SOUTHERN CO
Form 10-Q
August 08, 2016
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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, 2016
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

	Southern Power Company	
	(A Delaware Corporation)	
001-37803	30 Ivan Allen Jr. Boulevard, N.W.	58-2598670
	Atlanta, Georgia 30308	
	(404) 506-5000	

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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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Registrant	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting 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	

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, 2016
The Southern Company	Par Value $5 Per Share	941,598,673
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	5,642,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value $0.01 Per Share	1,000

This combined Form 10-Q is separately filed by The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company. 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, 2016

INDEX TO QUARTERLY REPORT ON FORM 10-Q
June 30, 2016

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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
ASU	Accounting Standards Update
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
Bridge Agreement	Senior unsecured Bridge Credit Agreement, dated as of September 30, 2015, among Southern Company, the lenders identified therein, and Citibank, N.A.
CCR	Coal combustion residuals
CO_2	Carbon dioxide
COD	Commercial operation date
Contractor	Westinghouse and its affiliate, WECTEC Global Project Services Inc. (formerly known as CB&I Stone & Webster, Inc.), formerly a subsidiary of The Shaw Group Inc. and Chicago Bridge & Iron Company N.V.
CPCN	Certificate of public convenience and necessity
CWIP	Construction work in progress
DOE	U.S. Department of Energy
Eligible Project Costs	Certain costs of construction relating to Plant Vogtle Units 3 and 4 that are eligible for financing under the Title XVII Loan Guarantee Program
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FFB	Federal Financing Bank
Fitch	Fitch Ratings, Inc.
Form 10-K	Combined Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power for the year ended December 31, 2015
GAAP	U.S. generally accepted accounting principles
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany interchange contract
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service
ITC	Investment tax credit
Kemper IGCC	IGCC facility under construction by Mississippi Power in Kemper County, Mississippi
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
MATS rule	Mercury and Air Toxics Standards rule
Merger	The merger of Merger Sub with and into Southern Company Gas on the terms and subject to the conditions set forth in the Merger Agreement, with Southern Company Gas continuing as the

surviving corporation and a wholly-owned, direct subsidiary of Southern Company

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DEFINITIONS (continued)

Term	Meaning
Merger Agreement	Agreement and Plan of Merger, dated August 23, 2015, among Southern Company, Southern Company Gas, and Merger Sub
Merger Sub	AMS Corp., a wholly-owned, direct subsidiary of Southern Company
Mirror CWIP	A regulatory liability account for use in mitigating future rate impacts for Mississippi Power customers
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
MW	Megawatt
NCCR	Georgia Power's Nuclear Construction Cost Recovery
NRC	U.S. Nuclear Regulatory Commission
OCI	Other comprehensive income
PEP	Mississippi Power's Performance Evaluation Plan
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Georgia Power's Plant Vogtle
power pool	The operating arrangement whereby the integrated generating resources of the traditional electric operating companies and Southern Power Company (excluding subsidiaries) are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power purchase agreements and contracts for differences that provide the owner of the renewable facility a certain fixed price for the electricity sold to the grid
PSC	Public Service Commission
PTC	Production tax credit
Rate CNP	Alabama Power's Rate Certificated New Plant
Rate CNP Compliance	Alabama Power's Rate Certificated New Plant Compliance
Rate CNP PPA	Alabama Power's Rate Certificated New Plant Power Purchase Agreement
Rate RSE	Alabama Power's Rate Stabilization and Equalization plan
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Power Company
ROE	Return on equity
S&P	Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, 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
Southern Company	The Southern Company
Southern Company Gas	Southern Company Gas (formerly known as AGL Resources Inc.)
Southern Company system	Southern Company, the traditional electric operating companies, Southern Power, Southern Electric Generating Company, Southern Nuclear, SCS, Southern Communications Services, Inc., and other subsidiaries as of June 30, 2016
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company and its subsidiaries
	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power

traditional electric operating companies	
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
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 retail rates, the strategic goals for the wholesale business, 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 acquisitions and 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 legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry, 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, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries, including, without limitation, IRS and state tax audits;
- 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 and construction 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 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 Southern Company's employee and retiree benefit plans and the Southern Company system's nuclear decommissioning trust funds;
- advances in technology;
- 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;

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION
(continued)

- 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 or Southern Company Gas' 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 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 subsidiaries to obtain additional generating capacity (or sell excess generating capacity) at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, 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 or Southern Company Gas' business resulting from incidents affecting the U.S. electric grid, natural gas pipeline infrastructure, or operation of generating or storage resources;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the registrants from time to time with the SEC.

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

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THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$3,748	$3,714	$7,124	$7,256
Wholesale revenues	446	448	842	915
Other electric revenues	166	162	348	325
Other revenues	99	13	137	24
Total operating revenues	4,459	4,337	8,451	8,520
Operating Expenses:				
Fuel	1,023	1,200	1,934	2,412
Purchased power	189	171	354	315
Cost of sales	58	—	77	—
Other operations and maintenance	1,099	1,100	2,206	2,222
Depreciation and amortization	569	500	1,110	987
Taxes other than income taxes	255	245	511	497
Estimated loss on Kemper IGCC	81	23	134	32
Total operating expenses	3,274	3,239	6,326	6,465
Operating Income	1,185	1,098	2,125	2,055
Other Income and (Expense):				
Allowance for equity funds used during construction	45	39	98	102
Interest expense, net of amounts capitalized	(293)	(180)	(539)	(393)
Other income (expense), net	(29)	(12)	(57)	(19)
Total other income and (expense)	(277)	(153)	(498)	(310)
Earnings Before Income Taxes	908	945	1,627	1,745
Income taxes	272	302	494	576
Consolidated Net Income	636	643	1,133	1,169
Less:				
Dividends on Preferred and Preference Stock of Subsidiaries	12	14	23	31
Net income attributable to noncontrolling interests	12	—	13	—
Consolidated Net Income Attributable to Southern Company	$612	$629	$1,097	$1,138
Common Stock Data:				
Earnings per share (EPS) —				
Basic EPS	$0.65	$0.69	$1.19	$1.25
Diluted EPS	$0.65	$0.69	$1.18	$1.25
Average number of shares of common stock outstanding (in millions)				
Basic	934	909	925	910
Diluted	940	912	931	914
Cash dividends paid per share of common stock	$0.5600	$0.5425	$1.1025	$1.0675

The accompanying notes as they relate to Southern Company are an integral part of these 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,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Consolidated Net Income	$636	$643	$1,133	$1,169
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(13), $12, $(85), and $1, respectively	(20)	19	(137)	1
Reclassification adjustment for amounts included in net income, net of tax of $10, $1, $11, and $2, respectively	16	2	18	3
Pension and other post retirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $1, $1, and $2, respectively	1	1	2	3
Total other comprehensive income (loss)	(3)	22	(117)	7
Less:				
Dividends on preferred and preference stock of subsidiaries	12	14	23	31
Comprehensive income attributable to noncontrolling interests	12	—	13	—
Consolidated Comprehensive Income Attributable to Southern Company	$609	$651	$980	$1,145

The accompanying notes as they relate to Southern Company are an integral part of these 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,	
	2016	2015
	(in millions)	
Operating Activities:		
Consolidated net income	$1,133	$1,169
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	1,306	1,171
Deferred income taxes	279	783
Allowance for equity funds used during construction	(98)	(102)
Stock based compensation expense	69	66
Hedge settlements	(201)	(3)
Estimated loss on Kemper IGCC	134	32
Income taxes receivable, non-current	—	(444)
Other, net	(69)	(3)
Changes in certain current assets and liabilities —		
-Receivables	(197)	(158)
-Fossil fuel stock	70	136
-Other current assets	(53)	(99)
-Accounts payable	(71)	(311)
-Accrued taxes	74	(60)
-Accrued compensation	(222)	(269)
-Mirror CWIP	—	82
-Other current liabilities	(39)	117
Net cash provided from operating activities	2,115	2,107
Investing Activities:		
Business acquisitions, net of cash acquired	(897)	(408)
Property additions	(3,486)	(2,239)
Investment in restricted cash	(8,608)	—
Distribution of restricted cash	649	—
Nuclear decommissioning trust fund purchases	(585)	(933)
Nuclear decommissioning trust fund sales	580	928
Cost of removal, net of salvage	(99)	(87)
Change in construction payables, net	(260)	56
Prepaid long-term service agreement	(82)	(110)
Other investing activities	113	27
Net cash used for investing activities	(12,675)	(2,766)
Financing Activities:		
Increase in notes payable, net	471	184
Proceeds —		
Long-term debt issuances	12,038	3,075
Common stock issuances	1,383	116
Short-term borrowings	—	320
Redemptions and repurchases —		
Long-term debt	(1,272)	(939)

Interest-bearing refundable deposits	—	(275)
Preferred and preference stock	—	(412)
Common stock repurchased	—	(115)
Short-term borrowings	(475)	(250)
Distributions to noncontrolling interests	(11)	(1)
Capital contributions from noncontrolling interests	179	78
Purchase of membership interests from noncontrolling interests	(129)	—
Payment of common stock dividends	(1,023)	(972)
Other financing activities	(108)	(47)
Net cash provided from financing activities	11,053	762
Net Change in Cash and Cash Equivalents	493	103
Cash and Cash Equivalents at Beginning of Period	1,404	710
Cash and Cash Equivalents at End of Period	$1,897	$813
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $61 and $57 capitalized for 2016 and 2015, respectively)	$458	$374
Income taxes, net	(138)	(16)
Noncash transactions — Accrued property additions at end of period	549	345

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

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

Assets	At June 30, 2016	At December 31, 2015
	(in millions)	
Current Assets:		
Cash and cash equivalents	$1,897	$ 1,404
Restricted cash and cash equivalents	7,963	—
Receivables —		
Customer accounts receivable	1,281	1,058
Unbilled revenues	590	397
Under recovered regulatory clause revenues	12	63
Income taxes receivable, current	—	144
Other accounts and notes receivable	247	398
Accumulated provision for uncollectible accounts	(14)	(13)
Fossil fuel stock, at average cost	798	868
Materials and supplies, at average cost	1,210	1,061
Vacation pay	181	178
Prepaid expenses	563	495
Other regulatory assets, current	350	402
Other current assets	71	71
Total current assets	15,149	6,526
Property, Plant, and Equipment:		
In service	78,112	75,118
Less accumulated depreciation	24,778	24,253
Plant in service, net of depreciation	53,334	50,865
Other utility plant, net	174	233
Nuclear fuel, at amortized cost	934	934
Construction work in progress	9,451	9,082
Total property, plant, and equipment	63,893	61,114
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	1,578	1,512
Leveraged leases	763	755
Goodwill	264	2
Other intangible assets, net of amortization of $14 and $12 at June 30, 2016 and December 31, 2015, respectively	490	317
Miscellaneous property and investments	230	166
Total other property and investments	3,325	2,752
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	1,580	1,560
Unamortized loss on reacquired debt	220	227
Other regulatory assets, deferred	5,460	4,989
Income taxes receivable, non-current	413	413
Other deferred charges and assets	833	737
Total deferred charges and other assets	8,506	7,926
Total Assets	$90,873	$ 78,318

The accompanying notes as they relate to Southern Company are an integral part of these 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, 2016	At December 31, 2015
	(in millions)	
Current Liabilities:		
Securities due within one year	$2,724	$ 2,674
Notes payable	1,372	1,376
Accounts payable	1,493	1,905
Customer deposits	408	404
Accrued taxes —		
Accrued income taxes	13	19
Other accrued taxes	398	484
Accrued interest	289	249
Accrued vacation pay	229	228
Accrued compensation	335	549
Asset retirement obligations, current	349	217
Liabilities from risk management activities	95	156
Other regulatory liabilities, current	115	278
Other current liabilities	694	590
Total current liabilities	8,514	9,129
Long-term Debt	35,368	24,688
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	12,563	12,322
Deferred credits related to income taxes	183	187
Accumulated deferred investment tax credits	1,427	1,219
Employee benefit obligations	2,485	2,582
Asset retirement obligations, deferred	4,129	3,542
Unrecognized tax benefits	380	370
Other cost of removal obligations	1,154	1,162
Other regulatory liabilities, deferred	335	254
Other deferred credits and liabilities	724	720
Total deferred credits and other liabilities	23,380	22,358
Total Liabilities	67,262	56,175
Redeemable Preferred Stock of Subsidiaries	118	118
Redeemable Noncontrolling Interests	47	43
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value $5 per share —		
Authorized — 1.5 billion shares		
Issued — June 30, 2016: 942 million shares		
— December 31, 2015: 915 million shares		
Treasury — June 30, 2016: 0.8 million shares		
— December 31, 2015: 3.4 million shares		
Par value	4,708	4,572
Paid-in capital	7,499	6,282

Treasury, at cost	(30)	(142)
Retained earnings	10,085	10,010
Accumulated other comprehensive loss	(247)	(130)
Total Common Stockholders' Equity	22,015	20,592
Preferred and Preference Stock of Subsidiaries	609	609
Noncontrolling Interests	822	781
Total Stockholders' Equity	23,446	21,982
Total Liabilities and Stockholders' Equity	$90,873	$ 78,318

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

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

SECOND QUARTER 2016 vs. SECOND QUARTER 2015
AND
YEAR-TO-DATE 2016 vs. YEAR-TO-DATE 2015

OVERVIEW

Southern Company is a holding company that owns all of the common stock of the traditional electric operating companies and Southern Power Company and owns other direct and indirect subsidiaries. Discussion of the results of operations is focused on the Southern Company system's primary business as of June 30, 2016 of electricity sales by the traditional electric operating companies and Southern Power. The four traditional electric operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. Southern Company's other business activities include providing products and services in the areas of distributed generation, energy efficiency, and utility infrastructure, as well as investments in telecommunications and leveraged lease projects. For additional information on these businesses, see BUSINESS – "The Southern Company System – Traditional Operating Companies," " – Southern Power," and " – Other Businesses" in Item 1 of the Form 10-K.

Merger with Southern Company Gas

Southern Company Gas, formerly known as AGL Resources Inc., is an energy services holding company whose primary business is the distribution of natural gas through natural gas distribution utilities. On July 1, 2016, Southern Company completed the Merger for a total purchase price of approximately $8.0 billion and Southern Company Gas became a wholly-owned, direct subsidiary of Southern Company.

Prior to the completion of the Merger on July 1, 2016, Southern Company and Southern Company Gas operated as separate companies. Accordingly, except for specific references to the Merger, the discussion and analysis of results of operations and financial condition as of and for the three and six months ended June 30, 2016 set forth herein relate solely to Southern Company and do not include Southern Company Gas. Following the Merger, the results of operations and financial condition of Southern Company Gas will be consolidated with those of Southern Company. The descriptions herein of strategy and outlook and the risks and challenges Southern Company faces include Southern Company Gas, to the extent material. See Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information regarding the Merger.

During the three and six months ended June 30, 2016, Southern Company recorded in its statements of income external transaction costs for financing, legal, and consulting services associated with the Merger of approximately $43.4 million and $63.3 million, respectively, of which $26.9 million and $32.9 million is included in operating expenses and $16.5 million and $30.4 million is included in other income and (expense), respectively.

See RISK FACTORS in Item 1A herein for additional information related to the various risks related to the Merger.

Construction Program

Construction continues on Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in the two units, each with approximately 1,100 MWs) and Mississippi Power's 582-MW Kemper IGCC. See RESULTS OF OPERATIONS – "Estimated Loss on Kemper IGCC," FUTURE EARNINGS POTENTIAL – "Construction Program," and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for additional information. 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.

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Key Performance Indicators

Southern Company continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, execution of major construction projects, and earnings per share. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Southern Company in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(17)	(2.7)	$(41)	(3.6)

Consolidated net income attributable to Southern Company was $612 million ($0.65 per share) for the second quarter 2016 compared to $629 million ($0.69 per share) for the second quarter 2015. For year-to-date 2016, consolidated net income attributable to Southern Company was $1.10 billion ($1.19 per share) compared to $1.14 billion ($1.25 per share) for the corresponding period in 2015. These decreases were primarily the result of higher interest expenses, higher depreciation and amortization, and higher charges related to revisions of the estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC. These decreases were partially offset by increases in retail revenues resulting from retail base rate increases as well as the 2015 correction of a Georgia Power billing error and a decrease in income taxes primarily from income tax benefits at Southern Power. Also contributing to the year-to-date 2016 decrease was lower retail revenues due to milder weather compared to the corresponding period in 2015.

Retail Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$34	0.9	$(132)	(1.8)

In the second quarter 2016, retail revenues were $3.75 billion compared to $3.71 billion for the corresponding period in 2015. For year-to-date 2016, retail revenues were $7.1 billion compared to $7.3 billion for the corresponding period in 2015.

Details of the changes in retail revenues were as follows:

	Second Quarter 2016		Year-to-Date 2016	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$3,714		$7,256	
Estimated change resulting from –				
Rates and pricing	186	5.0	296	4.1
Sales growth (decline)	(18)	(0.5)	4	0.1
Weather	(2)	(0.1)	(87)	(1.2)
Fuel and other cost recovery	(132)	(3.5)	(345)	(4.8)
Retail – current year	$3,748	0.9 %	$7,124	(1.8)%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015 primarily due to increases in base tariffs at Georgia Power under the 2013 ARP and the NCCR tariff and increased revenues at Alabama Power under Rate CNP Compliance, all effective January 1, 2016. The increase in rates and pricing was also due to the 2015 correction of a Georgia Power

billing error to a small number of large commercial and industrial customers and the implementation of rates for certain Kemper IGCC in-service assets at Mississippi Power.

