SOUTHERN CO
Form 10-Q
August 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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 18th 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

	(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 þ 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 þ 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 þ (Response applicable to all registrants.)

Registrant	Description of Common Stock	Shares Outstanding at June 30, 2017
The Southern Company	Par Value $5 Per Share	999,474,028
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.

INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2017

INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2017

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DEFINITIONS

Term	Meaning
2012 MPSC CPCN Order	A detailed order issued by the Mississippi PSC in April 2012 confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing the acquisition, construction, and operation of the Kemper IGCC
2013 ARP	Alternative Rate Plan approved by the Georgia PSC in 2013 for Georgia Power for the years 2014 through 2016 and subsequently extended through 2019
AFUDC	Allowance for funds used during construction
Alabama Power	Alabama Power Company
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Atlanta Gas Light	Atlanta Gas Light Company, a wholly-owned subsidiary of Southern Company Gas
Baseload Act	State of Mississippi legislation designed to enhance the Mississippi PSC's authority to facilitate development and construction of baseload generation in the State of Mississippi
CCR	Coal combustion residuals
Clean Power Plan	Final action published by the EPA in 2015 that established guidelines for states to develop plans to meet EPA-mandated CO_2 emission rates or emission reduction goals for existing electric generating units
CO_2	Carbon dioxide
COD	Commercial operation date
Contractor 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
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
Heating Degree Days	A measure of weather, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Horizon Pipeline	Horizon Pipeline Company, LLC
IGCC	Integrated coal gasification combined cycle

IIC	Intercompany interchange contract
Illinois Commission	Illinois Commerce Commission, the state regulatory agency for Nicor Gas
IRC	Internal Revenue Code of 1986, as amended

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DEFINITIONS (continued)

Term	Meaning
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
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
PEP	Mississippi Power's Performance Evaluation Plan
Piedmont	Piedmont Natural Gas Company, Inc.
Pivotal Utility Holdings	Pivotal Utility Holdings, Inc., a wholly-owned subsidiary of Southern Company Gas, doing business as Elizabethtown Gas, Elkton Gas, and Florida City Gas
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Georgia Power's Plant Vogtle
PowerSecure	PowerSecure, Inc.
power pool	The operating arrangement whereby the integrated generating resources of the traditional electric operating companies and Southern Power (excluding subsidiaries) are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power purchase agreements, as well as, for Southern Power, contracts for differences that provide the owner of a renewable facility a certain fixed price for the electricity sold to the grid
PSC	Public Service Commission
PTC	Production tax credit
Rate CNP	Alabama Power's Rate Certificated New Plant

Rate CNP Compliance	Alabama Power's Rate Certificated New Plant Compliance

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DEFINITIONS (continued)

Term	Meaning
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
SMEPA	South Mississippi Electric Power Association (now known as Cooperative Energy)
SNG	Southern Natural Gas Company, L.L.C.
Southern Company	The Southern Company
Southern Company Gas	Southern Company Gas and its subsidiaries
Southern Company Gas Capital	Southern Company Gas Capital Corporation, a 100%-owned subsidiary of Southern Company Gas
Southern Company 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, 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;
-

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION
(continued)

- actions related to cost recovery for the Kemper IGCC, including 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, 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
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Operating Revenues:				
Retail electric revenues	$3,777	$3,748	$7,171	$7,124
Wholesale electric revenues	618	446	1,149	842
Other electric revenues	167	166	342	348
Natural gas revenues	684	—	2,214	—
Other revenues	184	99	326	137
Total operating revenues	5,430	4,459	11,202	8,451
Operating Expenses:				
Fuel	1,092	1,023	2,088	1,934
Purchased power	211	189	390	354
Cost of natural gas	232	—	951	—
Cost of other sales	114	58	203	77
Other operations and maintenance	1,301	1,099	2,631	2,206
Depreciation and amortization	754	569	1,469	1,110
Taxes other than income taxes	308	255	638	511
Estimated loss on Kemper IGCC	3,012	81	3,120	134
Total operating expenses	7,024	3,274	11,490	6,326
Operating Income (Loss)	(1,594)	1,185	(288)	2,125
Other Income and (Expense):				
Allowance for equity funds used during construction	58	45	115	98
Earnings (loss) from equity method investments	28	(1)	67	(1)
Interest expense, net of amounts capitalized	(424)	(293)	(840)	(539)
Other income (expense), net	(3)	(28)	(11)	(56)
Total other income and (expense)	(341)	(277)	(669)	(498)
Earnings (Loss) Before Income Taxes	(1,935)	908	(957)	1,627
Income taxes (benefit)	(587)	261	(273)	479
Consolidated Net Income (Loss)	(1,348)	647	(684)	1,148
Less:				
Dividends on preferred and preference stock of subsidiaries	11	12	22	23
Net income attributable to noncontrolling interests	22	12	17	13
Consolidated Net Income (Loss) Attributable to Southern Company	$(1,381)	$623	$(723)	$1,112
Common Stock Data:				
Earnings (loss) per share —				
Basic	$(1.38)	$0.67	$(0.73)	$1.20
Diluted	$(1.37)	$0.66	$(0.72)	$1.20
Average number of shares of common stock outstanding (in millions)				
Basic	998	934	996	925
Diluted	1,005	940	1,003	931
Cash dividends paid per share of common stock	$0.5800	$0.5600	$1.1400	$1.1025

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 June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Consolidated Net Income (Loss)	$(1,348)	$647	$(684)	$1,148
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $23, $(13), $17, and $(85), respectively	38	(20)	29	(137)
Reclassification adjustment for amounts included in net income, net of tax of $(25), $10, $(26), and $11, respectively	(41)	16	(42)	18
Pension and other postretirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $1, $-, $1, and $1, respectively	1	1	2	2
Total other comprehensive income (loss)	(2)	(3)	(11)	(117)
Comprehensive Income (Loss)	(1,350)	644	(695)	1,031
Less:				
Dividends on preferred and preference stock of subsidiaries	11	12	22	23
Comprehensive income attributable to noncontrolling interests	22	12	17	13
Consolidated Comprehensive Income (Loss) Attributable to Southern Company	$(1,383)	$620	$(734)	$995

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 Six Months Ended June 30,	
	2017	2016
	(in millions)	
Operating Activities:		
Consolidated net income (loss)	$(684)	$1,148
Adjustments to reconcile consolidated net income (loss) to net cash provided from operating activities —		
Depreciation and amortization, total	1,683	1,306
Deferred income taxes	(270)	279
Allowance for equity funds used during construction	(115)	(98)
Pension, postretirement, and other employee benefits	(83)	(56)
Settlement of asset retirement obligations	(87)	(66)
Stock based compensation expense	73	69
Hedge settlements	1	(201)
Estimated loss on Kemper IGCC	3,120	134
Income taxes receivable, non-current	(58)	—
Other, net	(63)	63
Changes in certain current assets and liabilities —		
-Receivables	110	(197)
-Prepayments	(61)	(28)
-Fossil fuel for generation	6	70
-Natural gas for sale, net of temporary LIFO liquidation	223	—
-Other current assets	(36)	(25)
-Accounts payable	(353)	(71)
-Accrued taxes	(132)	74
-Accrued compensation	(331)	(222)
-Retail fuel cost over recovery	(187)	(54)
-Other current liabilities	(14)	15
Net cash provided from operating activities	2,742	2,140
Investing Activities:		
Business acquisitions, net of cash acquired	(1,062)	(897)
Property additions	(3,398)	(3,486)
Investment in restricted cash	(16)	(8,608)
Distribution of restricted cash	27	649
Nuclear decommissioning trust fund purchases	(388)	(585)
Nuclear decommissioning trust fund sales	383	580
Cost of removal, net of salvage	(128)	(99)
Change in construction payables, net	(117)	(260)
Investment in unconsolidated subsidiaries	(116)	—
Payments pursuant to LTSAs	(132)	(82)
Other investing activities	58	113
Net cash used for investing activities	(4,889)	(12,675)
Financing Activities:		
Increase in notes payable, net	30	471
Proceeds —		

Long-term debt	2,958	12,038
Common stock	417	1,383
Short-term borrowings	1,004	—
Redemptions and repurchases —		
Long-term debt	(1,478)	(1,272)
Preference stock	(150)	—
Short-term borrowings	—	(475)
Distributions to noncontrolling interests	(40)	(11)
Capital contributions from noncontrolling interests	73	179
Purchase of membership interests from noncontrolling interests	—	(129)
Payment of common stock dividends	(1,134)	(1,023)
Other financing activities	(75)	(133)
Net cash provided from financing activities	1,605	11,028
Net Change in Cash and Cash Equivalents	(542)	493
Cash and Cash Equivalents at Beginning of Period	1,975	1,404
Cash and Cash Equivalents at End of Period	$1,433	$1,897
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $55 and $61 capitalized for 2017 and 2016, respectively)	$833	$458
Income taxes, net	1	(138)
Noncash transactions — Accrued property additions at end of period	629	549

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 BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$1,433	$1,975
Receivables —		
Customer accounts receivable	1,600	1,565
Energy marketing receivables	482	623
Unbilled revenues	593	706
Under recovered regulatory clause revenues	26	18
Income taxes receivable, current	544	544
Other accounts and notes receivable	513	377
Accumulated provision for uncollectible accounts	(52)	(43)
Materials and supplies	1,461	1,462
Fossil fuel for generation	624	689
Natural gas for sale	477	631
Prepaid expenses	361	364
Other regulatory assets, current	569	581
Other current assets	206	230
Total current assets	8,837	9,722
Property, Plant, and Equipment:		
In service	101,021	98,416
Less: Accumulated depreciation	30,667	29,852
Plant in service, net of depreciation	70,354	68,564
Nuclear fuel, at amortized cost	892	905
Construction work in progress	7,440	8,977
Total property, plant, and equipment	78,686	78,446
Other Property and Investments:		
Goodwill	6,271	6,251
Equity investments in unconsolidated subsidiaries	1,632	1,549
Other intangible assets, net of amortization of $126 and $62 at June 30, 2017 and December 31, 2016, respectively	929	970
Nuclear decommissioning trusts, at fair value	1,722	1,606
Leveraged leases	782	774
Miscellaneous property and investments	230	270
Total other property and investments	11,566	11,420
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,325	1,629
Unamortized loss on reacquired debt	215	223
Other regulatory assets, deferred	6,668	6,851
Other deferred charges and assets	1,387	1,406
Total deferred charges and other assets	9,595	10,109
Total Assets	$108,684	$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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THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholders' Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	$3,031	$2,587
Notes payable	3,274	2,241
Energy marketing trade payables	534	597
Accounts payable	1,920	2,228
Customer deposits	546	558
Accrued taxes —		
Accrued income taxes	125	193
Unrecognized tax benefits	400	385
Other accrued taxes	490	667
Accrued interest	508	518
Accrued compensation	584	915
Asset retirement obligations, current	300	378
Liabilities from risk management activities, net of collateral	71	107
Acquisitions payable	—	489
Other regulatory liabilities, current	169	236
Other current liabilities	799	818
Total current liabilities	12,751	12,917
Long-term Debt	43,885	42,629
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	13,529	14,092
Deferred credits related to income taxes	212	219
Accumulated deferred ITCs	2,301	2,228
Employee benefit obligations	2,156	2,299
Asset retirement obligations, deferred	4,297	4,136
Accrued environmental remediation	399	397
Other cost of removal obligations	2,706	2,748
Other regulatory liabilities, deferred	233	258
Other deferred credits and liabilities	805	880
Total deferred credits and other liabilities	26,638	27,257
Total Liabilities	83,274	82,803
Redeemable Preferred Stock of Subsidiaries	118	118
Redeemable Noncontrolling Interests	51	164
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value $5 per share —		
Authorized — 1.5 billion shares		
Issued — June 30, 2017: 1.0 billion shares		
— December 31, 2016: 991 million shares		
Treasury — June 30, 2017: 0.9 million shares		
— December 31, 2016: 0.8 million shares		
Par value	4,997	4,952

Paid-in capital	10,106	9,661
Treasury, at cost	(34)	(31)
Retained earnings	8,494	10,356
Accumulated other comprehensive loss	(191)	(180)
Total Common Stockholders' Equity	23,372	24,758
Preferred and Preference Stock of Subsidiaries	462	609
Noncontrolling Interests	1,407	1,245
Total Stockholders' Equity	25,241	26,612
Total Liabilities and Stockholders' Equity	$108,684	$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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SECOND QUARTER 2017 vs. SECOND 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.

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.

Although the ability to achieve a negotiated settlement is uncertain, Mississippi Power intends to pursue any available settlement alternatives. In addition, the Kemper Settlement Order provides that, in the event a settlement agreement is not reached, the Mississippi PSC reserves its right to take any appropriate steps, including issuing an order to show cause as to why the CPCN for the Kemper IGCC should not be revoked.

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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 grants from the DOE received on April 8, 2016 (Additional DOE Grants). Mississippi Power recorded pre-tax charges to income for revisions to the cost estimate subject to the construction cost cap totaling $196 million ($121 million after tax) in the second quarter through May 31, 2017 and a total of $305 million ($188 million after tax) for year-to-date through May 31, 2017. In the aggregate, Mississippi Power incurred charges of $3.07 billion ($1.89 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through May 31, 2017. The May 31, 2017 cost estimate included approximately $175 million of estimated costs to be incurred beyond the then-estimated in-service date of June 30, 2017 that were expected to be subject to the $2.88 billion cost cap.

At June 30, 2017, approximately $3.3 billion in actual Kemper IGCC costs were not reflected in Mississippi Power's retail and wholesale rates, of which $0.5 billion was related to the combined cycle and associated facilities and $2.8 billion was related to the gasification portions 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax 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 $3.0 billion ($2.1 billion after tax) for the second quarter 2017 and $3.1 billion ($2.2 billion after tax) for the six months ended June 30, 2017. In the aggregate, since the Kemper IGCC project started, Mississippi Power has incurred charges of $6.0 billion ($3.9 billion after tax) through June 30, 2017.

As of June 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 SMEPA. 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.

Nuclear Construction

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 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

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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. 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.

Georgia Power and the other Vogtle Owners are continuing to conduct comprehensive schedule and cost-to-complete assessments, as well as cancellation cost assessments, to determine the impact of the EPC Contractor's bankruptcy filing on the construction cost and schedule for Plant Vogtle Units 3 and 4. 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, and currently expects to include its recommendation in its seventeenth Vogtle Construction Monitoring (VCM) report to be filed with the Georgia PSC in late August 2017.

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 also is dependent on the completion of the assessments described above, as well as the related regulatory treatment, and 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 preliminary cost-to-complete and cancellation cost assessments for Plant Vogtle Units 3 and 4.

RESULTS OF OPERATIONS

Net Income (Loss)

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(2,004)	N/M	$(1,835)	N/M

N/M - Not meaningful

Consolidated net loss attributable to Southern Company was $(1.4) billion ($(1.38) per share) for the second quarter 2017 compared to net income of $623 million ($0.67 per share) for the corresponding period in 2016. The decrease was primarily due to charges of $3.0 billion and $81 million in the second quarter 2017 and 2016, respectively, related to the Kemper IGCC at Mississippi Power. Also contributing to the change were increases in renewable energy sales at Southern Power, higher retail electric revenues resulting from increases in base rates, and $49 million in net income from Southern Company Gas, which was acquired on July 1, 2016, partially offset by higher interest expense.

Consolidated net loss attributable to Southern Company was $(723) million ($(0.73) per share) for year-to-date 2017 compared to net income of $1.1 billion ($1.20 per share) for the corresponding period in 2016. The decrease was primarily due to charges of $3.1 billion and $134 million for year-to-date 2017 and 2016, respectively, related to the Kemper IGCC at Mississippi Power. Also contributing to the change was $288 million in net income from Southern Company Gas, increases in renewable energy sales at Southern Power, and higher retail electric revenues

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resulting from increases in base rates, partially offset by higher interest expense and a decrease in retail electric revenues resulting from milder weather for year-to-date 2017 compared to the corresponding period in 2016.
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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$29	0.8	$47	0.7

In the second quarter 2017, retail electric revenues were $3.8 billion compared to $3.7 billion for the corresponding period in 2016. For year-to-date 2017, retail revenues were $7.2 billion compared to $7.1 billion for the corresponding period in 2016.
Details of the changes in retail electric revenues were as follows:

	Second Quarter 2017		Year-to-Date 2017	
	(in millions)	(% change)	(in millions)	(% change)
Retail electric – prior year	$3,748		$7,124	
Estimated change resulting from –				
Rates and pricing	81	2.2	200	2.8
Sales decline	(12)	(0.3)	(22)	(0.3)
Weather	(51)	(1.4)	(189)	(2.6)
Fuel and other cost recovery	11	0.3	58	0.8
Retail electric – current year	$3,777	0.8 %	$7,171	0.7 %

Revenues associated with changes in rates and pricing increased in the second 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 January 1, 2017, the recovery of Plant Vogtle Units 3 and 4 construction financing costs under the NCCR tariff at Georgia Power, and an ECO Plan rate increase at Mississippi Power implemented in the third quarter 2016. Additionally, the second quarter 2017 increase was partially offset by the rate pricing effect of decreased customer usage and lower contributions from commercial and industrial customers under a rate plan for variable demand-driven pricing at Georgia Power.
See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Alabama Power" and " – Georgia Power – Rate Plans" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements herein for additional information.
Revenues attributable to changes in sales decreased in the second quarter 2017 when compared to the corresponding period in 2016. Industrial KWH sales decreased 0.8% in the second quarter 2017 primarily in the paper, primary metals, and transportation sectors, partially offset by increased sales in the chemicals sector. Despite a more stable dollar and improving global economy, the industrial sector remains constrained by economic policy uncertainty. Weather-adjusted residential KWH sales decreased 0.4% in the second quarter 2017 primarily due to decreased customer usage primarily resulting from increased efficiency improvements in residential appliances and lighting, partially offset by customer growth. Weather-adjusted commercial KWH sales were flat in the second quarter 2017 primarily due to decreased customer usage resulting from an increase in electronic commerce transactions and energy saving initiatives, offset by customer growth.
Revenues attributable to changes in sales decreased for year-to-date 2017 when compared to the corresponding period in 2016. Industrial KWH sales decreased 1.5% for year-to-date 2017 primarily in the paper, stone, clay, and

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glass, and transportation sectors. Despite a more stable dollar and improving global economy, the industrial sector remains constrained by economic policy uncertainty. Weather-adjusted commercial KWH sales decreased 0.9% for year-to-date 2017 primarily due to decreased customer usage resulting from an increase in electronic commerce transactions and energy saving initiatives, partially offset by customer growth. Weather-adjusted residential KWH sales increased 0.2% for year-to-date 2017 primarily due to customer growth, partially offset by decreased customer usage primarily resulting from efficiency improvements in residential appliances and lighting.

Fuel and other cost recovery revenues increased $11 million and $58 million in the second quarter and year-to-date 2017, respectively, when compared to the corresponding periods in 2016 primarily due to an increase in natural gas 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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$172	38.6	$307	36.5

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

In the second quarter 2017, wholesale electric revenues were $618 million compared to $446 million for the corresponding period in 2016. This increase was primarily related to a $158 million increase in energy revenues and a $14 million increase in capacity revenues. For year-to-date 2017, wholesale electric revenues were $1.1 billion compared to $842 million for the corresponding period in 2016. This increase was primarily related to a $276 million increase in energy revenues and a $31 million increase in capacity revenues. The increases in energy revenues primarily related to Southern Power increases in renewable energy sales arising from new solar and wind facilities, sales from new natural gas PPAs, and 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 load requirements at Southern Power.

Natural Gas Revenues

Natural gas revenues represent sales from the natural gas distribution utilities and certain non-regulated operations of Southern Company Gas. Following the Merger, $684 million and $2.2 billion of natural gas revenues are included in the consolidated statements of income for the second quarter and year-to-date 2017, respectively.

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

Other Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$85	85.9	$189	N/M

N/M - Not meaningful

In the second quarter 2017, other revenues were $184 million compared to $99 million for the corresponding period in 2016. For year-to-date 2017, other revenues were $326 million compared to $137 million for the corresponding period in 2016. These increases were primarily due to increases of $60 million and $130 million for the second quarter and year-to-date 2017, respectively, from products and services at PowerSecure, which was acquired on May 9, 2016, and $32 million and $62 million for the second quarter and year-to-date 2017, respectively, of revenues from gas marketing products and services at Southern Company Gas following the Merger.

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

Fuel and Purchased Power Expenses

	Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 69	6.7	$ 154	8.0
Purchased power	22	11.6	36	10.2
Total fuel and purchased power expenses	$ 91		$ 190	

In the second quarter 2017, total fuel and purchased power expenses were $1.3 billion compared to $1.2 billion for the corresponding period in 2016. The increase was primarily the result of a $154 million increase in the average cost of fuel and purchased power primarily due to higher natural gas prices, partially offset by a $63 million decrease primarily due to the volume of KWHs purchased.

For year-to-date 2017, total fuel and purchased power expenses were $2.5 billion compared to $2.3 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 an $87 million decrease primarily due to the volume of KWHs 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.

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

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in billions of KWHs)	49	45	93	89
Total purchased power (in billions of KWHs)	3	4	7	8
Sources of generation (percent) —				
Coal	31	32	30	30
Nuclear	16	16	16	17
Gas	43	48	45	47
Hydro	3	2	3	4
Other	7	2	6	2
Cost of fuel, generated (in cents per net KWH) —				
Coal	2.77	3.20	2.82	3.22
Nuclear	0.80	0.82	0.80	0.82
Gas	2.94	2.24	2.93	2.20
Average cost of fuel, generated (in cents per net KWH)	2.49	2.33	2.49	2.28
Average cost of purchased power (in cents per net KWH)(*)	7.70	5.03	6.85	5.14

(*) 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 second quarter 2017, fuel expense was $1.1 billion compared to $1.0 billion for the corresponding period in 2016. The increase was primarily due to a 31.3% increase in the average cost of natural gas per KWH generated and a 3.0% increase in the volume of KWHs generated by coal, partially offset by a 13.4% decrease in the average cost of coal per KWH generated and a 4.8% decrease in the volume of KWHs generated by natural gas.

For year-to-date 2017, fuel expense was $2.1 billion compared to $1.9 billion for the corresponding period in 2016. The increase was primarily due to a 33.2% increase in the average cost of natural gas per KWH generated and a 4.1% increase in the volume of KWHs generated by coal, partially offset by a 12.4% decrease in the average cost of coal per KWH generated and a 6.6% decrease in the volume of KWHs generated by natural gas.

Purchased Power

In the second quarter 2017, purchased power expense was $211 million compared to $189 million for the corresponding period in 2016. The increase was primarily due to a 53.1% increase in the average cost per KWH purchased, primarily as a result of higher natural gas prices, partially offset by a 28.0% decrease in the volume of KWHs purchased.

For year-to-date 2017, purchased power expense was $390 million compared to $354 million for the corresponding period in 2016. The increase was primarily due to a 33.3% increase in the average cost per KWH purchased, primarily as a result of higher natural gas prices, partially offset by a 16.8% decrease in the volume of KWHs purchased.

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

Cost of Natural Gas

Cost of natural gas represents the cost of natural gas sold by the natural gas distribution utilities and certain non-regulated operations of Southern Company Gas. Following the Merger, $232 million and $951 million of natural gas costs were included in the consolidated statements of income for the second quarter and year-to-date 2017, respectively.

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

Cost of Other Sales

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$56	96.6%	$126	N/M

N/M - Not meaningful

In the second quarter 2017, cost of other sales was $114 million compared to $58 million for the corresponding period in 2016. For year-to-date 2017, cost of other sales was $203 million compared to $77 million for the corresponding period in 2016. These increases were primarily due to 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. See Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information.

Other Operations and Maintenance Expenses

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$202	18.4	$425	19.3

In the second quarter 2017, other operations and maintenance expenses were $1.3 billion compared to $1.1 billion for the corresponding period in 2016. The increase was primarily due to $213 million in operations and maintenance expenses at Southern Company Gas following the Merger, a $19 million increase associated with new solar, wind, and gas facilities at Southern Power, and a $15 million increase in operations and maintenance expenses at PowerSecure, which was acquired on May 9, 2016. These increases were partially offset by a $24 million decrease in acquisition-related expenses and a $7 million decrease in scheduled outage and maintenance costs at generation facilities.

For year-to-date 2017, other operations and maintenance expenses were $2.6 billion compared to $2.2 billion for the corresponding period in 2016. The increase was primarily due to increases of $467 million and $36 million in operations and maintenance expenses from Southern Company Gas and PowerSecure, respectively, a $35 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 by a $46 million decrease in scheduled outage and maintenance costs at generation facilities, a $26 million decrease in acquisition-related expenses, a $19 million increase in gains from sales of integrated transmission system assets at Georgia Power, a $16 million decrease in customer accounts, service, and sales costs primarily associated with demand-side management costs related to the timing of new programs at Georgia Power, and a $14 million decrease in employee compensation and benefits including pension costs.

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

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Condensed Financial Statements under "Southern Company" herein for additional information related to the Merger and the acquisition of PowerSecure.

Depreciation and Amortization

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$185	32.5	$359	32.3

In the second quarter 2017, depreciation and amortization was $754 million compared to $569 million for the corresponding period in 2016. Following the Merger, $125 million in depreciation and amortization for Southern Company Gas is included in the consolidated statements of income for the second quarter 2017. Additionally, the increase reflects $61 million related to additional plant in service at the traditional electric operating companies and Southern Power, partially offset by $8 million more of a reduction in depreciation in the second quarter 2017 compared to the corresponding period in 2016 at Gulf Power, as authorized in its 2013 rate case settlement approved by the Florida PSC.

For year-to-date 2017, depreciation and amortization was $1.5 billion compared to $1.1 billion for the corresponding period in 2016. Following the Merger, $244 million in depreciation and amortization for Southern Company Gas is included in the consolidated statements of income for year-to-date 2017. Additionally, the increase reflects $122 million related to additional plant in service at the traditional electric operating companies and Southern Power, partially offset by $28 million more of a reduction in depreciation for year-to-date 2017 compared to the corresponding period in 2016 at Gulf Power, as authorized in its 2013 rate case settlement approved by the Florida PSC.

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

Taxes Other Than Income Taxes

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$53	20.8	$127	24.9

In the second quarter 2017, taxes other than income taxes were $308 million compared to $255 million for the corresponding period in 2016. For year-to-date 2017, taxes other than income taxes were $638 million compared to $511 million for the corresponding period in 2016. These increases were primarily related to $44 million and $114 million in the second quarter and year-to-date 2017, respectively, in taxes other than income taxes associated with Southern Company Gas following the Merger.

