost estimate results indicate that its proportionate share of the estimated costs to cancel both units is approximately \$350 million. As a result, as of September 30, 2017, total estimated costs subject to evaluation by Georgia Power and the Georgia PSC in the event of a cancellation decision are as follows:

	Cancellation Cost Estimate (in billions)
CWIP as of September 30, 2017	\$ 4.6
Financing costs collected, net of tax	1.5
Cancellation costs ^(*)	0.4
Guarantee Obligations	(1.7)
Estimated net cancellation cost	\$ 4.8

^(*) The estimate for cancellation costs includes, but is not limited to, costs to terminate contracts for construction and other services, as well as costs to secure the Plant Vogtle Units 3 and 4 construction site.

The Guarantee Obligations continue to exist in the event of cancellation. In addition, under Georgia law, prudently incurred costs related to certificated projects cancelled by the Georgia PSC are allowed recovery, including carrying

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costs, in future retail rates. Georgia Power will continue working with the Georgia PSC and the other Vogtle Owners to determine future actions related to Plant Vogtle Units 3 and 4, including, but not limited to, the status of construction and rate recovery.

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

Other Matters

As of September 30, 2017, Georgia Power had borrowed \$2.6 billion related to Plant Vogtle Units 3 and 4 costs through the Loan Guarantee Agreement and a multi-advance credit facility among Georgia Power, the DOE, and the FFB, which provides for borrowings of up to \$3.46 billion, subject to the satisfaction of certain conditions. On September 28, 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately \$1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Georgia Power 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 while construction proceeds. Processes are in place 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 while 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.

While construction continues, the risk remains that challenges with management of contractors, subcontractors, and vendors, 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.

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

See RISK FACTORS of Georgia Power 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 EPC Contractor's bankruptcy.

Other Matters

Georgia Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Georgia Power is subject to certain claims and legal actions arising in the ordinary course of business. Georgia 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.

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The ultimate outcome of such pending or potential litigation or regulatory matters 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 Georgia 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.

Georgia Power regularly reviews its business to transform and modernize. Primarily in response to changing customer expectations and payment patterns, including electronic payments and alternative payment locations, and ongoing efforts to increase overall operating efficiencies, Georgia Power initiated the closure of its remaining payment offices and an employee attrition plan affecting approximately 300 positions. Charges associated with these activities did not have a material impact on Georgia Power's results of operations, financial position, or cash flows. The efficiencies gained are expected to place downward pressure on operating costs in 2018.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Georgia Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Georgia 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 Georgia 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 Georgia Power in Item 7 of the Form 10-K for a complete discussion of Georgia 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

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Georgia Power in Item 7 of the Form 10-K for additional information.

In 2014, the FASB issued ASC 606, Revenue from Contracts with Customers (ASC 606), 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 Georgia 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 Georgia Power's revenue, including energy provided to customers, is from tariff offerings that provide electricity without a defined contractual term, as well as longer-term contractual commitments, including PPAs. Georgia Power expects that the revenue from contracts with these customers will not result in a significant shift in the timing of revenue recognition for such sales.

Georgia Power's ongoing evaluation of other revenue streams and related contracts includes unregulated sales to customers. Some revenue arrangements are excluded from the scope of ASC 606 and, therefore, will be accounted for and disclosed or presented separately from revenues under ASC 606 on Georgia Power's financial statements, if material. In addition, the power and utilities industry continues to evaluate 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, Georgia 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. Georgia Power intends to use the modified retrospective method of adoption effective January 1, 2018. Georgia Power has

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also elected to utilize practical expedients which allow it to apply the standard to open contracts at the date of adoption and to reflect the aggregate effect of all modifications when identifying performance obligations and allocating the transaction price for contracts modified before the effective date. Under the modified retrospective method of adoption, prior year reported results are not restated; however, a cumulative-effect adjustment to retained earnings at January 1, 2018 is recorded. In addition, disclosures will include comparative information on 2018 financial statement line items under current guidance. While the adoption of ASC 606, including the cumulative-effect adjustment, is not expected to have a material impact on either the timing or amount of revenues recognized in Georgia Power's financial statements, Georgia Power will continue to evaluate the requirements, as well as any additional clarifying guidance that may be issued.

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. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in Georgia 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 Georgia Power's financial statements.