See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Alabama Power," "Retail Regulatory Matters – Georgia Power – Rate Plans" and " – Nuclear Construction," and "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" 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 2016 when compared to the corresponding period in 2015. Weather-adjusted residential KWH sales and weather-adjusted commercial KWH sales decreased 0.2% and 1.9%, respectively, in the second quarter 2016 primarily due to decreased customer usage, partially offset by customer growth. Industrial KWH sales decreased 1.9% in the second quarter 2016 primarily in the chemicals, primary metals, textiles, and pipeline sectors, partially offset by increases in the paper and lumber sectors. A strong dollar, low oil prices, and weak global economic conditions have constrained growth in the industrial sector.

Revenues attributable to changes in sales increased slightly for year-to-date 2016 when compared to the corresponding period in 2015. Weather-adjusted residential KWH sales increased 0.6% for year-to-date 2016 due to customer growth, partially offset by decreased customer usage. Weather-adjusted commercial KWH sales decreased 0.6% for year-to-date 2016 primarily due to decreased customer usage, partially offset by customer growth. Industrial KWH sales decreased 1.5% for year-to-date 2016 primarily in the chemicals, primary metals, non-manufacturing, textiles, and pipeline sectors, partially offset by increases in the paper, stone, clay, and glass, and lumber sectors. A strong dollar, low oil prices, and weak global economic conditions have constrained growth in the industrial sector.

In the first quarter 2015, Mississippi Power updated the methodology to estimate the unbilled revenue allocation among customer classes. This change did not have a significant impact on net income. The KWH sales variances discussed above reflect an adjustment to the estimated allocation of Mississippi Power's unbilled first quarter 2015 KWH sales among customer classes that is consistent with the actual allocation in 2016. Without this adjustment, year-to-date 2016 weather-adjusted residential sales increased 0.7%, weather-adjusted commercial sales decreased 0.4%, and industrial KWH sales decreased 1.4% as compared to the corresponding period in 2015.

Fuel and other cost recovery revenues decreased $132 million and $345 million in the second quarter and year-to-date 2016, respectively, when compared to the corresponding periods in 2015 primarily due to a decrease in fuel prices. Electric rates for the traditional electric operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the energy component of PPA costs, and do not affect net income. The traditional electric operating companies each have one or more regulatory mechanisms to recover other costs such as environmental and other compliance costs, storm damage, new plants, and PPA capacity costs.

Wholesale Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(2)	(0.4)	$(73)	(8.0)

Wholesale revenues consist of PPAs primarily with investor-owned utilities and electric cooperatives and short-term opportunity sales. Wholesale revenues from PPAs (other than solar and wind PPAs) have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and 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 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.

Wholesale 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 2016, wholesale revenues were $446 million compared to $448 million for the corresponding period in 2015. This decrease was primarily related to a $21 million decrease in capacity revenues, partially offset by a $19 million increase in energy revenues. The decrease in capacity revenues was primarily due to the elimination in consolidation of a Southern Power PPA that was remarketed from a third party to Georgia Power in January 2016, the expiration of Plant Scherer Unit 3 power sales agreements at Gulf Power, and the expiration of wholesale contracts at Georgia Power. The increase in energy revenues was primarily due to an increase in short-term sales and renewable energy sales at Southern Power, partially offset by lower fuel prices.

For year-to-date 2016, wholesale revenues were $842 million compared to $915 million for the corresponding period in 2015. This decrease was primarily related to a $64 million decrease in capacity revenues and a $9 million decrease in energy revenues. The decrease in capacity revenues was primarily due to the elimination in consolidation of a Southern Power PPA that was remarketed from a third party to Georgia Power in January 2016, unit retirements as well as the expiration of wholesale contracts at Georgia Power, and the expiration of Plant Scherer Unit 3 power sales agreements at Gulf Power. The decrease in energy revenues was primarily due to lower fuel prices, partially offset by an increase in short-term sales and renewable energy sales at Southern Power.

See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Gulf Power" herein for additional information regarding the expiration of long-term sales agreements at Gulf Power for Plant Scherer Unit 3, which will impact future wholesale earnings.

Other Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$86	N/M	$113	N/M

N/M - Not meaningful

In the second quarter 2016, other revenues were $99 million compared to $13 million for the corresponding period in 2015. For year-to-date 2016, other revenues were $137 million compared to $24 million for the corresponding period in 2015. These increases were primarily due to $59 million in revenues from products and services at PowerSecure International, Inc. (PowerSecure), which was acquired on May 9, 2016. Additionally, for the second quarter and year-to-date 2016, revenues from certain unregulated sales of products and services by the traditional electric operating companies of $20 million and $46 million, respectively, were reclassified as other revenues for consistency of presentation on a consolidated basis. In prior periods, these revenues were included in other income (expense), net. See Note (I) to the Condensed Financial Statements under "Southern Company – Acquisition of PowerSecure International, Inc." herein for additional information.

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Fuel and Purchased Power Expenses

	Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$(177)	(14.8)	$(478)	(19.8)
Purchased power	18	10.5	39	12.4
Total fuel and purchased power expenses	$(159)		$(439)	

In the second quarter 2016, total fuel and purchased power expenses were $1.2 billion compared to $1.4 billion for the corresponding period in 2015. The decrease was primarily the result of a $159 million decrease in the average cost of fuel and purchased power primarily due to lower natural gas and coal prices.

For year-to-date 2016, total fuel and purchased power expenses were $2.3 billion compared to $2.7 billion for the corresponding period in 2015. The decrease was primarily the result of a $376 million decrease in the average cost of fuel and purchased power primarily due to lower natural gas and coal prices and a $63 million net decrease in the volume of KWHs generated and purchased.

Fuel and purchased power energy transactions at the traditional electric operating companies are generally offset by fuel revenues and do not have a significant impact on net income. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Retail 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 2016	Second Quarter 2015	Year-to-Date 2016	Year-to-Date 2015
Total generation (billions of KWHs)	45	46	89	92
Total purchased power (billions of KWHs)	4	4	8	6
Sources of generation (percent) —				
Coal	32	39	30	36
Nuclear	16	15	17	16
Gas	48	42	47	44
Hydro	2	3	4	3
Other Renewables	2	1	2	1
Cost of fuel, generated (cents per net KWH) —				
Coal	3.20	3.37	3.22	3.52
Nuclear	0.82	0.84	0.82	0.75
Gas	2.24	2.76	2.20	2.73
Average cost of fuel, generated (cents per net KWH)	2.33	2.70	2.28	2.70
Average cost of purchased power (cents per net KWH)(*)	5.03	5.63	5.14	6.26

(*) 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 2016, fuel expense was $1.0 billion compared to $1.2 billion for the corresponding period in 2015. The decrease was primarily due to a 19.2% decrease in the volume of KWHs generated by coal, an 18.8%

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decrease in the average cost of natural gas per KWH generated, and a 5.0% decrease in the average cost of coal per KWH generated, partially offset by a 14.7% increase in the volume of KWHs generated by natural gas.

For year-to-date 2016, fuel expense was $1.9 billion compared to $2.4 billion for the corresponding period in 2015. The decrease was primarily due to a 20.4% decrease in the volume of KWHs generated by coal, a 19.4% decrease in the average cost of natural gas per KWH generated, and an 8.5% decrease in the average cost of coal per KWH generated, partially offset by a 4.6% increase in the volume of KWHs generated by natural gas.

Purchased Power

In the second quarter 2016, purchased power expense was $189 million compared to $171 million for the corresponding period in 2015. The increase was primarily due to a 20.9% increase in the volume of KWHs purchased, partially offset by a 10.7% decrease in the average cost per KWH purchased, primarily as a result of lower natural gas and coal prices.

For year-to-date 2016, purchased power expense was $354 million compared to $315 million for the corresponding period in 2015. The increase was primarily due to a 33.0% increase in the volume of KWHs purchased, partially offset by a 17.9% decrease in the average cost per KWH purchased, primarily as a result of lower natural gas and coal prices.

Energy purchases will vary depending on demand for energy within the Southern Company system's 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 Sales

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$58	N/M	$77	N/M

N/M - Not meaningful

In the second quarter and year-to-date 2016, cost of sales were $58 million and $77 million, respectively. These costs were primarily related to sales of products and services by PowerSecure, which was acquired on May 9, 2016. Additionally, for the second quarter and year-to-date 2016, costs of $13 million and $32 million, respectively, related to certain unregulated sales of products and services by the traditional electric operating companies, were reclassified as cost of sales for consistency of presentation on a consolidated basis. In prior periods, these costs were included in other income (expense), net.

See "Other Revenues" herein and Note (I) to the Condensed Financial Statements under "Southern Company – Acquisition of PowerSecure International, Inc." herein for additional information.

Other Operations and Maintenance Expenses

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(0.1)	$(16)	(0.7)

Other operations and maintenance expenses decreased slightly in the second quarter 2016 as compared to the corresponding period in 2015. The decrease was primarily related to a $22 million decrease in employee compensation and benefits including pension costs and an $18 million decrease in scheduled outage and maintenance costs at generation facilities, partially offset by $28 million in transaction fees related to the Merger and the acquisition of PowerSecure and $10 million in operations and maintenance expenses at PowerSecure since the acquisition closed on May 9, 2016.

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Other operations and maintenance expenses decreased slightly for year-to-date 2016 as compared to the corresponding period in 2015. The decrease was primarily due to a $45 million decrease in scheduled outage and maintenance costs at generation facilities and a $36 million decrease in employee compensation and benefits including pension costs. These decreases were partially offset by $34 million in transaction fees related to the Merger and the acquisition of PowerSecure, $10 million in operations and maintenance expenses at PowerSecure since the acquisition closed on May 9, 2016, and an increase of $10 million in general business expenses associated with Southern Power's overall growth strategy.
See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs and Note (I) to the Condensed Financial Statements under "Southern Company" herein for additional information related to the Merger and the acquisition of PowerSecure.
Depreciation and Amortization

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$69	13.8	$123	12.5

In the second quarter 2016, depreciation and amortization was $569 million compared to $500 million for the corresponding period in 2015. The increase was primarily due to additional plant in service at the traditional electric operating companies and Southern Power.
For year-to-date 2016, depreciation and amortization was $1.1 billion compared to $987 million for the corresponding period in 2015. The increase was primarily due to an $86 million increase related to additional plant in service at the traditional electric operating companies and Southern Power. Also contributing to the increase, Gulf Power recorded $13 million less of a reduction in depreciation compared to the corresponding period in 2015, as authorized by the Florida PSC.
See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Gulf Power – Retail Base Rate Case" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Gulf Power – Retail Base Rate Case" herein for additional information.
Estimated Loss on Kemper IGCC

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$58	N/M	$102	N/M

N/M - Not meaningful
In the second quarter 2016 and 2015, estimated probable losses on the Kemper IGCC of $81 million and $23 million, respectively, were recorded at Southern Company. For year-to-date 2016 and 2015, estimated probable losses on the Kemper IGCC of $134 million and $32 million, respectively, were recorded at Southern Company. These losses reflect revisions of estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC in excess of the $2.88 billion cost cap established by the Mississippi PSC, net of $245 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (Initial DOE Grants) and excluding the cost of the lignite mine and equipment, the cost of the 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). 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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Interest Expense, Net of Amounts Capitalized

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$113	62.8	$146	37.2

In the second quarter 2016, interest expense, net of amounts capitalized was $293 million compared to $180 million in the corresponding period in 2015. For year-to-date 2016, interest expense, net of amounts capitalized was $539 million compared to $393 million in the corresponding period in 2015. These increases were primarily due to an increase in outstanding long-term debt related to the Merger, as well as increases in average outstanding long-term debt balances and higher interest rates at the traditional electric operating companies. Also contributing to the increases was the May 2015 termination of an asset purchase agreement between Mississippi Power and SMEPA and the resulting reversal of accrued interest on related deposits.

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

Other Income (Expense), Net

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(17)	N/M	$(38)	N/M

N/M - Not meaningful

In the second quarter 2016, other income (expense), net was $(29) million compared to $(12) million for the corresponding period in 2015. For year-to-date 2016, other income (expense), net was $(57) million compared to $(19) million for the corresponding period in 2015. These changes were primarily due to fees associated with the Bridge Agreement for the Merger. Additionally, in the second quarter 2016, revenues and costs associated with certain unregulated sales of products and services by the traditional electric operating companies were reclassified to other revenues and cost of sales for consistency of presentation on a consolidated basis following the PowerSecure acquisition. For the second quarter and year-to-date 2016, net amounts reclassified were $7 million and $14 million, respectively.

See "Other Revenues" and "Cost of Sales" herein and Note 12 to the financial statements of Southern Company under "Southern Company – Merger Financing" in Item 8 of the Form 10-K for additional information.

Income Taxes

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(30)	(9.9)	$(82)	(14.2)

In the second quarter 2016, income taxes were $272 million compared to $302 million for the corresponding period in 2015. For year-to-date 2016, income taxes were $494 million compared to $576 million for the corresponding period in 2015. These decreases were primarily due to increased federal income tax benefits from ITCs and PTCs at Southern Power and increased tax benefits related to the estimated probable losses on Mississippi Power's construction of the Kemper IGCC, partially offset by an increase related to state income tax benefits realized in 2015.

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 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 business of selling electricity and, as

a result of closing the Merger on July 1, 2016, Southern Company Gas' primary business of natural gas distribution. These factors include the traditional electric operating companies' and Southern Company Gas' ability to maintain a constructive regulatory environment that allows for the timely recovery of prudently-incurred costs during a time of increasing costs and the completion and subsequent operation of the Kemper IGCC and Plant Vogtle Units 3 and 4 as well as other ongoing construction projects. Other major factors include the profitability of Southern Power's competitive wholesale business and successful additional investments in renewable and other energy projects. Future earnings for the electricity and natural gas businesses in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of 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 business also depends on numerous factors including regulatory matters, creditworthiness of customers, total generating capacity available and related costs, future acquisitions and construction of generating facilities, the impact of tax credits from renewable energy projects, and the successful remarketing of capacity as current contracts expire. Demand for electricity and natural gas is primarily driven by economic growth. The pace of economic growth and electricity and natural gas demand may be affected by changes in regional and global economic conditions, which may impact future earnings.

Volatility of natural gas prices has a significant impact on Southern Company Gas' customer rates, long-term competitive position against other energy sources, and the ability of Southern Company Gas' retail operations and wholesale 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, 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.

On July 10, 2016, Southern Company and Kinder Morgan, Inc. (Kinder Morgan) entered into a definitive agreement under which Southern Company will acquire a 50% equity interest in Southern Natural Gas Company, L.L.C. (SNG), which is the owner of a 7,600-mile pipeline system connecting natural gas supply basins in Texas, Louisiana, Mississippi, Alabama, and the Gulf of Mexico to markets in Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina, and Tennessee. In addition, the agreement commits Southern Company and Kinder Morgan to cooperatively pursue specific growth opportunities to develop natural gas infrastructure through SNG. Southern Company expects to finance the purchase price of approximately $1.5 billion with a mix of equity and debt in a credit-supportive manner. Southern Company's investment in SNG will be accounted for under the equity method of accounting.

The transaction is subject to the notification and clearance and reporting requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Southern Company and Kinder Morgan expect to complete the transaction in the third quarter or early in the fourth quarter 2016. The ultimate outcome of this matter cannot be determined at this time.

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

Environmental Matters

Compliance costs related to federal and state environmental statutes and regulations could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis or through market-based contracts.

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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 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 final MATS rule and regional haze regulations.

On April 25, 2016, in response to a June 2015 U.S. Supreme Court opinion, the EPA published its supplemental finding regarding consideration of costs in support of the MATS rule. This finding does not impact MATS rule compliance requirements, costs, or deadlines, and all units within the Southern Company system that are subject to the MATS rule have completed the measures necessary to achieve compliance with the MATS rule by the applicable deadlines.

Also on April 25, 2016, the EPA issued proposed revisions to the regional haze regulations. The ultimate impact of the proposed revisions will depend on their ultimate adoption, implementation, and any legal challenges and cannot be determined at this time.

Coal Combustion Residuals

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Residuals" of Southern Company in Item 7 of the Form 10-K for additional information regarding the EPA's regulation of CCR.

On June 13, 2016, Georgia Power announced that all of its 29 ash ponds will cease operations and stop receiving coal ash in the next three years, and all ponds will eventually be closed either by removal, consolidation, and/or recycling for the beneficial use of coal ash or through closure in place using advanced engineering methods. On July 7, 2016, the Georgia Environmental Protection Division (EPD) proposed amendments to its state solid waste regulations to incorporate the requirements of the EPA's Disposal of Coal Combustion Residuals from Electric Utilities Rule (CCR Rule) and establish additional requirements for all of Georgia Power's onsite storage units consisting of landfills and surface impoundments. The proposed Georgia EPD regulations are expected to be finalized in October 2016 and are not anticipated to have a material impact on the Southern Company system's compliance obligations under the CCR Rule. See Note (A) to the Condensed Financial Statements herein for information regarding Southern Company's asset retirement obligations (ARO) as of June 30, 2016.

Retail Regulatory Matters

Retail Fuel Cost Recovery

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

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.

On May 17, 2016, the Georgia PSC approved Georgia Power's request to decrease fuel rates by 15% effective June 1, 2016, which will reduce annual billings by approximately $313 million. Georgia Power is currently scheduled to file its next fuel case by February 28, 2017.

Renewables

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail 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.

As part of the Georgia Power Advanced Solar Initiative (ASI), four PPAs totaling 149 MWs of Georgia Power's solar contracted capacity from Southern Power began in the first quarter 2016. During the second quarter 2016, Georgia Power executed PPAs to purchase an additional 41 MWs of solar capacity under the ASI. Ownership of any associated renewable energy credits (REC) is specified in each respective PPA. The party that owns the RECs retains the right to use them.