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

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Estimated Loss on Kemper IGCC

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$2,931	N/M	$2,986	N/M

N/M - Not meaningful

Prior to the project suspension on June 28, 2017, estimated probable losses on the Kemper IGCC of $196 million and $305 million were recorded at Mississippi Power in the second quarter and year-to-date 2017, respectively, compared to $81 million and $134 million in the second quarter and year-to-date 2016, respectively. These losses reflected revisions of estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC prior to project suspension 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 CO_2 pipeline facilities, AFUDC, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on customers relative to the original proposal for the CPCN) (Cost Cap Exceptions).

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 Settlement Order, 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, which includes estimated costs associated with the gasification portions of the plant and lignite mine.

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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$13	28.9	$17	17.3

In the second quarter 2017, AFUDC equity was $58 million compared to $45 million in the corresponding period in 2016. For year-to-date 2017, AFUDC equity was $115 million compared to $98 million in the corresponding period in 2016. These increases primarily resulted from a higher AFUDC rate and an increase in Kemper IGCC CWIP subject to AFUDC prior to project suspension at Mississippi Power.

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.

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Earnings from Equity Method Investments

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$29	N/M	$68	N/M

N/M - Not meaningful

In the second quarter and year-to-date 2017, earnings from equity method investments were $28 million and $67 million, respectively, primarily related to earnings from Southern Company Gas' equity method investment in SNG effective September 2016.

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

Interest Expense, Net of Amounts Capitalized

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$131	44.7	$301	55.8

In the second quarter 2017, interest expense, net of amounts capitalized was $424 million compared to $293 million in the corresponding period in 2016. For year-to-date 2017, interest expense, net of amounts capitalized was $840 million compared to $539 million in the corresponding period in 2016. These increases were primarily due to an increase in average outstanding long-term debt primarily related to the Merger and the funding of Southern Power's acquisitions and construction projects. In addition, following the Merger, $48 million and $94 million in interest expense of Southern Company Gas was included in the consolidated statements of income for the second quarter and year-to-date 2017, respectively.

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

Other Income (Expense), Net

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$25	89.3	$45	80.4

In the second quarter 2017, other income (expense), net was $(3) million compared to $(28) million for the corresponding period in 2016. For year-to-date 2017, other income (expense), net was $(11) million compared to $(56) million for the corresponding period in 2016. These changes were primarily due to expenses incurred in 2016 associated with bridge financing for the Merger. These changes also include increases of $99 million and $116 million in currency losses arising from a translation of euro-denominated fixed-rate notes into U.S. dollars for the second 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 (Benefit)

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(848)	N/M	$(752)	N/M

N/M - Not meaningful

In the second quarter 2017, income tax benefit was $587 million compared to income tax expense of $261 million for the corresponding period in 2016. The decrease was primarily due to $865 million in tax benefits related to the estimated probable losses on the Kemper IGCC at Mississippi Power, partially offset by $31 million in taxes at Southern Company Gas following the Merger.

For year-to-date 2017, income tax benefit was $273 million compared to income tax expense of $479 million for the corresponding period in 2016, primarily due to $886 million in tax benefits related to the estimated probable losses on the Kemper IGCC at Mississippi Power. In addition, the change reflects $180 million in taxes at Southern Company Gas following the Merger, partially offset by a net increase in tax benefits of $16 million from renewable tax credits at Southern Power.

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

FUTURE EARNINGS POTENTIAL

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

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in regional and global economic conditions, which may impact future earnings. In addition, the volatility of natural gas prices has a significant impact on the natural gas distribution utilities' customer rates, long-term competitive position against other energy sources, and the ability of Southern Company Gas' gas marketing services and wholesale gas services businesses to capture value from locational and seasonal spreads. Additionally, changes in commodity prices subject a significant portion of Southern Company Gas' operations to earnings variability.

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

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

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis for the traditional electric operating companies and the natural gas distribution utilities or through long-term wholesale agreements for the traditional electric operating companies and Southern Power. Environmental compliance spending over the next several years may differ materially from the amounts estimated. The timing, specific requirements, and estimated costs could change as environmental statutes and regulations are adopted or modified, as compliance plans are revised or updated, and as legal challenges to rules are completed. Further, higher costs that are recovered through regulated rates could contribute to reduced demand for electricity and natural gas, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company in Item 7 and Note 3 to the financial statements of Southern Company 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 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. 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.

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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 June 6, 2017, the EPA proposed a 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 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

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, it remains a separate, ongoing matter.

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.

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 –

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Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information regarding fuel cost recovery for the traditional electric operating companies.

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

Renewables

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

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 six months ended June 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.

Mississippi Power placed in service two solar projects in January 2017 and June 2017. A third solar project is expected to be placed in service in the third quarter 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 June 9, 2017, Mississippi Power submitted a CPCN to the Mississippi PSC for the approval of construction, operation, and maintenance of a 52.5-MW solar energy generating facility, which, if approved, 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.

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. Under 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 consists 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.

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 within the 11-month statutory time limit, after which rate adjustments will be effective. The ultimate outcome of this matter cannot be determined at this time.

Construction Program

Overview

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

The 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). Georgia Power and the other Vogtle Owners are continuing to conduct comprehensive schedule and cost-to-complete assessments, as well as cancellation cost assessments, to determine the impact of the EPC Contractor's bankruptcy filing on the construction cost and schedule for Plant Vogtle Units 3 and 4. 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, and currently expects to include its recommendation in its seventeenth VCM report to be filed with the Georgia PSC in late August 2017. On June 21, 2017, the Mississippi PSC directed Mississippi Power to pursue a settlement under which the Kemper IGCC would be operated as a natural gas plant rather than an IGCC plant and, 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 plant. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information. For additional information about costs relating to Southern Power's acquisitions that involve construction of renewable energy facilities, see Note 12 to the financial statements of Southern Company under "Southern Power – Construction Projects" in Item 8 of the Form 10-K and Note (I) to the Condensed Financial Statements under "Southern Power" herein. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Southern Company Gas – Regulatory Infrastructure Programs" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Southern Company Gas – Regulatory Infrastructure Programs" herein for information regarding infrastructure improvement programs at the natural gas distribution utilities.

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

Integrated Coal Gasification Combined Cycle

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 Mississippi Public Utilities Staff, 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.

The remainder of the plant includes the gasifiers and the gas clean-up facilities. 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 CO_2, 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. Most recently, 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 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. The Kemper Settlement Order provides that any related settlement agreement be filed within 45 days from the effective date of the Kemper Settlement Order. If a settlement agreement is filed, a hearing will be set 45 days from the date of the settlement's filing, and the appropriate scheduling order will be established.

Although the ability to achieve a negotiated settlement is uncertain, Mississippi Power intends to pursue any available settlement alternatives. In addition, the Kemper Settlement Order provides that, in the event a settlement agreement is not reached, the Mississippi PSC reserves its right to take any appropriate steps, including issuing an order to show cause as to why the CPCN for the Kemper IGCC should not be revoked.

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. Mississippi Power recorded pre-tax charges to income for revisions to the cost estimate subject to the construction cost cap totaling \$196 million (\$121 million after tax) in the second quarter through May 31, 2017 and a total of \$305 million (\$188 million after tax) for year-to-date through May 31, 2017. In the aggregate, Mississippi Power incurred charges of \$3.07 billion (\$1.89 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through May 31, 2017. The May 31, 2017 cost estimate included approximately \$175 million of estimated costs to be incurred beyond the then-estimated in-service date of June 30, 2017 that were expected to be subject to the \$2.88 billion cost cap.

At June 30, 2017, approximately $3.3 billion in actual Kemper IGCC costs were not reflected in Mississippi Power's retail and wholesale rates, of which $0.5 billion was related to the combined cycle and associated facilities and $2.8 billion was related to the gasification portions 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax 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 $3.0 billion ($2.1 billion after tax) for the second quarter 2017 and $3.1 billion ($2.2 billion after tax) for the six months ended June 30, 2017. In the aggregate, since the Kemper IGCC project started, Mississippi Power has incurred charges of $6.0 billion ($3.9 billion after tax) through June 30, 2017.

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

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 CO_2 contract with Treetop and alleges fraudulent misrepresentation, fraudulent concealment, civil conspiracy, and breach of contract on the part of Mississippi Power, Southern Company, and SCS and seeks compensatory damages of $100 million, as well as unspecified punitive damages. Southern Company, Mississippi Power, and SCS have moved to compel arbitration pursuant to the terms of the CO_2 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 (i) 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, with these amounts paid to the EPC Contractor, except that amounts accrued for Fluor Corporation (Fluor) were paid directly to Fluor; (ii) the EPC Contractor provided certain engineering, procurement, and management services for Plant Vogtle Units 3 and 4, to the same extent as contemplated by the Vogtle 3 and 4 Agreement, and Georgia Power, on behalf of the Vogtle Owners, made payments of $5.4 million per week for these services; (iii) Georgia Power had the right to make payments, on behalf of the Vogtle Owners, directly to subcontractors and vendors who had accounts past due with the EPC Contractor; (iv) the EPC Contractor used commercially reasonable efforts to provide information reasonably requested by Georgia Power as was necessary to continue construction and investigation of the

completion status of Plant Vogtle Units 3 and 4; (v) the EPC Contractor rejected or accepted the Vogtle 3 and 4 Agreement by the termination of the Interim Assessment Agreement; and (vi) Georgia Power did not exercise any remedies against Toshiba under the Toshiba Guarantee. Under the Interim Assessment Agreement, all parties expressly reserved all rights and remedies under the Vogtle 3 and 4 Agreement and all related security and collateral under applicable law.

The Interim Assessment Agreement, as amended, expired on July 27, 2017. Georgia Power's aggregate liability for the Vogtle Owners under the Interim Assessment Agreement totaled approximately $650 million, of which $552 million had been paid or accrued as of June 30, 2017. Georgia Power's proportionate share of this aggregate liability totaled approximately $297 million.

Subsequent to the EPC Contractor bankruptcy filing, a number of subcontractors to the EPC Contractor, including Fluor Enterprises, Inc., a subsidiary of Fluor, 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 July 31, 2017, of the Vogtle Owners for the removal of subcontractor liens and payment of other EPC Contractor pre-petition accounts payable to total approximately $400 million, of which $354 million had been paid or accrued as of June 30, 2017. Georgia Power's proportionate share of this aggregate liability totaled approximately $183 million.

On June 9, 2017, Georgia Power and the other Vogtle Owners and Toshiba entered 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, 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 June 23, 2017, Toshiba released a revised outlook for fiscal year 2016, which reflected a negative shareholders' equity balance of approximately $5 billion as of March 31, 2017, and announced that its independent audit process was continuing. Toshiba has also 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.

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 June 30, 2017, Georgia Power had recovered approximately $1.4 billion of financing costs.

On December 20, 2016, the Georgia PSC voted to approve a settlement agreement (Vogtle Cost Settlement Agreement) resolving the following prudence matters: (i) none of the $3.3 billion of costs incurred through December 31, 2015 and reflected in the fourteenth VCM report will be disallowed from rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement is reasonable and prudent and none of the amounts paid or to be paid pursuant to the Contractor Settlement Agreement should be disallowed from rate base on the basis of imprudence; (iii) financing costs on verified and approved capital costs will be deemed prudent provided they are incurred prior to December 31, 2019 and December 31, 2020 for Plant Vogtle Units 3 and 4, respectively; and (iv) (a) the in-service capital cost forecast will be adjusted to $5.680 billion (Revised Forecast), which includes a contingency of $240 million above Georgia Power's then current forecast of $5.440 billion, (b) capital costs incurred up to the Revised Forecast will be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, and (c) Georgia Power would have the burden to show that any capital costs above the Revised Forecast are reasonable and prudent.

Under the terms of the Vogtle Cost Settlement Agreement, the certified in-service capital cost for purposes of calculating the NCCR tariff will remain at $4.418 billion. Construction capital costs above $4.418 billion will accrue AFUDC through the date each unit is placed in service. The ROE used to calculate the NCCR tariff was reduced from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016. For purposes of the AFUDC calculation, the ROE on costs between $4.418 billion and $5.440 billion will also be 10.00% and the ROE on any amounts above $5.440 billion would be Georgia Power's average cost of long-term debt. If the Georgia PSC adjusts Georgia Power's ROE rate setting point in a rate case prior to Plant Vogtle Units 3 and 4 being placed into retail rate base, then the ROE for purposes of calculating both the NCCR tariff and AFUDC will likewise be 95 basis points lower than the revised ROE rate setting point. If Plant Vogtle Units 3 and 4 are not placed in service by December 31, 2020, then (i) the ROE for purposes of calculating the NCCR tariff will be reduced an additional 300 basis points, or $8 million per month, and may, at the Georgia PSC's discretion, be accrued to be used for the benefit of customers, until such time as the units are placed in service and (ii) the ROE used to calculate AFUDC will be Georgia Power's average cost of long-term debt.

Under the terms of the Vogtle Cost Settlement Agreement, the Georgia PSC will determine, for retail ratemaking purposes, the process of transitioning Plant Vogtle Units 3 and 4 from a construction project to an operating plant no later than Georgia Power's base rate case required to be filed by July 1, 2019.

The Georgia PSC has approved fifteen VCM reports covering the periods through June 30, 2016, including construction capital costs incurred, which through that date totaled $3.7 billion. Georgia Power filed its sixteenth VCM report, covering the period from July 1 through December 31, 2016, requesting approval of $222 million of construction capital costs incurred during that period, with the Georgia PSC on February 27, 2017.

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

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Revised Cost and Schedule

Georgia Power and the other Vogtle Owners are continuing to conduct comprehensive schedule and cost-to-complete assessments, as well as cancellation cost assessments, to determine the impact of the EPC Contractor's bankruptcy filing on the construction cost and schedule for Plant Vogtle Units 3 and 4. Georgia Power's preliminary assessment results indicate that its proportionate share of the remaining estimated cost to complete Plant Vogtle Units 3 and 4 ranges as follows:

Preliminary in-service dates		
Unit 3	February 2021	– March 2022
Unit 4	February 2022	– March 2023
	(in billions)	
Preliminary estimated cost to complete	$3.9	– $4.6
CWIP as of June 30, 2017	4.5	4.5
Guarantee Obligations	(1.7)	(1.7)
Estimated capital costs	$6.7	– $7.4
Vogtle Cost Settlement Agreement Revised Forecast	(5.7)	(5.7)
Estimated net additional capital costs	$1.0	– $1.7

Georgia Power's estimates for cost to complete and schedule are based on preliminary analysis and remain subject to further refinement of labor productivity and consumable and commodity quantities and costs.

Georgia Power's estimated financing costs during the construction period total approximately $3.1 billion to $3.5 billion, of which approximately $1.4 billion had been incurred through June 30, 2017.

Georgia Power's preliminary cancellation cost estimate results indicate that its proportionate share of the estimated cancellation costs is approximately $400 million. As a result, as of June 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:

	Preliminary Cancellation Cost Estimate
	(in billions)
CWIP as of June 30, 2017	$ 4.5
Financing costs collected, net of tax	1.4
Cancellation costs(*)	0.4
Total	$ 6.3

(*) 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, and currently expects to include its recommendation in its seventeenth VCM report to be filed with the Georgia PSC in late August 2017.

The ultimate outcome of these matters is dependent on the completion of the assessments described above, as well as the related regulatory treatment, and cannot be determined at this time.

Other Matters

As of June 30, 2017, Georgia Power had borrowed $2.6 billion related to Plant Vogtle Units 3 and 4 costs through a loan guarantee agreement between Georgia Power and the DOE and a multi-advance credit facility among Georgia Power, the DOE, and the FFB. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information, including applicable covenants, events of default, mandatory prepayment events, and conditions to borrowing.

The IRS has allocated PTCs to Plant Vogtle Units 3 and 4 which require that the applicable unit be placed in service prior to 2021. The net present value of Georgia Power's PTCs is estimated at approximately $400 million per unit.

There have been technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4 at the federal and state level and additional challenges may arise if 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 if 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.

If construction continues, the risk remains that challenges with labor productivity, fabrication, delivery, assembly, and installation of plant systems, structures, and components, or other issues could arise and may further impact project schedule and cost.

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

Approximately $1.2 billion of positive cash flows is expected to result from bonus depreciation for the 2017 tax year, but may not all be realized in 2017 due to net operating loss projections for the 2017 tax year. Approximately $370 million of the 2017 benefit is dependent upon placing the remainder of the Kemper IGCC in service by December 31, 2017. If the suspension of the Kemper IGCC start-up activities results in an abandonment, any amount previously estimated as bonus depreciation would be claimed as a deduction under IRC Section 165. As of June 30, 2017, $82 million has been received through quarterly income tax refunds for bonus depreciation related to the Kemper IGCC, which may be subject to repayment. 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 research and experimental (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, subject to approval of the U.S. Congress Joint Committee on Taxation, resolving a methodology for these deductions. Due to the uncertainty related to this tax position, Southern Company had unrecognized tax benefits associated with these R&E deductions totaling approximately $464 million as of June 30, 2017. If the suspension of the Kemper IGCC start-up activities results in an abandonment, any amount not allowed under IRC Section 174 would be claimed as a deduction under IRC Section 165, and would result in a reversal of the related unrecognized tax benefits, excluding 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. This matter is expected to be resolved in the next 12 months; however, 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 CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

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

On January 20, 2017, a purported securities class action complaint was filed against Southern Company, certain of its officers, and certain 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.

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, 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 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. The 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. The 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. The plaintiff also seeks certain unspecified changes to Southern Company's corporate governance and internal processes.

On June 1, 2017, Judy Mesirov 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 current and former directors, certain of its officers, and certain former Mississippi Power officers. The 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. The 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. The plaintiff seeks to recover, on behalf of Southern Company, unspecified actual damages, disgorgement of profits, and equitable relief and, on her own behalf, attorneys' fees and costs in bringing the lawsuit. The plaintiff also seeks certain unspecified changes to Southern Company's corporate governance and internal processes.

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

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SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
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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 for the June 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax costs currently estimated at approximately $100 million to $200 million are expected to be incurred.

As of June 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 SMEPA. 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 $5.96 billion ($3.94 billion after tax) through June 30, 2017. Mississippi Power recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC of $3.0 billion ($2.1 billion after tax) and $81 million ($50 million after tax) in the second quarter 2017 and the second quarter 2016, respectively, and total pre-tax charges of $3.1 billion ($2.2 billion after tax) and $134 million ($83 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

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.

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

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Company in Item 7 of the Form 10-K for additional information. Southern Company's financial condition remained stable at June 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 $2.7 billion for the first six months of 2017, an increase of $0.6 billion from the corresponding period in 2016. The increase in net cash provided from operating activities was primarily due to $1.2 billion of 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 and an increase in under-recovered fuel costs. Net cash used for investing activities totaled $4.9 billion for the first six 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 payments for renewable acquisitions. Net cash provided from financing activities totaled $1.6 billion for the first six months of 2017 primarily due to issuances of long-term and short-term debt, partially offset by redemptions of long-term debt and common stock dividend payments. Cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2017 include an increase of $1.8 billion in property, plant, and equipment in service, net of depreciation 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; a decrease of $1.5 billion in CWIP primarily related to the estimated probable losses on the Kemper IGCC; a decrease of $0.5 billion in cash and cash equivalents primarily related to acquisition payments at Southern Power; a decrease of $1.4 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; an increase of $1.3 billion in long-term debt (excluding amounts due within a year) to fund the Southern Company system's continuous construction programs and for general corporate purposes; and an increase of $1.0 billion in notes payable primarily due to issuances of short-term bank debt for general corporate purposes.

At the end of the second quarter 2017, the market price of Southern Company's common stock was $47.88 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $23.38 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 second quarter 2017 was $0.58 per share compared to $0.56 per share in the second quarter 2016.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company in Item 7 of the Form 10-K for a description of Southern Company's capital requirements for the construction programs of the Southern Company system, including estimated capital expenditures for new electric generating facilities and to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, pipeline charges, storage capacity, and gas supply, asset management agreements, standby letters of credit and performance/surety bonds, trust funding requirements, and unrecognized tax benefits. Approximately $3.0 billion will be required through June 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 preliminary 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. 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, Georgia Power has entered into a loan guarantee agreement (Loan Guarantee Agreement) with the DOE, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its construction of Plant Vogtle Units 3 and 4. Under the Loan Guarantee Agreement, the DOE agreed to guarantee borrowings of up to $3.46 billion (not to exceed 70% of Eligible Project Costs) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. Eligible Project Costs incurred through June 30, 2017 would allow for borrowings of up to $3.1 billion under the FFB Credit Facility, of which Georgia Power has borrowed $2.6 billion; however, on July 27, 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement (LGA Amendment) to clarify the operation of the Loan Guarantee Agreement pending Georgia Power's completion of its comprehensive schedule, cost-to-complete, and cancellation cost assessments (Cost Assessments) for Plant Vogtle Units 3 and 4. Under the terms of the LGA Amendment, Georgia Power will not request any advances under the Loan Guarantee Agreement unless and until such time as Georgia Power has completed the Cost Assessments and made a determination to continue construction of Plant Vogtle Units 3 and 4 and satisfied certain other conditions related to continuing construction. 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 June 30, 2017, Southern Company's current liabilities exceeded current assets by $3.9 billion due to notes payable of $3.3 billion (comprised of approximately $0.9 billion at the parent company, $1.2 billion at Georgia Power, $0.1 billion at Gulf Power, $0.4 billion at Southern Power, and $0.6 billion at Southern Company Gas) and long-term debt that is due within one year of $3.0 billion (comprised of approximately $0.4 billion at the parent company, $0.4 billion at Alabama Power, $0.3 billion at Georgia Power, $1.0 billion at Mississippi Power, and $0.9 billion at Southern Power). To meet short-term cash needs and contingencies, the Southern Company system has substantial cash flow from operating activities and access to capital markets and financial institutions. Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas intend to utilize operating cash flows, as well as commercial paper, lines of credit, bank notes, and securities issuances, as market conditions permit, as well as, under certain circumstances for the traditional electric operating companies, Southern Power, and Southern Company Gas, equity contributions and/or loans from Southern Company to meet their short-term capital needs.

At June 30, 2017, Southern Company and its subsidiaries had approximately $1.4 billion of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2017 were as follows:

	Expires							Executable Term Loans		Expires Within One Year	
Company	2017	2018	2019	2020	2022	Total	Unused	One Year	Two Years	Term Out	No Term Out
	(in millions)										
Southern Company[(a)]	$—	$—	$—	$—	$2,000	$2,000	$2,000	$ —	$ —	$—	$ —
Alabama Power	3	532	—	—	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	113	—	—	—	—	113	100	—	13	13	100
Southern Power Company	—	—	—	—	750	750	675	—	—	—	—
Southern Company Gas[(b)]	—	—	—	—	1,900	1,900	1,849	—	—	—	—
Other	10	30	—	—	—	40	40	20	—	20	20
Southern Company Consolidated	$156	$757	$ 25	$ 30	$7,200	$8,168	$8,011	$ 65	$ 13	$33	$ 195

(a) Represents the Southern Company parent entity.

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

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.

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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 June 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 June 30, 2017 was approximately $1.6 billion. 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 June 30, 2017, the traditional electric operating companies had approximately $626 million of pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.

Southern Company, the traditional electric operating companies (other than Mississippi Power), Southern Power Company, Southern Company Gas, and Nicor Gas make short-term borrowings primarily through commercial paper programs that have the liquidity support of the committed bank credit arrangements described above. Short-term borrowings are included in notes payable in the balance sheets.

Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 2017		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$2,257	1.5 %	$2,519	1.3 %	$ 2,946
Short-term bank debt	1,017	2.0 %	321	2.0 %	1,017
Total	$3,274	1.7 %	$2,840	1.4 %	

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

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transmission, interest rate management, and foreign currency risk management, and, at June 30, 2017, included contracts related to the construction of new generation at Plant Vogtle Units 3 and 4.
The maximum potential collateral requirements under these contracts at June 30, 2017 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements (in millions)
At BBB and/or Baa2	$ 39
At BBB- and/or Baa3	$ 642
At BB+ and/or Ba1(*)	$ 2,555

(*) 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.

Financing Activities

During the first six months of 2017, Southern Company issued approximately 7.8 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately $352 million.
In addition, during the second quarter 2017, Southern Company issued approximately 1.3 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 $65 million, net of $553,000 in fees and commissions.

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The following table outlines the long-term debt financing activities for Southern Company and its subsidiaries for the first six 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	$ —	$ —	$ 500	$ 400
Alabama Power	550	200	—	—	—
Georgia Power	850	450	27	—	3
Gulf Power	300	85	—	6	—
Mississippi Power	—	—	—	40	893
Southern Power	—	—	—	3	3
Southern Company Gas[(c)]	450	—	—	—	—
Other	—	—	—	—	8
Elimination[(d)]	—	—	—	(40)	(591)
Southern Company Consolidated	$2,450	$ 735	$ 27	$ 509	$ 716

(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.
(d) Intercompany loans from Southern Company to Mississippi Power 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. The proceeds were used to repay short-term indebtedness and for other general corporate purposes.

Also in June 2017, Southern Company issued $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.

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.

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 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.

In June 2017, Georgia Power entered into three floating rate bank loans in aggregate principal amounts of $50 million, $150 million, and $100 million, which mature on December 1, 2017, May 31, 2018, and June 28, 2018,

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respectively, and 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 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.