On August 28, 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), amending the hedge accounting recognition and presentation requirements. ASU 2017-12 makes more financial and non-financial hedging strategies eligible for hedge accounting, amends the related presentation and disclosure requirements, and simplifies hedge effectiveness assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. Georgia Power is evaluating the standard and expects to early adopt ASU 2017-12 effective January 1, 2018. The adoption of ASU 2017-12 is not expected to have a material impact on Georgia Power's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Georgia Power in Item 7 of the Form 10-K for additional information. Georgia Power's financial condition remained stable at September 30, 2017. Georgia Power 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 \$1.48 billion for the first nine months of 2017 compared to \$2.27 billion for the corresponding period in 2016. The decrease was primarily due to the timing of vendor payments and fossil fuel stock purchases and an increase in under-recovered fuel costs. Net cash used for investing activities totaled \$1.83 billion for the first nine months of 2017 compared to \$1.76 billion for the corresponding period in 2016 primarily related to installation of equipment to comply with environmental standards and construction of generation,

transmission, and distribution facilities. Net cash provided from financing activities totaled \$617 million for the first nine months of 2017 compared to \$528 million used for financing activities in the

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corresponding period in 2016. The increase in cash provided from financing activities is primarily due to an increase in short-term borrowings, higher issuances of senior notes and junior subordinated notes, and a decrease in maturities of senior notes, partially offset by a decrease in borrowings from the FFB for construction of Plant Vogtle Units 3 and 4 and an increase in redemptions of short-term borrowings. 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 nine months of 2017 include increases of \$1.2 billion in property, plant, and equipment to comply with environmental standards and the construction of generation, transmission, and distribution facilities, \$1.2 billion in long-term debt primarily due to issuances of senior notes and junior subordinated notes, \$423 million in accounts payable, other primarily due to charges for restoration costs related to Hurricane Irma and liabilities for the removal of subcontractor liens related to the EPC Contractor's bankruptcy, and \$423 million in paid-in capital primarily due to capital contributions received from Southern Company. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Storm Damage Recovery" and " – Nuclear Construction" for additional information regarding Hurricane Irma and the EPC Contractor's bankruptcy, respectively.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Georgia Power in Item 7 of the Form 10-K for a description of Georgia Power's capital requirements for its construction program, including estimated capital expenditures for Plant Vogtle Units 3 and 4 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, and trust funding requirements. Approximately \$261 million will be required through September 30, 2018 to fund maturities of long-term debt. See "Sources of Capital" herein for additional information. Also see FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" for additional information regarding Plant Vogtle Units 3 and 4.

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 FERC rules and regulations; Georgia PSC 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. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" herein for information regarding additional factors that may impact construction expenditures, including Georgia Power's cost-to-complete and cancellation cost assessments for Plant Vogtle Units 3 and 4.

Sources of Capital

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

In 2014, Georgia Power entered into the 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

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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 (i) Eligible Project Costs, less (ii) amounts received from Toshiba under the Guarantee Settlement Agreement and amounts received from the Westinghouse bankruptcy proceeding) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. As of September 30, 2017, Georgia Power had borrowed \$2.6 billion under the FFB Credit Facility. On July 27, 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement, which provides that further advances are conditioned upon the DOE's approval of any agreements entered into in replacement of the Vogtle 3 and 4 Agreement and satisfaction of certain other conditions.

On September 28, 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately \$1.67 billion of additional guaranteed loans under the Loan Guarantee Agreement. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Georgia Power 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 additional 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.

At September 30, 2017, Georgia Power's current liabilities exceeded current assets by \$698 million. Georgia Power's current liabilities frequently exceed current assets because of scheduled maturities of long-term debt (\$261 million at September 30, 2017) and the periodic use of short-term debt as a funding source (\$400 million at September 30, 2017), as well as significant seasonal fluctuations in cash needs. Georgia Power intends to utilize operating cash flows, short-term debt, external security issuances, term loans, equity contributions from Southern Company, and, to the extent available, borrowings from the FFB to fund its short-term capital needs. Georgia Power has substantial cash flow from operating activities and access to the capital markets and financial institutions to meet liquidity needs. At September 30, 2017, Georgia Power had approximately \$266 million of cash and cash equivalents. Georgia Power's committed credit arrangement with banks at September 30, 2017 was \$1.75 billion of which \$1.73 billion was unused. In May 2017, Georgia Power amended its multi-year credit arrangement, which, among other things, extended the maturity date from 2020 to 2022.

This bank credit arrangement, as well as Georgia Power's term loan arrangements, contains a covenant that limits debt levels and contains a cross-acceleration provision to other indebtedness (including guarantee obligations) of Georgia Power. Such cross-acceleration provision to other indebtedness would trigger an event of default if Georgia Power defaulted on indebtedness, the payment of which was then accelerated. At September 30, 2017, Georgia Power was in compliance with this covenant. This bank credit arrangement does not contain a material adverse change clause at the time of borrowing.

Subject to applicable market conditions, Georgia Power expects to renew or replace this credit arrangement, as needed, prior to expiration. In connection therewith, Georgia Power may extend the maturity date and/or increase or decrease the lending commitments thereunder.

See Note 6 to the financial statements of Georgia 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.

A portion of the unused credit with banks is allocated to provide liquidity support to Georgia Power's pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 2017 was approximately \$550 million as compared to \$868 million at December 31, 2016. In June 2017, Georgia Power remarketed \$318 million of variable rate pollution

control bonds in index rate modes, reducing the liquidity support utilized under Georgia Power's bank

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credit arrangement. In addition, at September 30, 2017, Georgia Power had \$509 million of pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to September 30, 2017, \$40 million of these pollution control revenue bonds which were in an index rate mode were remarketed to the public in a long-term fixed rate mode.