In November 2015, the Mississippi PSC issued orders approving three solar facilities for a combined total of approximately 105 MWs. Mississippi Power will purchase all of the energy produced by the solar facilities for the 25-year term under each of the three PPAs. The projects are expected to be in service by the second quarter 2017 and the resulting energy purchases are expected to be recovered through Mississippi Power's fuel cost recovery mechanism. Mississippi Power may retire the RECs generated on behalf of its customers or sell the RECs, separately or bundled with energy, to third parties.

The Florida PSC issued a final approval order on Gulf Power's Community Solar Pilot Program on April 15, 2016. The program will offer all Gulf Power customers an opportunity to voluntarily contribute to the construction and operation of a solar photovoltaic facility with electric generating capacity of up to 1 MW through annual subscriptions. The energy generated from the solar facility is expected to provide power to all of Gulf Power's customers.

In accordance with the Alabama PSC order approving up to 500 MWs of renewable projects, Alabama Power has entered into agreements to purchase power from or to build renewable generation sources, including a 72-MW solar PPA approved by the Alabama PSC in June 2016. Alabama Power is marketing the associated RECs generated by this solar PPA to customers interested in supporting renewable energy development. The terms of the renewable agreements permit Alabama Power to use the energy and retire the associated RECs in service of its customers or to sell RECs, separately or bundled with energy.

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 its Rate RSE, Rate CNP Compliance, rate energy cost recovery, and rate natural disaster reserve. 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 "Retail 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.

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Environmental Accounting Order

In April 2016, as part of its environmental compliance strategy, Alabama Power ceased using coal at Plant Greene County Units 1 and 2 (300 MWs representing Alabama Power's ownership interest) and began operating Units 1 and 2 solely on natural gas in May 2016 and July 2016, respectively.

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 separate fuel cost recovery tariffs. See Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Fuel Cost Recovery" herein and Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding Georgia Power's fuel cost recovery and the NCCR tariff, respectively.

Pursuant to the terms and conditions of a settlement agreement related to Southern Company's acquisition of Southern Company Gas approved by the Georgia PSC on April 14, 2016, Georgia Power's 2013 ARP will continue in effect until December 31, 2019, and Georgia Power will be required to file its next base rate case by July 1, 2019. Furthermore, through December 31, 2019, Georgia Power and Atlanta Gas Light Company (collectively, Utilities) each will retain their respective merger savings, net of transition costs, as defined in the settlement agreement; through December 31, 2022, such net merger savings applicable to each utility will be shared on a 60/40 basis between their respective customers and the Utilities; thereafter, all merger savings will be retained by customers. See Note 3 to the financial statements of Southern Company under "Retail Regulatory Matters – Georgia Power" in Item 8 of the Form 10-K for additional information regarding the 2013 ARP and Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information regarding the Merger.

Integrated Resource Plan

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail 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 (2016 IRP).

On July 28, 2016, the Georgia PSC voted to approve the 2016 IRP including the decertification and retirement of Plant Mitchell Units 3, 4A, and 4B (217 MWs) and Plant Kraft Unit 1 combustion turbine (17 MWs), as well as the decertification of the Intercession City unit (143 MWs total capacity). On August 2, 2016, the Plant Mitchell and Plant Kraft units were retired. Georgia Power exercised its contractual option to sell its 33% ownership interest in the Intercession City unit to Duke Energy Florida, Inc., with an expected closing date in late August 2016.

Additionally, the Georgia PSC approved Georgia Power's environmental compliance strategy and related expenditures proposed in the 2016 IRP, including measures taken to comply with existing government-imposed environmental mandates, subject to limits on expenditures for Plant McIntosh Unit 1 and Plant Hammond Units 1 through 4.

The Georgia PSC approved reclassification of the remaining net book value of Plant Mitchell Unit 3 and costs associated with materials and supplies remaining at the unit retirement date to a regulatory asset. Recovery of the unit's net book value will continue through December 31, 2019, as provided in the 2013 ARP. Recovery of the remaining balance of the unit's net book value as of December 31, 2019 and costs associated with materials and supplies remaining at the unit retirement date will be deferred for consideration in Georgia Power's 2019 general base rate case.

The Georgia PSC also approved the Renewable Energy Development Initiative to procure an additional 1,200 MWs of renewable resources primarily utilizing market-based prices established through a competitive bidding process with expected in-service dates between 2018 and 2021. Additionally, 200 MWs of self-build capacity for use by Georgia Power was approved, as well as consideration for no more than 200 MWs of capacity as part of a renewable commercial and industrial program.

The Georgia PSC also approved recovery of costs up to $99 million through June 30, 2019 to preserve the nuclear option at a future generation site in Stewart County, Georgia. The timing of cost recovery 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

Through 2015, long-term non-affiliate capacity sales from Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs) provided the majority of Gulf Power's wholesale earnings. The revenues from wholesale contracts covering 100% of this capacity represented 82% of Gulf Power's wholesale capacity revenues in 2015. Following contract expirations at the end of 2015 and the end of May 2016, Gulf Power's remaining contracted sales from the unit will cover approximately 24% of the unit through 2019. The expiration of these contracts is not expected to have a material impact on Southern Company's earnings. Gulf Power is actively evaluating alternatives, including, without limitation, rededication of the asset to serve retail customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or an asset sale. On May 5, 2016, Gulf Power delivered a letter to the Florida PSC requesting recognition of Gulf Power's ownership in Plant Scherer Unit 3 as being in service to retail customers when and as the contracts expire. 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 generating facilities, as well as adding or changing fuel sources for certain existing units, adding environmental control equipment, and expanding the transmission and 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 programs that update or expand its distribution systems to improve reliability and ensure the safety of its utility infrastructure and recovers in rates its investment and a return associated with these infrastructure programs.

The two largest construction projects currently underway in the Southern Company system are Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in the two units, each with approximately 1,100 MWs) and Mississippi Power's 582-MW Kemper IGCC. See Note 3 to the financial statements of Southern Company under "Retail 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 "Retail 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 – Construction Projects" herein.

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

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Integrated Coal Gasification Combined Cycle

Mississippi Power's current cost estimate for the Kemper IGCC in total is approximately $6.68 billion, which includes approximately $5.43 billion of costs subject to the construction cost cap and is net of $137 million in additional DOE grants Mississippi Power received for the Kemper IGCC on April 8, 2016 (Additional DOE Grants), which are expected to be used to reduce future rate impacts for customers. Mississippi Power does not intend to seek any rate recovery for any related costs that exceed the $2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. In the aggregate, Southern Company has incurred charges of $2.55 billion ($1.57 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through June 30, 2016. Mississippi Power's current cost estimate includes costs through October 31, 2016, which reflects a one-month extension. The initial production of syngas began on July 14, 2016 and testing has continued on gasifier 'B' and the related lignite feed and ash systems. The schedule extension provides for time to complete mechanical equipment modifications to the gasifiers' supporting systems to increase capacity to the levels necessary to complete the remaining start-up activities and achieve sustained operations on both gasifiers. The remaining schedule also reflects the time expected to complete the initial operation and testing of the facility's syngas clean-up systems, as well as the integration of all systems necessary for both combustion turbines to simultaneously generate electricity with syngas. In subsequent periods, any further changes in the estimated costs to complete construction of the Kemper IGCC subject to the $2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions, will be reflected in Southern Company's statements of income and these changes could be material.

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

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, John Carlton Dean, alleges that Mississippi Power and Southern Company violated the Mississippi Unfair Trade Practices Act. All plaintiffs have alleged that Mississippi Power and Southern Company concealed, falsely represented, and failed to fully disclose important facts concerning the cost 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 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 believes these legal challenges have no merit; however, an adverse outcome in these proceedings could have an impact on Southern Company's results of operations, financial condition, and liquidity. Southern Company will vigorously defend itself in these matters, and the ultimate outcome of these matters cannot be determined at this time.

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

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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 or in Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K, 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.

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 estimated construction costs and expected in-service date. The ultimate outcome of this matter cannot be determined at this time; however, it is not expected to have a material impact on the financial statements of Southern Company.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

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

During 2016, Mississippi Power further revised its cost estimate to complete construction and start-up of the Kemper IGCC to an amount that exceeds the $2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. Mississippi Power does not intend to seek any rate recovery for any costs related to the construction of the Kemper IGCC that exceed the $2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions.

As a result of the revisions to the cost estimate, Southern Company recorded total pre-tax charges to income for the estimated probable losses on the Kemper IGCC of $81 million ($50 million after tax) in the second quarter 2016, $53 million ($33 million after tax) in the first quarter 2016, $183 million ($113 million after tax) in the fourth quarter 2015, $150 million ($93 million after tax) in the third quarter 2015, $23 million ($14 million after tax) in the second quarter 2015, $9 million ($6 million after tax) in the first quarter 2015, $70 million ($43 million after tax) in the fourth quarter 2014, $418 million ($258 million after tax) in the third quarter 2014, $380 million ($235 million after tax) in the first quarter 2014, $40 million ($25 million after tax) in the fourth quarter 2013, $150 million ($93 million after tax) in the third quarter 2013, $450 million ($278 million after tax) in the second quarter 2013, and

$540 million ($333 million after tax) in the first quarter 2013. In the aggregate, Southern Company has incurred charges of $2.55 billion ($1.57 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through June 30, 2016.

Mississippi Power has experienced, and may continue to experience, material changes in the cost estimate for the Kemper IGCC. In subsequent periods, any further changes in the estimated costs to complete construction and start-up of the Kemper IGCC subject to the $2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions, will be reflected in Southern Company's statements of income and these changes could be material. Further cost increases and/or extensions of the expected in-service date may result from factors including, but not limited to, difficulties integrating the systems required for sustained operations, major equipment failure, unforeseen engineering or design problems including any repairs and/or modifications to systems, and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by the Mississippi PSC). Mississippi Power's revised cost estimate includes costs through October 31, 2016. Any extension of the in-service date beyond October 31, 2016 is currently estimated to result in additional base costs of approximately $25 million to $35 million per month, which includes maintaining necessary levels of start-up labor, materials, and fuel, as well as operational resources required to execute start-up and commissioning activities. However, additional costs may be required for remediation of any further equipment and/or design issues identified. Any extension of the in-service date with respect to the Kemper IGCC beyond October 31, 2016 would also increase costs for the Cost Cap Exceptions, which are not subject to the $2.88 billion cost cap established by the Mississippi PSC. These costs include AFUDC, which is currently estimated to total approximately $14 million per month, as well as carrying costs and operating expenses on Kemper IGCC assets placed in service and consulting and legal fees of approximately $3 million per month.

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

Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires lessees to recognize on the balance sheet a lease liability and a right-of-use asset for all leases. ASU 2016-02 also changes the recognition, measurement, and presentation of expense associated with leases and provides clarification regarding the identification of certain components of contracts that would represent a lease. The accounting required by lessors is relatively unchanged and there is no change to the accounting for existing leveraged leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Southern Company is currently evaluating the new standard and has not yet determined its ultimate impact; however, adoption of ASU 2016-02 is expected to have a significant impact on Southern Company's balance sheet.

On March 30, 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 changes the accounting for income taxes and the cash flow presentation for share-based payment award transactions. Most significantly, entities are required to recognize all excess tax benefits and deficiencies related to the exercise or vesting of stock compensation as income tax expense or benefit in the income statement. Southern Company currently recognizes any excess tax benefits and deficiencies related to the exercise and vesting of stock compensation in additional paid-in capital. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and Southern Company intends to adopt the ASU in the fourth quarter 2016. The adoption is not expected to have a material impact on the results of operations, financial position, or cash flows of Southern Company.

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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, 2016. Through June 30, 2016, Southern Company has incurred non-recoverable cash expenditures of $2.28 billion and is expected to incur approximately $0.27 billion in additional non-recoverable cash expenditures through completion of the construction and start-up of the Kemper IGCC. 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 $2.1 billion for the first six months of 2016 and the corresponding period in 2015. Net cash used for investing activities totaled $12.7 billion for the first six months of 2016 primarily due to an investment in restricted cash to be used to complete the Merger, as well as construction of generation, transmission, and distribution facilities and installation of equipment to comply with environmental standards. Net cash provided from financing activities totaled $11.1 billion for the first six months of 2016 primarily due to issuances of long-term debt and common stock associated with financing and completing the Merger. 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 2016 include increases of $10.7 billion in long-term debt, $8.0 billion in restricted cash and cash equivalents, and $1.4 billion in total common stockholder's equity primarily associated with financing and completing the Merger; an increase of $2.8 billion in total property, plant, and equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities; and increases of $0.7 billion in AROs and $0.5 billion in other regulatory assets, deferred primarily related to changes in ash pond closure strategy primarily for Georgia Power. See Notes (A) and (I) to the Condensed Financial Statements herein under "Asset Retirement Obligations" and "Southern Company – Merger with Southern Company Gas," respectively, for additional information.

At the end of the second quarter 2016, the market price of Southern Company's common stock was $53.63 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 229%, compared to $46.79, $22.59, and 207%, respectively, at the end of 2015. Southern Company's common stock dividend for the second quarter 2016 was $0.560 per share compared to $0.5425 per share in the second quarter 2015.

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 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, trust funding requirements, and unrecognized tax benefits. Approximately $3.3 billion will be required through June 30, 2017 to fund maturities of long-term debt, which includes $0.6 billion with respect to Southern Company Gas that was assumed subsequent to June 30, 2016 in connection with the Merger. In addition, approximately $1.5 billion will be required for Southern Company's acquisition of a 50% equity interest in SNG, which is expected to be completed in the third quarter or early in the fourth quarter 2016. See "Sources of Capital" and Note (I) to the Condensed Financial Statements under "Southern Company – Natural Gas Pipeline Venture" herein for additional information.

The Southern Company system's construction program is currently estimated to total $9.4 billion for 2016, $5.2 billion for 2017, and $5.5 billion for 2018. These amounts include expenditures of approximately $0.7 billion related to the construction and start-up of the Kemper IGCC in 2016; $0.6 billion, $0.7 billion, and $0.4 billion to

continue construction on Plant Vogtle Units 3 and 4 in 2016, 2017, and 2018, respectively; and $4.4 billion, $0.9 billion, and $1.4 billion for Southern Power's acquisitions and/or construction of new generating facilities in 2016, 2017, and 2018, respectively. In addition, Southern Company Gas' construction program is currently estimated to total $0.8 billion for the period from July 1, 2016 to December 31, 2016.

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 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; 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. 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 "Retail 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 "Retail Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" herein for information regarding additional factors that may impact construction expenditures.

Sources of Capital

Southern Company intends to meet its future capital needs through operating cash flows, short-term debt, term loans, and external security issuances. Equity capital can be provided from any combination of Southern Company's stock plans, private placements, or public offerings. The amount and timing of additional equity capital and debt issuances in 2016, as well as in subsequent years, will be contingent on Southern Company's investment opportunities and the Southern Company system's and Southern Company Gas' capital requirements. See "Capital Requirements and Contractual Obligations" herein for additional information.

Except as described herein, the traditional electric operating companies, Southern Company Gas, and Southern Power 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 may make borrowings through a loan guarantee agreement (Loan Guarantee Agreement) between Georgia Power and the DOE, the proceeds of which 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, 2016 would allow for borrowings of up to $2.6 billion under the FFB Credit Facility, of which Georgia Power has borrowed $2.5 billion. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K for additional information regarding the Loan Guarantee Agreement and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

Mississippi Power received $245 million of Initial DOE Grants in prior years that were used for the construction of the Kemper IGCC. An additional $25 million of grants from the DOE is expected to be received for commercial

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operation of the Kemper IGCC. On April 8, 2016, Mississippi Power received approximately $137 million in Additional DOE Grants for the Kemper IGCC, which are expected to be used to reduce future rate impacts for customers. In addition, see Note 3 to the financial statements of Southern Company under "Integrated Coal Gasification Combined Cycle" in Item 8 of the Form 10-K for information regarding legislation related to the securitization of certain costs of the Kemper IGCC.

As of June 30, 2016, Southern Company's current assets exceeded current liabilities by $6.6 billion. Excluding restricted cash of $8.0 billion associated with the Merger, Southern Company's current liabilities exceeded current assets by $1.3 billion, primarily due to long-term debt that is due within one year of $2.7 billion, including approximately $0.9 billion at the parent company, $0.2 billion at Alabama Power, $0.7 billion at Georgia Power, $0.2 billion at Gulf Power, $0.3 billion at Mississippi Power, and $0.4 billion at Southern Power. To meet short-term cash needs and contingencies, Southern Company 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 and Southern Power, equity contributions and/or loans from Southern Company to meet their short-term capital needs. In addition, for the remainder of 2016, Georgia Power expects to utilize borrowings through the FFB Credit Facility as an additional source of long-term borrowed funds.

At June 30, 2016, Southern Company and its subsidiaries had approximately $1.9 billion of cash and cash equivalents. In addition, Southern Company had approximately $8.0 billion of restricted cash, which was subsequently used to complete the Merger. Committed credit arrangements with banks at June 30, 2016 were as follows:

	Expires						Executable Term Loans		Due Within One Year	
Company[(a)]	2016	2017	2018	2020	Total	Unused	One Year	Two Years	Term Out	No Term Out
	(in millions)				(in millions)		(in millions)		(in millions)	
Southern Company	$—	$—	$1,000	$1,250	$2,250	$2,250	$ —	$ —	$—	$ —
Alabama Power	3	32	500	800	1,335	1,335	—	—	—	35
Georgia Power	—	—	—	1,750	1,750	1,732	—	—	—	—
Gulf Power	75	40	165	—	280	280	45	—	45	70
Mississippi Power	115	60	—	—	175	150	—	15	15	160
Southern Power Company[(b)]	—	—	—	600	600	560	—	—	—	—
Other	25	45	—	40	110	80	20	—	20	50
Total	$218	$177	$1,665	$4,440	$6,500	$6,387	$ 65	$ 15	$80	$ 315

(a) Excludes Southern Company Gas as the Merger was not completed at June 30, 2016. Southern Company Gas has committed credit arrangements with banks totaling $2.0 billion at July 1, 2016, of which $0.1 billion expire in 2017 and $1.9 billion expire in 2018.