Subsequent to June 30, 2017, Nicor Gas agreed to issue $400 million aggregate principal amount of First Mortgage Bonds in a private placement, $200 million of which is expected to be issued in each of August 2017 and 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 six months ended June 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 second 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
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,333	$1,316	$2,560	$2,510
Wholesale revenues, non-affiliates	68	67	133	130
Wholesale revenues, affiliates	32	9	65	31
Other revenues	51	52	108	105
Total operating revenues	1,484	1,444	2,866	2,776
Operating Expenses:				
Fuel	303	295	601	564
Purchased power, non-affiliates	40	40	75	76
Purchased power, affiliates	34	55	62	88
Other operations and maintenance	375	355	743	747
Depreciation and amortization	183	175	364	347
Taxes other than income taxes	95	94	191	191
Total operating expenses	1,030	1,014	2,036	2,013
Operating Income	454	430	830	763
Other Income and (Expense):				
Allowance for equity funds used during construction	8	6	16	16
Interest expense, net of amounts capitalized	(77)	(74)	(153)	(147)
Other income (expense), net	1	(4)	(4)	(11)
Total other income and (expense)	(68)	(72)	(141)	(142)
Earnings Before Income Taxes	386	358	689	621
Income taxes	151	140	277	242
Net Income	235	218	412	379
Dividends on Preferred and Preference Stock	5	5	9	9
Net Income After Dividends on Preferred and Preference Stock	$230	$213	$403	$370

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Net Income	$235	$218	$412	$379
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $-, $-, and $(1), respectively	—	—	—	(2)
Reclassification adjustment for amounts included in net income, net of tax of $1, $-, $1, and $1, respectively	1	1	2	2

Total other comprehensive income (loss)	1	1	2	—
Comprehensive Income	$236	$219	$414	$379

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

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30,	
	2017	2016
	(in millions)	
Operating Activities:		
Net income	$412	$379
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	442	419
Deferred income taxes	192	175
Pension, postretirement, and other employee benefits	(24)	(23)
Other, net	4	(33)
Changes in certain current assets and liabilities —		
-Receivables	(58)	64
-Fossil fuel stock	13	(32)
-Other current assets	(75)	(67)
-Accounts payable	(154)	(75)
-Accrued taxes	52	102
-Accrued compensation	(74)	(50)
-Retail fuel cost over recovery	(65)	(60)
-Other current liabilities	7	8
Net cash provided from operating activities	672	807
Investing Activities:		
Property additions	(738)	(645)
Nuclear decommissioning trust fund purchases	(117)	(200)
Nuclear decommissioning trust fund sales	117	200
Cost of removal, net of salvage	(54)	(51)
Change in construction payables	48	(27)
Other investing activities	(15)	(18)
Net cash used for investing activities	(759)	(741)
Financing Activities:		
Proceeds —		
Senior notes	550	400
Capital contributions from parent company	327	237
Other long-term debt	—	45
Redemptions — Senior notes	(200)	(200)
Payment of common stock dividends	(357)	(382)
Other financing activities	(14)	(17)
Net cash provided from financing activities	306	83
Net Change in Cash and Cash Equivalents	219	149
Cash and Cash Equivalents at Beginning of Period	420	194
Cash and Cash Equivalents at End of Period	$639	$343
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $6 and $7 capitalized for 2017 and 2016, respectively)	$140	$131

Income taxes, net	88	(122)
Noncash transactions — Accrued property additions at end of period	132	94

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$639	$420
Receivables —		
Customer accounts receivable	357	348
Unbilled revenues	161	146
Other accounts and notes receivable	36	27
Affiliated	33	40
Accumulated provision for uncollectible accounts	(9)	(10)
Fossil fuel stock	191	205
Materials and supplies	443	435
Prepaid expenses	86	34
Other regulatory assets, current	135	149
Other current assets	7	11
Total current assets	2,079	1,805
Property, Plant, and Equipment:		
In service	26,466	26,031
Less: Accumulated provision for depreciation	9,354	9,112
Plant in service, net of depreciation	17,112	16,919
Nuclear fuel, at amortized cost	333	336
Construction work in progress	668	491
Total property, plant, and equipment	18,113	17,746
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	67	66
Nuclear decommissioning trusts, at fair value	848	792
Miscellaneous property and investments	119	112
Total other property and investments	1,034	970
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	526	525
Deferred under recovered regulatory clause revenues	6	150
Other regulatory assets, deferred	1,209	1,157
Other deferred charges and assets	166	163
Total deferred charges and other assets	1,907	1,995
Total Assets	$23,133	$22,516

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	$361	$ 561
Accounts payable —		
Affiliated	242	297
Other	317	433
Customer deposits	91	88
Accrued taxes —		
Accrued income taxes	39	45
Other accrued taxes	97	42
Accrued interest	81	78
Accrued compensation	125	193
Other regulatory liabilities, current	15	85
Other current liabilities	63	76
Total current liabilities	1,431	1,898
Long-term Debt	7,082	6,535
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,842	4,654
Deferred credits related to income taxes	64	65
Accumulated deferred ITCs	113	110
Employee benefit obligations	269	300
Asset retirement obligations	1,543	1,503
Other cost of removal obligations	648	684
Other regulatory liabilities, deferred	84	100
Other deferred credits and liabilities	69	63
Total deferred credits and other liabilities	7,632	7,479
Total Liabilities	16,145	15,912
Redeemable Preferred Stock	85	85
Preference Stock	196	196
Common Stockholder's Equity:		
Common stock, par value $40 per share —		
Authorized — 40,000,000 shares		
Outstanding — 30,537,500 shares	1,222	1,222
Paid-in capital	2,950	2,613
Retained earnings	2,564	2,518
Accumulated other comprehensive loss	(29)	(30)
Total common stockholder's equity	6,707	6,323
Total Liabilities and Stockholder's Equity	$23,133	$ 22,516

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

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

SECOND QUARTER 2017 vs. SECOND 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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$17	8.0	$33	8.9

Alabama Power's net income after dividends on preferred and preference stock for the second quarter 2017 was $230 million compared to $213 million for the corresponding period in 2016. The increase was primarily related to an increase in rates under Rate RSE effective January 1, 2017 and an increase in other income (expense), net. These increases were partially offset by an increase in operations and maintenance expenses and a decrease in retail revenues associated with milder weather and lower customer usage in the second quarter 2017 compared to the corresponding period in 2016.

Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2017 was $403 million compared to $370 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 for year-to-date 2017 compared to the corresponding period in 2016.

Retail Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$17	1.3	$50	2.0

In the second quarter 2017, retail revenues were $1.33 billion compared to $1.32 billion for the corresponding period in 2016. For year-to-date 2017, retail revenues were $2.56 billion compared to $2.51 billion for the corresponding period in 2016.

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

Details of the changes in retail revenues were as follows:

	Second Quarter 2017		Year-to-Date 2017	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,316		$2,510	
Estimated change resulting from –				
Rates and pricing	75	5.7	154	6.2
Sales decline	(11)	(0.8)	(12)	(0.5)
Weather	(11)	(0.8)	(66)	(2.6)
Fuel and other cost recovery	(36)	(2.8)	(26)	(1.1)
Retail – current year	$1,333	1.3 %	$2,560	2.0 %

Revenues associated with changes in rates and pricing increased in the second 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 second quarter and year-to-date 2017 when compared to the corresponding periods in 2016. Weather-adjusted residential KWH sales decreased 1.1% and 0.2% for the second quarter and year-to-date 2017, respectively, primarily due to lower customer usage resulting from an increase in efficiency improvements in residential appliances and lighting, partially offset by customer growth. Weather-adjusted commercial KWH sales decreased 0.4% and 0.8% for the second quarter and year-to-date 2017, respectively, primarily due to lower customer usage. Industrial KWH sales increased 1.0% for the second quarter 2017 when compared to the corresponding period in 2016 as a result of an increase in demand resulting from changes in production levels primarily in the chemicals and mining sectors, partially offset by a decrease in demand from the paper, primary metals, pipelines, and lumber sectors. Industrial KWH sales remained flat year-to-date 2017 when compared to the corresponding period in 2016 as a result of an increase in demand resulting from changes in production levels primarily in the chemicals and mining sectors, offset by a decrease in demand from the pipelines, lumber, and stone, clay, and glass sectors.

Revenues resulting from changes in weather decreased in the second 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 second quarter 2017, the resulting decreases were 1.5% and 0.7% for residential and commercial sales revenues, respectively. For year-to-date 2017, the resulting decreases were 5.2% and 1.4% for residential and commercial sales revenues, respectively.

Fuel and other cost recovery revenues decreased in the second quarter 2017 and year-to-date 2017 when compared to the corresponding periods in 2016 primarily due to an increase in wholesale revenues to affiliates, which offsets retail fuel cost recovery. 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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$23	255.6	$34	109.7

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

In the second quarter 2017, wholesale revenues from sales to affiliates were $32 million compared to $9 million for the corresponding period in 2016. The increase was primarily due to a 175.0% increase in KWH sales as a result of lower cost Alabama Power-owned generation available to the Southern Company system and a 29.3% increase in the price of energy due to an increase in natural gas prices. For year-to-date 2017, wholesale revenues from sales to affiliates were $65 million compared to $31 million for the corresponding period in 2016. The increase was primarily due to an 83.5% increase in KWH sales as a result of supporting Southern Company system transmission reliability and a 15.5% increase in the price of energy due to an increase in natural gas prices.

Fuel and Purchased Power Expenses

	Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 8	2.7	$ 37	6.6
Purchased power – non-affiliates	—	—	(1)	(1.3)
Purchased power – affiliates	(21)	(38.2)	(26)	(29.5)
Total fuel and purchased power expenses	$ (13)		$ 10	

In the second quarter 2017, fuel and purchased power expenses were $377 million compared to $390 million for the corresponding period in 2016. The decrease was primarily due to a $55 million decrease in the volume of KWHs purchased. This decrease was partially offset by a $24 million net increase related to the average cost of purchased power and fuel and an $18 million increase related to the volume of KWHs generated.

For year-to-date 2017, fuel and purchased power expenses were $738 million compared to $728 million for the corresponding period in 2016. The increase was primarily due to a $58 million increase in the volume of KWHs generated and a $31 million net increase related to the average cost of purchased power and fuel. These increases were partially offset by a $79 million decrease in the volume of KWHs purchased.

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

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

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in billions of KWHs)	15	13	30	28
Total purchased power (in billions of KWHs)	1	3	2	4
Sources of generation (percent) —				
Coal	47	53	48	46
Nuclear	25	23	26	25
Gas	20	20	20	19
Hydro	8	4	6	10
Cost of fuel, generated (in cents per net KWH) —				
Coal	2.63	2.84	2.61	2.85
Nuclear	0.76	0.79	0.75	0.78
Gas	2.75	2.52	2.76	2.49
Average cost of fuel, generated (in cents per net KWH)[a]	2.14	2.28	2.13	2.20
Average cost of purchased power (in cents per net KWH)[b]	7.11	3.94	6.92	4.37

(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

For year-to-date 2017, fuel expense was $601 million compared to $564 million for the corresponding period in 2016. The increase was primarily due to increases of 11.0% and 8.4% in the volume of KWHs generated by coal and natural gas, respectively, a 10.8% increase in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, and a 28.1% decrease in the volume of KWHs generated by hydro facilities. The increase was partially offset by an 8.4% decrease in the average cost of coal per KWH generated.

Purchased Power – Affiliates

In the second quarter 2017, purchased power expense from affiliates was $34 million compared to $55 million for the corresponding period in 2016. The decrease was primarily related to a 61.1% decrease in the amount of energy purchased as a result of lower cost Alabama Power-owned generation, partially offset by a 60.3% increase in the average cost of purchased power per KWH as a result of higher natural gas prices.

For year-to-date 2017, purchased power expense from affiliates was $62 million compared to $88 million for the corresponding period in 2016. The decrease was primarily related to a 56.1% decrease in the amount of energy purchased due to an increase in generation as a result of supporting Southern Company system transmission reliability, partially offset by a 60.0% increase in the average cost of purchased power per KWH as a result of higher natural gas prices.

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.

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Other Operations and Maintenance Expenses

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$20	5.6	$(4)	(0.5)

In the second quarter 2017, other operations and maintenance expenses were $375 million compared to $355 million for the corresponding period in 2016. The increase was primarily due to increases of $13 million in vegetation management costs, $7 million in nuclear generation plant improvement costs, and $3 million in employee benefit costs. The increase was partially offset by a $4 million decrease in scheduled other power generation outage costs.

Depreciation and Amortization

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$8	4.6	$17	4.9

In the second quarter 2017, depreciation and amortization was $183 million compared to $175 million for the corresponding period in 2016. For year-to-date 2017, depreciation and amortization was $364 million compared to $347 million for the corresponding period in 2016. These increases were primarily due to additional plant in service related to distribution, steam generation, and transmission assets. In addition, there was an increase in depreciation rates, effective January 1, 2017, associated with compliance-related steam projects, asset retirement obligation recovery, and other generation assets, partially offset by a decrease in distribution-related 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.

Other Income (Expense), Net

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$5	125.0	$7	63.6

In the second quarter 2017, other income (expense), net was $1 million compared to $(4) million for the corresponding period in 2016. For year-to-date 2017, other income (expense), net was $(4) million compared to $(11) million for the corresponding period in 2016. The changes were primarily due to decreases in donations and increases in sales of non-utility property and unregulated lighting services in 2017.

Income Taxes

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$11	7.9	$35	14.5

In the second quarter 2017, income taxes were $151 million compared to $140 million for the corresponding period in 2016. The increase was primarily due to higher pre-tax earnings.

For year-to-date 2017, income taxes were $277 million compared to $242 million for the corresponding period in 2016. The increase was primarily due to higher pre-tax earnings and unrecognized tax benefits related to certain state deductions for federal income taxes.

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

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Alabama Power's future earnings potential. The level of Alabama Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Alabama Power's primary business of providing electric service. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies and increasing volumes of electronic commerce transactions. Earnings are subject to a variety of other factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service territory. Demand for electricity is primarily driven by economic growth. The pace of economic growth and electricity demand may be affected by changes in regional and global economic conditions, which may impact future earnings. Current proposals related to potential 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 June 6, 2017, the EPA proposed a 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 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 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, it remains a separate, ongoing matter.

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 CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Alabama Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power's financial statements. See Note (B) to the Condensed Financial

Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

Recently Issued Accounting Standards

In 2014, the FASB issued ASC 606, Revenue from Contracts with Customers (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-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. Alabama Power is currently evaluating the new standard. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in Alabama Power's operating income and an increase in other income for 2016 and 2017 and are expected to result in a decrease in operating income and an increase in other income for 2018. The adoption of ASU 2017-07 is not expected to have a material impact on Alabama Power's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Alabama Power in Item 7 of the Form 10-K for additional information. Alabama Power's financial condition remained stable at June 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 $672 million for the first six months of 2017, a decrease of $135 million as compared to the first six 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 $759 million for the first six months of 2017 primarily due to gross property additions related to distribution, environmental, transmission, and steam generation. Net cash provided from financing activities totaled $306 million for the first six months of 2017 primarily due to an issuance of long-term debt and additional capital contributions from Southern Company, partially offset by common stock dividend payments and a redemption of long-term debt. Fluctuations in cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2017 include increases of $547 million in long-term debt, primarily due to the issuance of additional senior notes, $367 million in property, plant, and equipment, primarily due to additions to distribution, steam generation, and transmission, $337 million in additional paid-in capital due to capital contributions from Southern Company, and $219 million in cash and cash equivalents, as well as a decrease of $200 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. Approximately $361 million will be required through June 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.

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

Sources of Capital

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

Alabama Power's current liabilities sometimes exceed current assets because of long-term debt maturities and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs.

At June 30, 2017, Alabama Power had approximately $639 million of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2017 were as follows:

Expires					Expires Within One Year	
2017	2018	2022	Total	Unused	Term Out	No Term Out
(in millions)						
$3	$532	$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.

As reflected in the table above, in May 2017, Alabama Power amended its $800 million multi-year credit arrangement, which, among other things, extended the maturity date from 2020 to 2022.

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 June 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 $890 million as of June 30, 2017. At June 30, 2017, Alabama Power had no fixed rate pollution control revenue bonds outstanding that were required to be reoffered within the next 12 months.

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

Details of commercial paper borrowings were as follows:

	Short-term Debt During the Period(*)		
	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)
Commercial paper	$28	1.1 %	$ 200

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 30, 2017. No short-term debt was outstanding at June 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 June 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 June 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	$ 326

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.

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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.

Subsequent to June 30, 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).

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,904	$1,907	$3,593	$3,624
Wholesale revenues, non-affiliates	40	40	79	82
Wholesale revenues, affiliates	9	10	17	15
Other revenues	95	94	191	202
Total operating revenues	2,048	2,051	3,880	3,923
Operating Expenses:				
Fuel	445	439	815	815
Purchased power, non-affiliates	103	92	191	175
Purchased power, affiliates	138	111	310	250
Other operations and maintenance	399	439	781	896
Depreciation and amortization	223	214	444	425
Taxes other than income taxes	101	100	199	197
Total operating expenses	1,409	1,395	2,740	2,758
Operating Income	639	656	1,140	1,165
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(104)	(99)	(205)	(193)
Other income (expense), net	16	8	36	26
Total other income and (expense)	(88)	(91)	(169)	(167)
Earnings Before Income Taxes	551	565	971	998
Income taxes	199	211	355	371
Net Income	352	354	616	627
Dividends on Preferred and Preference Stock	5	5	9	9
Net Income After Dividends on Preferred and Preference Stock	$347	$349	$607	$618

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Net Income	$352	$354	$616	$627
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	1
Total other comprehensive income (loss)	1	1	2	1
Comprehensive Income	$353	$355	$618	$628

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 Six Months Ended June 30,	
	2017	2016
	(in millions)	
Operating Activities:		
Net income	$616	$627
Adjustments to reconcile net income to net cash provided from operating activities --		
Depreciation and amortization, total	543	530
Deferred income taxes	159	157
Allowance for equity funds used during construction	(25)	(24)
Deferred expenses	41	39
Pension, postretirement, and other employee benefits	(45)	(28)
Settlement of asset retirement obligations	(62)	(52)
Other, net	(39)	36
Changes in certain current assets and liabilities —		
-Receivables	(150)	(25)
-Fossil fuel stock	(32)	61
-Other current assets	(22)	10
-Accounts payable	(153)	6
-Accrued taxes	(194)	(137)
-Accrued compensation	(65)	(44)
-Retail fuel cost over recovery	(84)	1
-Other current liabilities	(6)	16
Net cash provided from operating activities	482	1,173
Investing Activities:		
Property additions	(1,284)	(1,058)
Nuclear decommissioning trust fund purchases	(271)	(386)
Nuclear decommissioning trust fund sales	266	380
Cost of removal, net of salvage	(32)	(34)
Change in construction payables, net of joint owner portion	1	(75)
Payments pursuant to LTSAs	(56)	(14)
Sale of property	63	—
Other investing activities	(12)	17
Net cash used for investing activities	(1,325)	(1,170)
Financing Activities:		
Increase in notes payable, net	37	39
Proceeds —		
Capital contributions from parent company	380	239
Senior notes	850	650
FFB loan	—	300
Short-term borrowings	800	—
Redemptions and repurchases —		
Pollution control revenue bonds	(27)	(4)
Senior notes	(450)	(500)
Payment of common stock dividends	(640)	(653)

Other financing activities	(19)	(20)
Net cash provided from financing activities	931	51
Net Change in Cash and Cash Equivalents	88	54
Cash and Cash Equivalents at Beginning of Period	3	67
Cash and Cash Equivalents at End of Period	$91	$121
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of $11 and $10 capitalized for 2017 and 2016, respectively)	$186	$174
Income taxes, net	213	78
Noncash transactions — Accrued property additions at end of period	348	288

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 June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$91	$ 3
Receivables —		
Customer accounts receivable	565	523
Unbilled revenues	251	224
Joint owner accounts receivable	199	57
Other accounts and notes receivable	62	81
Affiliated	22	18
Accumulated provision for uncollectible accounts	(3)	(3)
Fossil fuel stock	330	298
Materials and supplies	477	479
Prepaid expenses	55	105
Other regulatory assets, current	193	193
Other current assets	22	38
Total current assets	2,264	2,016
Property, Plant, and Equipment:		
In service	34,410	33,841
Less: Accumulated provision for depreciation	11,502	11,317
Plant in service, net of depreciation	22,908	22,524
Nuclear fuel, at amortized cost	559	569
Construction work in progress	5,422	4,939
Total property, plant, and equipment	28,889	28,032
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	56	60
Nuclear decommissioning trusts, at fair value	874	814
Miscellaneous property and investments	51	46
Total other property and investments	981	920
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	675	676
Other regulatory assets, deferred	2,790	2,774
Other deferred charges and assets	589	417
Total deferred charges and other assets	4,054	3,867
Total Assets	$36,188	$ 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)

Liabilities and Stockholder's Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	$261	$460
Notes payable	1,228	391
Accounts payable —		
Affiliated	367	438
Other	657	589
Customer deposits	269	265
Accrued taxes	212	407
Accrued interest	115	106
Accrued compensation	141	224
Asset retirement obligations, current	251	299
Other current liabilities	185	297
Total current liabilities	3,686	3,476
Long-term Debt	10,793	10,225
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	6,163	6,000
Deferred credits related to income taxes	118	121
Accumulated deferred ITCs	251	256
Employee benefit obligations	652	703
Asset retirement obligations, deferred	2,340	2,233
Other deferred credits and liabilities	206	199
Total deferred credits and other liabilities	9,730	9,512
Total Liabilities	24,209	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	7,274	6,885
Retained earnings	4,052	4,086
Accumulated other comprehensive loss	(11)	(13)
Total common stockholder's equity	11,713	11,356
Total Liabilities and Stockholder's Equity	$36,188	$34,835

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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SECOND QUARTER 2017 vs. SECOND 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.

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 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. 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.

Georgia Power and the other Vogtle Owners are continuing to conduct comprehensive schedule and cost-to-complete assessments, as well as cancellation cost assessments, to determine the impact of the EPC Contractor's bankruptcy filing on the construction cost and schedule for Plant Vogtle Units 3 and 4. 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, and currently expects to include its recommendation in its seventeenth Vogtle Construction Monitoring (VCM) report to be filed with the Georgia PSC in late August 2017.

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 also is dependent on the completion of the assessments described above, as well as the related regulatory treatment, and cannot be determined at this time. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" herein for additional information on Plant Vogtle Units 3 and 4, including Georgia Power's preliminary cost-to-complete and cancellation cost assessments for Plant Vogtle Units 3 and 4.

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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.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(2)	(0.6)	$(11)	(1.8)

Georgia Power's net income after dividends on preferred and preference stock for the second quarter 2017 was $347 million compared to $349 million for the corresponding period in 2016. For year-to-date 2017, net income after dividends on preferred and preference stock was $607 million compared to $618 million for the corresponding period in 2016. The decreases were primarily due to milder weather as compared to the corresponding periods in 2016, partially offset by lower non-fuel operations and maintenance expenses.

Retail Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(3)	(0.2)	$(31)	(0.9)

In the second quarter 2017, retail revenues were $1.90 billion compared to $1.91 billion for the corresponding period in 2016. For year-to-date 2017, retail revenues were $3.59 billion compared to $3.62 billion for the corresponding period in 2016.

Details of the changes in retail revenues were as follows:

	Second Quarter 2017		Year-to-Date 2017	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,907		$3,624	
Estimated change resulting from –				
Rates and pricing	(7)	(0.4)	19	0.5
Sales growth (decline)	1	0.1	(11)	(0.3)
Weather	(38)	(2.0)	(110)	(3.1)
Fuel cost recovery	41	2.1	71	2.0
Retail – current year	$1,904	(0.2)%	$3,593	(0.9)%

Revenues associated with changes in rates and pricing decreased in the second quarter and increased year-to-date 2017 when compared to the corresponding periods in 2016. An increase in revenues related to the recovery of Plant Vogtle Units 3 and 4 construction financing costs under the NCCR tariff was more than offset in the second quarter 2017 by the rate pricing effect of decreased customer usage and lower contributions from commercial and industrial customers under a rate plan for variable demand-driven pricing. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Constructions" 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 were essentially flat in the second quarter and decreased year-to-date 2017 when compared to the corresponding periods in 2016. Weather-adjusted residential KWH sales increased 0.3%, weather-adjusted commercial KWH sales increased 0.4%, and weather-adjusted industrial KWH sales decreased

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1.3% in the second quarter 2017 when compared to the corresponding period in 2016. For year-to-date 2017, weather-adjusted residential KWH sales increased 0.8%, weather-adjusted commercial KWH sales decreased 1.0%, and weather-adjusted industrial KWH sales decreased 2.2% when compared to the corresponding period in 2016. An increase of approximately 29,000 residential customers since June 30, 2016 contributed to the increase in weather-adjusted residential KWH sales. A decline in average customer usage resulting from an increase in energy saving initiatives and electronic commerce transactions contributed to the decrease in weather-adjusted commercial KWH sales, partially offset by an increase of approximately 2,000 commercial customers since June 30, 2016. Decreased demand in the chemicals, paper, and transportation sectors was the main contributor to the decrease in weather-adjusted industrial KWH sales, 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.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues increased $41 million and $71 million in the second quarter and year-to-date 2017, respectively, when compared to the corresponding periods in 2016 primarily due to higher natural gas prices, partially offset by lower energy sales resulting from milder weather as compared to the corresponding periods in 2016. 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.

Other Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$1	1.1	$(11)	(5.4)

For year-to-date 2017, other revenues were $191 million compared to $202 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 an $8 million decrease in open access transmission tariff revenues, partially offset by a $7 million increase in outdoor lighting sales revenues primarily attributable to LED conversions and a $3 million increase in solar application fee revenue.

Fuel and Purchased Power Expenses

	Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 6	1.4	$ —	—
Purchased power – non-affiliates	11	12.0	16	9.1
Purchased power – affiliates	27	24.3	60	24.0
Total fuel and purchased power expenses	$ 44		$ 76	

In the second quarter 2017, total fuel and purchased power expenses were $686 million compared to $642 million in the corresponding period in 2016. The increase was primarily due to a $45 million increase in the average cost of fuel and purchased power primarily related to higher natural gas prices, slightly offset by a decrease related to the volume of KWHs generated and purchased due to milder weather, resulting in lower customer demand.

For year-to-date 2017, total fuel and purchased power expenses were $1.32 billion compared to $1.24 billion in the corresponding period in 2016. The increase was primarily due to an $89 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 $13 million

related to the volume of KWHs generated and purchased 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.

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

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in billions of KWHs)	16	17	30	33
Total purchased power (in billions of KWHs)	6	6	13	12
Sources of generation (percent) —				
Coal	36	36	32	33
Nuclear	25	24	25	24
Gas	37	38	41	40
Hydro	2	2	2	3
Cost of fuel, generated (in cents per net KWH) —				
Coal	3.20	3.37	3.23	3.45
Nuclear	0.84	0.84	0.84	0.85
Gas	2.75	2.18	2.76	2.10
Average cost of fuel, generated (in cents per net KWH)	2.43	2.29	2.41	2.26
Average cost of purchased power (in cents per net KWH)(*)	4.76	4.45	4.61	4.38

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

Fuel

In the second quarter 2017, fuel expense was $445 million compared to $439 million in the corresponding period in 2016. The increase was primarily due to a 26.2% increase in the average cost of natural gas per KWH generated, partially offset by a 6.1% decrease in the volume of KWHs generated by coal and natural gas. For year-to-date 2017, fuel expense remained flat compared to the corresponding period in 2016 primarily resulting from a 31.4% increase in the average cost of natural gas per KWH generated, offset by a 9.5% decrease in the volume of KWHs generated by coal and natural gas.