Georgia 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 Georgia Power and the other traditional electric operating companies. Proceeds from such issuances for the benefit of Georgia Power are loaned directly to Georgia Power. The obligations of each traditional electric operating company under these arrangements are several and there is no cross-affiliate credit support. Commercial paper is included in notes payable in the balance sheets.

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2017			Short-term Debt During the Period(*)			
	Weighted Amount Outstanding			Weighted Average Amount Outstanding			Maximum Amount Outstanding
	Average Interest Rate			Average Interest Rate			
	(in millions)			(in millions)			(in millions)
Commercial paper	\$—	—	%	\$109	1.5	%	\$ 428
Short-term bank debt	400	2.0	%	568	2.0	%	800
Total	\$400	2.0	%	\$677	2.0	%	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2017.

Georgia Power believes the need for working capital can be adequately met by utilizing the commercial paper program, lines of credit, short-term bank notes, and operating cash flows.

Credit Rating Risk

At September 30, 2017, Georgia 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 Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, and transmission.

The maximum potential collateral requirements under these contracts at September 30, 2017 were as follows:

	Maximum Potential Collateral Requirements (in millions)	
Credit Ratings		
At BBB- and/or Baa3	\$	87
Below BBB- and/or Baa3	\$	1,021

Included in these amounts are certain agreements that could require collateral in the event that Georgia Power or Alabama 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 Georgia Power to access capital markets and would be likely to impact the cost at which it does so.

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

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

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

Financing Activities

In March 2017, Georgia Power issued \$450 million aggregate principal amount of Series 2017A 2.00% Senior Notes due March 30, 2020 and \$400 million aggregate principal amount of Series 2017B 3.25% Senior Notes due March 30, 2027. The proceeds were used to repay a portion of Georgia Power's short-term indebtedness and for general corporate purposes, including Georgia Power's continuous construction program.

In April 2017, Georgia Power purchased and held \$27 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Fifth Series 1995. Subsequent to September 30, 2017, Georgia Power remarketed these bonds to the public.

In June 2017, Georgia Power repaid at maturity \$450 million aggregate principal amount of Series 2007B 5.70% Senior Notes.

In June 2017, Georgia Power entered into three floating rate bank loans in aggregate principal amounts of \$50 million, \$150 million, and \$100 million, with maturity dates of December 1, 2017, May 31, 2018, and June 28, 2018, respectively, which bear interest based on one-month LIBOR. Also in June 2017, Georgia Power borrowed \$500 million pursuant to an uncommitted bank credit arrangement, which bears interest at a rate agreed upon by Georgia Power and the bank from time to time and is payable on no less than 30 days' demand by the bank. The proceeds from these bank loans were used to repay a portion of Georgia Power's existing indebtedness and for working capital and other general corporate purposes, including Georgia Power's continuous construction program.

In August 2017, Georgia Power repaid \$250 million of the \$500 million aggregate principal amount outstanding pursuant to its uncommitted bank credit arrangement. Also in August 2017, Georgia Power amended its \$100 million floating rate bank loan to extend the maturity date from June 28, 2018 to October 26, 2018.

Also in August 2017, Georgia Power issued \$500 million aggregate principal amount of Series 2017C 2.00% Senior Notes due September 8, 2020. The proceeds were used to repay Georgia Power's \$50 million floating rate bank loan due December 1, 2017 and outstanding commercial paper borrowings and for general corporate purposes.

Also in August 2017, Georgia Power purchased and held \$38 million aggregate principal amount of Development Authority of Bartow County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Bowen Project), First Series 1997. Subsequent to September 30, 2017, Georgia Power remarketed these bonds to the public.

In September 2017, Georgia Power issued \$270 million aggregate principal amount of Series 2017A 5.00% Junior Subordinated Notes due October 1, 2077. The proceeds were used in October 2017 to redeem all 1.8 million shares (\$45 million aggregate liquidation amount) of Georgia Power's 6.125% Series Class A Preferred Stock and 2.25 million shares (\$225 million aggregate liquidation amount) of Georgia Power's 6.50% Series 2007A Preference Stock. In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Georgia 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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GULF POWER COMPANY

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	\$375	\$377	\$972	\$978
Wholesale revenues, non-affiliates	14	17	44	48
Wholesale revenues, affiliates	28	23	75	59
Other revenues	20	19	53	51
Total operating revenues	437	436	1,144	1,136
Operating Expenses:				
Fuel	127	141	323	342
Purchased power, non-affiliates	37	33	104	95
Purchased power, affiliates	2	3	13	9
Other operations and maintenance	81	86	252	239
Depreciation and amortization	42	49	95	129
Taxes other than income taxes	33	34	88	93
Loss on Plant Scherer Unit 3	—	—	33	—
Total operating expenses	322	346	908	907