(b) Excludes credit agreements (Project Credit Facilities) assumed with the acquisition of certain solar facilities, which are non-recourse to Southern Power Company, the proceeds of which are being used to finance project costs related to such solar facilities currently under construction. See Note (I) to the Condensed Financial Statements under "Southern Power" herein for additional information.

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.

On May 24, 2016, the $8.1 billion Bridge Agreement to provide Merger financing, to the extent necessary, was terminated.

Most of these bank credit arrangements, as well as the term loan arrangements of Southern Company, Alabama Power, Mississippi Power, and Southern Power, 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. Southern Company, the traditional electric operating companies, and Southern Power Company are currently 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 traditional electric operating companies' pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of June 30, 2016 was approximately $1.9 billion. In addition, at June 30, 2016, the traditional electric operating companies had approximately $320 million of fixed rate pollution control revenue bonds outstanding that were required to be reoffered within the next 12 months.

Southern Company, the traditional electric operating companies, and Southern Power make short-term borrowings primarily through commercial paper programs that have the liquidity support of the committed bank credit arrangements described above. Southern Company, the traditional electric operating companies, and Southern Power may also borrow through various other arrangements with banks. 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, 2016(a)		Short-term Debt During the Period(a,b)		
	Amount Outstanding	Weighted Average Interest Rate	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)		(in millions)
Commercial paper	$478	0.8 %	$1,082	0.8 %	$ 1,712
Short-term bank debt	125	1.5 %	215	1.5 %	262
Total	$603	1.0 %	$1,297	0.9 %	

(a) Excludes Southern Company Gas as the Merger was not completed at June 30, 2016.
(b) Average and maximum amounts are based upon daily balances during the three-month period ended June 30, 2016.

In addition to the short-term borrowings in the table above, the Project Credit Facilities had total amounts outstanding as of June 30, 2016 of $769 million at a weighted average interest rate of 2.02%. For the three-month period ended June 30, 2016, these credit agreements had a maximum amount outstanding of $769 million and an average amount outstanding of $586 million at a weighted average interest rate of 2.03%.

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, 2016, 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 purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, transmission, interest rate management, and construction of new generation at Plant Vogtle Units 3 and 4.

SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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The maximum potential collateral requirements under these contracts at June 30, 2016 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and/or Baa2	$ 29
At BBB- and/or Baa3	$ 597
Below BBB- and/or Baa3	$ 2,519

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 May 12, 2016, Fitch downgraded the senior unsecured long-term debt rating of Southern Company to A- from A and revised the ratings outlook from negative to stable. Fitch also downgraded the senior unsecured long-term debt rating of Mississippi Power to BBB+ from A- and revised the ratings outlook from negative to stable.

On May 13, 2016, Moody's downgraded the senior unsecured long-term debt rating of Southern Company to Baa2 from Baa1 and revised the ratings outlook from negative to stable.

Financing Activities

On May 11, 2016, Southern Company issued 18.3 million shares of common stock in an underwritten offering for an aggregate purchase price of approximately $889 million. Of the 18.3 million shares, approximately 2.6 million were issued from treasury and the remainder were newly issued shares. The proceeds were used to fund a portion of the Merger and for other general corporate purposes.

In addition, during the first six months of 2016, Southern Company issued approximately 11.6 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately $494 million.

The following table outlines the long-term debt financing activities for Southern Company and its subsidiaries for the first six months of 2016:

Company[(a)]	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[(b)]
	(in millions)				
Southern Company	$8,500	$ —	$ —	$ —	$ —
Alabama Power	400	200	—	45	—
Georgia Power	650	500	4	300	3
Gulf Power	—	125	—	—	—
Mississippi Power	—	—	—	1,100	651
Southern Power	1,241	—	—	2	4
Other	—	—	—	—	10
Elimination[(c)]	—	—	—	(200)	(225)
Total	$10,791	$ 825	$ 4	$ 1,247	$ 443

(a) Excludes Southern Company Gas as the Merger was not completed at June 30, 2016.
(b) Includes reductions in capital lease obligations resulting from cash payments under capital leases.
(c) Intercompany loans from Southern Company to Mississippi Power eliminated in Southern Company's Consolidated Financial Statements.

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In February 2016, Southern Company entered into $700 million notional amount of forward-starting interest rate swaps to hedge exposure to interest rate changes related to anticipated debt issuances. These interest rate swaps were settled in May 2016.
In May 2016, Southern Company issued the following series of senior notes for an aggregate principal amount of $8.5 billion:
- $0.5 billion of 1.55% Senior Notes due July 1, 2018;
- $1.0 billion of 1.85% Senior Notes due July 1, 2019;
- $1.5 billion of 2.35% Senior Notes due July 1, 2021;
- $1.25 billion of 2.95% Senior Notes due July 1, 2023;
- $1.75 billion of 3.25% Senior Notes due July 1, 2026;
- $0.5 billion of 4.25% Senior Notes due July 1, 2036; and
- $2.0 billion of 4.40% Senior Notes due July 1, 2046.

The net proceeds were used to fund a portion of the Merger and related transaction costs and for 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 and, for Southern Power, its growth strategy.
On March 8, 2016, Mississippi Power entered into an unsecured term loan agreement with a syndicate of financial institutions for an aggregate amount of $1.2 billion to repay existing indebtedness and for other general corporate purposes. Mississippi Power borrowed $900 million under the term loan agreement and has the right to borrow the remaining $300 million on or before October 15, 2016, upon satisfaction of certain customary conditions. Mississippi Power used the initial proceeds to repay $900 million in maturing bank notes on March 8, 2016 and expects the remaining $300 million to be used to repay senior notes maturing in October 2016. The term loan pursuant to this agreement matures on April 1, 2018 and bears interest based on one-month LIBOR.
In May 2016, Gulf Power entered into an 11-month floating rate bank loan bearing interest based on one-month LIBOR. This short-term loan was for $100 million aggregate principal amount and the proceeds were used to repay existing indebtedness and for working capital and other general corporate purposes.
Georgia Power's "Other Long-Term Debt Issuances" reflected in the table above include borrowings under the FFB Credit Facility in an aggregate principal amount of $300 million in June 2016. The interest rate applicable to the $300 million principal amount is 2.571% for an interest period that extends to the final maturity date of February 20, 2044. The proceeds were used to reimburse Georgia Power for Eligible Project Costs relating to the construction of Plant Vogtle Units 3 and 4.
During the six months ended June 30, 2016, Southern Power's subsidiaries borrowed an additional $632 million pursuant to the Project Credit Facilities at a weighted average interest rate of 2.00%. Subsequent to June 30, 2016, Southern Power's subsidiaries borrowed $48 million pursuant to the Project Credit Facilities at a weighted average interest rate of 1.98%.
In June 2016, Southern Power issued €600 million aggregate principal amount of Series 2016A 1.00% Senior Notes due June 20, 2022 and €500 million aggregate principal amount of Series 2016B 1.85% Senior Notes due June 20, 2026. The proceeds will be allocated to renewable energy generation projects. Southern Power's obligations under its euro-denominated fixed-rate notes were effectively converted to fixed-rate U.S. dollars at issuance through cross-currency swaps, removing foreign currency exchange risk associated with the interest and principal payments. See Note (H) to the Condensed Financial Statements under "Foreign Currency Derivatives" herein for additional information.

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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, 2016, there were no material changes to each registrant's disclosures about market risk. 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 and Mississippi Power, and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K. Also, see 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, and Southern Power Company 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, or Southern Power Company's 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 2016 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, or Southern Power Company's internal control over financial reporting.

Southern Company completed the Merger on July 1, 2016, with Southern Company Gas surviving the Merger as a wholly-owned, direct subsidiary of Southern Company. Southern Company is currently in the process of integrating Southern Company Gas' operations and will be conducting control reviews pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. See Note (I) to the Condensed Financial Statements under "Southern Company – Merger with Southern Company Gas" herein for additional information regarding the Merger.

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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,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,316	$1,326	$2,510	$2,594
Wholesale revenues, non-affiliates	67	57	130	123
Wholesale revenues, affiliates	9	20	31	35
Other revenues	52	52	105	104
Total operating revenues	1,444	1,455	2,776	2,856
Operating Expenses:				
Fuel	295	343	564	653
Purchased power, non-affiliates	40	45	76	86
Purchased power, affiliates	55	49	88	103
Other operations and maintenance	355	370	747	768
Depreciation and amortization	175	160	347	318
Taxes other than income taxes	94	90	191	184
Total operating expenses	1,014	1,057	2,013	2,112
Operating Income	430	398	763	744
Other Income and (Expense):				
Allowance for equity funds used during construction	6	14	16	29
Interest expense, net of amounts capitalized	(74)	(69)	(147)	(134)
Other income (expense), net	(4)	(14)	(11)	(18)
Total other income and (expense)	(72)	(69)	(142)	(123)
Earnings Before Income Taxes	358	329	621	621
Income taxes	142	122	245	235
Net Income	216	207	376	386
Dividends on Preferred and Preference Stock	5	7	9	17
Net Income After Dividends on Preferred and Preference Stock	$211	$200	$367	$369

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Net Income	$216	$207	$376	$386
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $3, $(1), and $-, respectively	—	5	(2)	1
	1	—	2	1

Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $1, and $1, respectively				
Total other comprehensive income (loss)	1	5	—	2
Comprehensive Income	$217	$212	$376	$388

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,	
	2016	2015
	(in millions)	
Operating Activities:		
Net income	$376	$386
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	419	387
Deferred income taxes	175	60
Allowance for equity funds used during construction	(16)	(29)
Other, net	(37)	(23)
Changes in certain current assets and liabilities —		
-Receivables	64	(115)
-Fossil fuel stock	(32)	19
-Other current assets	(67)	(52)
-Accounts payable	(75)	(212)
-Accrued taxes	98	177
-Accrued compensation	(50)	(66)
-Retail fuel cost over recovery	(60)	25
-Other current liabilities	8	40
Net cash provided from operating activities	803	597
Investing Activities:		
Property additions	(645)	(612)
Nuclear decommissioning trust fund purchases	(200)	(278)
Nuclear decommissioning trust fund sales	200	278
Cost of removal, net of salvage	(51)	(28)
Change in construction payables	(27)	28
Other investing activities	(18)	(14)
Net cash used for investing activities	(741)	(626)
Financing Activities:		
Proceeds —		
Senior notes issuances	400	975
Capital contributions from parent company	237	10
Pollution control revenue bonds	—	80
Other long-term debt issuances	45	—
Redemptions and repurchases —		
Preferred and preference stock	—	(412)
Pollution control revenue bonds	—	(134)
Senior notes	(200)	(250)
Payment of common stock dividends	(382)	(286)
Other financing activities	(13)	(32)
Net cash provided from (used for) financing activities	87	(49)
Net Change in Cash and Cash Equivalents	149	(78)

Cash and Cash Equivalents at Beginning of Period	194	273
Cash and Cash Equivalents at End of Period	$343	$195
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $7 and $10 capitalized for 2016 and 2015, respectively)	$131	$118
Income taxes, net	(122)	47
Noncash transactions — Accrued property additions at end of period	94	35

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, 2016	At December 31, 2015
	(in millions)	
Current Assets:		
Cash and cash equivalents	$343	$ 194
Receivables —		
Customer accounts receivable	357	332
Unbilled revenues	174	119
Under recovered regulatory clause revenues	7	43
Income taxes receivable, current	—	142
Other accounts and notes receivable	35	20
Affiliated companies	32	50
Accumulated provision for uncollectible accounts	(9)	(10)
Fossil fuel stock, at average cost	271	239
Materials and supplies, at average cost	412	398
Vacation pay	66	66
Prepaid expenses	100	83
Other regulatory assets, current	87	115
Other current assets	10	10
Total current assets	1,885	1,801
Property, Plant, and Equipment:		
In service	25,572	24,750
Less accumulated provision for depreciation	8,889	8,736
Plant in service, net of depreciation	16,683	16,014
Nuclear fuel, at amortized cost	368	363
Construction work in progress	423	801
Total property, plant, and equipment	17,474	17,178
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	69	71
Nuclear decommissioning trusts, at fair value	759	737
Miscellaneous property and investments	101	96
Total other property and investments	929	904
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	519	522
Deferred under recovered regulatory clause revenues	136	99
Other regulatory assets, deferred	1,100	1,114
Other deferred charges and assets	113	103
Total deferred charges and other assets	1,868	1,838
Total Assets	$22,156	$ 21,721

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, 2016	At December 31, 2015
	(in millions)	
Current Liabilities:		
Securities due within one year	$200	$200
Accounts payable —		
Affiliated	293	278
Other	294	410
Customer deposits	88	88
Accrued taxes —		
Accrued income taxes	10	—
Other accrued taxes	93	38
Accrued interest	80	73
Accrued vacation pay	55	55
Accrued compensation	72	119
Liabilities from risk management activities	17	55
Other regulatory liabilities, current	81	240
Other current liabilities	41	39
Total current liabilities	1,324	1,595
Long-term Debt	6,894	6,654
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,413	4,241
Deferred credits related to income taxes	68	70
Accumulated deferred investment tax credits	114	118
Employee benefit obligations	360	388
Asset retirement obligations	1,502	1,448
Other cost of removal obligations	699	722
Other regulatory liabilities, deferred	106	136
Deferred over recovered regulatory clause revenues	102	—
Other deferred credits and liabilities	69	76
Total deferred credits and other liabilities	7,433	7,199
Total Liabilities	15,651	15,448
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	2,589	2,341
Retained earnings	2,445	2,461
Accumulated other comprehensive loss	(32)	(32)
Total common stockholder's equity	6,224	5,992
Total Liabilities and Stockholder's Equity	$22,156	$21,721

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

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SECOND QUARTER 2016 vs. SECOND QUARTER 2015
AND
YEAR-TO-DATE 2016 vs. YEAR-TO-DATE 2015

OVERVIEW

Alabama Power operates as a vertically integrated utility providing electricity to retail and wholesale customers within its traditional service territory located within 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 selling electricity. 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, increasingly 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. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preferred and preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Alabama Power in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$11	5.5	$(2)	(0.5)

Alabama Power's net income after dividends on preferred and preference stock for the second quarter 2016 was $211 million compared to $200 million for the corresponding period in 2015. The increase was primarily related to an increase in retail revenues under Rate CNP Compliance and a decrease in non-fuel operations and maintenance expenses. These increases to income were partially offset by decreases in customer usage and AFUDC and increases in interest expense and depreciation and amortization.

Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2016 was $367 million compared to $369 million for the corresponding period in 2015. The decrease was primarily related to a decrease in retail revenues associated with milder weather for year-to-date 2016 compared to the corresponding period in 2015, a decrease in AFUDC, and increases in interest expense, taxes other than income taxes, and depreciation and amortization. These decreases to income were partially offset by an increase in revenue under Rate CNP Compliance, a decrease in non-fuel operations and maintenance expenses, and a decrease in dividends on preferred and preference stock.

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Retail Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(10)	(0.8)	$(84)	(3.2)

In the second quarter 2016, retail revenues were $1.32 billion compared to $1.33 billion for the corresponding period in 2015. For year-to-date 2016, retail revenues were $2.51 billion compared to $2.59 billion for the corresponding period in 2015.

Details of the changes in retail revenues were as follows:

	Second Quarter 2016		Year-to-Date 2016	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,326		$2,594	
Estimated change resulting from –				
Rates and pricing	43	3.2	77	3.0
Sales growth (decline)	(9)	(0.7)	(1)	(0.1)
Weather	(3)	(0.2)	(48)	(1.8)
Fuel and other cost recovery	(41)	(3.1)	(112)	(4.3)
Retail – current year	$1,316	(0.8)%	$2,510	(3.2)%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015 primarily due to increased revenues under Rate CNP Compliance associated with increases in the average net investments. 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 declined in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015. Industrial KWH sales decreased 5.5% and 4.5% for the second quarter and year-to-date 2016, respectively, when compared to the corresponding periods in 2015 as a result of a decrease in demand resulting from changes in production levels primarily in the chemicals, primary metals, and pipelines sectors. A strong dollar, low oil prices, and weak global economic conditions have constrained growth in the industrial sector. Weather-adjusted commercial KWH sales decreased 1.6% for the second quarter 2016 and remained relatively flat year-to-date 2016. Weather-adjusted residential KWH sales remained relatively flat for the second quarter and year-to-date 2016.

Revenues resulting from changes in weather decreased in the second quarter and year-to-date 2016 due to milder weather experienced in Alabama Power's service territory compared to the corresponding periods in 2015. For the second quarter 2016, the resulting decreases were 0.2% and 0.4% for residential and commercial sales revenue, respectively. For year-to-date 2016, the resulting decreases were 3.5% and 1.2% for residential and commercial sales revenue, respectively.

Fuel and other cost recovery revenues decreased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015 primarily due to a decrease in KWH generation and a decrease in the average cost of fuel. Electric rates include provisions to recognize the full recovery of fuel costs, purchased power costs, PPAs certificated by the Alabama PSC, and costs associated with the natural disaster reserve. Under these provisions, fuel and other cost recovery revenues generally equal fuel and other cost recovery expenses and do not affect net income. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Wholesale Revenues – Non-Affiliates

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$10	17.5	$7	5.7

Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Alabama Power's and 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. 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 affect net income.