Purchased Power – Non-Affiliates

In the second quarter 2017, purchased power expense from non-affiliates was $103 million compared to $92 million in the corresponding period in 2016. For year-to-date 2017, purchased power expense from non-affiliates was $191 million compared to $175 million in the corresponding period in 2016. The increases were primarily due to increases in the volume of KWHs purchased of 13.4% and 11.6% in the second quarter and year-to-date 2017, respectively, due to unplanned outages at Georgia Power-owned generating units.

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.

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Purchased Power – Affiliates

In the second quarter 2017, purchased power expense from affiliates was $138 million compared to $111 million in the corresponding period in 2016. The increase was primarily the result of an 11.1% increase in the average cost per KWH purchased primarily resulting from higher natural gas prices and a 5.9% increase in the volume of KWHs purchased due to unplanned outages at Georgia Power-owned generating units and to support Southern Company system transmission reliability.

For year-to-date 2017, purchased power expense from affiliates was $310 million compared to $250 million in the corresponding period in 2016. The increase was primarily the result of a 10.1% increase in the volume of KWHs purchased due to unplanned outages at Georgia Power-owned generating units and to support Southern Company system transmission reliability and an 8.8% 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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(40)	(9.1)	$(115)	(12.8)

In the second quarter 2017, other operations and maintenance expenses were $399 million compared to $439 million in the corresponding period in 2016. The decrease was primarily due to cost containment activities implemented in the third quarter 2016 that contributed to decreases of $14 million in generation maintenance costs and $9 million in transmission and distribution overhead line maintenance. Other factors include decreases of $9 million in customer accounts, service, and sales costs, $5 million in transmission station expenses, and $5 million in billing adjustments with integrated transmission system owners, partially offset by a $7 million increase in scheduled generation outage costs.

For year-to-date 2017, other operations and maintenance expenses were $781 million compared to $896 million in the corresponding period in 2016. The decrease was primarily due to cost containment activities implemented in the third quarter 2016 that contributed to decreases of $28 million in generation maintenance costs, $18 million in transmission and distribution maintenance costs, and $13 million in employee benefit costs. Other factors include a $19 million increase in gains from sales of integrated transmission system assets and a $14 million decrease in customer assistance expenses primarily in demand-side management costs related to the timing of new programs.

Depreciation and Amortization

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$9	4.2	$19	4.5

In the second quarter 2017, depreciation and amortization was $223 million compared to $214 million in the corresponding period in 2016. The increase was primarily due to a $7 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 $444 million compared to $425 million in the corresponding period in 2016. The increase was primarily due to a $17 million increase related to additional plant in service and a $7 million decrease in amortization of regulatory liabilities related to other cost of removal obligations

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that expired in December 2016, partially offset by a $5 million decrease in depreciation related to generating unit retirements in 2016.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$5	5.1	$12	6.2

In the second quarter 2017, interest expense, net of amounts capitalized was $104 million compared to $99 million in the corresponding period in 2016. For year-to-date 2017, interest expense, net of amounts capitalized was $205 million compared to $193 million in the corresponding period in 2016. The increases were primarily due to senior notes issuances and additional long-term borrowings from the FFB.

See FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" herein for additional information on borrowings from the FFB.

Other Income (Expense), Net

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$8	100.0	$10	38.5

In the second quarter 2017, other income (expense), net was $16 million compared to $8 million in the corresponding period in 2016. For year-to-date 2017, other income (expense), net was $36 million compared to $26 million in the corresponding period in 2016. The increases were primarily due to increases in gains on purchases of state tax credits.

Income Taxes

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(12)	(5.7)	$(16)	(4.3)

In the second quarter 2017, income taxes were $199 million compared to $211 million in the corresponding period in 2016. For year-to-date 2017, income taxes were $355 million compared to $371 million in the corresponding period in 2016. The decreases were primarily due to increased state ITCs and lower pre-tax earnings.

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. Completing the cost assessments and determining future actions 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 economic growth. The pace of economic growth and electricity demand may be affected by changes in regional and global economic conditions, which may impact future earnings.

Current proposals related to potential 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. 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 June 6, 2017, the EPA proposed a 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 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 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, it remains a separate, ongoing matter.

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 – "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 six months ended June 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.

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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.

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%.

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 (i) 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, with these amounts paid to the EPC Contractor, except that amounts accrued for Fluor Corporation (Fluor) were paid directly to Fluor; (ii) the EPC Contractor provided certain engineering, procurement, and management services for Plant Vogtle Units 3 and 4, to the same extent as contemplated by the Vogtle 3 and 4 Agreement, and Georgia Power, on behalf of the Vogtle Owners, made payments of $5.4 million per week for these services; (iii) Georgia Power had the right to make payments, on behalf of the Vogtle Owners, directly to subcontractors and vendors who had accounts past due with the EPC Contractor; (iv) the EPC Contractor used commercially reasonable efforts to provide information reasonably requested by Georgia Power as was necessary to continue construction and investigation of the completion status of Plant Vogtle Units 3 and 4; (v) the EPC Contractor rejected or accepted the Vogtle 3 and 4 Agreement by the termination of the Interim Assessment Agreement; and (vi) Georgia Power did not exercise any remedies against Toshiba under the Toshiba Guarantee. Under the Interim Assessment Agreement, all parties expressly reserved all rights and remedies under the Vogtle 3 and 4 Agreement and all related security and collateral under applicable law.

The Interim Assessment Agreement, as amended, expired on July 27, 2017. Georgia Power's aggregate liability for the Vogtle Owners under the Interim Assessment Agreement totaled approximately $650 million, of which $552 million had been paid or accrued as of June 30, 2017. Georgia Power's proportionate share of this aggregate liability totaled approximately $297 million.

Subsequent to the EPC Contractor bankruptcy filing, a number of subcontractors to the EPC Contractor, including Fluor Enterprises, Inc., a subsidiary of Fluor, 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 July 31, 2017, of the Vogtle Owners for the removal of subcontractor liens and payment of other EPC Contractor pre-petition accounts payable to total approximately $400 million, of which $354 million had been paid or accrued as of June 30, 2017. Georgia Power's proportionate share of this aggregate liability totaled approximately $183 million.

On June 9, 2017, Georgia Power and the other Vogtle Owners and Toshiba entered 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, 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 June 23, 2017, Toshiba released a revised outlook for fiscal year 2016, which reflected a negative shareholders' equity balance of approximately $5 billion as of March 31, 2017, and announced that its independent audit process was continuing. Toshiba has also 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.

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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.

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 June 30, 2017, Georgia Power had recovered approximately $1.4 billion of financing costs.

On December 20, 2016, the Georgia PSC voted to approve a settlement agreement (Vogtle Cost Settlement Agreement) resolving the following prudence matters: (i) none of the $3.3 billion of costs incurred through December 31, 2015 and reflected in the fourteenth VCM report will be disallowed from rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement is reasonable and prudent and none of the amounts paid or to be paid pursuant to the Contractor Settlement Agreement should be disallowed from rate base on the basis of imprudence; (iii) financing costs on verified and approved capital costs will be deemed prudent provided they are incurred prior to December 31, 2019 and December 31, 2020 for Plant Vogtle Units 3 and 4, respectively; and (iv) (a) the in-service capital cost forecast will be adjusted to $5.680 billion (Revised Forecast), which includes a contingency of $240 million above Georgia Power's then current forecast of $5.440 billion, (b) capital costs incurred up to the Revised Forecast will be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, and (c) Georgia Power would have the burden to show that any capital costs above the Revised Forecast are reasonable and prudent.

Under the terms of the Vogtle Cost Settlement Agreement, the certified in-service capital cost for purposes of calculating the NCCR tariff will remain at $4.418 billion. Construction capital costs above $4.418 billion will accrue AFUDC through the date each unit is placed in service. The ROE used to calculate the NCCR tariff was reduced from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016. For purposes of the AFUDC calculation, the ROE on costs between $4.418 billion and $5.440 billion will also be 10.00% and the ROE on any amounts above $5.440 billion would be Georgia Power's average cost of long-term debt. If the Georgia PSC adjusts Georgia Power's ROE rate setting point in a rate case prior to Plant Vogtle Units 3 and 4 being placed into retail rate base, then the ROE for purposes of calculating both the NCCR tariff and AFUDC will likewise be 95 basis points lower than the revised ROE rate setting point. If Plant Vogtle Units 3 and 4 are not placed in service by December 31, 2020, then (i) the ROE for purposes of calculating the NCCR tariff will be reduced an additional 300 basis points, or $8 million per month, and may, at the Georgia PSC's discretion, be accrued to be used for the benefit of customers, until such time as the units are placed in service and (ii) the ROE used to calculate AFUDC will be Georgia Power's average cost of long-term debt.

Under the terms of the Vogtle Cost Settlement Agreement, the Georgia PSC will determine, for retail ratemaking purposes, the process of transitioning Plant Vogtle Units 3 and 4 from a construction project to an operating plant no later than Georgia Power's base rate case required to be filed by July 1, 2019.

The Georgia PSC has approved fifteen VCM reports covering the periods through June 30, 2016, including construction capital costs incurred, which through that date totaled $3.7 billion. Georgia Power filed its sixteenth VCM report, covering the period from July 1 through December 31, 2016, requesting approval of $222 million of construction capital costs incurred during that period, with the Georgia PSC on February 27, 2017.

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

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Revised Cost and Schedule

Georgia Power and the other Vogtle Owners are continuing to conduct comprehensive schedule and cost-to-complete assessments, as well as cancellation cost assessments, to determine the impact of the EPC Contractor's bankruptcy filing on the construction cost and schedule for Plant Vogtle Units 3 and 4. Georgia Power's preliminary assessment results indicate that its proportionate share of the remaining estimated cost to complete Plant Vogtle Units 3 and 4 ranges as follows:

Preliminary in-service dates			
Unit 3	February 2021	–	March 2022
Unit 4	February 2022	–	March 2023
	(in billions)		
Preliminary estimated cost to complete	$3.9	–	$4.6
CWIP as of June 30, 2017	4.5		4.5
Guarantee Obligations	(1.7)		(1.7)
Estimated capital costs	$6.7	–	$7.4
Vogtle Cost Settlement Agreement Revised Forecast	(5.7)		(5.7)
Estimated net additional capital costs	$1.0	–	$1.7

Georgia Power's estimates for cost to complete and schedule are based on preliminary analysis and remain subject to further refinement of labor productivity and consumable and commodity quantities and costs.

Georgia Power's estimated financing costs during the construction period total approximately $3.1 billion to $3.5 billion, of which approximately $1.4 billion had been incurred through June 30, 2017.

Georgia Power's preliminary cancellation cost estimate results indicate that its proportionate share of the estimated cancellation costs is approximately $400 million. As a result, as of June 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:

	Preliminary Cancellation Cost Estimate
	(in billions)
CWIP as of June 30, 2017	$ 4.5
Financing costs collected, net of tax	1.4
Cancellation costs(*)	0.4
Total	$ 6.3

(*) 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, and currently expects to include its recommendation in its seventeenth VCM report to be filed with the Georgia PSC in late August 2017.

The ultimate outcome of these matters is dependent on the completion of the assessments described above, as well as the related regulatory treatment, and cannot be determined at this time.

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Other Matters

As of June 30, 2017, Georgia Power had borrowed $2.6 billion related to Plant Vogtle Units 3 and 4 costs through a loan guarantee agreement between Georgia Power and the DOE and a multi-advance credit facility among Georgia Power, the DOE, and the FFB. See Note 6 to the financial statements of 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 if 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 if 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.

If construction continues, the risk remains that challenges with labor productivity, fabrication, delivery, assembly, and installation of plant systems, structures, and components, or other issues could arise and may further impact project schedule and cost.

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 CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Georgia Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on 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.

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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

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 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. Georgia Power is currently evaluating the new standard. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in 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.

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 June 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 $482 million for the first six months of 2017 compared to $1.17 billion for the corresponding period in 2016. The decrease was primarily due to the timing of vendor payments and an increase in under-recovered fuel costs. Net cash used for investing activities totaled $1.33 billion for the first six months of 2017 compared to $1.17 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 $931 million for the first six months of 2017 compared to $51 million in the 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 higher capital contributions received from Southern Company, partially offset by a decrease in borrowings from the FFB for construction of Plant Vogtle Units 3 and 4. 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 six months of 2017 include an increase in property, plant, and equipment of $857 million to comply with environmental standards and the construction of generation, transmission, and distribution facilities, an increase in notes payable of $837 million primarily due to issuances of short-term bank debt, an increase in paid-in capital of $389 million primarily due to capital contributions received from Southern Company, and an increase in long-term debt of $369 million primarily due to issuances of senior notes.

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 June 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 preliminary 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.

Georgia Power has entered into a loan guarantee agreement (Loan Guarantee Agreement) with the DOE, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its construction of Plant Vogtle Units 3 and 4. Under the Loan Guarantee Agreement, the DOE agreed to guarantee borrowings of up to $3.46 billion (not to exceed 70% of Eligible Project Costs) to be made by Georgia Power under a multi-advance credit facility (FFB Credit Facility) among Georgia Power, the DOE, and the FFB. Eligible Project Costs incurred through June 30, 2017 would allow for borrowings of up to $3.1 billion under the FFB Credit Facility, of which Georgia Power has borrowed $2.6 billion; however, on July 27, 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement (LGA Amendment) to clarify the operation of the Loan Guarantee Agreement pending Georgia Power's completion of its comprehensive schedule, cost-to-complete, and cancellation cost assessments (Cost Assessments) for Plant Vogtle Units 3 and 4. Under the terms of the LGA Amendment, Georgia Power will not request any advances under the Loan Guarantee Agreement unless and until such time as Georgia Power has completed the Cost Assessments and made a determination to continue construction of Plant Vogtle Units 3 and 4 and satisfied certain other conditions related to continuing construction. 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 June 30, 2017, Georgia Power's current liabilities exceeded current assets by $1.42 billion. Georgia Power's current liabilities frequently exceed current assets because of scheduled maturities of long-term debt ($261 million at June 30, 2017) and the periodic use of short-term debt as a funding source ($1.2 billion at June 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 June 30, 2017, Georgia Power had approximately $91 million of cash and cash equivalents. Georgia Power's committed credit arrangement with banks at June 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.

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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 June 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 June 30, 2017 was approximately $550 million. 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 June 30, 2017, Georgia Power had $436 million of pollution control revenue bonds outstanding that were required to be reoffered within the next 12 months.

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 June 30, 2017		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$428	1.5 %	$280	1.4 %	$ 760
Short-term bank debt	800	2.0 %	227	2.0 %	800
Total	$1,228	1.8 %	$507	1.6 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 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 June 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, and, at June 30, 2017, included contracts related to the construction of new generation at Plant Vogtle Units 3 and 4.

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

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 87
Below BBB- and/or Baa3	$ 1,210

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.

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. Georgia Power may reoffer these bonds to the public at a later date.

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, which mature on December 1, 2017, May 31, 2018, and June 28, 2018, respectively, and 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 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.

GULF POWER COMPANY

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$318	$319	$596	$602
Wholesale revenues, non-affiliates	12	15	30	31
Wholesale revenues, affiliates	10	15	47	36
Other revenues	17	16	34	31
Total operating revenues	357	365	707	700
Operating Expenses:				
Fuel	88	107	196	201
Purchased power, non-affiliates	35	32	67	62
Purchased power, affiliates	9	4	11	5
Other operations and maintenance	87	77	171	155
Depreciation and amortization	35	42	53	80
Taxes other than income taxes	28	29	55	58
Loss on Plant Scherer Unit 3	—	—	33	—
Total operating expenses	282	291	586	561
Operating Income	75	74	121	139
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(13)	(12)	(24)	(25)
Other income (expense), net	(1)	(1)	(2)	(2)
Total other income and (expense)	(14)	(13)	(26)	(27)
Earnings Before Income Taxes	61	61	95	112
Income taxes	24	24	38	44
Net Income	37	37	57	68
Dividends on Preference Stock	2	3	4	5
Net Income After Dividends on Preference Stock	$35	$34	$53	$63

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Net Income	$37	$37	$57	$68
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $(1), $(1), and $(3), respectively	(1)	(1)	(1)	(4)

Total other comprehensive income (loss)	(1)	(1)	(1)	(4)
Comprehensive Income	$36	$36	$56	$64

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30, 2017	2016
	(in millions)	
Operating Activities:		
Net income	$57	$68
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	56	83
Deferred income taxes	19	16
Loss on Plant Scherer Unit 3	33	—
Other, net	(4)	(3)
Changes in certain current assets and liabilities —		
-Receivables	(25)	(6)
-Fossil fuel stock	4	34
-Other current assets	10	1
-Accrued taxes	7	17
-Accrued compensation	(17)	(12)
-Over recovered regulatory clause revenues	(19)	5
-Other current liabilities	3	(7)
Net cash provided from operating activities	124	196
Investing Activities:		
Property additions	(97)	(68)
Cost of removal, net of salvage	(9)	(4)
Change in construction payables	(14)	(7)
Other investing activities	(3)	(5)
Net cash used for investing activities	(123)	(84)
Financing Activities:		
Increase (decrease) in notes payable, net	(190)	46
Proceeds —		
Common stock issued to parent	175	—
Capital contributions from parent company	5	5
Senior notes	300	—
Redemptions —		
Preference stock	(150)	—
Senior notes	(85)	(125)
Payment of common stock dividends	(63)	(60)
Other financing activities	(4)	(6)
Net cash used for financing activities	(12)	(140)
Net Change in Cash and Cash Equivalents	(11)	(28)
Cash and Cash Equivalents at Beginning of Period	56	74
Cash and Cash Equivalents at End of Period	$45	$46
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		

Interest (net of $- and $- capitalized for 2017 and 2016, respectively)	$22	$28
Income taxes, net	7	(3)
Noncash transactions — Accrued property additions at end of period	19	13

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$45	$ 56
Receivables —		
Customer accounts receivable	77	72
Unbilled revenues	70	55
Under recovered regulatory clause revenues	26	17
Other accounts and notes receivable	11	6
Affiliated	8	17
Accumulated provision for uncollectible accounts	(1)	(1)
Fossil fuel stock	67	71
Materials and supplies	57	55
Other regulatory assets, current	55	44
Other current assets	17	30
Total current assets	432	422
Property, Plant, and Equipment:		
In service	5,156	5,140
Less: Accumulated provision for depreciation	1,427	1,382
Plant in service, net of depreciation	3,729	3,758
Construction work in progress	59	51
Total property, plant, and equipment	3,788	3,809
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	57	58
Other regulatory assets, deferred	510	512
Other deferred charges and assets	22	21
Total deferred charges and other assets	589	591
Total Assets	$4,809	$ 4,822

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	$27	$ 87
Notes payable	78	268
Accounts payable —		
Affiliated	52	59
Other	46	54
Customer deposits	35	35
Accrued taxes	27	20
Accrued interest	9	8
Accrued compensation	23	40
Deferred capacity expense, current	22	22
Other regulatory liabilities, current	—	16
Other current liabilities	43	40
Total current liabilities	362	649
Long-term Debt	1,265	987
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	966	948
Employee benefit obligations	92	96
Deferred capacity expense	108	119
Asset retirement obligations, deferred	125	120
Other cost of removal obligations	218	249
Other regulatory liabilities, deferred	46	47
Other deferred credits and liabilities	74	71
Total deferred credits and other liabilities	1,629	1,650
Total Liabilities	3,256	3,286
Preference Stock	—	147
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — June 30, 2017: 7,392,717 shares		
— December 31, 2016: 5,642,717 shares	678	503
Paid-in capital	596	589
Retained earnings	280	296
Accumulated other comprehensive income (loss)	(1)	1
Total common stockholder's equity	1,553	1,389
Total Liabilities and Stockholder's Equity	$4,809	$ 4,822

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

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

OVERVIEW
Gulf Power operates as a vertically integrated utility providing electric service to retail customers within its traditional service territory located in northwest Florida and to wholesale customers in the Southeast.
Many factors affect the opportunities, challenges, and risks of Gulf 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, restoration following major storms, fuel, and capital expenditures. Gulf 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 Gulf Power for the foreseeable future.
On April 4, 2017, the Florida PSC approved a settlement agreement (2017 Rate Case Settlement Agreement) among Gulf Power and three intervenors with respect to Gulf Power's request to increase retail base rates. Under 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 consists 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%), is deemed to have an equity ratio of 52.5% for all retail regulatory purposes, and implemented new dismantlement accruals effective July 1, 2017. 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.
Gulf 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 preference stock.
RESULTS OF OPERATIONS
Net Income

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$1	2.9	$(10)	(15.9)

Gulf Power's net income after dividends on preference stock for the second quarter 2017 was $35 million compared to $34 million for the corresponding period in 2016. Gulf Power's net income after dividends on preference stock for year-to-date 2017 was $53 million compared to $63 million for the corresponding period in 2016. The decrease for year-to-date 2017 was primarily due to a write-down of $32.5 million ($20 million after tax) of Gulf Power's ownership of Plant Scherer Unit 3 resulting from the 2017 Rate Case Settlement Agreement and higher operations and maintenance expenses, partially offset by lower depreciation and higher wholesale revenue. See Note (B) to the

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Condensed Financial Statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" herein for additional information regarding the 2017 Rate Case Settlement Agreement.

Retail Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(0.3)	$(6)	(1.0)

In the second quarter 2017, retail revenues were $318 million compared to $319 million for the corresponding period in 2016. For year-to-date 2017, retail revenues were $596 million compared to $602 million for the corresponding period in 2016.

Details of the changes in retail revenues were as follows:

	Second Quarter 2017		Year-to-Date 2017	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$319		$602	
Estimated change resulting from –				
Rates and pricing	5	1.6	7	1.2
Sales decline	(1)	(0.3)	(3)	(0.5)
Weather	—	—	(6)	(1.0)
Fuel and other cost recovery	(5)	(1.6)	(4)	(0.7)
Retail – current year	$318	(0.3)%	$596	(1.0)%

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" of Gulf Power in Item 7 and Note 1 to the financial statements of Gulf Power under "Revenues" and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding Gulf Power's retail base rate case and cost recovery clauses, including Gulf Power's fuel cost recovery, purchased power capacity recovery, environmental cost recovery, and energy conservation cost recovery clauses.

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2017 when compared to the corresponding periods in 2016 primarily due to an increase in retail base revenues, as well as an increase in environmental cost recovery effective November 2016 resulting from Gulf Power's ownership of Plant Scherer Unit 3 being rededicated to retail service.

Revenues attributable to changes in sales decreased in the second quarter and year-to-date 2017 when compared to the corresponding periods in 2016. Weather-adjusted KWH sales to residential and commercial customers decreased 1.2% and 1.3%, respectively, for the second quarter 2017 and 1.3% and 1.0%, respectively, for year-to-date 2017 due to lower customer usage primarily resulting from efficiency improvements in appliances and lighting, partially offset by customer growth. KWH sales to industrial customers decreased 2.7% and 5.6% for the second quarter and year-to-date 2017, respectively, primarily due to changes in customers' operations. The year-to-date 2017 decrease also reflects increased customer co-generation.

Fuel and other cost recovery revenues decreased in the second quarter and year-to-date 2017 when compared to the corresponding periods in 2016, primarily due to lower fuel, purchased power capacity, and energy conservation recoverable costs, partially offset by higher environmental recoverable costs. Fuel and other cost recovery provisions include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, and the difference between projected and actual costs and revenues related to energy conservation and environmental compliance. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses – Retail Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

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GULF POWER COMPANY
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Wholesale Revenues – Affiliates

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(5)	(33.3)	$11	30.6

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 the revenue related to these energy sales generally offsets the cost of energy sold.

In the second quarter 2017, wholesale revenues from sales to affiliates were $10 million compared to $15 million for the corresponding period in 2016. The decrease was primarily due to a 40.6% decrease in KWH sales due to decreased generation as a result of milder weather reducing Southern Company system loads.

For year-to-date 2017, wholesale revenues from sales to affiliates were $47 million compared to $36 million for the corresponding period in 2016. The increase was primarily due to a 17.2% increase in KWH sales as a result of supporting Southern Company system transmission reliability and a 10.0% increase in the price of energy due to higher natural gas prices.

Fuel and Purchased Power Expenses

	Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (19)	(17.8)	$ (5)	(2.5)
Purchased power – non-affiliates	3	9.4	5	8.1
Purchased power – affiliates	5	125.0	6	120.0
Total fuel and purchased power expenses	$ (11)		$ 6	

In the second quarter 2017, total fuel and purchased power expenses were $132 million compared to $143 million for the corresponding period in 2016. The decrease was primarily the result of a $21 million net decrease related to the volume of KWHs generated and purchased due to milder weather in 2017 reducing demand, partially offset by an $11 million net increase due to the higher average cost of fuel associated with purchased power.

For year-to-date 2017, total fuel and purchased power expenses were $274 million compared to $268 million for the corresponding period in 2016. The increase was primarily the result of a $16 million net increase related to the higher average cost of fuel and purchased power resulting from higher natural gas prices, partially offset by a $10 million net decrease related to the volume of KWHs generated and purchased due to milder weather in 2017 reducing demand.

Fuel and purchased power transactions do not have a significant impact on earnings since energy and capacity expenses are generally offset by energy and capacity revenues through Gulf Power's fuel and purchased power capacity cost recovery clauses and long-term wholesale contracts. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses – Retail Fuel Cost Recovery" and " – Purchased Power Capacity Recovery" in Item 8 of the Form 10-K for additional information.

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

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in millions of KWHs)	1,898	2,064	4,220	3,880
Total purchased power (in millions of KWHs)	1,218	1,629	2,676	3,389
Sources of generation (percent) –				
Coal	50	54	52	48
Gas	50	46	48	52
Cost of fuel, generated (in cents per net KWH) –				
Coal	3.17	4.14	3.23	4.05
Gas	3.88	4.11	3.54	3.92
Average cost of fuel, generated (in cents per net KWH)	3.53	4.12	3.38	3.98
Average cost of purchased power (in cents per net KWH)(*)	5.37	3.50	4.93	3.35

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

Fuel

In the second quarter 2017, fuel expense was $88 million compared to $107 million for the corresponding period in 2016. The decrease was primarily due to a 14.3% decrease in the average cost of fuel resulting from lower coal and natural gas prices and a 15.3% decrease in the volume of KWHs generated by Gulf Power's coal-fired generation resources due to milder weather reducing demand.

For year-to-date 2017, fuel expense was $196 million compared to $201 million for the corresponding period in 2016. The decrease was primarily due to a 15.1% decrease in the average cost of fuel resulting from lower coal and natural gas prices, partially offset by an 8.8% increase in the volume of KWHs generated by Gulf Power's coal-fired and gas-fired generation resources due to Southern Company system reliability requirements.

Purchased Power – Non-Affiliates

In the second quarter 2017, purchased power expense from non-affiliates was $35 million compared to $32 million for the corresponding period in 2016. The increase was primarily due to a 68.7% increase in the average cost per KWH purchased primarily resulting from higher natural gas prices, partially offset by a 37.9% decrease in the volume of KWHs purchased due to a planned outage of an external generation resource under a PPA.

For year-to-date 2017, purchased power expense from non-affiliates was $67 million compared to $62 million for the corresponding period in 2016. The increase was primarily due to a 50.0% increase in the average cost per KWH purchased primarily resulting from higher natural gas prices, partially offset by a 25.6% decrease in the volume of KWHs purchased due to a planned outage of an external generation resource under a PPA.

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 second quarter 2017, purchased power expense from affiliates was $9 million compared to $4 million for the corresponding period in 2016. The increase was primarily due to a 66.1% increase in the volume of KWHs purchased due to availability of power pool resources at lower cost compared to Gulf Power generation.

For year-to-date 2017, purchased power expense from affiliates was $11 million compared to $5 million for the corresponding period in 2016. The increase was primarily due to a 22.9% increase in the volume of KWHs

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purchased due to availability of power pool resources at lower cost compared to Gulf Power generation and a 67.1% increase in the average cost per KWH purchased primarily resulting from increased natural gas prices.

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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$10	13.0	$16	10.3

In the second quarter 2017, other operations and maintenance expenses were $87 million compared to $77 million for the corresponding period in 2016. For year-to-date 2017, other operations and maintenance expenses were $171 million compared to $155 million for the corresponding period in 2016. The increases were primarily due to higher expenses at generation facilities associated with routine and planned maintenance.

Depreciation and Amortization

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(7)	(16.7)	$(27)	(33.8)

In the second quarter 2017, depreciation and amortization was $35 million compared to $42 million for the corresponding period in 2016. For year-to-date 2017, depreciation and amortization was $53 million compared to $80 million for the corresponding period in 2016. The decreases were primarily due to $8 million and $28 million more of a reduction in depreciation, as authorized in a settlement agreement approved by the Florida PSC in 2013 (2013 Rate Case Settlement Agreement), in the second quarter and year-to-date 2017, respectively, compared to the corresponding periods in 2016. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Case" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" herein for additional information.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Gulf Power's future earnings potential. The level of Gulf Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Gulf Power's business of providing electric service. These factors include Gulf Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies due to changes in the minimum allowable equipment efficiencies along with the continuation of changes in customer behavior. Earnings are subject to a variety of other factors. These factors include weather, competition, 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 Gulf Power's service territory. Demand for electricity is primarily driven by economic growth. The pace of economic growth and electricity demand may be affected by changes in regional and global economic conditions, which may impact future earnings. Current proposals related to potential 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 Gulf Power's financial statements. For additional information relating to these issues, see RISK FACTORS in Item

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1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Gulf 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 retail rates or through long-term wholesale agreements on a timely basis or through market-based contracts. The State of Florida has statutory provisions that allow a utility to petition the Florida PSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Gulf Power's current long-term wholesale agreements contain provisions that permit charging the customer with costs incurred as a result of changes in environmental laws and regulations. The full impact of any such legislative or regulatory changes cannot be determined at this time. 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 or long-term wholesale agreements could contribute to reduced demand for electricity as well as impact the cost competitiveness of wholesale capacity, which could negatively affect results of operations, cash flows, and financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters," "Retail Regulatory Matters – Cost Recovery Clauses – Environmental Cost Recovery," and "Other Matters" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf 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 Gulf 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 June 6, 2017, the EPA proposed a 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 Gulf 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 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.

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FERC Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Gulf 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 Gulf 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 Gulf Power) and Southern Power to their market-based rate tariff. While the FERC's order references the traditional electric operating companies' (including Gulf Power's) and Southern Power's market power proceeding, it remains a separate, ongoing matter.

Retail Regulatory Matters

Gulf Power's rates and charges for service to retail customers are subject to the regulatory oversight of the Florida PSC. Gulf Power's rates are a combination of base rates and several separate cost recovery clauses for specific categories of costs. These separate cost recovery clauses address such items as fuel and purchased energy costs, purchased power capacity costs, energy conservation and demand side management programs, and the costs of compliance with environmental laws and regulations. Costs not addressed through one of the specific cost recovery clauses are recovered through base rates. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Retail Base Rate Cases

The 2013 Rate Case Settlement Agreement authorized Gulf Power to reduce depreciation and record a regulatory asset up to $62.5 million from January 2014 through June 2017. In any given month, such depreciation reduction could not exceed the amount necessary for the retail ROE, as reported to the Florida PSC monthly, to reach the midpoint of the authorized retail ROE range then in effect. For 2014 and 2015, Gulf Power recognized reductions in depreciation of $8.4 million and $20.1 million, respectively. No net reduction in depreciation was recorded in 2016. In the first six months of 2017, Gulf Power recognized the remaining allowable reductions in depreciation totaling $34.0 million.

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. Under 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 consists 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%), is deemed to have an equity ratio of 52.5% for all retail regulatory purposes, and implemented new dismantlement accruals effective July 1, 2017. 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 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, 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.

Cost Recovery Clauses

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Cost Recovery Clauses" of Gulf Power in Item 7 and Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses" in Item 8 of the Form 10-K for additional information regarding Gulf Power's recovery of retail costs through various regulatory clauses and accounting

orders. Gulf Power has four regulatory clauses which are approved by the Florida PSC. See Note (B) to the Condensed Financial Statements herein for additional information.

As discussed previously, the 2017 Rate Case Settlement Agreement resolved the remaining issues related to Gulf Power's inclusion of certain costs associated with the ongoing ownership and operation of Plant Scherer Unit 3 in the environmental cost recovery clause and no adjustment to the environmental cost recovery clause rate approved by the Florida PSC in November 2016 was made.

Other Matters

Gulf Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Gulf Power is subject to certain claims and legal actions arising in the ordinary course of business. Gulf 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 CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Gulf Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Gulf 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

Gulf Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Gulf 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 Gulf 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 Gulf Power in Item 7 of the Form 10-K for a complete discussion of Gulf Power's critical accounting policies and estimates related to Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, and Contingent Obligations.

Recently Issued Accounting Standards

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

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Gulf 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 Gulf 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, Gulf 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. Gulf Power intends to use the modified retrospective method of adoption effective January 1, 2018. Gulf 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-effect adjustment, is not expected to have a material impact on either the timing or amount of revenues recognized in Gulf Power's financial statements, Gulf 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. Gulf Power is currently evaluating the new standard. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in Gulf 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 Gulf Power's financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Gulf Power in Item 7 of the Form 10-K for additional information. Gulf Power's financial condition remained stable at June 30, 2017. Gulf 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 $124 million for the first six months of 2017 compared to $196 million for the corresponding period in 2016. The $72 million decrease in net cash was primarily due to the timing of fossil fuel stock purchases, a federal income tax refund received in 2016, as well as decreases in cash flows associated with lower cost recovery clause rates. Net cash used for investing activities totaled $123 million in the first six months of 2017 primarily due to property additions to utility plant. Net cash used for financing activities totaled $12 million for the first six months of 2017 primarily due to the payment of short-term debt, redemptions of preference stock and long-term debt, and common stock dividend payments, partially offset by proceeds from

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issuances of long-term debt and common stock. 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 six months of 2017 primarily reflect the financing activities described above. Other significant changes include a decrease in other cost of removal obligations, as authorized in the 2013 Settlement Agreement, and a decrease in property, plant, and equipment primarily due to the write-down of Gulf Power's ownership of Plant Scherer Unit 3. See "Financing Activities" herein and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" herein for additional information.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Gulf Power in Item 7 of the Form 10-K for a description of Gulf 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 related interest, leases, derivative obligations, purchase commitments, and trust funding requirements. Approximately $7 million will be required through June 30, 2018 to fund maturities of long-term debt. In addition, at June 30, 2017, $20 million of Gulf Power's total fixed rate pollution control revenue bonds required to be remarketed over the next 12 months are classified as securities due within one year. See "Financing Activities" herein for additional information.

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; storm impacts; 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 programs; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; 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

Gulf Power plans to obtain the funds required 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, external security issuances, term loans, and equity contributions from Southern Company. 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 Gulf Power in Item 7 of the Form 10-K for additional information.

Gulf Power's current liabilities frequently exceed current assets because of the continued use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as significant seasonal fluctuations in cash needs. Gulf Power has substantial cash flow from operating activities and access to the capital markets and financial institutions to meet short-term liquidity needs, including its commercial paper program which is supported by bank credit facilities.

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At June 30, 2017, Gulf Power had approximately $45 million of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2017 were as follows:

Expires						Executable Term Loans		Expires Within One Year	
2017	2018	2019	2020	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)									
$30	$195	$25	$30	$280	$280	$45	$—	$—	$40

See Note 6 to the financial statements of Gulf 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.

Most of these bank credit arrangements contain covenants that limit debt levels and contain cross-acceleration provisions to other indebtedness (including guarantee obligations) of Gulf Power. Such cross-acceleration provisions to other indebtedness would trigger an event of default if Gulf Power defaulted on indebtedness, the payment of which was then accelerated. At June 30, 2017, Gulf 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, Gulf Power expects to renew or replace its bank credit arrangements, as needed, prior to expiration. In connection therewith, Gulf Power may extend the maturity dates and/or increase or decrease the lending commitments thereunder.

Most of the unused credit arrangements with banks are allocated to provide liquidity support to Gulf 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 June 30, 2017 was approximately $82 million. In addition, at June 30, 2017, Gulf Power had approximately $140 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.

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

Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 2017		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$78	1.5 %	$20	1.4 %	$ 78
Short-term bank debt	—	— %	53	1.7 %	100
Total	$78	1.5 %	$73	1.6 %	

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

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

Credit Rating Risk

At June 30, 2017, Gulf 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 transportation and storage, transmission, and energy price risk management.

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

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 167
Below BBB- and/or Baa3	$ 570

Included in these amounts are certain agreements that could require collateral in the event that 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 Gulf 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 Gulf Power) from stable to negative.

Market Price Risk

Gulf Power's market risk exposure relative to interest rate changes for the second quarter and year-to-date 2017 has not changed materially compared to the December 31, 2016 reporting period. Gulf Power's exposure to market volatility in commodity fuel prices and prices of electricity with respect to its wholesale generating capacity is limited because its long-term sales agreement shifts substantially all fuel cost responsibility to the purchaser.

In connection with the 2017 Rate Case Settlement Agreement, Gulf Power recorded a $32.5 million write-down of Gulf Power's ownership of Plant Scherer Unit 3 in the first quarter 2017 to resolve the inclusion of Gulf Power's investment in Plant Scherer Unit 3 in retail rates and no adjustment to the environmental cost recovery clause rate approved by the Florida PSC in November 2016 was made. The 2017 Rate Case Settlement Agreement provides that 100% of Gulf Power's ownership of Plant Scherer Unit 3 will be included in retail rates. This resolved the market price risk concern around Gulf Power's uncontracted wholesale generating capacity related to Plant Scherer Unit 3. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" herein for additional information.

The Florida PSC extended the moratorium on Gulf Power's fuel-hedging program through January 1, 2021 in connection with the 2017 Rate Case Settlement Agreement. The moratorium does not have an impact on the recovery of existing hedges entered into under the previously-approved hedging program.

For additional discussion of Gulf Power's market risks, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Gulf Power in Item 7 of the Form 10-K.

Financing Activities

In January 2017, Gulf Power issued 1,750,000 shares of common stock to Southern Company and realized proceeds of $175 million. The proceeds were used for general corporate purposes, including Gulf Power's continuous construction program.

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.

In May 2017, Gulf Power issued $300 million aggregate principal amount of Series 2017A 3.30% Senior Notes due May 30, 2027. The proceeds, together with other funds, were used to repay at maturity $85 million aggregate principal amount of Series 2007A 5.90% Senior Notes due June 15, 2017; to repay outstanding commercial paper borrowings; to repay a $100 million short-term floating rate bank loan, as discussed above; and to redeem 550,000 shares ($55 million aggregate liquidation amount) of 6.00% Series Preference Stock, 450,000 shares ($45 million aggregate liquidation amount) of Series 2007A 6.45% Preference Stock, and 500,000 shares ($50 million aggregate liquidation amount) of Series 2013A 5.60% Preference Stock.

In addition to any financings that may be necessary to meet capital requirements, contractual obligations, and storm recovery, Gulf 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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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$222	$206	$422	$389
Wholesale revenues, non-affiliates	62	60	124	120
Wholesale revenues, affiliates	15	7	20	16
Other revenues	4	4	9	8
Total operating revenues	303	277	575	533
Operating Expenses:				
Fuel	102	81	180	157
Purchased power, non-affiliates	2	1	3	1
Purchased power, affiliates	4	4	11	9
Other operations and maintenance	70	68	144	136
Depreciation and amortization	41	45	81	84
Taxes other than income taxes	26	25	52	50
Estimated loss on Kemper IGCC	3,012	81	3,120	134
Total operating expenses	3,257	305	3,591	571
Operating Loss	(2,954)	(28)	(3,016)	(38)
Other Income and (Expense):				
Allowance for equity funds used during construction	36	30	71	59
Interest expense, net of amounts capitalized	(17)	(15)	(37)	(31)
Other income (expense), net	1	(1)	1	(3)
Total other income and (expense)	20	14	35	25
Loss Before Income Taxes	(2,934)	(14)	(2,981)	(13)
Income taxes (benefit)	(881)	(17)	(908)	(27)
Net Income (Loss)	(2,053)	3	(2,073)	14
Dividends on Preferred Stock	1	1	1	1
Net Income (Loss) After Dividends on Preferred Stock	$(2,054)	$2	$(2,074)	$13

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Net Income (Loss)	$(2,053)	$ 3	$(2,073)	$ 14
Other comprehensive income (loss)				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $-, $-, and $-, respectively	—	—	1	—
Total other comprehensive income (loss)	—	—	1	—
Comprehensive Income (Loss)	$(2,053)	$ 3	$(2,072)	$ 14

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

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MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30,	
	2017	2016
	(in millions)	
Operating Activities:		
Net income (loss)	$(2,073)	$14
Adjustments to reconcile net income (loss) to net cash provided from operating activities —		
Depreciation and amortization, total	94	82
Deferred income taxes	(860)	(16)
Allowance for equity funds used during construction	(71)	(59)
Estimated loss on Kemper IGCC	3,120	134
Other, net	(11)	(8)
Changes in certain current assets and liabilities —		
-Receivables	(15)	15
-Fossil fuel stock	21	6
-Other current assets	(10)	31
-Accounts payable	(20)	(12)
-Accrued taxes	—	20
-Accrued compensation	(17)	(12)
-Over recovered regulatory clause revenues	(30)	4
-Customer liability associated with Kemper refunds	—	(69)
-Other current liabilities	7	7
Net cash provided from operating activities	135	137
Investing Activities:		
Property additions	(337)	(403)
Construction payables	(19)	(11)
Government grant proceeds	—	137
Other investing activities	(5)	(19)
Net cash used for investing activities	(361)	(296)
Financing Activities:		
Decrease in notes payable, net	(10)	—
Proceeds —		
Capital contributions from parent company	1,001	226
Long-term debt to parent company	40	200
Other long-term debt	—	900
Short-term borrowings	4	—
Redemptions —		
Short-term borrowings	—	(475)
Long-term debt to parent company	(591)	(225)
Other long-term debt	(300)	(425)
Other financing activities	(2)	(3)
Net cash provided from financing activities	142	198
Net Change in Cash and Cash Equivalents	(84)	39
Cash and Cash Equivalents at Beginning of Period	224	98
Cash and Cash Equivalents at End of Period	$140	$137
Supplemental Cash Flow Information:		

Cash paid (received) during the period for —		
Interest (paid $53 and $49, net of $27 and $23 capitalized for 2017 and 2016, respectively)	$26	$26
Income taxes, net	(93)	(122)
Noncash transactions — Accrued property additions at end of period	59	94

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

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MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$140	$ 224
Receivables —		
Customer accounts receivable	33	29
Unbilled revenues	42	42
Income taxes receivable, current	544	544
Other accounts and notes receivable	25	14
Affiliated	20	15
Fossil fuel stock	20	100
Materials and supplies	44	76
Other regulatory assets, current	114	115
Other current assets	2	8
Total current assets	984	1,167
Property, Plant, and Equipment:		
In service	4,826	4,865
Less: Accumulated provision for depreciation	1,283	1,289
Plant in service, net of depreciation	3,543	3,576
Construction work in progress	56	2,545
Total property, plant, and equipment	3,599	6,121
Other Property and Investments	22	12
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	61	361
Other regulatory assets, deferred	441	518
Accumulated deferred income taxes	404	—
Other deferred charges and assets	20	56
Total deferred charges and other assets	926	935
Total Assets	$5,531	$ 8,235

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

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MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year —		
Parent	$—	$ 551
Other	1,028	78
Notes payable	17	23
Accounts payable —		
Affiliated	54	62
Other	109	135
Customer deposits	16	16
Accrued taxes	97	99
Unrecognized tax benefits	385	383
Accrued interest	52	46
Accrued compensation	25	42
Asset retirement obligations, current	21	32
Over recovered regulatory clause liabilities	21	51
Other current liabilities	89	20
Total current liabilities	1,914	1,538
Long-term Debt	1,169	2,424
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	—	756
Employee benefit obligations	111	115
Asset retirement obligations, deferred	149	146
Other cost of removal obligations	173	170
Other regulatory liabilities, deferred	80	84
Other deferred credits and liabilities	29	26
Total deferred credits and other liabilities	542	1,297
Total Liabilities	3,625	5,259
Redeemable Preferred Stock	33	33
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 1,130,000 shares		
Outstanding — 1,121,000 shares	38	38
Paid-in capital	4,527	3,525
Accumulated deficit	(2,689)	(616)
Accumulated other comprehensive loss	(3)	(4)
Total common stockholder's equity	1,873	2,943
Total Liabilities and Stockholder's Equity	$5,531	$ 8,235

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

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MISSISSIPPI POWER COMPANY
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SECOND QUARTER 2017 vs. SECOND QUARTER 2016
AND
YEAR-TO-DATE 2017 vs. YEAR-TO-DATE 2016

OVERVIEW

Mississippi Power operates as a vertically integrated utility providing electric service to retail customers within its traditional service territory located within the State of Mississippi and to wholesale customers in the Southeast.
Many factors affect the opportunities, challenges, and risks of Mississippi Power's business of providing electric service. These factors include Mississippi Power's ability to maintain and grow energy sales and to operate in a constructive regulatory environment that provides timely recovery of prudently-incurred costs. These costs include those related to the Kemper County energy facility, projected long-term demand growth, reliability, fuel, and stringent environmental standards, as well as ongoing capital expenditures required for maintenance and restoration following major storms. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Mississippi Power for the foreseeable future.
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 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 CO_2 pipeline facilities, AFUDC, and certain general exceptions, including change of law, force majeure, and beneficial capital (which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on customers relative to the original proposal for the CPCN) (Cost Cap Exceptions). 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 (2015 Stipulation) between Mississippi Power and the Mississippi Public Utilities Staff (MPUS), authorizing rates that provide for the recovery of approximately $126 million annually related to the combined cycle and associated common facilities portion of Kemper IGCC assets previously placed in service. 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.
The remainder of the plant includes the gasifiers and the gas clean-up facilities. 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 CO_2, 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. Most recently, 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 increased significantly since certification.

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

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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. The Kemper Settlement Order provides that any related settlement agreement be filed within 45 days from the effective date of the Kemper Settlement Order. If a settlement agreement is filed, a hearing will be set 45 days from the date of the settlement's filing, and the appropriate scheduling order will be established.

Although the ability to achieve a negotiated settlement is uncertain, Mississippi Power intends to pursue any available settlement alternatives. In addition, the Kemper Settlement Order provides that, in the event a settlement agreement is not reached, the Mississippi PSC reserves its right to take any appropriate steps, including issuing an order to show cause as to why the CPCN for the Kemper IGCC should not be revoked.

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 grants from the DOE received on April 8, 2016 (Additional DOE Grants). Mississippi Power recorded pre-tax charges to income for revisions to the cost estimate subject to the construction cost cap totaling $196 million ($121 million after tax) in the second quarter through May 31, 2017 and a total of $305 million ($188 million after tax) for year-to-date through May 31, 2017. In the aggregate, Mississippi Power incurred charges of $3.07 billion ($1.89 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through May 31, 2017. The May 31, 2017 cost estimate included approximately $175 million of estimated costs to be incurred beyond the then-estimated in-service date of June 30, 2017 that were expected to be subject to the $2.88 billion cost cap.

At June 30, 2017, approximately $3.3 billion in actual Kemper IGCC costs were not reflected in Mississippi Power's retail and wholesale rates, of which $0.5 billion was related to the combined cycle and associated facilities and $2.8 billion was related to the gasification portions 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax 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 $3.0 billion ($2.1 billion after tax) for the second quarter 2017 and $3.1 billion ($2.2 billion after tax) for the six months ended June 30, 2017. In the aggregate, since the Kemper IGCC project started, Mississippi Power has incurred charges of $6.0 billion ($3.9 billion after tax) through June 30, 2017.

As of June 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

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previously contracted to SMEPA. 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 Mississippi Power 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.

In June 2017, Southern Company made equity contributions totaling $1.0 billion to Mississippi Power. Mississippi Power used a portion of the proceeds to (i) prepay $300 million of the outstanding principal amount under its $1.2 billion unsecured term loan; (ii) repay $591 million of the outstanding principal amount of promissory notes to Southern Company; and (iii) repay $10 million of the outstanding principal amount of bank loans.

Mississippi Power's financial statement presentation contemplates continuation of Mississippi Power as a going concern as a result of Southern Company's anticipated ongoing financial support of Mississippi Power. For additional information, see Notes 1 and 6 to the financial statements of Mississippi Power under "Recently Issued Accounting Standards" and "Going Concern," respectively, in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Going Concern" herein.

In addition to the rate recovery of the Kemper County energy facility, Mississippi Power continues to focus on several key performance indicators. In recognition that Mississippi Power's long-term financial success is dependent upon how well it satisfies its customers' needs, Mississippi Power's retail base rate mechanism, PEP, includes performance indicators that directly tie customer service indicators to Mississippi Power's allowed ROE. Mississippi Power also focuses on broader measures of customer satisfaction, plant availability, system reliability, and net income after dividends on preferred stock.

RESULTS OF OPERATIONS

Net Income (Loss)

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(2,056)	N/M	$(2,087)	N/M

N/M - Not meaningful

In the second quarter and year-to-date 2017, Mississippi Power's net loss after dividends on preferred stock was $2.05 billion and $2.07 billion, respectively, compared to net income of $2 million and $13 million, respectively, for the corresponding periods in 2016. In the second quarter and year-to-date 2017, the decrease in net income was related to higher pre-tax charges associated with the Kemper IGCC of $3.0 billion ($2.1 billion after tax) and $3.1 billion ($2.2 billion after tax), respectively, compared to pre-tax charges of $81 million ($50 million after tax) and $134 million ($83 million after tax), respectively, for the corresponding periods in 2016. The changes in net income were partially offset by a decrease in depreciation and amortization and increases in retail revenues, AFUDC equity, and income tax benefits.

See Note 3 to the financial statements of Mississippi Power 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.

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MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Retail Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$16	7.8	$33	8.5

In the second quarter 2017, retail revenues were $222 million compared to $206 million for the corresponding period in 2016. For year-to-date 2017, retail revenues were $422 million compared to $389 million for the corresponding period in 2016.

Details of the changes in retail revenues were as follows:

	Second Quarter 2017		Year-to-Date 2017	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$206		$389	
Estimated change resulting from –				
Rates and pricing	8	3.9	19	4.9
Sales growth (decline)	(2)	(0.9)	3	0.8
Weather	(2)	(1.0)	(7)	(1.8)
Fuel and other cost recovery	12	5.8	18	4.6
Retail – current year	$222	7.8 %	$422	8.5 %

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2017 when compared to the corresponding periods in 2016 primarily due to an ECO Plan rate increase implemented in the third quarter 2016, partially offset by an ECO Plan rate decrease implemented in the second quarter 2017.

Revenues attributable to changes in sales decreased for the second quarter 2017 when compared to the corresponding period in 2016. Weather-adjusted KWH sales to residential customers decreased 2.7% due to lower customer usage. Weather-adjusted KWH sales to commercial customers decreased 0.8% due to lower customer usage, offset by customer growth. KWH sales to industrial customers decreased 1.3% primarily due to an unplanned outage by a large customer in 2017 and a decrease in the number of mid-size customers.

Revenues attributable to changes in sales increased for year-to-date 2017 when compared to the corresponding period in 2016. Weather-adjusted KWH sales to residential and commercial customers decreased 0.7% and 0.5%, respectively, due to lower customer usage. KWH sales to industrial customers decreased 0.4% primarily due to an unplanned outage by a larger customer in 2017 and a decrease in the number of mid-size customers.

Fuel and other cost recovery revenues increased in the second quarter and year-to-date 2017 when compared to the corresponding periods in 2016, primarily as a result of higher recoverable fuel costs. See "Fuel and Purchased Power Expenses" herein for additional information. Recoverable fuel costs include fuel and purchased power expenses reduced by the fuel portion of wholesale revenues from energy sold to customers outside Mississippi Power's service territory. Electric rates 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 purchased power costs, and do not affect net income.

Wholesale Revenues – Non-Affiliates

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$2	3.3	$4	3.3

Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Mississippi Power's and 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. In addition, Mississippi Power provides service under long-term contracts with rural electric cooperative associations and municipalities located in southeastern Mississippi under cost-based electric tariffs which are subject to regulation by the FERC. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Mississippi Power in Item 7 of the Form 10-K and – FUTURE EARNINGS POTENTIAL – "FERC Matters" herein for additional information.