In the second quarter 2016, wholesale revenues from sales to non-affiliates were $67 million compared to $57 million for the corresponding period in 2015. The increase was primarily due to a 40.6% increase in KWH sales as the result of a new wholesale contract effective December 2015, partially offset by a 16.7% decrease in the price of energy as a result of lower gas prices. For year-to-date 2016, wholesale revenues from sales to non-affiliates were $130 million compared to $123 million for the corresponding period in 2015. The increase was primarily due to a 21.1% increase in KWH sales as a result of a new wholesale contract effective December 2015, partially offset by a 12.6% decrease in the price of energy as a result of lower gas prices.

Wholesale Revenues – Affiliates

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(11)	(55.0)	$(4)	(11.4)

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

In the second quarter 2016, wholesale revenues from sales to affiliates were $9 million compared to $20 million for the corresponding period in 2015. The decrease was primarily related to a 44.4% decrease in KWH sales and a 19.2% decrease in the price of energy due to the availability of lower cost generation in the Southern Company system in 2016.

Fuel and Purchased Power Expenses

	Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (48)	(14.0)	$ (89)	(13.6)
Purchased power – non-affiliates	(5)	(11.1)	(10)	(11.6)
Purchased power – affiliates	6	12.2	(15)	(14.6)
Total fuel and purchased power expenses	$ (47)		$ (114)	

In the second quarter 2016, total fuel and purchased power expenses were $390 million compared to $437 million for the corresponding period in 2015. The decrease was primarily due to a $38 million decrease related to the average cost of purchased power and a $20 million decrease related to the average cost of fuel. These decreases were partially offset by an $11 million net increase related to the volume of KWHs generated and purchased.

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For year-to-date 2016, fuel and purchased power expenses were $728 million compared to $842 million for the corresponding period in 2015. The decrease was primarily due to a $51 million net decrease related to the volume of KWHs generated and purchased, a $39 million decrease related to the average cost of fuel, and a $24 million decrease related to the average cost of purchased power.

Fuel and purchased power energy transactions do not have a significant impact on earnings since energy expenses are generally offset by energy revenues through Alabama Power's energy cost recovery clause. Alabama Power, along with the Alabama PSC, continuously monitors the under/over recovered balance to determine whether adjustments to billing rates are required. 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 2016	Second Quarter 2015	Year-to-Date 2016	Year-to-Date 2015
Total generation (billions of KWHs)	13	15	28	29
Total purchased power (billions of KWHs)	3	2	4	4
Sources of generation (percent) —				
Coal	53	59	46	53
Nuclear	23	20	25	23
Gas	20	15	19	17
Hydro	4	6	10	7
Cost of fuel, generated (cents per net KWH) —				
Coal	2.84	2.89	2.85	2.89
Nuclear	0.79	0.82	0.78	0.81
Gas	2.52	3.10	2.49	3.06
Average cost of fuel, generated (cents per net KWH)(a)	2.28	2.50	2.20	2.41
Average cost of purchased power (cents per net KWH)(b)	3.94	5.48	4.37	5.00

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

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

Fuel

In the second quarter 2016, fuel expense was $295 million compared to $343 million for the corresponding period in 2015. The decrease was primarily due to a 17.7% decrease in the volume of KWHs generated by coal and an 18.7% decrease in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, partially offset by a 19.9% increase in the volume of KWHs generated by natural gas.

For year-to-date 2016, fuel expense was $564 million compared to $653 million for the corresponding period in 2015. The decrease was primarily due to an 18.6% decrease in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, and a 16.5% decrease in the volume of KWHs generated by coal, partially offset by a 12.7% increase in the volume of KWHs generated by natural gas.

Purchased Power – Non-Affiliates

For year-to-date 2016, purchased power expense from non-affiliates was $76 million compared to $86 million for the corresponding period in 2015. The decrease was primarily related to a 4.4% decrease in the average cost of purchased power per KWH due to lower natural gas prices and a 4.4% decrease in the amount of energy purchased.

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

Purchased Power – Affiliates

For year-to-date 2016, purchased power expense from affiliates was $88 million compared to $103 million for the corresponding period in 2015. The decrease was primarily related to an 18.1% decrease in the average cost of purchased power per KWH as a result of lower natural gas prices. The decrease was partially offset by a 4.7% increase in the amount of energy purchased due to the availability of lower cost generation in the Southern Company system in 2016.

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 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(15)	(4.1)	$(21)	(2.7)

In the second quarter 2016, other operations and maintenance expenses were $355 million compared to $370 million for the corresponding period in 2015. The decrease was primarily due to decreases of $10 million in employee benefit costs including pension costs and $6 million in distribution overhead line maintenance expenses. These decreases were partially offset by an increase of $5 million in scheduled steam and other power generation outage costs.

For year-to-date 2016, other operations and maintenance expenses were $747 million compared to $768 million for the corresponding period in 2015. The decrease was primarily due to decreases of $19 million in employee benefit costs including pension costs, $10 million in scheduled steam and other power generation outage costs, and $6 million in distribution overhead line maintenance expenses. These decreases were partially offset by an $8 million increase in nuclear generation outage amortization.

See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

Depreciation and Amortization

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$15	9.4	$29	9.1

In the second quarter 2016, depreciation and amortization was $175 million compared to $160 million for the corresponding period in 2015. For year-to-date 2016, depreciation and amortization was $347 million compared to $318 million for the corresponding period in 2015. These increases were primarily the result of an increase in depreciation of compliance related steam equipment. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate CNP" in Item 8 of the Form 10-K for additional information.

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Taxes Other Than Income Taxes

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$4	4.4	$7	3.8

For year-to-date 2016, taxes other than income taxes were $191 million compared to $184 million for the corresponding period in 2015. The increase was primarily due to increases in state and municipal utility license tax bases, increases in ad valorem taxes primarily due to an increase in assessed value of property, and an increase in payroll taxes.

Allowance for Equity Funds Used During Construction

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(8)	(57.1)	$(13)	(44.8)

In the second quarter 2016, AFUDC equity was $6 million compared to $14 million for the corresponding period in 2015. For year-to-date 2016, AFUDC equity was $16 million compared to $29 million for the corresponding period in 2015. These decreases were primarily associated with capital projects being placed in service for environmental and steam generation in 2016.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$5	7.2	$13	9.7

For year-to-date 2016, interest expense, net of amounts capitalized was $147 million compared to $134 million for the corresponding period in 2015. The increase was primarily due to an increase in debt issuances and a reduction in amounts capitalized, partially offset by maturities and a redemption of long-term debt. See Note 6 to the financial statements of Alabama Power under "Senior Notes" in Item 8 of the Form 10-K for additional information.

Other Income (Expense), Net

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$10	71.4	$7	38.9

In the second quarter 2016, other income (expense), net was $(4) million compared to $(14) million for the corresponding period in 2015. For year-to-date 2016, other income (expense), net was $(11) million compared to $(18) million for the corresponding period in 2015. The changes were primarily due to decreases in donations, partially offset by decreases in sales of non-utility property in 2016.

Income Taxes

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$20	16.4	$10	4.3

In the second quarter 2016, income taxes were $142 million compared to $122 million for the corresponding period in 2015. The increase was primarily due to higher pre-tax earnings in 2016 and state tax credits taken in 2015.

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For year-to-date 2016, income taxes were $245 million compared to $235 million for the corresponding period in 2015. The increase was primarily due to state tax credits taken in 2015.

Dividends on Preferred and Preference Stock

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(2)	(28.6)	$(8)	(47.1)

For year-to-date 2016, dividends on preferred and preference stock were $9 million compared to $17 million for the corresponding period in 2015. These decreases were primarily due to the redemption in May 2015 of certain series of preferred and preference stock. See Note 6 to the financial statements of Alabama Power under "Redeemable Preferred and Preference Stock" in Item 8 of the Form 10-K for additional information.

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 selling electricity. 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. Future earnings in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of 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. 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" 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

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Alabama Power in Item 7 of the Form 10-K for additional information regarding the EPA's final MATS rule and regional haze regulations.

On April 25, 2016, in response to a June 2015 U.S. Supreme Court opinion, the EPA published its supplemental finding regarding consideration of costs in support of the MATS rule. This finding does not impact MATS rule

compliance requirements, costs, or deadlines, and all Alabama Power units that are subject to the MATS rule have completed the measures necessary to achieve compliance with the MATS rule by the applicable deadlines.

Also on April 25, 2016, the EPA issued proposed revisions to the regional haze regulations. The ultimate impact of the proposed revisions will depend on their ultimate adoption, implementation, and any legal challenges and cannot be determined at this time.

FERC Matters

See BUSINESS – REGULATION – "Federal Power Act" in Item 1 of the Form 10-K for a discussion of Alabama Power's hydroelectric developments on the Coosa River. On April 21, 2016, the FERC issued an order granting in part and denying in part Alabama Power's rehearing request of the new license for Alabama Power's seven hydroelectric developments on the Coosa River. The order also denied rehearing requests filed by Alabama Rivers Alliance, American Rivers, the Georgia Environmental Protection Division, and the Atlanta Regional Commission. On May 17, 2016, the Alabama Rivers Alliance and American Rivers filed an additional rehearing request and also filed a petition for review at the U.S. Court of Appeals for the District of Columbia Circuit. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Alabama Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Alabama PSC. Alabama Power currently recovers its costs from the regulated retail business primarily through its Rate RSE, Rate CNP Compliance, rate energy cost recovery, and rate natural disaster reserve. 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.

Environmental Accounting Order

In April 2016, as part of its environmental compliance strategy, Alabama Power ceased using coal at Plant Greene County Units 1 and 2 (300 MWs representing Alabama Power's ownership interest) and began operating Units 1 and 2 solely on natural gas in May 2016 and July 2016, respectively.

Renewables

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

In accordance with the Alabama PSC order approving up to 500 MWs of renewable projects, Alabama Power has entered into agreements to purchase power from or to build renewable generation sources, including a 72-MW solar PPA approved by the Alabama PSC in June 2016. Alabama Power is marketing the associated renewable energy credits (REC) generated by this solar PPA to customers interested in supporting renewable energy development. The terms of the renewable agreements permit Alabama Power to use the energy and retire the associated RECs in service of its customers or to sell RECs, separately or bundled with energy.

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

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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 or in Note 3 to the financial statements of Alabama Power in Item 8 of the Form 10-K, 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 Electric Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, and Contingent Obligations.

Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires lessees to recognize on the balance sheet a lease liability and a right-of-use asset for all leases. ASU 2016-02 also changes the recognition, measurement, and presentation of expense associated with leases and provides clarification regarding the identification of certain components of contracts that would represent a lease. The accounting required by lessors is relatively unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Alabama Power is currently evaluating the new standard and has not yet determined its ultimate impact; however, adoption of ASU 2016-02 is expected to have a significant impact on Alabama Power's balance sheet.

On March 30, 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 changes the accounting for income taxes and the cash flow presentation for share-based payment award transactions. Most significantly, entities are required to recognize all excess tax benefits and deficiencies related to the exercise or vesting of stock compensation as income tax expense or benefit in the income statement. Alabama Power currently recognizes any excess tax benefits and deficiencies related to the exercise and vesting of stock compensation in additional paid-in capital. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and Alabama Power intends to adopt the ASU in the fourth quarter 2016. The adoption is not expected to have a material impact on the results of operations, financial position, or cash flows of Alabama Power.

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, 2016. 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 $803 million for the first six months of 2016, an increase of $206 million as compared to the first six months of 2015. The increase in net cash provided from operating activities was primarily due to the timing of vendor payments and lower income tax payments as a result of bonus depreciation. Net cash used for investing activities totaled $741 million for the first six months of 2016 primarily due to gross property additions related to environmental, distribution, transmission, and steam generation. Net cash provided from financing activities totaled $87 million for the first six months of 2016 primarily due to issuances of long-term debt and a capital contribution from Southern Company, partially offset by a redemption 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 2016 include increases of $296 million in property, plant, and equipment, primarily due to additions to environmental, transmission, distribution, and nuclear generation, $248 million in additional paid-in capital due to capital contributions from Southern Company, $240 million in long-term debt primarily due to the issuance of additional senior notes, and $172 million in accumulated deferred income taxes related to bonus depreciation. Other significant changes include decreases of $159 million in other regulatory liabilities, current, primarily due to the timing of fuel cost recovery and $142 million in income taxes receivable following the receipt of a federal income tax refund.

See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding Alabama Power's rate mechanisms.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Alabama Power in Item 7 of the Form 10-K for a description of Alabama Power's capital requirements for its construction program, including estimated capital expenditures to comply with existing environmental statutes and regulations, scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred and preference stock dividends, leases, purchase commitments, and trust funding requirements. Approximately $200 million will be required through June 30, 2017 to fund maturities of long-term debt.

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

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing 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 through 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, 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.

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Alabama Power's current liabilities sometimes exceed current assets because of long-term debt maturities and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs.
At June 30, 2016, Alabama Power had approximately $343 million of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2016 were as follows:

Expires						Due Within One Year	
2016	2017	2018	2020	Total	Unused	Term Out	No Term Out
(in millions)				(in millions)		(in millions)	
$3	$32	$500	$800	$1,335	$1,335	$ —	$ 35

See Note 6 to the financial statements of Alabama Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (E) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.
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. Alabama Power is currently 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 borrowings. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of June 30, 2016 was approximately $890 million. In addition, at June 30, 2016, Alabama Power had $87 million of fixed rate pollution control revenue bonds outstanding that were required to be reoffered within the next 12 months.
Alabama Power also has substantial cash flow from operating activities and access to capital markets, including a commercial paper program, to meet liquidity needs. Alabama Power may meet short-term cash needs through its commercial paper program. Alabama Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Alabama Power and the other traditional electric operating companies. Proceeds from such issuances for the benefit of Alabama Power are loaned directly to Alabama Power. The obligations of each company under these arrangements are several and there is no cross-affiliate credit support.
Details of short-term 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	$15	0.6	%	$ 100

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 30, 2016. No short-term debt was outstanding at June 30, 2016.

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

Credit Rating Risk

Alabama 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 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, 2016 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	$ 333

Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants 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.

Financing Activities

In January 2016, Alabama Power issued $400 million aggregate principal amount of Series 2016A 4.30% Senior Notes due January 2, 2046. The proceeds were used to repay at maturity $200 million aggregate principal amount of Alabama Power's Series FF 5.20% Senior Notes due January 15, 2016 and for general corporate purposes, including Alabama Power's continuous construction program.

In March 2016, Alabama Power entered into three bank term loan agreements with maturity dates of March 2021, in an aggregate principal amount of $45 million, one of which bears interest at 2.38% per annum and two of which bear interest based on three-month LIBOR.

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,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,907	$1,872	$3,624	$3,686
Wholesale revenues, non-affiliates	40	50	82	118
Wholesale revenues, affiliates	10	4	15	12
Other revenues	94	90	202	178
Total operating revenues	2,051	2,016	3,923	3,994
Operating Expenses:				
Fuel	439	503	815	1,029
Purchased power, non-affiliates	92	78	175	138
Purchased power, affiliates	111	115	250	263
Other operations and maintenance	439	467	896	943
Depreciation and amortization	214	202	425	418
Taxes other than income taxes	100	97	197	195
Total operating expenses	1,395	1,462	2,758	2,986
Operating Income	656	554	1,165	1,008
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(99)	(93)	(193)	(182)
Other income (expense), net	8	1	26	16
Total other income and (expense)	(91)	(92)	(167)	(166)
Earnings Before Income Taxes	565	462	998	842
Income taxes	213	180	373	320
Net Income	352	282	625	522
Dividends on Preferred and Preference Stock	5	5	9	9
Net Income After Dividends on Preferred and Preference Stock	$347	$277	$616	$513

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Net Income	$352	$282	$625	$522
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $9, $-, and $-, respectively	—	14	—	—
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $1, and $1, respectively	1	1	1	1

Total other comprehensive income (loss)	1	15	1	1
Comprehensive Income	$353	$297	$626	$523

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,	
	2016	2015
	(in millions)	
Operating Activities:		
Net income	$625	$522
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	530	512
Deferred income taxes	157	(6)
Allowance for equity funds used during construction	(24)	(10)
Deferred expenses	39	28
Contract amendment	—	(118)
Settlement of asset retirement obligations	(52)	(9)
Other, net	6	9
Changes in certain current assets and liabilities —		
-Receivables	(25)	(21)
-Fossil fuel stock	61	101
-Prepaid income taxes	(1)	86
-Other current assets	11	(38)
-Accounts payable	6	(110)
-Accrued taxes	(137)	(125)
-Accrued compensation	(44)	(61)
-Other current liabilities	17	14
Net cash provided from operating activities	1,169	774
Investing Activities:		
Property additions	(1,058)	(853)
Nuclear decommissioning trust fund purchases	(386)	(655)
Nuclear decommissioning trust fund sales	380	649
Cost of removal, net of salvage	(34)	(46)
Change in construction payables, net of joint owner portion	(75)	26
Prepaid long-term service agreements	(14)	(40)
Other investing activities	17	28
Net cash used for investing activities	(1,170)	(891)
Financing Activities:		
Increase in notes payable, net	39	44
Proceeds —		
Capital contributions from parent company	239	23
Pollution control revenue bonds	—	170
Senior notes	650	—
FFB loan	300	600
Short-term borrowings	—	250
Redemptions and repurchases —		
Pollution control revenue bonds	(4)	(65)
Senior notes	(500)	(125)