In the second quarter and year-to-date 2017, wholesale revenues from sales to non-affiliates were $62 million and $124 million, respectively, compared to $60 million and $120 million for the corresponding periods in 2016. The increases were due to increases in energy revenues of $4 million and $5 million in the second quarter and year-to-date 2017, respectively, primarily resulting from higher fuel prices, partially offset by decreases in base and capacity revenues of $2 million and $1 million, respectively, primarily due to milder weather resulting in lower sales.

Wholesale Revenues – Affiliates

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$8	N/M	$4	25.0

N/M - Not meaningful

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

In the second quarter 2017, wholesale revenues from sales to affiliates were $15 million compared to $7 million for the corresponding period in 2016. The increase was due to a $6 million increase in KWH sales and a $2 million increase primarily due to higher natural gas prices.

For year-to-date 2017, wholesale revenues from sales to affiliates were $20 million compared to $16 million for the corresponding period in 2016. The increase was primarily due to higher natural gas prices.

Fuel and Purchased Power Expenses

	Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 21	25.9	$ 23	14.6
Purchased power – non-affiliates	1	100.0	2	200.0
Purchased power – affiliates	—	—	2	22.2
Total fuel and purchased power expenses	$ 22		$ 27	

In the second quarter 2017, total fuel and purchased power expenses were $108 million compared to $86 million for the corresponding period in 2016. The increase was due to a $17 million increase in natural gas prices and a $5 million increase in the volume of KWHs generated and purchased.

For year-to-date 2017, total fuel and purchased power expenses were $194 million compared to $167 million for the corresponding period in 2016. The increase was due to a $34 million increase in natural gas prices, partially offset by a $7 million decrease in the volume of KWHs generated and purchased.

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Fuel and purchased power energy transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Mississippi Power's fuel cost recovery clause.
Details of Mississippi Power's generation and purchased power were as follows:

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
Total generation (in millions of KWHs)	3,927	3,728	7,088	7,315
Total purchased power (in millions of KWHs)(*)	121	188	362	449
Sources of generation (percent) –				
Coal	7	5	8	8
Gas	93	95	92	92
Cost of fuel, generated (in cents per net KWH) –				
Coal	3.61	5.49	3.46	4.16
Gas	2.73	2.17	2.69	2.16
Average cost of fuel, generated (in cents per net KWH)	2.79	2.33	2.76	2.32
Average cost of purchased power (in cents per net KWH)(*)	4.74	2.55	3.80	2.33

(*) Includes energy produced during the test period for the Kemper IGCC, which is accounted for in accordance with FERC guidance.

Fuel

In the second quarter 2017, total fuel expense was $102 million compared to $81 million for the corresponding period in 2016. The increase was due to a 20% increase in the average cost of fuel per KWH generated, primarily due to a 26% higher cost of natural gas, and a 6% increase in the volume of KWHs generated.

For year-to-date 2017, total fuel expense was $180 million compared to $157 million for the corresponding period in 2016. The increase was due to a 19% increase in the average cost of fuel per KWH generated primarily due to a 25% higher cost of natural gas, partially offset by a 3% decrease in the volume of KWHs generated.

Purchased Power

Energy purchases 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 service territory, and the availability of the Southern Company system's generation. Energy purchases from affiliates are made in accordance with the IIC, as approved by the FERC.

Other Operations and Maintenance Expenses

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$2	2.9	$8	5.9

For year-to-date 2017, other operations and maintenance expenses were $144 million compared to $136 million for the corresponding period in 2016. The increase was primarily associated with the Kemper IGCC in-service assets. See FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs – 2015 Rate Case" herein for additional information.

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Depreciation and Amortization

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(4)	(8.9)	$(3)	(3.6)

In the second quarter 2017, depreciation and amortization was $41 million compared to $45 million for the corresponding period in 2016. For year-to-date 2017, depreciation and amortization was $81 million compared to $84 million for the corresponding period in 2016. The decreases were primarily related to changes in amortization and deferrals associated with regulatory assets.

See Note 1 to the financial statements of Mississippi Power under "Depreciation, Depletion, and Amortization" in Item 8 of the Form 10-K.

Estimated Loss on Kemper IGCC

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$2,931	N/M	$2,986	N/M

N/M - Not meaningful

Prior to the project suspension on June 28, 2017, estimated probable losses on the Kemper IGCC totaled $196 million and $305 million in the second quarter and year-to-date 2017, respectively, compared to $81 million and $134 million in the second quarter and year-to-date 2016, respectively. These losses reflected revisions of estimated costs expected to be incurred on the construction of the Kemper IGCC prior to project suspension in excess of the $2.88 billion cost cap established by the Mississippi PSC, net of the Initial DOE Grants and excluding the Cost Cap Exceptions.

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 Settlement Order, 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, which includes estimated costs associated with the gasification portions of the plant and lignite mine.

See Note 3 to the financial statements of Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "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

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$6	20.0	$12	20.3

In the second quarter 2017, AFUDC equity was $36 million compared to $30 million for the corresponding period in 2016. For year-to-date 2017, AFUDC equity was $71 million compared to $59 million for the corresponding period in 2016. The increases resulted from a higher AFUDC rate and an increase in Kemper IGCC CWIP subject to AFUDC prior to project suspension.

See Note 3 to the financial statements of Mississippi Power under "FERC Matters" and "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Integrated

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Coal Gasification Combined Cycle" and Note (B) to the Condensed Financial Statements under "FERC Matters" and "Integrated Coal Gasification Combined Cycle" herein for additional information regarding the Kemper IGCC.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$2	13.3	$6	19.4

In the second quarter 2017, interest expense, net of amounts capitalized was $17 million compared to $15 million, for the corresponding period in 2016. For year-to-date 2017, interest expense, net of amounts capitalized was $37 million compared to $31 million for the corresponding period in 2016. The increases were primarily associated with the Kemper IGCC in-service assets.

See Note 3 to the financial statements of Mississippi Power 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.

Income Taxes (Benefit)

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(864)	N/M	$(881)	N/M

N/M - Not meaningful

In the second quarter 2017, income tax benefit was $881 million compared to $17 million for the corresponding period in 2016. For year-to-date 2017, income tax benefit was $908 million compared to $27 million for the corresponding period in 2016. The changes were primarily due to the estimated probable losses on the Kemper IGCC, net of the non-deductible AFUDC equity portion and the related state valuation allowances.

See Note (G) to the Condensed Financial Statements herein for additional information.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Mississippi Power's future earnings potential. The level of Mississippi Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Mississippi Power's business of providing electric service. These factors include Mississippi Power's ability to recover its prudently-incurred costs, including those related to the remainder of the Kemper County energy facility not included in current rates, in a timely manner during a time of increasing costs and its ability to prevail against legal challenges associated with the Kemper County energy facility. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies and increasing volumes of electronic commerce transactions. Earnings are subject to a variety of other factors. These factors include weather, competition, developing new and maintaining existing energy contracts and associated load requirements with other utilities and other wholesale customers, 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 Mississippi Power's service territory. Demand for electricity is primarily driven by economic growth. The pace of economic growth and electricity demand may be affected by changes in regional and global economic conditions, which may impact future earnings.

Current proposals related to potential 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 Mississippi 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 Mississippi Power in Item 7 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.

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 or through long-term wholesale agreements. 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 Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi 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 Mississippi 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 June 6, 2017, the EPA proposed a 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 Mississippi 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 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.

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FERC Matters
Municipal and Rural Associations Tariff
See Note 3 to the financial statements of Mississippi Power under "FERC Matters" in Item 8 of the Form 10-K for additional information regarding a settlement agreement entered into by Mississippi Power regarding the establishment of a regulatory asset for Kemper IGCC-related costs. See Note 3 to the financial statements of Mississippi Power 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 information regarding the Kemper IGCC.
In March 2016, Mississippi Power reached a settlement agreement with its wholesale customers, which was subsequently approved by the FERC, for an increase in wholesale base revenues under the MRA cost-based electric tariff, primarily as a result of placing scrubbers for Plant Daniel Units 1 and 2 in service in 2015. The settlement agreement became effective for services rendered beginning May 1, 2016, resulting in an estimated annual revenue increase of $7 million under the MRA cost-based electric tariff. Additionally, under the settlement agreement, the tariff customers agreed to similar regulatory treatment for MRA tariff ratemaking as the treatment approved for retail ratemaking under the In-Service Asset Rate Order. This regulatory treatment primarily includes (i) recovery of the Kemper IGCC assets currently operational and providing service to customers and other related costs, (ii) amortization of the Kemper IGCC-related regulatory assets included in rates under the settlement agreement over the 36 months ending April 30, 2019, (iii) Kemper IGCC-related expenses included in rates under the settlement agreement no longer being deferred and charged to expense, and (iv) removing all of the Kemper IGCC CWIP from rate base with a corresponding increase in accrual of AFUDC. The additional resulting AFUDC totaled approximately $22 million through the suspension of Kemper IGCC start-up activities.
See Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.
Fuel Cost Recovery
Mississippi Power has a wholesale MRA and a Market Based (MB) fuel cost recovery factor. At June 30, 2017, the amount of over-recovered wholesale MRA fuel costs included in the balance sheets was $7 million compared to $13 million at December 31, 2016. Over-recovered wholesale MB fuel costs included in the balance sheets were immaterial at June 30, 2017 and December 31, 2016.
See Note 3 to the financial statements of Mississippi Power under "FERC Matters – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.
Market-Based Rate Authority
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters – Market-Based Rate Authority" of Mississippi 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 Mississippi 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 Mississippi Power) and Southern Power to their market-based rate tariff. While the FERC's order references the traditional electric operating companies' (including Mississippi Power's) and Southern Power's market power proceeding, it remains a separate, ongoing matter.
Retail Regulatory Matters
Mississippi Power's rates and charges for service to retail customers are subject to the regulatory oversight of the Mississippi PSC. Mississippi Power's rates are a combination of base rates and several separate cost recovery

clauses for specific categories of costs. These separate cost recovery clauses address such items as fuel and purchased power, energy efficiency programs, ad valorem taxes, property damage, and the costs of compliance with environmental laws and regulations. Costs not addressed through one of the specific cost recovery clauses are recovered through Mississippi Power's base rates. See Note 3 to the financial statements of Mississippi Power under "Retail Regulatory Matters" 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 – Mississippi Power" and "Integrated Coal Gasification Combined Cycle" herein for additional information.

Renewables

Mississippi Power placed in service two solar projects in January 2017 and June 2017. A third solar project is expected to be placed in service in the third quarter 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 June 9, 2017, Mississippi Power submitted a CPCN to the Mississippi PSC for the approval of construction, operation, and maintenance of a 52.5-MW solar energy generating facility, which, if approved, is expected to be placed in service by January 2020. The ultimate outcome of this matter cannot be determined at this time.

Performance Evaluation Plan

On March 15, 2017, Mississippi Power submitted its annual PEP lookback filing for 2016, which reflected the need for a $5 million surcharge to be recovered from customers. The filing has been suspended for review by the Mississippi PSC. The ultimate outcome of this matter cannot be determined at this time.

Energy Efficiency

On July 6, 2017, the Mississippi PSC issued an order approving Mississippi Power's Energy Efficiency Cost Rider compliance filing, which increased annual retail revenues by approximately $2 million effective with the first billing cycle for August 2017.

Environmental Compliance Overview Plan

On May 4, 2017, the Mississippi PSC approved Mississippi Power's ECO Plan filing for 2017, which requested the maximum 2% annual increase in revenues, approximately $18 million, primarily related to the Plant Daniel Units 1 and 2 scrubbers placed in service in 2015. The rates became effective with the first billing cycle for June 2017. Approximately $26 million of related revenue requirements in excess of the 2% maximum was deferred for inclusion in the 2018 filing.

Fuel Cost Recovery

At June 30, 2017, the amount of over-recovered retail fuel costs included on the condensed balance sheet was $14 million compared to $37 million at December 31, 2016.

Ad Valorem Tax Adjustment

On July 6, 2017, the Mississippi PSC approved Mississippi Power's annual ad valorem tax adjustment factor filing for 2017, which included an annual rate increase of 0.85%, or $8 million in annual retail revenues, primarily due to increased assessments.

Integrated Coal Gasification Combined Cycle

See Note 3 to the financial statements of Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K for information regarding Mississippi Power's construction of the Kemper IGCC.

Kemper IGCC Overview

The Kemper IGCC was designed to utilize IGCC technology with an expected output capacity of 582 MWs and to be fueled by locally mined lignite (an abundant, lower heating value coal) from a mine owned by Mississippi Power and situated adjacent to the Kemper IGCC. The mine, operated by North American Coal Corporation, started commercial operation in 2013. In connection with the Kemper IGCC, Mississippi Power constructed approximately 61 miles of CO_2 pipeline infrastructure for the transport of captured CO_2 for use in enhanced oil recovery.

Kemper IGCC Schedule and Cost Estimate

In 2012, the Mississippi PSC issued the 2012 MPSC CPCN Order, a detailed order confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing the acquisition, construction, and operation of the Kemper IGCC. The certificated cost estimate of the Kemper IGCC included in the 2012 MPSC CPCN Order was $2.4 billion, net of $245 million of Initial DOE Grants and excluding the cost of the lignite mine and equipment, the cost of the CO_2 pipeline facilities, and AFUDC related to the Kemper IGCC. The 2012 MPSC CPCN Order approved a construction cost cap of up to $2.88 billion, with recovery of prudently-incurred costs subject to approval by the Mississippi PSC. The Kemper IGCC was originally projected to be placed in service in May 2014. Mississippi Power placed the combined cycle and the associated common facilities portion of the Kemper IGCC in service in August 2014. The remainder of the plant includes the gasifiers and the gas clean-up facilities. 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 CO_2, 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. Most recently, 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 increased significantly since certification.

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. 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.

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Mississippi Power's Kemper IGCC 2010 project estimate, cost estimate at the time of project suspension (which includes the impacts of the Mississippi Supreme Court's (Court) decision discussed herein under "Rate Recovery of Kemper IGCC Costs – 2013 MPSC Rate Order"), and actual costs incurred as of June 30, 2017, all of which include 100% of the costs for the Kemper IGCC, are as follows:

Cost Category	2010 Project Estimate[(a)]	Cost Estimate at Suspension[(b)]	June 30, 2017 Actual Costs
	(in billions)		
Plant Subject to Cost Cap[(c)(e)]	$2.40	$ 5.95	$5.68
Lignite Mine and Equipment	0.21	0.23	0.23
CO_2 Pipeline Facilities	0.14	0.11	0.11
AFUDC[(d)]	0.17	0.85	0.85
Combined Cycle and Related Assets Placed in Service – Incremental[(e)]	—	0.05	0.05
General Exceptions	0.05	0.10	0.08
Deferred Costs[(e)]	—	0.23	0.23
Additional DOE Grants	—	(0.14)	(0.14)
Total Kemper IGCC	$2.97	$ 7.38	$7.09

(a) Represents the certificated cost estimate adjusted to include the certificated estimate for the CO_2 pipeline facilities approved in 2011 by the Mississippi PSC, as well as the lignite mine and equipment, AFUDC, and general exceptions.

(b) Represents actual costs through June 30, 2017 and projected costs at the time of project suspension, including estimated post-in-service costs which were expected to be subject to the cost cap.

(c) The 2012 MPSC CPCN Order approved a construction cost cap of up to $2.88 billion, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. The Cost Estimate at Suspension and the Actual Costs include non-incremental operating and maintenance costs related to the combined cycle and associated common facilities placed in service in August 2014 that are subject to the $2.88 billion cost cap and exclude post-in-service costs for the lignite mine. See "Rate Recovery of Kemper IGCC Costs – 2013 MPSC Rate Order" herein for additional information.

(d) Mississippi Power's 2010 Project Estimate included recovery of financing costs during construction rather than the accrual of AFUDC. This approach was not approved by the Mississippi PSC as described in "Rate Recovery of Kemper IGCC Costs – 2013 MPSC Rate Order." The Cost Estimate at Suspension also reflects the impact of a settlement agreement with the wholesale customers for cost-based rates under FERC's jurisdiction. See "FERC Matters" herein for additional information.

(e) Non-capital Kemper IGCC-related costs incurred during construction were initially deferred as regulatory assets. Some of these costs are included in current rates and are being recognized through income; however, such costs remained in the Cost Estimate at Suspension and are reflected in the Actual Costs at June 30, 2017. The equity return associated with assets placed in service and other non-CWIP accounts deferred for regulatory purposes, as well as the wholesale portion of debt carrying costs, whether deferred or recognized through income, was not included in the Cost Estimate at Suspension or in the Actual Costs at June 30, 2017. At June 30, 2017, such deferred amounts totaled $33 million and $1 million, respectively.

Mississippi Power recorded pre-tax charges to income for revisions to the cost estimate of $196 million ($121 million after tax) in the second quarter through May 31, 2017 and a total of $305 million ($188 million after tax) for year-to-date through May 31, 2017. In the aggregate, Mississippi Power incurred charges of $3.07 billion ($1.89

billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through May 31, 2017. The May 31, 2017 cost estimate included approximately $175 million of estimated costs to be incurred beyond the then-estimated in-service date of June 30, 2017 that were expected to be subject to the $2.88 billion cost cap. 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax costs currently estimated at approximately $100 million to $200 million are expected to be incurred.

In the aggregate, Mississippi Power recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC totaling $3.0 billion for the second quarter 2017 and $3.1 billion for the six months ended June 30, 2017.

As of June 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, of which $1.2 billion is included in plant in service, $14 million in materials and supplies, $22 million in other regulatory assets, current, and $95 million in other regulatory assets, deferred.

Rate Recovery of Kemper IGCC Costs

Given the variety of potential scenarios and the uncertainty of the outcome of future regulatory proceedings with the Mississippi PSC (and any subsequent related legal challenges), the ultimate outcome of the rate recovery matters discussed herein, including the resolution of legal challenges, cannot now be determined but could result in further material charges that could have a material impact on Mississippi Power's results of operations, financial condition, and liquidity.

Kemper IGCC Settlement Docket

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. The Kemper Settlement Order established the 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. The Kemper Settlement Order provides that any related settlement agreement be filed within 45 days from the effective date of the Kemper Settlement Order. If a settlement agreement is filed, a hearing will be set 45 days from the date of the settlement's filing, and the appropriate scheduling order will be established.

Although the ability to achieve a negotiated settlement is uncertain, Mississippi Power intends to pursue any available settlement alternatives. In addition, the Kemper Settlement Order provides that, in the event a settlement agreement is not reached, the Mississippi PSC reserves its right to take any appropriate steps, including issuing an order to show cause as to why the CPCN for the Kemper IGCC should not be revoked.

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 June 30, 2017, approximately $3.3 billion in actual Kemper IGCC costs were not reflected in Mississippi Power's retail and wholesale rates, of which $0.5 billion was related to the combined cycle and associated facilities and $2.8 billion was related to the gasification portions 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax costs currently estimated at approximately $100 million to $200 million are expected to be incurred.

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As of June 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 SMEPA. 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.

Prudence

On August 17, 2016, the Mississippi PSC issued an order establishing a discovery docket to manage all filings related to the prudence of the Kemper IGCC. On October 3, 2016, Mississippi Power made a required compliance filing, which included a review and explanation of differences between the Kemper IGCC project estimate set forth in the 2010 CPCN proceedings and the most recent Kemper IGCC project estimate, as well as comparisons of current cost estimates and current expected plant operational parameters to the estimates presented in the 2010 CPCN proceedings for the first five years after the Kemper IGCC is placed in service. Compared to amounts presented in the 2010 CPCN proceedings, operations and maintenance expenses have increased an average of $105 million annually and maintenance capital has increased an average of $44 million annually for the first full five years of operations for the Kemper IGCC. Additionally, while the current estimated operational availability estimates reflect ultimate results similar to those presented in the 2010 CPCN proceedings, the ramp up period for the current estimates reflects a lower starting point and a slower escalation rate. On November 17, 2016, Mississippi Power submitted a supplemental filing to the October 3, 2016 compliance filing to present revised non-fuel operations and maintenance expense projections for the first year after the Kemper IGCC is placed in service. This supplemental filing included approximately $68 million in additional estimated operations and maintenance costs expected to be required to support the operations of the Kemper IGCC during that period.

Mississippi Power responded to numerous requests for information from interested parties in the discovery docket, which is now complete. Mississippi Power expects the Mississippi PSC to utilize this information in connection with the ultimate resolution of Kemper IGCC cost recovery.

Economic Viability Analysis

In the fourth quarter 2016, as a part of its Integrated Resource Plan process, the Southern Company system completed its regular annual updated fuel forecast, the 2017 Annual Fuel Forecast. This updated fuel forecast reflected significantly lower long-term estimated costs for natural gas than were previously projected. As a result of the updated long-term natural gas forecast, as well as the revised operating expense projections reflected in the discovery docket filings discussed above, on February 21, 2017, Mississippi Power filed an updated project economic viability analysis of the Kemper IGCC as required under the 2012 MPSC CPCN Order confirming authorization of the Kemper IGCC. The project economic viability analysis measures the life cycle economics of the Kemper IGCC compared to feasible alternatives, natural gas combined cycle generating units, under a variety of scenarios and considering fuel, operating and capital costs, and operating characteristics, as well as federal and state taxes and incentives. The reduction in the projected long-term natural gas prices in the 2017 Annual Fuel Forecast and, to a lesser extent, the increase in the estimated Kemper IGCC operating costs, negatively impact the updated project economic viability analysis. Mississippi Power expects the Mississippi PSC to address this matter in connection with the Kemper IGCC Settlement Docket.

2015 Rate Case

On August 13, 2015, the Mississippi PSC approved Mississippi Power's request for interim rates, which presented an alternative rate proposal (In-Service Asset Proposal) designed to recover Mississippi Power's costs associated with the Kemper IGCC assets that are commercially operational and currently providing service to customers (the

transmission facilities, combined cycle, natural gas pipeline, and water pipeline) and other related costs. The interim rates were designed to collect approximately $159 million annually and became effective in September 2015, subject to refund and certain other conditions.

On December 3, 2015, the Mississippi PSC issued the In-Service Asset Rate Order adopting in full the 2015 Stipulation entered into between Mississippi Power and the MPUS regarding the In-Service Asset Proposal. The In-Service Asset Rate Order provided for retail rate recovery of an annual revenue requirement of approximately $126 million, based on Mississippi Power's actual average capital structure, with a maximum common equity percentage of 49.733%, a 9.225% return on common equity, and actual embedded interest costs. The In-Service Asset Rate Order also included a prudence finding of all costs in the stipulated revenue requirement calculation for the in-service assets. The stipulated revenue requirement excluded the costs of the Kemper IGCC related to the 15% undivided interest that was previously projected to be purchased by SMEPA but reserved Mississippi Power's right to seek recovery in a future proceeding. See "Termination of Proposed Sale of Undivided Interest" herein for additional information. With implementation of the new rates on December 17, 2015, the interim rates were terminated and, in March 2016, Mississippi Power completed customer refunds of approximately $11 million for the difference between the interim rates collected and the permanent rates.

In 2011, the Mississippi PSC authorized Mississippi Power to defer all non-capital Kemper IGCC-related costs to a regulatory asset through the in-service date. In connection with the implementation of the In-Service Asset Order and wholesale rates, Mississippi Power began expensing certain ongoing project costs and certain retail debt carrying costs that previously were deferred and began amortizing certain regulatory assets associated with assets placed in service and consulting and legal fees. The amortization periods for these regulatory assets vary from two years to 10 years as set forth in the In-Service Asset Rate Order and the settlement agreement with wholesale customers. As of June 30, 2017, the balance associated with these regulatory assets was $117 million, of which $22 million is included in current assets. See "FERC Matters" herein for additional information related to the 2016 settlement agreement with wholesale customers.

The In-Service Asset Rate Order requires Mississippi Power to submit an annual true-up calculation of its actual cost of capital, compared to the stipulated total cost of capital, with the first occurring as of May 31, 2016. At June 30, 2017, Mississippi Power's related regulatory liability included in its balance sheet totaled approximately $10 million.

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 the In-Service Asset Order 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.

2013 MPSC Rate Order

In January 2013, Mississippi Power entered into a settlement agreement with the Mississippi PSC that was intended to establish the process for resolving matters regarding cost recovery related to the Kemper IGCC (2013 Settlement Agreement). Under the 2013 Settlement Agreement, Mississippi Power agreed to limit the portion of prudently-incurred Kemper IGCC costs to be included in retail rate base to the $2.4 billion certificated cost estimate, plus the Cost Cap Exceptions, but excluding AFUDC, and any other costs permitted or determined to be excluded from the $2.88 billion cost cap by the Mississippi PSC. In March 2013, the Mississippi PSC issued a rate order approving retail rate increases of 15% effective March 19, 2013 and 3% effective January 1, 2014, which collectively were designed to collect $156 million annually beginning in 2014 (2013 MPSC Rate Order) to be used to mitigate customer rate impacts after the Kemper IGCC was placed in service, based on a mirror CWIP methodology (Mirror CWIP rate).

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On February 12, 2015, the Court reversed the 2013 MPSC Rate Order and, on July 7, 2015, the Mississippi PSC ordered that the Mirror CWIP rate be terminated effective July 20, 2015 and required the fourth quarter 2015 refund of the $342 million previously collected, along with associated carrying costs of $29 million.

Because the 2013 MPSC Rate Order did not provide for the inclusion of CWIP in rate base as permitted by the Baseload Act, Mississippi Power continued to record AFUDC on the Kemper IGCC. Between the original May 2014 estimated in-service date and the June 2017 project suspension date, Mississippi Power recorded $493 million of AFUDC on the Kemper IGCC subject to the $2.88 billion cost cap and Cost Cap Exception amounts, of which $459 million related to the gasification portions of the Kemper IGCC.

Mississippi Power expects the Mississippi PSC to address this matter in connection with the Kemper IGCC Settlement Docket.

Lignite Mine and CO_2 Pipeline Facilities

In conjunction with the Kemper IGCC, Mississippi Power owns the lignite mine and equipment and mineral reserves located around the Kemper IGCC site. The mine started commercial operation in June 2013.

In 2010, Mississippi Power executed a 40-year management fee contract with Liberty Fuels Company, LLC (Liberty Fuels), a wholly-owned subsidiary of The North American Coal Corporation, which developed, constructed, and is responsible for the mining operations through the end of the mine reclamation. As the mining permit holder, Liberty Fuels has a legal obligation to perform mine reclamation and Mississippi Power has a contractual obligation to fund all reclamation activities. In addition to the obligation to fund the reclamation activities, Mississippi Power provides working capital support to Liberty Fuels through cash advances for capital purchases, payroll, and other operating expenses. See Note 1 to the financial statements of Mississippi Power under "Asset Retirement Obligations and Other Costs of Removal" and "Variable Interest Entities" in Item 8 of the Form 10-K for additional information.