Short-term borrowings	—	(250)
Payment of common stock dividends	(653)	(517)
Other financing activities	(16)	(13)
Net cash provided from financing activities	55	117
Net Change in Cash and Cash Equivalents	54	—
Cash and Cash Equivalents at Beginning of Period	67	24
Cash and Cash Equivalents at End of Period	$121	$24
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of $10 and $5 capitalized for 2016 and 2015, respectively)	$174	$170
Income taxes, net	78	240
Noncash transactions — Accrued property additions at end of period	288	171

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, 2016	At December 31, 2015
	(in millions)	
Current Assets:		
Cash and cash equivalents	$121	$67
Receivables —		
Customer accounts receivable	592	541
Unbilled revenues	293	188
Joint owner accounts receivable	51	227
Income taxes receivable, current	—	114
Other accounts and notes receivable	52	57
Affiliated	16	18
Accumulated provision for uncollectible accounts	(2)	(2)
Fossil fuel stock, at average cost	340	402
Materials and supplies, at average cost	477	449
Vacation pay	93	91
Prepaid income taxes	157	156
Other regulatory assets, current	123	123
Other current assets	55	92
Total current assets	2,368	2,523
Property, Plant, and Equipment:		
In service	33,045	31,841
Less accumulated provision for depreciation	11,087	10,903
Plant in service, net of depreciation	21,958	20,938
Other utility plant, net	174	171
Nuclear fuel, at amortized cost	566	572
Construction work in progress	4,655	4,775
Total property, plant, and equipment	27,353	26,456
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	62	64
Nuclear decommissioning trusts, at fair value	819	775
Miscellaneous property and investments	42	43
Total other property and investments	923	882
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	677	679
Other regulatory assets, deferred	2,524	2,152
Other deferred charges and assets	170	173
Total deferred charges and other assets	3,371	3,004
Total Assets	$34,015	$32,865

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, 2016	At December 31, 2015
	(in millions)	
Current Liabilities:		
Securities due within one year	$658	$ 712
Notes payable	197	158
Accounts payable —		
Affiliated	407	411
Other	541	750
Customer deposits	268	264
Accrued taxes —		
Accrued income taxes	—	12
Other accrued taxes	199	325
Accrued interest	107	99
Accrued vacation pay	64	62
Accrued compensation	88	142
Asset retirement obligations, current	323	179
Other current liabilities	299	181
Total current liabilities	3,151	3,295
Long-term Debt	10,120	9,616
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	5,788	5,627
Deferred credits related to income taxes	104	105
Accumulated deferred investment tax credits	199	204
Employee benefit obligations	901	949
Asset retirement obligations, deferred	2,249	1,737
Other deferred credits and liabilities	302	347
Total deferred credits and other liabilities	9,543	8,969
Total Liabilities	22,814	21,880
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	6,527	6,275
Retained earnings	4,024	4,061
Accumulated other comprehensive loss	(14)	(15)
Total common stockholder's equity	10,935	10,719
Total Liabilities and Stockholder's Equity	$34,015	$ 32,865

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

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GEORGIA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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SECOND QUARTER 2016 vs. SECOND QUARTER 2015
AND
YEAR-TO-DATE 2016 vs. YEAR-TO-DATE 2015

OVERVIEW

Georgia Power operates as a vertically integrated utility providing electricity 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 selling electricity. 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, increasingly stringent environmental standards, reliability, and fuel. In addition, construction continues on Plant Vogtle Units 3 and 4. Georgia Power will own a 45.7% interest in these two nuclear generating units to increase its generation diversity and meet future supply needs. 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.

Pursuant to the terms and conditions of a settlement agreement related to Southern Company's acquisition of Southern Company Gas approved by the Georgia PSC on April 14, 2016, Georgia Power's 2013 ARP will continue in effect until December 31, 2019, and Georgia Power will be required to file its next base rate case by July 1, 2019. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" herein for additional information.

Georgia Power continues to focus on several key performance indicators. These indicators include, but are 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. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Georgia Power in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$70	25.3	$103	20.1

Georgia Power's net income after dividends on preferred and preference stock was $347 million for the second quarter 2016 compared to $277 million for the corresponding period in 2015. For year-to-date 2016, net income after dividends on preferred and preference stock was $616 million compared to $513 million for the corresponding period in 2015. The increases were primarily due to an increase in retail base revenues effective January 1, 2016, as authorized by the Georgia PSC, the 2015 correction of an error affecting billings to a small number of large commercial and industrial customers, and lower non-fuel operating expenses. The increases were partially offset by decreases in retail base revenues due to milder weather for year-to-date 2016 compared to the corresponding period in 2015.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Retail Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$35	1.9	$(62)	(1.7)

In the second quarter 2016, retail revenues were $1.91 billion compared to $1.87 billion for the corresponding period in 2015. For year-to-date 2016, retail revenues were $3.62 billion compared to $3.69 billion for the corresponding period in 2015.

Details of the changes in retail revenues were as follows:

	Second Quarter 2016		Year-to-Date 2016	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,872		$3,686	
Estimated change resulting from –				
Rates and pricing	101	5.4	146	3.9
Sales growth (decline)	(6)	(0.3)	2	0.1
Weather	2	0.1	(31)	(0.8)
Fuel cost recovery	(62)	(3.3)	(179)	(4.9)
Retail – current year	$1,907	1.9 %	$3,624	(1.7)%

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015 primarily due to increases in base tariffs approved under the 2013 ARP and the NCCR tariff, all effective January 1, 2016, as well as the 2015 correction of an error affecting billings since 2013 to a small number of large commercial and industrial customers under a rate plan allowing for variable demand-driven pricing. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Rate Plans" and " – Nuclear Construction" in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales decreased in the second quarter 2016 and increased slightly year-to-date 2016 when compared to the corresponding periods in 2015. Weather-adjusted residential KWH sales increased 0.6%, weather-adjusted commercial KWH sales decreased 1.7%, and weather-adjusted industrial KWH sales increased 0.6% in the second quarter 2016 when compared to the corresponding period in 2015. For year-to-date 2016, weather-adjusted residential KWH sales increased 0.5%, weather-adjusted commercial KWH sales decreased 0.5%, and weather-adjusted industrial KWH sales increased 1.0% when compared to the corresponding period in 2015. An increase of approximately 26,000 residential customers since June 30, 2015 contributed to the increase in weather-adjusted residential KWH sales. A decline in average customer usage contributed to the decrease in weather-adjusted commercial KWH sales, partially offset by an increase of approximately 3,000 commercial customers since June 30, 2015. Increased demand in the paper, rubber, and non-manufacturing sectors was the main contributor to the increase in weather-adjusted industrial KWH sales, partially offset by decreased demand in the pipeline, military, and textiles sectors.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues decreased $62 million and $179 million in the second quarter and year-to-date 2016, respectively, when compared to the corresponding periods in 2015 primarily due to lower coal and natural gas prices and lower energy sales. 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 FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" herein for additional information.

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GEORGIA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Wholesale Revenues – Non-Affiliates

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(10)	(20.0)	$(36)	(30.5)

Wholesale revenues from sales to non-affiliates consist of PPAs and short-term opportunity sales. Wholesale revenues from PPAs have both capacity and energy components. Wholesale capacity revenues from PPAs are recognized either on a levelized basis over the appropriate contract period or the amounts billable under the contract terms and provide for recovery of fixed costs and a return on investment. Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Georgia Power's and 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. 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. Short-term opportunity sales are made at market-based rates that generally provide a margin above Georgia Power's variable cost to produce the energy.

In the second quarter 2016, wholesale revenues from sales to non-affiliates were $40 million compared to $50 million for the corresponding period in 2015 related to an $8 million decrease in capacity revenues and a $2 million decrease in energy revenues. For year-to-date 2016, wholesale revenues from sales to non-affiliates were $82 million compared to $118 million for the corresponding period in 2015 related to a $21 million decrease in capacity revenues and a $15 million decrease in energy revenues. The decreases in capacity revenues reflect the expiration of wholesale contracts in the second quarter 2016. In addition, the decrease in capacity revenues for year-to-date 2016 reflects the retirement of 14 coal-fired generating units after March 31, 2015 as a result of Georgia Power's environmental compliance strategy. The decreases in energy revenues were primarily due to lower fuel prices. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" and "Regulatory Matters – Integrated Resource Plan" of Georgia Power in Item 7 of the Form 10-K for additional information related to Georgia Power's environmental compliance strategy.

Other Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$4	4.4	$24	13.5

In the second quarter 2016, other revenues were $94 million compared to $90 million for the corresponding period in 2015. The increase was primarily due to a $3 million increase in outdoor lighting revenues. For year-to-date 2016, other revenues were $202 million compared to $178 million for the corresponding period in 2015. The increase was primarily due to a $14 million increase related to customer temporary facilities services revenues and a $6 million increase in outdoor lighting revenues.

Fuel and Purchased Power Expenses

	Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (64)	(12.7)	$ (214)	(20.8)
Purchased power – non-affiliates	14	17.9	37	26.8
Purchased power – affiliates	(4)	(3.5)	(13)	(4.9)
Total fuel and purchased power expenses	$ (54)		$ (190)	

In the second quarter 2016, total fuel and purchased power expenses were $642 million compared to $696 million in the corresponding period in 2015. The decrease in the second quarter 2016 was due to a decrease of $63 million in the average cost of fuel and purchased power related to lower coal and natural gas prices, partially offset by a $9 million net increase related to the volume of KWHs generated and purchased to meet customer demand.

For year-to-date 2016, total fuel and purchased power expenses were $1.24 billion compared to $1.43 billion in the corresponding period in 2015. The decrease in year-to-date 2016 was primarily due to a decrease of $152 million in the average cost of fuel and purchased power related to lower coal and natural gas prices and a $38 million net decrease related to the volume of KWHs generated and purchased, primarily as a result of milder weather as compared to the corresponding period in 2015 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 FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" herein for additional information.

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

	Second Quarter 2016	Second Quarter 2015	Year-to-Date 2016	Year-to-Date 2015
Total generation (billions of KWHs)	17	17	33	34
Total purchased power (billions of KWHs)	6	6	12	11
Sources of generation (percent) —				
Coal	36	40	33	37
Nuclear	24	24	24	23
Gas	38	34	40	38
Hydro	2	2	3	2
Cost of fuel, generated (cents per net KWH) —				
Coal	3.37	3.75	3.45	4.18
Nuclear	0.84	0.85	0.85	0.71
Gas	2.18	2.67	2.10	2.65
Average cost of fuel, generated (cents per net KWH)	2.29	2.66	2.26	2.76
Average cost of purchased power (cents per net KWH)(*)	4.45	4.56	4.38	4.47

(*) 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 2016, fuel expense was $439 million compared to $503 million in the corresponding period in 2015. The decrease was primarily due to a 13.9% decrease in the average cost of fuel per KWH generated primarily resulting from lower coal and natural gas prices and a 10.4% decrease in the volume of KWHs generated by coal, partially offset by a 9.7% increase in the volume of KWHs generated by natural gas.

For year-to-date 2016, fuel expense was $815 million compared to $1.03 billion in the corresponding period in 2015. The decrease was primarily due to an 18.1% decrease in the average cost of fuel per KWH generated primarily resulting from lower coal and natural gas prices and a 12.7% decrease in the volume of KWHs generated by coal.

Purchased Power – Non-Affiliates

In the second quarter 2016, purchased power expense from non-affiliates was $92 million compared to $78 million in the corresponding period in 2015. The increase was primarily due to a 19.7% increase in the volume of KWHs purchased, partially offset by a 4.7% decrease in the average cost per KWH purchased primarily resulting from lower natural gas prices.

For year-to-date 2016, purchased power expense from non-affiliates was $175 million compared to $138 million in the corresponding period in 2015. The increase was primarily due to a 38.5% increase in the volume of KWHs purchased, partially offset by a 13.9% decrease in the average cost per KWH purchased primarily resulting from lower natural gas prices.

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 service territory, and the availability of the Southern Company system's generation.

Purchased Power – Affiliates

In the second quarter 2016, purchased power expense from affiliates was $111 million compared to $115 million in the corresponding period in 2015. The decrease was the result of a 3.0% decrease in the average cost per KWH purchased, partially offset by a 5.2% increase in the volume of KWHs purchased as Georgia Power's units generally dispatched at a higher cost than other Southern Company system resources. For year-to-date 2016, purchased power expense from affiliates was $250 million compared to $263 million in the corresponding period in 2015. The decrease was the result of a 1.6% decrease in the average cost per KWH purchased and a 2.8% decrease in the volume of KWHs purchased.

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 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(28)	(6.0)	$(47)	(5.0)

In the second quarter 2016, other operations and maintenance expenses were $439 million compared to $467 million in the corresponding period in 2015. The decrease was primarily due to decreases of $25 million in scheduled generation outage and maintenance costs and $11 million in employee benefits including pension costs, partially offset by an increase of $10 million in transmission expenses.

For year-to-date 2016, other operations and maintenance expenses were $896 million compared to $943 million in the corresponding period in 2015. The decrease was primarily due to decreases of $42 million in generation scheduled outage and maintenance costs and $18 million in employee benefits including pension costs, partially offset by an increase of $14 million in transmission expenses.

See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

Depreciation and Amortization

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$12	5.9	$7	1.7

In the second quarter 2016, depreciation and amortization was $214 million compared to $202 million in the corresponding period in 2015. The increase was primarily due to a $9 million increase to additional plant in service

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and a $9 million increase in other cost of removal, partially offset by a decrease of $5 million related to amortization of nuclear construction financing costs that was completed in December 2015.

For year-to-date 2016, depreciation and amortization was $425 million compared to $418 million in the corresponding period in 2015. The increase was primarily due to a $16 million increase to additional plant in service and a $9 million increase in other cost of removal, partially offset by a decrease of $9 million related to amortization of nuclear construction financing costs that was completed in December 2015 and a decrease of $9 million related to unit retirements.

Interest Expense, Net of Amounts Capitalized

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$6	6.5	$11	6.0

In the second quarter 2016, interest expense, net of amounts capitalized was $99 million compared to $93 million in the corresponding period in 2015. The increase was primarily due to a $10 million increase in interest due to additional long-term borrowings from the FFB and higher interest rates on obligations for pollution control revenue bonds remarketed in 2015, partially offset by an increase of $5 million in AFUDC debt.

For year-to-date 2016, interest expense, net of amounts capitalized was $193 million compared to $182 million in the corresponding period in 2015. The increase was primarily due to a $16 million increase in interest due to additional long-term borrowings from the FFB, partially offset by an increase of $5 million in AFUDC debt.

Income Taxes

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$33	18.3	$53	16.6

In the second quarter 2016, income taxes were $213 million compared to $180 million in the corresponding period in 2015. For year-to-date 2016, income taxes were $373 million compared to $320 million in the corresponding period in 2015. The increases were primarily due to higher 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 selling electricity. 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 the completion and subsequent operation of ongoing construction projects, primarily Plant Vogtle Units 3 and 4. Future earnings in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of 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. 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.

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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 final MATS rule and regional haze regulations.

On April 25, 2016, in response to a June 2015 U.S. Supreme Court opinion, the EPA published its supplemental finding regarding consideration of costs in support of the MATS rule. This finding does not impact MATS rule compliance requirements, costs, or deadlines, and all Georgia Power units that are subject to the MATS rule have completed the measures necessary to achieve compliance with the MATS rule by the applicable deadlines.

Also on April 25, 2016, the EPA issued proposed revisions to the regional haze regulations. The ultimate impact of the proposed revisions will depend on their ultimate adoption, implementation, and any legal challenges and cannot be determined at this time.

Coal Combustion Residuals

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Coal Combustion Residuals" of Georgia Power in Item 7 of the Form 10-K for additional information regarding the EPA's regulation of CCR.

On June 13, 2016, Georgia Power announced that all of its 29 ash ponds will cease operations and stop receiving coal ash in the next three years, and all ponds will eventually be closed either by removal, consolidation, and/or recycling for the beneficial use of coal ash or through closure in place using advanced engineering methods. On July 7, 2016, the Georgia Environmental Protection Division (EPD) proposed amendments to its state solid waste regulations to incorporate the requirements of the EPA's Disposal of Coal Combustion Residuals from Electric Utilities Rule (CCR Rule) and establish additional requirements for all of Georgia Power's onsite storage units consisting of landfills and surface impoundments. The proposed Georgia EPD regulations are expected to be finalized in October 2016 and are not anticipated to have a material impact on Georgia Power's compliance obligations under the CCR Rule. See Note (A) to the Condensed Financial Statements herein for information regarding Georgia Power's asset retirement obligations (ARO) as of June 30, 2016.

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 separate fuel cost recovery tariffs. See "Fuel Cost Recovery" below 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 fuel cost recovery and the NCCR tariff, respectively.

Pursuant to the terms and conditions of a settlement agreement related to Southern Company's acquisition of Southern Company Gas approved by the Georgia PSC on April 14, 2016, Georgia Power's 2013 ARP will continue in effect until December 31, 2019, and Georgia Power will be required to file its next base rate case by July 1, 2019. Furthermore, through December 31, 2019, Georgia Power and Atlanta Gas Light Company (collectively, Utilities) each will retain their respective merger savings, net of transition costs, as defined in the settlement agreement; through December 31, 2022, such net merger savings applicable to each utility will be shared on a 60/40 basis between their respective customers and the Utilities; thereafter, all merger savings will be retained by customers. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information regarding the 2013 ARP.

Renewables

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

As part of the Georgia Power Advanced Solar Initiative (ASI), four PPAs totaling 149 MWs of solar contracted capacity from Southern Power began in the first quarter 2016. During the second quarter 2016, Georgia Power executed PPAs to purchase an additional 41 MWs of solar capacity under the ASI. Ownership of any associated renewable energy credits (REC) is specified in each respective PPA. The party that owns the RECs retains the right to use them.

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 (2016 IRP).

On July 28, 2016, the Georgia PSC voted to approve the 2016 IRP including the decertification and retirement of Plant Mitchell Units 3, 4A, and 4B (217 MWs) and Plant Kraft Unit 1 combustion turbine (17 MWs), as well as the decertification of the Intercession City unit (143 MWs total capacity). On August 2, 2016, the Plant Mitchell and Plant Kraft units were retired. Georgia Power exercised its contractual option to sell its 33% ownership interest in the Intercession City unit to Duke Energy Florida, Inc., with an expected closing date in late August 2016.

Additionally, the Georgia PSC approved Georgia Power's environmental compliance strategy and related expenditures proposed in the 2016 IRP, including measures taken to comply with existing government-imposed environmental mandates, subject to limits on expenditures for Plant McIntosh Unit 1 and Plant Hammond Units 1 through 4.

The Georgia PSC approved reclassification of the remaining net book value of Plant Mitchell Unit 3 and costs associated with materials and supplies remaining at the unit retirement date to a regulatory asset. Recovery of the unit's net book value will continue through December 31, 2019, as provided in the 2013 ARP. Recovery of the remaining balance of the unit's net book value as of December 31, 2019 and costs associated with materials and supplies remaining at the unit retirement date will be deferred for consideration in Georgia Power's 2019 general base rate case.

The Georgia PSC also approved the Renewable Energy Development Initiative to procure an additional 1,200 MWs of renewable resources primarily utilizing market-based prices established through a competitive bidding process with expected in-service dates between 2018 and 2021. Additionally, 200 MWs of self-build capacity for use by Georgia Power was approved, as well as consideration for no more than 200 MWs of capacity as part of a renewable commercial and industrial program.

The Georgia PSC also approved recovery of costs up to $99 million through June 30, 2019 to preserve the nuclear option at a future generation site in Stewart County, Georgia. The timing of cost recovery 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.

Fuel Cost Recovery

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 information regarding fuel cost recovery.

Georgia Power has established fuel cost recovery rates approved by the Georgia PSC. On May 17, 2016, the Georgia PSC approved Georgia Power's request to decrease fuel rates by 15% effective June 1, 2016, which will reduce annual billings by approximately $313 million. Georgia Power is currently scheduled to file its next fuel case by February 28, 2017.

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, Vogtle Construction Monitoring (VCM) reports, the NCCR tariff, the Vogtle Construction Litigation (as defined below), and the Contractor Settlement Agreement (as defined below).

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

Under the terms of the Vogtle 3 and 4 Agreement, the Vogtle Owners agreed to pay a purchase price subject to certain price escalations and adjustments, including fixed escalation amounts and index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. The Vogtle 3 and 4 Agreement also provides for liquidated damages upon the Contractor's failure to fulfill the schedule and performance guarantees, subject to a cap. In addition, the Vogtle 3 and 4 Agreement provides for limited cost sharing by the Vogtle Owners for Contractor costs under certain conditions (which have not occurred), with maximum additional capital costs under this provision attributable to Georgia Power (based on Georgia Power's ownership interest) of approximately $114 million. Each Vogtle Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Contractor under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%.

On December 31, 2015, Westinghouse acquired Stone & Webster, Inc. from Chicago Bridge & Iron Company, N.V. (CB&I) and changed the name of Stone & Webster, Inc. to WECTEC Global Project Services Inc. (WECTEC). Certain obligations of Westinghouse and WECTEC under the Vogtle 3 and 4 Agreement were originally guaranteed by Toshiba Corporation (Westinghouse's parent company) and The Shaw Group Inc. (which is now a subsidiary of CB&I), respectively. On March 9, 2016, in connection with Westinghouse's acquisition of WECTEC and pursuant to the settlement agreement described below, the guarantee of The Shaw Group Inc. was terminated. The guarantee of Toshiba Corporation remains in place. In the event of certain credit rating downgrades of any Vogtle Owner, such Vogtle Owner will be required to provide a letter of credit or other credit enhancement. Additionally, as a result of credit rating downgrades of Toshiba Corporation, Westinghouse provided the Vogtle Owners with letters of credit in an aggregate amount of $920 million in accordance with, and subject to adjustment under, the terms of the Vogtle 3 and 4 Agreement.

The Vogtle Owners may terminate the Vogtle 3 and 4 Agreement at any time for their convenience, provided that the Vogtle Owners will be required to pay certain termination costs. The Contractor may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including certain Vogtle Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events.

In 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4. Georgia Power is required to file semi-annual VCM reports with the Georgia PSC by February 28 and August 31 each year. If the projected construction capital costs to be borne by Georgia Power increase by 5% above the certified cost or the projected in-service dates are significantly extended, Georgia Power is required to seek an amendment to the Plant Vogtle Units 3 and 4 certificate from the Georgia PSC. In February 2013, Georgia Power requested an amendment to the certificate to increase the estimated in-service capital cost of Plant Vogtle Units 3 and 4 from $4.4 billion to $4.8 billion and to extend the estimated in-service dates to the fourth quarter 2017 (from April 2016) and the fourth quarter 2018 (from April 2017) for Plant Vogtle Units 3 and 4, respectively. In October 2013, the Georgia PSC approved a stipulation (2013 Stipulation) between Georgia Power and the Georgia PSC Staff (Staff) to waive the requirement to amend the Plant Vogtle Units 3 and 4 certificate until the completion of Plant Vogtle Unit 3 or earlier if deemed appropriate by the Georgia PSC and Georgia Power.

On April 15, 2015, the Georgia PSC issued a procedural order in connection with the twelfth VCM report, which included a requested amendment (Requested Amendment) to the Plant Vogtle Units 3 and 4 certificate to reflect the Contractor's revised forecast for completion of Plant Vogtle Units 3 and 4 (second quarter of 2019 and second quarter of 2020, respectively) as well as additional estimated Vogtle Owner's costs, of approximately $10 million per month, including property taxes, oversight costs, compliance costs, and other operational readiness costs to include the estimated Vogtle Owner's costs associated with the proposed 18-month Contractor delay and to increase the estimated total in-service capital cost of Plant Vogtle Units 3 and 4 to $5.0 billion. Pursuant to the Georgia PSC's procedural order, the Georgia PSC deemed the Requested Amendment unnecessary and withdrawn until the completion of construction of Plant Vogtle Unit 3 consistent with the 2013 Stipulation. The Georgia PSC recognized that the certified cost and the 2013 Stipulation do not constitute a cost recovery cap. In accordance with the Georgia Integrated Resource Planning Act, any costs incurred by Georgia Power in excess of the certified amount will be included in rate base, provided Georgia Power shows the costs to be reasonable and prudent. Financing costs up to the certified amount will be collected through the NCCR tariff until the units are placed in service and contemplated in a general base rate case, while financing costs on any construction-related costs in excess of the $4.4 billion certified amount are expected to be recovered through AFUDC.

On December 31, 2015, Westinghouse and the Vogtle Owners entered into a definitive settlement agreement (Contractor Settlement Agreement) to resolve disputes between the Vogtle Owners and the Contractor under the Vogtle 3 and 4 Agreement, including litigation that was pending in the U.S. District Court for the Southern District of Georgia (Vogtle Construction Litigation). Effective December 31, 2015, Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the Contractor entered into an amendment to the Vogtle 3 and 4 Agreement to implement the Contractor Settlement Agreement. The Contractor Settlement Agreement and the related amendment to the Vogtle 3 and 4 Agreement (i) restrict the Contractor's ability to seek further increases in the contract price by clarifying and limiting the circumstances that constitute nuclear regulatory changes in law; (ii) provide for enhanced dispute resolution procedures; (iii) revise the guaranteed substantial completion dates to match the current estimated in-service dates of June 30, 2019 for Unit 3 and June 30, 2020 for Unit 4; (iv) provide that delay liquidated damages will commence from the current estimated nuclear fuel loading date for each unit, which is December 31, 2018 for Unit 3 and December 31, 2019 for Unit 4; and (v) provide that Georgia Power, based on its ownership interest, will pay to the Contractor and capitalize to the project cost approximately $350 million, of which approximately $250 million had been paid as of June 30, 2016. In addition, the Contractor Settlement Agreement provides for the resolution of other open existing items relating to the scope of the project under the Vogtle 3 and 4 Agreement, including cyber security, for which costs were reflected in Georgia Power's previously disclosed in-service cost estimate. Further, as part of the settlement and Westinghouse's acquisition of WECTEC: (i) Westinghouse engaged Fluor Enterprises, Inc., a subsidiary of Fluor Corporation, as a new construction subcontractor; and (ii) the Vogtle Owners, CB&I, and The Shaw Group Inc. entered into mutual releases of any and all claims arising out of events or circumstances in connection with the construction of Plant Vogtle Units 3 and 4 that occurred on or before the date of the Contractor Settlement Agreement. On January 5, 2016, the Vogtle Construction Litigation was dismissed with prejudice.

On January 21, 2016, Georgia Power submitted the Contractor Settlement Agreement and the related amendment to the Vogtle 3 and 4 Agreement to the Georgia PSC for its review. In accordance with the Georgia PSC's subsequent order, on April 5, 2016, Georgia Power filed supplemental information in support of the Contractor Settlement Agreement and Georgia Power's position that all construction costs to date have been prudently incurred and that the current estimated in-service capital cost and schedule are reasonable. The Staff is conducting a review of all costs incurred related to Plant Vogtle Units 3 and 4, the schedule for completion of Plant Vogtle Units 3 and 4, and the Contractor Settlement Agreement, and is authorized to engage in related settlement discussions with Georgia Power and any intervenors.

The order provides that the Staff is required to report to the Georgia PSC by October 19, 2016 with respect to the status of its review and any settlement-related negotiations. If a settlement with the Staff is reached with respect to costs of Plant Vogtle Units 3 and 4, the Georgia PSC will then conduct a hearing to consider whether to approve that settlement. If a settlement with the Staff is not reached, the Georgia PSC will determine how to proceed, including (i) modifying the 2013 Stipulation, (ii) directing Georgia Power to file a request for an amendment to the certificate for Plant Vogtle Units 3 and 4, (iii) issuing a scheduling order to address remaining disputed issues, or (iv) taking any other option within its authority.

The Georgia PSC has approved thirteen VCM reports covering the periods through June 30, 2015, including construction capital costs incurred, which through that date totaled $3.1 billion. On February 26, 2016, Georgia Power filed its fourteenth VCM report with the Georgia PSC covering the period from July 1 through December 31, 2015. The fourteenth VCM report does not include a requested amendment to the certified cost of Plant Vogtle Units 3 and 4. Georgia Power is requesting approval of $160 million of construction capital costs incurred during that period. Georgia Power incurred approximately $141 million in total construction capital costs during the period of January 1, 2016 through June 30, 2016. Georgia Power's CWIP balance for Plant Vogtle Units 3 and 4 was $3.7 billion as of June 30, 2016. The in-service capital cost forecast is $5.44 billion and includes costs related to the Contractor Settlement Agreement. Estimated financing costs during the construction period total approximately $2.4 billion, of which $1.1 billion had been incurred through June 30, 2016.

There have been technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4, at the federal and state level, and additional challenges may arise as construction proceeds. Processes are in place that are designed to assure compliance with the requirements specified in the Westinghouse Design Control Document and the combined construction and operating licenses, including inspections by Southern Nuclear and the NRC that occur throughout construction. As a result of such compliance processes, certain license amendment requests have been filed and approved or are pending before the NRC. Various design and other licensing-based compliance matters, including the timely resolution of Inspections, Tests, Analyses, and Acceptance Criteria and the related approvals by the NRC, may arise as construction proceeds, which may result in additional license amendments or require other resolution. If any license amendment requests or other licensing-based compliance issues are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs either to the Vogtle Owners or the Contractor or to both.

As construction continues, the risk remains that challenges with Contractor performance including labor productivity, fabrication, assembly, delivery, and installation of plant equipment, the shield building and structural modules, delays in the receipt of the remaining permits necessary for the operation of Plant Vogtle Units 3 and 4, or other issues could arise and may further impact project schedule and cost. In addition, the IRS allocated production tax credits to each of Plant Vogtle Units 3 and 4, which require the applicable unit to be placed in service before 2021.

Future claims by the Contractor or Georgia Power (on behalf of the Vogtle Owners) could arise throughout construction. These claims may be resolved through formal and informal dispute resolution procedures under the Vogtle 3 and 4 Agreement and, under the enhanced dispute resolution procedures, may be resolved through litigation after the completion of nuclear fuel load for both units.

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.

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

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 or in Note 3 to the financial statements of Georgia Power in Item 8 of the Form 10-K, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Georgia Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

Georgia Power regularly evaluates its operations and costs. Primarily in response to changing customer expectations and payment patterns, including electronic payments and alternative payment locations, and on-going efforts to increase overall operating efficiencies, Georgia Power initiated cost containment activities throughout the enterprise in July 2016, including the announced closure of 104 local offices and an employee attrition plan affecting approximately 300 positions. Georgia Power expects to record charges of approximately $30 million during the remainder of 2016. Such charges are not expected to have a material impact on Georgia Power's results of operations, financial position, or cash flows. The cost containment activities are expected to reduce operating costs in 2017.

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 Electric Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, and Contingent Obligations.

Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires lessees to recognize on the balance sheet a lease liability and a right-of-use asset for all leases. ASU 2016-02 also changes the recognition, measurement, and presentation of expense associated with leases and provides clarification regarding the identification of certain components of contracts that would represent a lease. The accounting required by lessors is relatively unchanged. ASU 2016-02 is effective for fiscal years beginning

after December 15, 2018, with early adoption permitted. Georgia Power is currently evaluating the new standard and has not yet determined its ultimate impact; however, adoption of ASU 2016-02 is expected to have a significant impact on Georgia Power's balance sheet.

On March 30, 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 changes the accounting for income taxes and the cash flow presentation for share-based payment award transactions. Most significantly, entities are required to recognize all excess tax benefits and deficiencies related to the exercise or vesting of stock compensation as income tax expense or benefit in the income statement. Georgia Power currently recognizes any excess tax benefits and deficiencies related to the exercise and vesting of stock compensation in additional paid-in capital. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and Georgia Power intends to adopt the ASU in the fourth quarter 2016. The adoption is not expected to have a material impact on the results of operations, financial position, or cash flows of Georgia Power.

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, 2016. Georgia Power intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $1.17 billion for the first six months of 2016 compared to $774 million for the corresponding period in 2015. The increase was primarily due to the timing of vendor payments. Net cash used for investing activities totaled $1.17 billion for the first six months of 2016 compared to $891 million for the corresponding period in 2015 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 $55 million for the first six months of 2016 compared to $117 million in the corresponding period in 2015. The decrease in cash provided from financing activities is primarily due to maturities of long-term debt, higher common stock dividends, and lower borrowings from the FFB for construction of Plant Vogtle Units 3 and 4, partially offset by senior note issuances and higher capital contributions received from Southern Company. 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 2016 include an increase in property, plant, and equipment of $897 million to comply with environmental standards and construction of generation, transmission, and distribution facilities and increases in current and deferred ARO liabilities of $656 million and other regulatory assets, deferred of $372 million primarily related to changes in ash pond closure strategy. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Coal Combustion Residuals" herein for additional information regarding changes in ash pond closure strategy.

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 $658 million will be required through June 30, 2017 to fund maturities of long-term debt. See "Sources of Capital" herein for additional information.

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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 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 "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein for information regarding additional factors that may impact construction expenditures.

Sources of Capital

Except as described below with respect to the DOE loan guarantees, 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, 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 Georgia Power in Item 7 of the Form 10-K for additional information.

In addition, Georgia Power may make borrowings through a loan guarantee agreement (Loan Guarantee Agreement) between Georgia Power and the DOE, the proceeds of which 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, 2016 would allow for borrowings of up to $2.6 billion under the FFB Credit Facility, of which Georgia Power has borrowed $2.5 billion. See Note 6 to the financial statements of Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K for additional information regarding the Loan Guarantee Agreement and Note (B) to the Condensed Financial Statements under "Retail Regulatory Matters – Georgia Power – Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

As of June 30, 2016, Georgia Power's current liabilities exceeded current assets by $783 million primarily due to scheduled maturities of long-term debt. Georgia Power intends to utilize operating cash flows, as well as FFB borrowings, commercial paper, lines of credit, bank notes, and external securities issuances, as market conditions permit, and equity contributions from Southern Company 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, 2016, Georgia Power had approximately $121 million of cash and cash equivalents. Georgia Power's committed credit arrangement with banks at June 30, 2016 was $1.75 billion of which $1.73 billion was unused. This credit arrangement expires in 2020.

This bank credit arrangement 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. Georgia Power is currently in compliance with this covenant. This bank credit arrangement does not contain a material adverse change clause at the time of borrowing.

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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, 2016 was approximately $868 million. In addition, at June 30, 2016, Georgia Power had $212 million of fixed rate 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 company under these arrangements are several and there is no cross-affiliate credit support.

Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 2016		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	$197	0.8 %	$164	0.8 %	$ 443

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 30, 2016.

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

Credit Rating Risk

Georgia 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 Baa3 or below. These contracts are for physical electricity purchases and sales, fuel purchases, fuel transportation and storage, energy price risk management, transmission, and construction of new generation at Plant Vogtle Units 3 and 4.

The maximum potential collateral requirements under these contracts at June 30, 2016 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 87
Below BBB- and/or Baa3	$ 1,288

Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants 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.

Financing Activities

In January 2016, $4.085 million aggregate principal amount of Savannah Economic Development Authority Pollution Control Revenue Bonds (Savannah Electric and Power Company Project), First Series 1993 matured.