In addition, Mississippi Power constructed the CO_2 pipeline for the planned transport of captured CO_2 for use in enhanced oil recovery. Mississippi Power entered into agreements with Denbury Onshore (Denbury) and Treetop Midstream Services, LLC (Treetop), pursuant to which Denbury would purchase 70% of the CO_2 captured from the Kemper IGCC and Treetop would purchase 30% of the CO_2 captured from the Kemper IGCC. On June 3, 2016, Mississippi Power cancelled its contract with Treetop and amended its contract with Denbury to reflect, among other things, Denbury's agreement to purchase 100% of the CO_2 captured from the Kemper IGCC and an initial contract term of 16 years. Denbury has the right to terminate the contract at any time because Mississippi Power did not place the Kemper IGCC in service by July 1, 2017.

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

Termination of Proposed Sale of Undivided Interest

In 2010 and as amended in 2012, Mississippi Power and SMEPA entered into an agreement whereby SMEPA agreed to purchase a 15% undivided interest in the Kemper IGCC (15% Undivided Interest). On May 20, 2015, SMEPA notified Mississippi Power of its termination of the agreement. Mississippi Power previously received a total of $275 million of deposits from SMEPA that were required to be returned to SMEPA with interest. On June 3, 2015, Southern Company, pursuant to its guarantee obligation, returned approximately $301 million to SMEPA. Subsequently, Mississippi Power issued a promissory note in the aggregate principal amount of approximately $301 million to Southern Company, which was repaid in June 2017.

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

On June 9, 2016, Treetop, Greenleaf CO_2 Solutions, LLC (Greenleaf), Tenrgys, LLC, Tellus Energy, LLC, WCOA, LLC, and Tellus Operating Group filed a complaint against Mississippi Power, Southern Company, and SCS in the state court in Gwinnett County, Georgia. The complaint relates to the cancelled CO_2 contract with Treetop and alleges fraudulent misrepresentation, fraudulent concealment, civil conspiracy, and breach of contract on the part of Mississippi Power, Southern Company, and SCS and seeks compensatory damages of $100 million, as well as unspecified punitive damages. Southern Company, Mississippi Power, and SCS have moved to compel arbitration pursuant to the terms of the CO_2 contract, which the court granted on May 4, 2017. On June 28, 2017, Treetop, Greenleaf, Tenrgys, LLC, Tellus Energy, LLC, WCOA, LLC, and Tellus Operating Group filed a claim for arbitration requesting $500 million in damages.

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

Baseload Act

In 2008, the Baseload Act was signed by the Governor of Mississippi. The Baseload Act authorizes, but does not require, the Mississippi PSC to adopt a cost recovery mechanism that includes in retail base rates, prior to and during construction, all or a portion of the prudently-incurred pre-construction and construction costs incurred by a utility in constructing a base load electric generating plant. Prior to the passage of the Baseload Act, such costs would traditionally be recovered only after the plant was placed in service. The Baseload Act also provides for periodic prudence reviews by the Mississippi PSC and prohibits the cancellation of any such generating plant without the approval of the Mississippi PSC. In the event of cancellation of the construction of the plant without approval of the Mississippi PSC, the Baseload Act authorizes the Mississippi PSC to make a public interest determination as to whether and to what extent the utility will be afforded rate recovery for costs incurred in connection with such cancelled generating plant.

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Mississippi Power in Item 7 of the Form 10-K and Note (G) to the Condensed Financial Statements under "Section 174 Research and Experimental Deduction" herein for additional information on bonus depreciation, investment tax credits, and the Section 174 research and experimental deduction.

Bonus Depreciation

Approximately $370 million of positive cash flows is expected to result from bonus depreciation for the 2017 tax year, but may not all be realized in 2017 due to net operating loss projections for the 2017 tax year, and is dependent upon placing the remainder of the Kemper IGCC in service by December 31, 2017. If the suspension of the Kemper IGCC start-up activities results in an abandonment, any amount previously estimated as bonus depreciation would be claimed as a deduction under IRC Section 165. As of June 30, 2017, $82 million has been received through quarterly income tax refunds for bonus depreciation related to the Kemper IGCC, which may be subject to repayment. 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, on behalf of Mississippi Power, has reflected deductions for research and experimental (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, subject to approval of the U.S. Congress Joint Committee on Taxation, resolving a methodology for these deductions. Due to the uncertainty related to this tax position, Mississippi Power had unrecognized tax benefits associated with these R&E deductions totaling approximately $464 million as of June 30, 2017. If the suspension of the Kemper IGCC start-up activities results in an abandonment, any amount not allowed under IRC Section 174 would be claimed as a deduction under IRC Section 165, and would result in a reversal of the related unrecognized tax benefits, excluding 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. This matter is expected to be resolved in the next 12 months; however, the ultimate outcome of this matter cannot be determined at this time.

Other Matters

Mississippi Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Mississippi Power is subject to certain claims and legal actions arising in the ordinary course of business. Mississippi 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 CO_2 and other emissions, CCR, and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Mississippi Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Mississippi 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.

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 and Mississippi Power believe 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 Mississippi Power.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Mississippi Power prepares its financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Mississippi 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 Mississippi 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

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Mississippi Power in Item 7 of the Form 10-K for a complete discussion of Mississippi Power's critical accounting policies and estimates related to Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, AFUDC, Unbilled Revenues, 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 Mississippi Power 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 for the June 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 Settlement Order, 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 event the gasification portions of the project are ultimately canceled, additional pre-tax costs currently estimated at approximately $100 million to $200 million are expected to be incurred.

As of June 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 SMEPA. 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 $5.96 billion ($3.94 billion after tax) through June 30, 2017. Mississippi Power recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC of $3.0 billion ($2.1 billion after tax) and $81 million ($50 million after tax) in the second quarter 2017 and the second quarter 2016, respectively, and total pre-tax charges of $3.1 billion ($2.2 billion after tax) and $134 million ($83 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 Mississippi Power's results of operations, Mississippi Power considers these items to be critical accounting estimates. See Note 3 to the financial statements of Mississippi Power 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.

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Recently Issued Accounting Standards

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 Mississippi 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 Mississippi 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. Mississippi 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.

Mississippi 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 Mississippi 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, Mississippi 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. Mississippi Power intends to use the modified retrospective method of adoption effective January 1, 2018. Mississippi 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-effect adjustment, is not expected to have a material impact on either the timing or amount of revenues recognized in Mississippi Power's financial statements, Mississippi 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. Mississippi Power is currently evaluating the new standard. The presentation changes required for net periodic pension and postretirement benefit costs will result in a decrease in Mississippi 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 Mississippi Power's financial statements.

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FINANCIAL CONDITION AND LIQUIDITY
Overview
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Mississippi Power in Item 7 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" herein for additional information. Earnings for the six months ended June 30, 2017 were negatively affected by revisions to the cost estimate for the Kemper IGCC.
Mississippi Power's capital expenditures and debt maturities are expected to materially exceed operating cash flows through 2022. Projected capital expenditures in that period include investments to maintain existing generation facilities, to add environmental modifications to existing generating units, and to expand and improve transmission and distribution facilities.
In the second quarter 2017, Mississippi Power borrowed an additional $40 million under a promissory note issued to Southern Company. In June 2017, Southern Company made equity contributions totaling $1.0 billion to Mississippi Power. Mississippi Power used a portion of the proceeds to prepay $901 million of outstanding debt.
As of June 30, 2017, Mississippi Power's current liabilities exceeded current assets by approximately $930 million primarily due to $935 million in long-term debt that matures within the next 12 months and $107 million of short-term debt. Mississippi Power intends to utilize operating cash flows, lines of credit, and bank term loans, as market conditions permit, as well as, under certain circumstances, commercial paper and/or equity contributions and/or loans from Southern Company to fund Mississippi Power's short-term capital needs.
Net cash provided from operating activities totaled $135 million for the first six months of 2017, a decrease of $2 million as compared to the corresponding period in 2016. The decrease in cash provided from operating activities is primarily due to lower taxes related to the Kemper IGCC, the timing of payments for ad valorem taxes and materials and supplies, and the timing of payments received from affiliates and customers, partially offset by the completion of Mirror CWIP refunds in 2016. See Notes (B) and (G) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" and "Unrecognized Tax Benefits – Section 174 Research and Experimental Deduction" herein for additional information. Net cash used for investing activities totaled $361 million for the first six months of 2017 primarily due to gross property additions related to the Kemper IGCC. Net cash provided from financing activities totaled $142 million for the first six months of 2017 primarily due to capital contributions from Southern Company, offset by redemptions of long-term debt. 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 six months of 2017 include an increase in paid-in capital of $1.0 billion due to capital contributions from Southern Company, a portion of which was used to repay $300 million of securities due within one year, $591 million of long-term debt, and $10 million of short-term debt. Long-term debt decreased primarily due to the reclassification of $1.2 billion in unsecured term loans to securities due within one year. Other significant changes include decreases of $2.5 billion in construction work in progress, $1.1 billion in total common stockholder's equity, $352 million in accumulated deferred income taxes, and $300 million in deferred charges related to income taxes. All of these changes primarily result from the Kemper IGCC estimated loss. See FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" and Note (B) to the Condensed Financial Statements under "Integrated Coal Gasification Combined Cycle" herein for additional information.
Capital Requirements and Contractual Obligations
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Mississippi Power in Item 7 of the Form 10-K for a description of Mississippi Power's capital requirements for its construction program, including estimated capital expenditures for new generating resources and to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as related interest, leases, purchase commitments, derivative

obligations, preferred stock dividends, trust funding requirements, and unrecognized tax benefits. Approximately $935 million will be required through June 30, 2018 to fund maturities of long-term debt and $17 million will be required to fund maturities of short-term debt. In addition, Mississippi Power has $40 million of tax-exempt variable rate demand obligations that are supported by short-term credit facilities and $50 million of fixed rate pollution control revenue bonds that are required to be remarketed over the next 12 months. See "Sources of Capital" and FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" herein for additional information.

The construction program of Mississippi Power is currently estimated to be $561 million for 2017, $192 million for 2018, $182 million for 2019, $235 million for 2020, $199 million for 2021, and $245 million for 2022. These estimated expenditures do not include potential compliance costs that may arise from the EPA's final rules and guidelines or future state plans that would limit CO_2 emissions from existing, new, modified, or reconstructed fossil-fuel-fired electric generating units.

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; storm impacts; 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 units, to meet regulatory requirements; changes in FERC rules and regulations; Mississippi 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; and the cost of capital.

Sources of Capital

Mississippi Power plans to obtain the funds required for construction and other purposes from operating cash flows, external security issuances, term loans, and/or short-term debt, as well as, under certain circumstances, equity contributions and/or loans from Southern Company. The amount, type, and timing of future financings will depend upon regulatory approval, prevailing market conditions, and other factors, which includes resolution of the Kemper County energy facility cost recovery. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" and – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" of Mississippi Power in Item 7 of the Form 10-K for additional information.

On February 28, 2017, the maturity dates for $551 million in promissory notes to Southern Company were extended to July 31, 2018. In the second quarter 2017, Mississippi Power borrowed an additional $40 million under a promissory note issued to Southern Company. In June 2017, Southern Company made equity contributions totaling $1.0 billion to Mississippi Power. Mississippi Power used a portion of the proceeds to (i) prepay $300 million of the outstanding principal amount under its $1.2 billion unsecured term loan; (ii) repay all of the $591 million outstanding principal amount of promissory notes to Southern Company; and (iii) repay $10 million of the outstanding principal amount of bank loans.

As of June 30, 2017, Mississippi Power's current liabilities exceeded current assets by approximately $930 million primarily due to $935 million in long-term debt that matures within the next 12 months and $107 million of short-term debt. Mississippi Power intends to utilize operating cash flows, lines of credit, and bank term loans, as market conditions permit, as well as, under certain circumstances, commercial paper and/or equity contributions and/or loans from Southern Company to fund Mississippi Power's short-term capital needs. Specifically, Mississippi Power has been informed by Southern Company that in the event sufficient funds are not available from external sources, Southern Company intends to provide Mississippi Power with loans and/or equity contributions sufficient to fund the remaining indebtedness scheduled to mature and other cash needs over the next 12 months. Therefore, Mississippi Power's financial statement presentation contemplates continuation of Mississippi Power as a going concern as a result of Southern Company's anticipated ongoing financial support of Mississippi Power. For additional information, see Notes 1 and 6 to the financial statements of Mississippi Power under "Recently Issued

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Accounting Standards" and "Going Concern," respectively, in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Going Concern" herein.

At June 30, 2017, Mississippi Power had approximately $140 million of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2017 were as follows:

Expires			Executable Term Loans		Expires Within One Year	
2017	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)						
$113	$113	$ 100	$ —	$ 13	$13	$ 100

See Note 6 to the financial statements of Mississippi 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.

Most of these bank credit arrangements, as well as Mississippi Power's term loan agreement, contain covenants that limit debt levels and typically contain cross acceleration to other indebtedness (including guarantee obligations) of Mississippi Power. Such cross-acceleration provisions to other indebtedness would trigger an event of default if Mississippi Power defaulted on indebtedness, the payment of which was then accelerated. At June 30, 2017, Mississippi Power was in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowing.

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

A portion of the $100 million unused credit arrangements with banks is allocated to provide liquidity support to Mississippi Power's pollution control revenue bonds. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of June 30, 2017 was approximately $40 million. In addition, at June 30, 2017, Mississippi Power had approximately $50 million of fixed rate pollution control bonds outstanding that were required to be remarketed within the next 12 months.

Short-term borrowings are included in notes payable in the balance sheets. Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 2017		Short-term Debt During the Period(*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Short-term bank debt	$17	2.9%	$29	3.1%	$ 36

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

Credit Rating Risk

At June 30, 2017, Mississippi Power does 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 have required or 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 for physical electricity purchases and

sales, fuel transportation and storage, energy price risk management, and transmission. At June 30, 2017, the maximum potential collateral requirements under these contracts at a rating of BBB and/or Baa2 or BBB- and/or Baa3 was not material. The maximum potential collateral requirements at a rating below BBB- and/or Baa3 equaled approximately $243 million.

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

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

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

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

On June 22, 2017, Moody's placed the ratings of Mississippi Power on review for downgrade.

Financing Activities

In March 2017, Mississippi Power issued a $9 million short-term bank note bearing interest at 5% per annum, which was repaid in April 2017.

In February 2017, Mississippi Power amended $551 million in promissory notes to Southern Company extending the maturity dates of the notes from December 1, 2017 to July 31, 2018. In the second quarter 2017, Mississippi Power borrowed an additional $40 million under a promissory note issued to Southern Company.

In June 2017, Southern Company made equity contributions totaling $1.0 billion to Mississippi Power. Mississippi Power used a portion of the proceeds to (i) prepay $300 million of the outstanding principal amount under its $1.2 billion unsecured term loan, which matures on March 30, 2018; (ii) repay all of the $591 million outstanding principal amount of promissory notes to Southern Company; and (iii) repay a $10 million short-term bank loan.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Operating Revenues:				
Wholesale revenues, non-affiliates	$436	$264	$783	$480
Wholesale revenues, affiliates	90	107	190	204
Other revenues	3	2	6	4
Total operating revenues	529	373	979	688
Operating Expenses:				
Fuel	139	96	271	187
Purchased power, non-affiliates	29	21	54	35
Purchased power, affiliates	11	2	16	8
Other operations and maintenance	97	86	190	162
Depreciation and amortization	129	81	247	154
Taxes other than income taxes	12	6	24	13
Total operating expenses	417	292	802	559
Operating Income	112	81	177	129
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(48)	(22)	(97)	(43)
Other income (expense), net	2	1	(2)	1
Total other income and (expense)	(46)	(21)	(99)	(42)
Earnings Before Income Taxes	66	60	78	87
Income taxes (benefit)	(38)	(41)	(90)	(65)
Net Income	104	101	168	152
Less: Net income attributable to noncontrolling interests	22	12	17	13
Net Income Attributable to Southern Power	$82	$89	$151	$139

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Net Income	$104	$101	$168	$152
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $24, $(15), $20, and $(15), respectively	40	(24)	32	(24)
Reclassification adjustment for amounts included in net income, net of tax of $(27), $8, $(30), and $8, respectively	(45)	13	(48)	14
Total other comprehensive income (loss)	(5)	(11)	(16)	(10)
Comprehensive Income	99	90	152	142

Less: Comprehensive income attributable to noncontrolling interests	22	12	17	13
Comprehensive Income Attributable to Southern Power	$77	$78	$135	$129

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

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

	For the Six Months Ended June 30,	
	2017	2016
	(in millions)	
Operating Activities:		
Net income	$168	$152
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	264	159
Deferred income taxes	91	(71)
Amortization of investment tax credits	(28)	(15)
Deferred revenues	(34)	(31)
Income taxes receivable, non-current	(58)	—
Other, net	(1)	9
Changes in certain current assets and liabilities —		
-Receivables	(58)	(76)
-Prepaid income taxes	33	(147)
-Other current assets	20	5
-Accounts payable	(45)	4
-Accrued taxes	4	62
-Other current liabilities	(8)	—
Net cash provided from operating activities	348	51
Investing Activities:		
Business acquisitions	(1,020)	(502)
Property additions	(145)	(1,281)
Change in construction payables	(167)	(137)
Payments pursuant to LTSAs	(68)	(43)
Investment in restricted cash	(16)	(646)
Distribution of restricted cash	27	649
Other investing activities	(2)	(25)
Net cash used for investing activities	(1,391)	(1,985)
Financing Activities:		
Increase in notes payable, net	189	695
Proceeds —		
Senior notes	—	1,241
Capital contributions from parent company	—	300
Distributions to noncontrolling interests	(40)	(11)
Capital contributions from noncontrolling interests	73	179
Purchase of membership interests from noncontrolling interests	—	(129)
Payment of common stock dividends	(158)	(136)
Other financing activities	(21)	(13)
Net cash provided from financing activities	43	2,126
Net Change in Cash and Cash Equivalents	(1,000)	192
Cash and Cash Equivalents at Beginning of Period	1,099	830
Cash and Cash Equivalents at End of Period	$99	$1,022
Supplemental Cash Flow Information:		

Cash paid (received) during the period for —		
Interest (net of $4 and $21 capitalized for 2017 and 2016, respectively)	$113	$42
Income taxes, net	(117)	115
Noncash transactions — Accrued property additions at end of period	19	108

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

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$99	$ 1,099
Receivables —		
Customer accounts receivable	158	102
Other accounts receivable	37	34
Affiliated	65	57
Fossil fuel stock	15	15
Materials and supplies	349	337
Prepaid income taxes	41	74
Other current assets	26	39
Total current assets	790	1,757
Property, Plant, and Equipment:		
In service	13,731	12,728
Less: Accumulated provision for depreciation	1,689	1,484
Plant in service, net of depreciation	12,042	11,244
Construction work in progress	344	398
Total property, plant, and equipment	12,386	11,642
Other Property and Investments:		
Intangible assets, net of amortization of $35 and $22 at June 30, 2017 and December 31, 2016, respectively	423	436
Total other property and investments	423	436
Deferred Charges and Other Assets:		
Prepaid LTSAs	61	101
Accumulated deferred income taxes	536	594
Income taxes receivable, non-current	69	11
Other deferred charges and assets — affiliated	28	13
Other deferred charges and assets — non-affiliated	410	615
Total deferred charges and other assets	1,104	1,334
Total Assets	$14,703	$ 15,169

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

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholders' Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	$909	$ 560
Notes payable	398	209
Accounts payable —		
Affiliated	68	88
Other	93	278
Accrued taxes —		
Accrued income taxes	35	148
Other accrued taxes	21	7
Accrued interest	25	36
Acquisitions payable	—	461
Contingent consideration	11	46
Other current liabilities	67	70
Total current liabilities	1,627	1,903
Long-term Debt	4,816	5,068
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	174	152
Accumulated deferred ITCs	1,914	1,839
Asset retirement obligations	69	64
Other deferred credits and liabilities	238	304
Total deferred credits and other liabilities	2,395	2,359
Total Liabilities	8,838	9,330
Redeemable Noncontrolling Interests	51	164
Common Stockholder's Equity:		
Common stock, par value $.01 per share —		
Authorized — 1,000,000 shares		
Outstanding — 1,000 shares	—	—
Paid-in capital	3,671	3,671
Retained earnings	717	724
Accumulated other comprehensive income	19	35
Total common stockholder's equity	4,407	4,430
Noncontrolling interests	1,407	1,245
Total stockholders' equity	5,814	5,675
Total Liabilities and Stockholders' Equity	$14,703	$ 15,169

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

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

OVERVIEW

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 Power continually seeks opportunities to execute its strategy to create value through various transactions including acquisitions and sales of assets, construction and development of new generating facilities, and entry into PPAs primarily with investor-owned utilities, independent power producers, municipalities, and other load-serving entities. In general, Southern Power has constructed or acquired new generating capacity only after entering into or assuming long-term PPAs for the new facilities.

During the six months ended June 30, 2017, Southern Power acquired or completed the construction of, and placed in service, approximately 498 MWs of solar and wind facilities. In addition, Southern Power continued developing its portfolio of wind projects as well as the construction to expand the Mankato natural gas facility by 345 MWs of capacity. Subsequent to June 30, 2017, Southern Power acquired and commenced construction of Cactus Flats, a 148-MW wind facility. See FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" herein for additional information.

At June 30, 2017, Southern Power had an average investment coverage ratio of 91% through 2021 and 90% through 2026, with an average remaining contract duration of approximately 16 years. These ratios include the PPAs and capacity associated with facilities currently under construction and acquisitions discussed herein. See FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" herein for additional information.

Southern Power continues to focus on several key performance indicators, including, but not limited to, peak season equivalent forced outage rate, contract availability, and net income.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$(7)	(7.9)	$12	8.6

Net income attributable to Southern Power for the second quarter 2017 was $82 million compared to $89 million for the corresponding period in 2016. The decrease was primarily due to increased interest expense from debt issuances to fund acquisitions and construction and an increase in net income attributable to noncontrolling interests, significantly offset by additional operating income related to new generating facilities.

Net income attributable to Southern Power for year-to-date 2017 was $151 million compared to $139 million for the corresponding period in 2016. The increase was primarily due to additional operating income from new generating facilities, as well as increased federal income tax benefits from wind PTCs, partially offset by increased interest expense from debt issuances to fund acquisitions and construction. For additional information on new generating facilities placed in service during 2016 and 2017, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" of Southern Power in Item 7 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" herein.

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Operating Revenues

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$156	41.8	$291	42.3

Total operating revenues include PPA capacity revenues, which are derived primarily from long-term contracts involving natural gas and biomass generating facilities, and PPA energy revenues, which include sales from Southern Power's natural gas, biomass, solar, and wind facilities. To the extent Southern Power has capacity not contracted under a PPA, it may sell power into the wholesale market and, to the extent the generation assets are part of the IIC, as approved by the FERC, it may sell power into the power pool.

Natural Gas and Biomass Capacity and Energy Revenue

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 is generally sold at variable cost or is indexed to published gas indices. Energy revenues will vary depending on the energy demand of Southern Power's customers and their generation capacity, as well as the market prices of wholesale energy compared to the cost of Southern Power's energy. Energy revenues also include fees for support services, fuel storage, and unit start charges. Increases and decreases in energy revenues under PPAs that are driven by fuel or purchased power prices are accompanied by an increase or decrease in fuel and purchased power costs and do not have a significant impact on net income.

Solar and Wind Energy Revenue

Southern Power's electricity sales from solar and wind generating facilities are predominantly through long-term PPAs that do not have a capacity charge. Customers either purchase the energy output of a dedicated renewable facility through an energy charge or pay a fixed price for electricity sold to the grid. As a result, Southern Power'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.

See FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" herein for additional information regarding Southern Power's PPAs.

Details of Southern Power's operating revenues were as follows:

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
	(in millions)			
PPA capacity revenues	$149	$ 133	$ 298	$ 258
PPA energy revenues	270	168	466	285
Total PPA revenues	419	301	764	543
Non-PPA revenues	107	70	209	141
Other revenues	3	2	6	4
Total operating revenues	$529	$ 373	$ 979	$ 688

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SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
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In the second quarter 2017, total operating revenues were $529 million, reflecting a $156 million, or 42%, increase from the corresponding period in 2016. The increase in operating revenues was primarily due to the following:

- PPA capacity revenues increased $16 million, or 12%, primarily due to new PPAs related to natural gas facilities and additional customer load requirements.
- PPA energy revenues increased $102 million, or 61%, primarily due to an $85 million increase in sales from new solar and wind facilities and a $20 million increase in sales from new natural gas PPAs and additional customer load requirements.
- Non-PPA revenues increased $37 million, or 53%, due to a $23 million increase in the volume of KWHs sold primarily from uncovered natural gas capacity through short-term opportunity sales, as well as a $14 million increase in the price of energy primarily due to increased natural gas prices.

For year-to-date 2017, total operating revenues were $979 million, reflecting a $291 million, or 42%, increase from the corresponding period in 2016. The increase in operating revenues was primarily due to the following:

- PPA capacity revenues increased $40 million, or 16%, primarily due to new PPAs related to natural gas facilities and additional customer load requirements.
- PPA energy revenues increased $181 million, or 64%, primarily due to a $137 million increase in sales from new solar and wind facilities and a $37 million increase in sales from new natural gas PPAs and additional customer load requirements.
- Non-PPA revenues increased $68 million, or 48%, due to a $48 million increase in the volume of KWHs sold primarily from uncovered natural gas capacity through short-term opportunity sales, as well as a $20 million increase in the price of energy primarily due to increased natural gas prices.

Fuel and Purchased Power Expenses

Fuel costs constitute the single largest expense for Southern Power. In addition, Southern Power purchases a portion of its electricity needs from the wholesale market. Details of Southern Power's generation and purchased power were as follows:

	Second Quarter 2017	Second Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
	(in billions of KWHs)			
Generation	10.9	9.1	20.6	16.7
Purchased power	1.2	0.9	2.2	1.5
Total generation and purchased power	12.1	10.0	22.8	18.2
Total generation and purchased power, excluding solar, wind, and tolling agreements	5.6	5.7	10.5	11.0

Southern Power's PPAs for natural gas and biomass generation generally provide that the purchasers are responsible for either procuring the fuel (tolling agreements) or reimbursing Southern Power for substantially all of the cost of fuel relating to the energy delivered under such PPAs. Consequently, changes in such fuel costs are generally accompanied by a corresponding change in related fuel revenues and do not have a significant impact on net income. Southern Power is responsible for the cost of fuel for generating units that are not covered under PPAs. Power from these generating units is sold into the wholesale market or into the power pool for capacity owned directly by Southern Power.

Purchased power expenses will vary depending on demand, availability, and the cost of generating resources throughout the Southern Company system and other contract resources. Load requirements are submitted to the power pool on an hourly basis and are fulfilled with the lowest cost alternative, whether that is generation owned by

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Southern Power, an affiliate company, or external parties. Such purchased power costs are generally recovered through PPA revenues.

Details of Southern Power's fuel and purchased power expenses were as follows:

	Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 43	44.8	$ 84	44.9
Purchased power	17	73.9	27	62.8
Total fuel and purchased power expenses	$ 60		$ 111	

In the second quarter 2017, total fuel and purchased power expenses increased $60 million, or 50.4%, compared to the corresponding period in 2016. Fuel expense increased $43 million primarily due to a $51 million increase in the average cost of natural gas per KWH generated, partially offset by an $8 million decrease in the volume of KWHs generated, excluding solar, wind, and tolling agreements. Purchased power expense increased $17 million primarily due to a $10 million increase in the volume of KWHs purchased and a $6 million increase associated with the average cost of purchased power.

For year-to-date 2017, total fuel and purchased power expenses increased $111 million, or 48.3%, compared to the corresponding period in 2016. Fuel expense increased $84 million primarily due to a $105 million increase in the average cost of natural gas per KWH generated, partially offset by a $22 million decrease in the volume of KWHs generated, excluding solar, wind, and tolling agreements. Purchased power expense increased $27 million due to a $19 million increase in the volume of KWHs purchased and an $8 million increase associated with the average cost of purchased power.

Other Operations and Maintenance Expenses

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$11	12.8	$28	17.3

In the second quarter 2017, other operations and maintenance expenses were $97 million compared to $86 million for the corresponding period in 2016. The increase was primarily due to a $19 million increase associated with new solar, wind, and gas facilities and a $5 million increase associated with employee compensation and expenses in support of Southern Power's overall growth strategy, partially offset by a $9 million decrease in scheduled outage maintenance expenses and a $5 million decrease in non-outage operations and maintenance expenses.

For year-to-date 2017, other operations and maintenance expenses were $190 million compared to $162 million for the corresponding period in 2016. The increase was primarily due to a $35 million increase associated with new solar, wind, and gas facilities and a $10 million increase associated with employee compensation and expenses in support of Southern Power's overall growth strategy, partially offset by a $16 million decrease in scheduled outage maintenance expenses and a $4 million decrease in non-outage operations and maintenance expenses.

Depreciation and Amortization

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$48	59.3	$93	60.4

In the second quarter 2017, depreciation and amortization was $129 million compared to $81 million for the corresponding period in 2016. For year-to-date 2017, depreciation and amortization was $247 million compared to

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$154 million for the corresponding period in 2016. The increases were primarily due to new solar, wind, and gas facilities placed in service.

Interest Expense, net of Amounts Capitalized

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$26	118.2	$54	125.6

In the second quarter 2017, interest expense, net of amounts capitalized was $48 million compared to $22 million for the corresponding period in 2016. The increase was primarily due to an increase of $16 million in interest expense related to additional debt issued in 2016, primarily to fund Southern Power's growth strategy and continuous construction program, as well as a $9 million decrease in capitalized interest associated with completing construction of and placing in service solar facilities.

For year-to-date 2017, interest expense, net of amounts capitalized was $97 million compared to $43 million for the corresponding period in 2016. The increase was primarily due to an increase of $36 million in interest expense related to additional debt issued in 2016, primarily to fund Southern Power's growth strategy and continuous construction program, as well as a $17 million decrease in capitalized interest associated with completing construction of and placing in service solar facilities.

Other Income (Expense), Net

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$1	100.0	$(3)	(300.0)

In the second quarter 2017, other income (expense), net was $2 million compared to $1 million for the corresponding period in 2016. For year-to-date 2017, other income (expense), net was $(2) million compared to $1 million for the corresponding period in 2016. The changes include increases of $99 million and $116 million from currency losses arising from translation of €1.1 billion euro-denominated fixed-rate notes into U.S. dollars for the second 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. See Note (H) to the Condensed Financial Statements herein for additional information.

Income Taxes (Benefit)

Second Quarter 2017 vs. Second Quarter 2016		Year-to-Date 2017 vs. Year-to-Date 2016	
(change in millions)	(% change)	(change in millions)	(% change)
$3	7.3	$(25)	(38.5)

In the second quarter 2017, income tax benefit was $38 million compared to $41 million for the corresponding period in 2016. The decrease was primarily due to a $29 million decrease in ITC benefits, partially offset by a $27 million increase in wind PTC benefits.

For year-to-date 2017, income tax benefit was $90 million compared to $65 million for the corresponding period in 2016. The increase was primarily due to a $57 million increase in wind PTC benefits, a $4 million increase resulting from state apportionment rate changes, and a $4 million increase related to lower pre-tax earnings, partially offset by a $41 million decrease in ITC benefits.

See Note (G) to the Condensed Financial Statements herein for additional information on income taxes and Note 1 to the financial statements of Southern Power under "Income and Other Taxes" in Item 8 of the Form 10-K for additional information on ITCs.

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FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Southern Power's future earnings potential. The level of Southern Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Southern Power's competitive wholesale business. These factors include: Southern Power's ability to achieve sales growth while containing costs; regulatory matters; creditworthiness of customers; total generating capacity available in Southern Power's market areas; the successful remarketing of capacity as current contracts expire; Southern Power's ability to execute its growth strategy, including successful additional investments in renewable and other energy projects, and to develop and construct generating facilities. 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 Power's consolidated financial statements.

Demand for electricity is primarily driven by economic growth. The pace of economic growth and electricity demand may be affected by changes in regional and global economic conditions, as well as renewable portfolio standards, which may impact future earnings.

Other factors that could influence future earnings include weather, demand, cost of generation from facilities within the power pool, and operational limitations. For additional information relating to these factors, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Southern Power in Item 7 of the Form 10-K.

Power Sales Agreements

See BUSINESS – "The Southern Company System – Southern Power" in Item 1 of the Form 10-K for additional information regarding Southern Power's PPAs. Generally, under the solar and wind generation PPAs, the purchasing party retains the right to keep or resell the renewable energy credits.

At June 30, 2017, Southern Power's average investment coverage ratio for its generating assets, based on the ratio of investment under contract to total investment using the respective generation facilities' net book value (or expected in-service value for facilities under construction) as the investment amount, was 91% through 2021 and 90% through 2026, with an average remaining contract duration of approximately 16 years.

Environmental Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Power in Item 7 of the Form 10-K for information on the development by federal and state environmental regulatory agencies of additional control strategies for emissions of air pollution from industrial sources, including electric generating facilities. Compliance with possible additional federal or state legislation or regulations related to global climate change, air quality, water quality, or other environmental and health concerns could also significantly affect Southern Power. While Southern Power's PPAs generally contain provisions that permit charging the counterparty with some of the new costs incurred as a result of changes in environmental laws and regulations, the full impact of any such legislative or regulatory changes cannot be determined at this time.

Environmental Statutes and Regulations

Water Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Water Quality" of Southern Power in Item 7 of the Form 10-K for additional information regarding the final effluent guidelines rule.

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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 June 6, 2017, the EPA proposed a rule establishing a stay of the compliance deadlines for certain effluent limitations and pretreatment standards under the rule.
The ultimate outcome of this matter 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 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 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 Southern 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' 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, it remains a separate, ongoing matter.
Acquisitions
During the six months ended June 30, 2017, in accordance with Southern Power's overall growth strategy, Southern Renewable Partnerships, LLC (SRP), one of Southern Power's wholly-owned subsidiaries, acquired the Bethel wind facility. Acquisition-related costs were expensed as incurred and were not material. See Note (I) to the Condensed Financial Statements under "Southern Power" herein and MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Power in Item 7 of the Form 10-K for additional information.

Project Facility	Resource	Approximate Nameplate Capacity (MW)	Location	Percentage Ownership	Actual COD	PPA Counterparties	PPA Contract Period
Bethel	Wind	276	Castro County, TX	100 %	January 2017	Google Energy, LLC	12 years

The aggregate amounts of revenue and net income, excluding impacts from PTCs, recognized by Southern Power related to the Bethel facility included in the condensed consolidated statements of income for year-to-date 2017 were immaterial. The Bethel facility did not have operating revenues or activities prior to completion of construction and the assets being placed in service; therefore, supplemental pro forma information for the comparable 2016 period is not meaningful and has been omitted.
Subsequent to June 30, 2017, Southern Power acquired a 100% ownership interest in and commenced construction of the Cactus Flats 148-MW wind facility, the majority of which is covered by two PPAs, which expire in 2030 and

2033. The facility is expected to be placed in service in mid-2018. The ultimate outcome of this matter cannot be determined at this time.

Construction Projects

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" of Southern Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein for additional information.

Construction Projects Completed and in Progress

During the six months ended June 30, 2017, in accordance with its overall growth strategy, Southern Power completed construction of and placed in service, or continued construction of, the projects set forth in the following table. Through June 30, 2017, total costs of construction incurred for these projects were $421 million, of which $49 million remained in CWIP for the Mankato facility acquired in 2016. Total aggregate construction costs, excluding the acquisition costs, are expected to be $170 million to $190 million for the Mankato facility. The ultimate outcome of this matter cannot be determined at this time.

Project Facility	Resource	Approximate Nameplate Capacity (MW)	Location	Actual/Expected COD	PPA Counterparties	PPA Contract Period
Projects Completed During the Six Months Ended June 30, 2017						
East Pecos	Solar	120	Pecos County, TX	March 2017	Austin Energy	15 years
Lamesa	Solar	102	Dawson County, TX	April 2017	City of Garland, Texas	15 years
Project Under Construction as of June 30, 2017						
Mankato	Natural Gas	345	Mankato, MN	Second quarter 2019	Northern States Power Company	20 years

Development Projects

In December 2016, as part of Southern Power's renewable development strategy, SRP entered into a joint development agreement with Renewable Energy Systems Americas, Inc. to develop and construct approximately 3,000 MWs of wind projects. Also in December 2016, Southern Power signed agreements and made payments to purchase wind turbine equipment from Siemens Wind Power, Inc. and Vestas-American Wind Technology, Inc. to be used for construction of the facilities. All of the wind turbine equipment was delivered by April 2017, which allows the projects to qualify for 100% PTCs for 10 years following their expected commercial operation dates between 2018 and 2020. The ultimate outcome of these matters cannot be determined at this time.

Income Tax Matters

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

Other Matters

Southern Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Power is subject to certain claims and legal actions arising in the ordinary course of business. Southern 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 CO_2 and other emissions and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

The ultimate outcome of such pending or potential litigation against Southern Power cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Power's financial statements.

During 2015, Southern Power indirectly acquired a 51% membership interest in RE Roserock LLC (Roserock), the owner of the Roserock facility in Pecos County, Texas, which was under construction by Recurrent Energy, LLC and was subsequently placed in service in November 2016. Prior to placing the facility in service, certain solar panels were damaged during installation. While the facility currently is generating energy consistent with operational expectations and PPA obligations, Southern Power is pursuing remedies under its insurance policies and other contracts to repair or replace these solar panels. In connection therewith, Southern Power is withholding payments of approximately $26 million from the construction contractor, who has placed a lien on the Roserock facility for the same amount. The amounts withheld are included in other accounts payable and other current liabilities on Southern Power's consolidated balance sheets. On May 18, 2017, Roserock filed a lawsuit in the state district court in Pecos County, Texas, against X.L. America, Inc. (XL) and North American Elite Insurance Company (North American Elite) seeking recovery from an insurance policy for damages resulting from a hail storm and certain installation practices by the construction contractor, McCarthy Building Companies, Inc. (McCarthy). On May 19, 2017, Roserock filed a separate lawsuit against McCarthy in the state district court in Travis County, Texas alleging breach of contract and breach of warranty for the damages sustained at the Roserock facility, which has since been moved to the U.S. District Court for the Western District of Texas. On May 22, 2017, McCarthy filed a lawsuit against Roserock, Array Technologies, Inc., Canadian Solar (USA), Inc., XL, and North American Elite in the U.S. District Court for the Western District of Texas alleging, among other things, breach of contract, and requesting foreclosure of mechanic's liens against Roserock. On July 18, 2017, the U.S. District Court for the Western District of Texas consolidated the two pending lawsuits. Southern Power intends to vigorously pursue and defend these matters, the ultimate outcome of which cannot be determined at this time.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

Southern Power prepares its consolidated financial statements in accordance with GAAP. Significant accounting policies are described in Note 1 to the financial statements of Southern 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 Southern 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 Southern Power in Item 7 of the Form 10-K for a complete discussion of Southern Power's critical accounting policies and estimates related to Revenue Recognition, Impairment of Long-Lived Assets and Intangibles, Acquisition Accounting, and ITCs.

Recently Issued Accounting Standards

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 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. However, given Southern Power's core activities of selling generation capacity and energy to high credit rated customers, Southern Power currently does not expect the new standard to have a significant impact to net income. Southern Power's ongoing evaluation of revenue streams and related contracts includes the evaluation of identified revenue streams tied to longer-term contractual arrangements, such as certain capacity and energy payments under PPAs that are expected to be excluded from the scope of ASC 606 and included in the scope of the current leasing guidance (ASC 840).

The new standard is effective for interim and annual reporting periods beginning after December 15, 2017. Southern Power intends to use the modified retrospective method of adoption effective January 1, 2018. Southern 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-effect adjustment, is not expected to have a material impact on either the timing or amount of revenues recognized in Southern Power's financial statements, Southern Power will continue to evaluate the requirements, as well as any additional clarifying guidance that may be issued.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Power in Item 7 of the Form 10-K for additional information. Southern Power's financial condition remained stable at June 30, 2017. Southern Power intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements as needed to meet future capital and liquidity needs. See "Sources of Capital" herein for additional information on lines of credit.

Net cash provided from operating activities totaled $348 million for the first six months of 2017 compared to $51 million for the first six months of 2016. The increase in net cash provided from operating activities was primarily due to an increase in energy sales arising from new solar and wind facilities and a decrease in income taxes paid, partially offset by an increase in interest paid. See FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Bonus Depreciation" of Southern Power in Item 7 of the Form 10-K for additional information. Net cash used for investing activities totaled $1.4 billion for the first six months of 2017 primarily due to payments for renewable acquisitions and the construction of generating facilities. See FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" herein for additional information. Net cash provided from financing activities totaled $43 million for the first six months of 2017 primarily due to notes payable and contributions from noncontrolling interests, partially offset by dividends to Southern Company and distributions to noncontrolling interests. Cash flows from financing activities may vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2017 include a $1.0 billion decrease in cash and cash equivalents and a $798 million increase in property, plant, and equipment in-service primarily related to acquisitions, as well as a $54 million decrease in CWIP primarily due to East Pecos and Lamesa being placed in service, partially offset by equipment purchased for wind construction projects. See FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" herein for additional information.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Power in Item 7 of the Form 10-K for a description of Southern Power's capital requirements for its construction program, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, leases, unrecognized tax benefits, and other purchase

commitments. Approximately $909 million will be required to repay maturities of long-term debt through June 30, 2018.

Southern Power's construction program includes estimates for potential plant acquisitions, new construction and development, capital improvements, and work to be performed under LTSAs and is subject to periodic review and revision. Planned expenditures for plant acquisitions may vary materially due to market opportunities and Southern Power's ability to execute its growth strategy. Actual capital costs may vary from these estimates because of numerous factors such as: changes in business conditions; changes in the expected environmental compliance program; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in FERC rules and regulations; changes in load projections; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. See Note (I) to the Condensed Financial Statements herein for additional information.

Sources of Capital

Southern Power plans to obtain the funds required for acquisitions, construction, development, and other purposes from operating cash flows, short-term debt, securities issuances, term loans, tax equity partnership contributions, and equity contributions from Southern Company. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Southern Power in Item 7 of the Form 10-K for additional information.

As of June 30, 2017, Southern Power's current liabilities exceeded current assets by $837 million due to long-term debt maturing in the next 12 months, the use of short-term debt as a funding source, and construction payables, as well as fluctuations in cash needs, due to both seasonality and the stage of acquisitions and construction projects. In 2017, Southern Power expects to utilize the debt capital markets, bank term loans, and commercial paper markets as the source of funds for the majority of its debt maturities.

As of June 30, 2017, Southern Power had cash and cash equivalents of approximately $99 million.

Southern Power believes the need for working capital can be adequately met by utilizing the commercial paper program, the Facility (as defined below), bank term loans, and operating cash flows.

Southern Power's commercial paper program is used to finance acquisition and construction costs related to electric generating facilities, for general corporate purposes, and to finance maturing debt. Commercial paper is included in notes payable on the condensed consolidated balance sheet at June 30, 2017.

Details of commercial paper were as follows:

	Short-term Debt at June 30, 2017		Short-term Debt During the Period (*)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$ 398	1.5 %	$328	1.3 %	$ 419

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

At June 30, 2017, Southern Power had a committed credit facility (Facility) of $750 million, of which $75 million has been used for letters of credit and $675 million remains unused. In May 2017, Southern Power amended the Facility, which, among other things, extended the maturity date from 2020 to 2022 and increased Southern Power's borrowing ability under this Facility to $750 million from $600 million. Proceeds from the Facility may be used for working capital and general corporate purposes as well as liquidity support for Southern Power's commercial paper program. Subject to applicable market conditions, Southern Power expects to renew or replace the Facility, as needed, prior to expiration. In connection therewith, Southern Power may extend the maturity date and/or increase or decrease the lending commitment thereunder. See Note 6 to the financial statements of Southern 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.

The Facility, as well as Southern Power's term loan agreement, contains a covenant that limits the ratio of debt to capitalization (as defined in the Facility) to a maximum of 65% and contains a cross-default provision that is restricted only to indebtedness of Southern Power. For purposes of this definition, debt excludes any project debt incurred by certain subsidiaries of Southern Power to the extent such debt is non-recourse to Southern Power, and capitalization excludes the capital stock or other equity attributable to such subsidiary. Southern Power is currently in compliance with all covenants in the Facility.

In December 2016, Southern Power entered into an agreement for a $120 million continuing letter of credit facility for standby letters of credit expiring in 2019. At June 30, 2017, the total amount available under this letter of credit facility was $62 million.

Southern Power's subsidiaries do not borrow under the commercial paper program and are not parties to, and do not borrow under, the Facility or the continuing letter of credit facility.

Credit Rating Risk

Southern Power does 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 for physical electricity purchases and sales, fuel transportation and storage, energy price risk management, transmission, and foreign currency risk management.

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

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and/or Baa2	$ 38
At BBB- and/or Baa3	$ 392
At BB+ and/or Ba1[*]	$ 1,127

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

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

In addition, Southern Power has a PPA that could require collateral, but not accelerated payment, in the event of a downgrade of Southern Power's credit. The PPA requires credit assurances without stating a specific credit rating. The amount of collateral required would depend upon actual losses resulting from a credit downgrade.

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

Financing Activities

Southern Power did not issue or redeem any securities during the six months ended June 30, 2017.

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In addition to any financings that may be necessary to meet capital requirements and contractual obligations, Southern 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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SOUTHERN COMPANY GAS AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Successor For the Three Months Ended June 30, 2017 (in millions)	Predecessor For the Three Months Ended June 30, 2016 (in millions)	Successor For the Six Months Ended June 30, 2017 (in millions)	Predecessor For the Six Months Ended June 30, 2016 (in millions)
Operating Revenues:				
Natural gas revenues (includes revenue taxes of $19, $17, $67, and $57 for the periods presented, respectively)	$ 684	$ 539	$ 2,214	$ 1,841
Other revenues	32	32	62	64
Total operating revenues	716	571	2,276	1,905
Operating Expenses:				
Cost of natural gas	232	184	951	755
Cost of other sales	6	7	13	14
Other operations and maintenance	213	213	467	454
Depreciation and amortization	125	104	244	206
Taxes other than income taxes	44	37	114	99
Merger-related expenses	—	53	—	56
Total operating expenses	620	598	1,789	1,584
Operating Income (Loss)	96	(27)	487	321
Other Income and (Expense):				
Earnings from equity method investments	29	1	68	2
Interest expense, net of amounts capitalized	(48)	(48)	(94)	(96)
Other income (expense), net	3	2	7	5
Total other income and (expense)	(16)	(45)	(19)	(89)
Earnings (Loss) Before Income Taxes	80	(72)	468	232
Income taxes (benefit)	31	(24)	180	87
Net Income (Loss)	49	(48)	288	145
Less: Net income attributable to noncontrolling interest	—	3	—	14
Net Income (Loss) Attributable to Southern Company Gas	$ 49	$ (51)	$ 288	$ 131

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

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

	Successor For the Three Months Ended June 30, 2017 (in millions)	Predecessor For the Three Months Ended June 30, 2016 (in millions)	Successor For the Six Months Ended June 30, 2017 (in millions)	Predecessor For the Six Months Ended June 30, 2016 (in millions)
Net Income (Loss)	$ 49	$ (48)	$ 288	$ 145
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(1), $(7), $(2), and $(23), respectively	(1)	(12)	(2)	(41)
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $-, and $-, respectively	—	2	—	1
Pension and other postretirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $2, $-, and $4, respectively	—	2	(1)	5
Total other comprehensive income (loss)	(1)	(8)	(3)	(35)
Comprehensive Income (Loss)	48	(56)	285	110
Less: Comprehensive income attributable to noncontrolling interest	—	3	—	14
Comprehensive Income (Loss) Attributable to Southern Company Gas	$ 48	$ (59)	$ 285	$ 96

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

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

	Successor For the Six Months Ended June 30, 2017 (in millions)	Predecessor For the Six Months Ended June 30, 2016 (in millions)
Operating Activities:		
Net income	$ 288	$ 145
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	244	206
Deferred income taxes	144	8
Stock based compensation expense	19	20
Hedge settlements	—	(26)
Mark-to-market adjustments	(49)	162
Other, net	(53)	(77)
Changes in certain current assets and liabilities —		
-Receivables	420	181
-Natural gas for sale, net of temporary LIFO liquidation	223	273
-Prepaid income taxes	24	151
-Other current assets	(12)	37
-Accounts payable	(102)	43
-Accrued taxes	(8)	41
-Accrued compensation	(12)	(21)
-Other current liabilities	25	(30)
Net cash provided from operating activities	1,151	1,113
Investing Activities:		
Property additions	(684)	(509)
Cost of removal, net of salvage	(25)	(32)
Change in construction payables, net	23	(7)
Investment in unconsolidated subsidiaries	(111)	(14)
Other investing activities	16	3
Net cash used for investing activities	(781)	(559)
Financing Activities:		
Decrease in notes payable, net	(631)	(896)
Proceeds —		
First mortgage bonds	—	250
Capital contributions from parent company	57	—
Senior notes	450	350
Redemptions and repurchases — First mortgage bonds	—	(125)
Distributions to noncontrolling interest	—	(19)
Payment of common stock dividends	(221)	(128)
Other financing activities	(6)	10
Net cash used for financing activities	(351)	(558)

Net Change in Cash and Cash Equivalents	19	(4)
Cash and Cash Equivalents at Beginning of Period	19	19
Cash and Cash Equivalents at End of Period	$ 38	$ 15
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $7 and $3 capitalized for 2017 and 2016, respectively)	$ 105	$ 119
Income taxes, net	20	(100)
Noncash transactions — Accrued property additions at end of period	84	41

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

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SOUTHERN COMPANY GAS AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Assets:		
Cash and cash equivalents	$38	$ 19
Receivables —		
Energy marketing receivables	482	623
Customer accounts receivable	270	364
Unbilled revenues	69	239
Other accounts and notes receivable	63	76
Accumulated provision for uncollectible accounts	(35)	(27)
Materials and supplies	24	26
Natural gas for sale	477	631
Prepaid expenses	69	80
Assets from risk management activities, net of collateral	114	128
Other regulatory assets, current	72	81
Other current assets	20	10
Total current assets	1,663	2,250
Property, Plant, and Equipment:		
In service	14,850	14,508
Less: Accumulated depreciation	4,550	4,439
Plant in service, net of depreciation	10,300	10,069
Construction work in progress	779	496
Total property, plant, and equipment	11,079	10,565
Other Property and Investments:		
Goodwill	5,967	5,967
Equity investments in unconsolidated subsidiaries	1,610	1,541
Other intangible assets, net of amortization of $80 and $34 at June 30, 2017 and December 31, 2016, respectively	320	366
Miscellaneous property and investments	21	21
Total other property and investments	7,918	7,895
Deferred Charges and Other Assets:		
Other regulatory assets, deferred	963	973
Other deferred charges and assets	186	170
Total deferred charges and other assets	1,149	1,143
Total Assets	$21,809	$ 21,853

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

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SOUTHERN COMPANY GAS AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At June 30, 2017	At December 31, 2016
	(in millions)	
Current Liabilities:		
Securities due within one year	$ 22	$ 22
Notes payable	626	1,257
Energy marketing trade payables	534	597
Accounts payable	327	348
Customer deposits	134	153
Accrued taxes —		
Accrued income taxes	23	26
Other accrued taxes	63	68
Accrued interest	50	48
Accrued compensation	45	58
Liabilities from risk management activities, net of collateral	20	62
Other regulatory liabilities, current	146	102
Accrued environmental remediation, current	63	69
Temporary LIFO liquidation	69	—
Other current liabilities	113	108
Total current liabilities	2,235	2,918
Long-term Debt	5,677	5,259
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,091	1,975
Employee benefit obligations	432	441
Other cost of removal obligations	1,638	1,616
Accrued environmental remediation, deferred	353	357
Other regulatory liabilities, deferred	50	51
Other deferred credits and liabilities	91	127
Total deferred credits and other liabilities	4,655	4,567
Total Liabilities	12,567	12,744
Common Stockholder's Equity:		
Common stock, par value $0.01 per share —		
Authorized — 100 million shares		
Outstanding — 100 shares	—	—
Paid in capital	9,164	9,095
Retained earnings (accumulated deficit)	55	