In March 2016, Georgia Power issued $325 million aggregate principal amount of Series 2016A 3.25% Senior Notes due April 1, 2026 and $325 million aggregate principal amount of Series 2016B 2.40% Senior Notes due April 1, 2021. An amount equal to the proceeds from the Series 2016A 3.25% Senior Notes due April 1, 2026 will be allocated to eligible green expenditures, including financing of or investments in solar power generation facilities or electric vehicle charging infrastructure, or payments under PPAs served by solar power or wind generation facilities. The proceeds from the Series 2016B 2.40% Senior Notes due April 1, 2021 were used to repay at maturity $250 million aggregate principal amount of Georgia Power's Series 2013B Floating Rate Senior Notes due March 15, 2016, 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 2016, Georgia Power's $250 million aggregate principal amount of Series 2011B 3.00% Senior Notes matured.

In June 2016, Georgia Power made additional borrowings under the FFB Credit Facility in an aggregate principal amount of $300 million. The interest rate applicable to the $300 million principal amount is 2.571% for an interest period that extends to the final maturity date of February 20, 2044. The proceeds were used to reimburse Georgia Power for Eligible Project Costs relating to the construction of Plant Vogtle Units 3 and 4.

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$319	$327	$602	$620
Wholesale revenues, non-affiliates	15	27	31	52
Wholesale revenues, affiliates	15	13	36	35
Other revenues	16	17	31	34
Total operating revenues	365	384	700	741
Operating Expenses:				
Fuel	107	122	201	232
Purchased power, non-affiliates	32	25	62	50
Purchased power, affiliates	4	9	5	17
Other operations and maintenance	77	91	155	185
Depreciation and amortization	42	40	80	60
Taxes other than income taxes	29	28	58	56
Total operating expenses	291	315	561	600
Operating Income	74	69	139	141
Other Income and (Expense):				
Allowance for equity funds used during construction	—	3	—	8
Interest expense, net of amounts capitalized	(12)	(12)	(25)	(26)
Other income (expense), net	(1)	(1)	(2)	(2)
Total other income and (expense)	(13)	(10)	(27)	(20)
Earnings Before Income Taxes	61	59	112	121
Income taxes	24	21	44	44
Net Income	37	38	68	77
Dividends on Preference Stock	3	3	5	5
Net Income After Dividends on Preference Stock	$34	$35	$63	$72

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Net Income	$37	$38	$68	$77
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(1), $-, $(3), and $-, respectively	(1)	—	(4)	—

Total other comprehensive income (loss)	(1)	—	(4)	—
Comprehensive Income	$36	$ 38	$64	$ 77

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,	
	2016	2015
	(in millions)	
Operating Activities:		
Net income	$68	$77
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	83	64
Deferred income taxes	16	40
Other, net	(3)	3
Changes in certain current assets and liabilities —		
-Receivables	(6)	(15)
-Fossil fuel stock	34	6
-Prepaid income taxes	2	12
-Other current assets	(1)	1
-Accounts payable	(7)	(9)
-Accrued taxes	17	15
-Accrued compensation	(12)	(10)
-Other current liabilities	4	(1)
Net cash provided from operating activities	195	183
Investing Activities:		
Property additions	(68)	(148)
Cost of removal, net of salvage	(4)	(7)
Change in construction payables	(7)	(15)
Other investing activities	(5)	(4)
Net cash used for investing activities	(84)	(174)
Financing Activities:		
Increase in notes payable, net	46	4
Proceeds —		
Common stock issued to parent	—	20
Short-term borrowings	—	40
Redemptions and repurchases — Senior notes	(125)	—
Payment of common stock dividends	(60)	(65)
Other financing activities	—	(3)
Net cash used for financing activities	(139)	(4)
Net Change in Cash and Cash Equivalents	(28)	5
Cash and Cash Equivalents at Beginning of Period	74	39
Cash and Cash Equivalents at End of Period	$46	$44
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $- and $3 capitalized for 2016 and 2015, respectively)	$28	$26
Income taxes, net	(3)	(9)

Noncash transactions — Accrued property additions at end of period	13	28

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, 2016	At December 31, 2015
	(in millions)	
Current Assets:		
Cash and cash equivalents	$46	$ 74
Receivables —		
Customer accounts receivable	81	76
Unbilled revenues	77	54
Under recovered regulatory clause revenues	5	20
Income taxes receivable, current	—	27
Other accounts and notes receivable	3	9
Affiliated companies	10	1
Accumulated provision for uncollectible accounts	(1)	(1)
Fossil fuel stock, at average cost	74	108
Materials and supplies, at average cost	56	56
Other regulatory assets, current	65	90
Other current assets	17	22
Total current assets	433	536
Property, Plant, and Equipment:		
In service	5,032	5,045
Less accumulated provision for depreciation	1,351	1,296
Plant in service, net of depreciation	3,681	3,749
Other utility plant, net	—	62
Construction work in progress	68	48
Total property, plant, and equipment	3,749	3,859
Other Property and Investments	4	4
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	60	61
Other regulatory assets, deferred	523	427
Other deferred charges and assets	49	33
Total deferred charges and other assets	632	521
Total Assets	$4,818	$ 4,920

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, 2016	At December 31, 2015
	(in millions)	
Current Liabilities:		
Securities due within one year	$195	$ 110
Notes payable	187	142
Accounts payable —		
Affiliated	46	55
Other	44	44
Customer deposits	36	36
Accrued taxes —		
Accrued income taxes	5	4
Other accrued taxes	25	9
Accrued interest	8	9
Accrued compensation	13	25
Deferred capacity expense, current	22	22
Other regulatory liabilities, current	19	22
Liabilities from risk management activities	32	49
Other current liabilities	30	40
Total current liabilities	662	567
Long-term Debt	987	1,193
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	905	893
Employee benefit obligations	126	129
Deferred capacity expense	130	141
Asset retirement obligations	128	113
Other cost of removal obligations	237	233
Other regulatory liabilities, deferred	46	47
Other deferred credits and liabilities	90	102
Total deferred credits and other liabilities	1,662	1,658
Total Liabilities	3,311	3,418
Preference Stock	147	147
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — June 30, 2016: 5,642,717 shares		
— December 31, 2015: 5,642,717 shares	503	503
Paid-in capital	573	567
Retained earnings	288	285
Accumulated other comprehensive loss	(4)	—
Total common stockholder's equity	1,360	1,355
Total Liabilities and Stockholder's Equity	$4,818	$ 4,920

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
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SECOND QUARTER 2016 vs. SECOND QUARTER 2015
AND
YEAR-TO-DATE 2016 vs. YEAR-TO-DATE 2015

OVERVIEW

Gulf Power operates as a vertically integrated utility providing electricity 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 selling electricity. 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, increasingly stringent environmental standards, reliability, restoration following major storms, and fuel. 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.

Through 2015, long-term non-affiliate capacity sales from Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs) provided the majority of Gulf Power's wholesale earnings. The revenues from wholesale contracts covering 100% of this capacity represented 82% of wholesale capacity revenues in 2015. Following contract expirations at the end of 2015 and the end of May 2016, Gulf Power's remaining contracted sales from the unit will cover approximately 24% of the unit through 2019. The expiration of these contracts will have a material negative impact on Gulf Power's earnings in 2016 and may continue to have a material negative impact in future years until Gulf Power is able to find a suitable alternative related to this asset. Gulf Power is actively evaluating alternatives, including, without limitation, rededication of the asset to serve retail customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or an asset sale. On May 5, 2016, Gulf Power delivered a letter to the Florida PSC requesting recognition of Gulf Power's ownership in Plant Scherer Unit 3 as being in service to retail customers when and as the contracts expire. The ultimate outcome of this matter cannot be determined at this time.

In 2013, the Florida PSC voted to approve a settlement agreement (Rate Case Settlement Agreement) related to Gulf Power's retail base rate case. Under the terms of the Rate Case Settlement Agreement, Gulf Power is authorized to reduce depreciation and record a regulatory asset as an offset to the other cost of removal regulatory liability in an aggregate amount up to $62.5 million from January 2014 through June 2017, of which $34.9 million had been recorded as of June 30, 2016, and to accrue a return similar to AFUDC on certain transmission system upgrades placed into service after January 2014 until January 1, 2017. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Retail Base Rate Case" herein for additional details of the Rate Case Settlement Agreement.

Gulf Power continues to focus on several key performance indicators. These indicators include customer satisfaction, plant availability, system reliability, and net income after dividends on preference stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Gulf Power in Item 7 of the Form 10-K.

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

RESULTS OF OPERATIONS

Net Income

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(2.9)	$(9)	(12.5)

Gulf Power's net income after dividends on preference stock for the second quarter 2016 was $34 million compared to $35 million for the corresponding period in 2015. The decrease was primarily due to lower non-affiliated wholesale capacity revenues, partially offset by lower operations and maintenance expenses.

Gulf Power's net income after dividends on preference stock for year-to-date 2016 was $63 million compared to $72 million for the corresponding period in 2015. The decrease was primarily due to lower non-affiliated wholesale capacity revenues and an increase in depreciation, partially offset by lower operations and maintenance expenses.

Retail Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(8)	(2.4)	$(18)	(2.9)

In the second quarter 2016, retail revenues were $319 million compared to $327 million for the corresponding period in 2015. For year-to-date 2016, retail revenues were $602 million compared to $620 million for the corresponding period in 2015.

Details of the changes in retail revenues were as follows:

	Second Quarter 2016		Year-to-Date 2016	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$327		$620	
Estimated change resulting from –				
Rates and pricing	9	2.8	17	2.7
Sales growth (decline)	(1)	(0.3)	1	0.2
Weather	(2)	(0.6)	(7)	(1.1)
Fuel and other cost recovery	(14)	(4.3)	(29)	(4.7)
Retail – current year	$319	(2.4)%	$602	(2.9)%

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 2016 when compared to the corresponding periods in 2015 primarily due to an increase in the environmental cost recovery clause rate, partially offset by a decrease in the energy conservation cost recovery clause rate, both effective in January 2016.

Revenues attributable to changes in sales decreased slightly in the second quarter 2016 when compared to the corresponding period in 2015. For the second quarter 2016, weather-adjusted KWH sales to residential and commercial customers decreased 1.3% and 2.6%, respectively, due to lower customer usage, partially offset by customer growth. KWH sales to industrial customers increased 1.2% for the second quarter 2016 primarily due to decreased customer co-generation, partially offset by changes in customers' operations.

Revenues attributable to changes in sales increased slightly year-to-date 2016 when compared to the corresponding period in 2015. Weather-adjusted KWH sales to residential customers increased 0.6% due to customer growth, partially offset by lower customer usage. Weather-adjusted KWH sales to commercial customers decreased 1.4% due to lower customer usage, partially offset by customer growth. KWH sales to industrial customers increased 3.9% primarily due to decreased customer co-generation, partially offset by changes in customers' operations.

Fuel and other cost recovery revenues decreased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015, primarily due to a decrease in fuel costs as a result of decreased generation and lower purchased power energy 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.

Wholesale Revenues – Non-Affiliates

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(12)	(44.4)	$(21)	(40.4)

Wholesale revenues from sales to non-affiliates consist of long-term sales agreements to other utilities in Florida and Georgia and short-term opportunity sales. Capacity revenues from long-term sales agreements represent the greatest contribution to net income. The energy is generally sold at variable cost. Short-term opportunity sales are made at market-based rates that generally provide a margin above Gulf Power's variable cost of energy. Wholesale energy revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Gulf Power's and 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.

In the second quarter 2016, wholesale revenues from sales to non-affiliates were $15 million compared to $27 million for the corresponding period in 2015. For year-to-date 2016, wholesale revenues from sales to non-affiliates were $31 million compared to $52 million for the corresponding period in 2015. These decreases were primarily due to a 52.5% and 47.6% decrease for the second quarter and year-to-date 2016, respectively, in capacity revenues resulting from the expiration of Plant Scherer Unit 3 long-term sales agreements.

Fuel and Purchased Power Expenses

	Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (15)	(12.3)	$ (31)	(13.4)
Purchased power – non-affiliates	7	28.0	12	24.0
Purchased power – affiliates	(5)	(55.6)	(12)	(70.6)
Total fuel and purchased power expenses	$ (13)		$ (31)	

In the second quarter 2016, total fuel and purchased power expenses were $143 million compared to $156 million for the corresponding period in 2015. The decrease was primarily due to a $14 million decrease in the average cost of fuel and purchased power as a result of lower generation from Gulf Power's coal-fired resources.

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GULF POWER COMPANY
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For year-to-date 2016, total fuel and purchased power expenses were $268 million compared to $299 million for the corresponding period in 2015. The decrease was primarily the result of a $37 million decrease due to the lower average cost of fuel and purchased power as a result of lower generation from Gulf Power's coal-fired resources, partially offset by a $6 million increase related to the volume of KWHs generated and purchased.
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.
Details of Gulf Power's generation and purchased power were as follows:

	Second Quarter 2016	Second Quarter 2015	Year-to-Date 2016	Year-to-Date 2015
Total generation (millions of KWHs)	2,064	2,360	3,880	4,596
Total purchased power (millions of KWHs)	1,629	1,336	3,389	2,594
Sources of generation (percent) –				
Coal	54	61	48	60
Gas	46	39	52	40
Cost of fuel, generated (cents per net KWH) –				
Coal	4.14	4.05	4.05	4.02
Gas	4.11	4.38	3.92	4.17
Average cost of fuel, generated (cents per net KWH)	4.12	4.18	3.98	4.08
Average cost of purchased power (cents per net KWH)(*)	3.50	4.25	3.35	4.31

(*) 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 2016, fuel expense was $107 million compared to $122 million for the corresponding period in 2015. The decrease was primarily due to a 22.5% decrease in the volume of KWHs generated by Gulf Power's coal-fired generation resources and a 1.4% decrease in the average cost of fuel. The decreases were partially offset by a 2.8% increase in the volume of KWHs generated by Gulf Power's gas-fired generation resources.
For year-to-date 2016, fuel expense was $201 million compared to $232 million for the corresponding period in 2015. The decrease was primarily due to a 31.4% decrease in the volume of KWHs generated by Gulf Power's coal-fired generation resources and a 2.5% decrease in the average cost of fuel. The decreases were partially offset by a 7.7% increase in the volume of KWHs generated by Gulf Power's gas-fired generation resources.

Purchased Power – Non-Affiliates

In the second quarter 2016, purchased power expense from non-affiliates was $32 million compared to $25 million for the corresponding period in 2015. The increase was primarily due to a 49.9% increase in the volume of KWHs purchased due to the availability of lower cost energy, partially offset by a 25.8% decrease in the average cost per KWH purchased due to lower energy costs from gas-fired and wind market resources.
For year-to-date 2016, purchased power expense from non-affiliates was $62 million compared to $50 million for the corresponding period in 2015. The increase was primarily due to a 61.8% increase in the volume of KWHs purchased due to the availability of lower cost energy, partially offset by a 29.2% decrease in the average cost per KWH purchased due to lower energy costs from gas-fired and wind market resources.

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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 service territory, and the availability of the Southern Company system's generation.

Purchased Power – Affiliates

In the second quarter 2016, purchased power expense from affiliates was $4 million compared to $9 million for the corresponding period in 2015. The decrease was primarily due to a 47.9% decrease in the volume of KWHs purchased due to lower territorial loads resulting from milder weather and a 22.7% decrease in the average cost per KWH purchased due to lower power pool interchange rates as a result of lower natural gas prices and lower off-peak energy prices of renewable market resources.

For year-to-date 2016, purchased power expense from affiliates was $5 million compared to $17 million for the corresponding period in 2015. The decrease was primarily due to a 54.5% decrease in the volume of KWHs purchased due to lower territorial loads resulting from milder weather and a 30.5% decrease in the average cost per KWH purchased due to lower power pool interchange rates as a result of lower natural gas prices and lower off-peak energy prices of renewable market resources.

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 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(14)	(15.4)	$(30)	(16.2)

In the second quarter 2016, other operations and maintenance expenses were $77 million compared to $91 million for the corresponding period in 2015. For year-to-date 2016, other operations and maintenance expenses were $155 million compared to $185 million for the corresponding period in 2015. These decreases were primarily due to decreases in routine and planned maintenance expenses at generation facilities and lower expenses related to marketing programs.

Expenses from marketing programs do not have a significant impact on earnings since they are generally offset by energy conservation revenues through Gulf Power's energy conservation cost recovery clause.

Depreciation and Amortization

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$2	5.0	$20	33.3

For year-to-date 2016, depreciation and amortization was $80 million compared to $60 million for the corresponding period in 2015. The increase was primarily due to $13 million less of a reduction in depreciation compared to the corresponding period in 2015, as authorized in the Rate Case Settlement Agreement, as well as property additions at generation, transmission, and distribution facilities.

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 "Retail Regulatory Matters – Gulf Power – Retail Base Rate Case" herein for additional information.

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GULF POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Allowance for Equity Funds Used During Construction

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(3)	N/M	$(8)	N/M

N/M - Not meaningful

In the second quarter and year-to-date 2016, AFUDC equity was immaterial compared to $3 million and $8 million for the corresponding periods in 2015, respectively. These decreases were primarily due to environmental control projects at generation facilities and transmission projects placed in service in 2015.

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 selling electricity. 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. Future earnings in the near term will depend, in part, upon maintaining and growing sales which are subject to a number of 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, the rate of economic growth or decline in Gulf Power's service territory, and the successful remarketing of wholesale capacity as current contracts expire. 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. For additional information relating to these issues, see RISK FACTORS in Item 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 regulatory or legislative 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.

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Environmental Statutes and Regulations

Air Quality

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" of Gulf Power in Item 7 of the Form 10-K for additional information regarding the EPA's final MATS rule and regional haze regulations.

On April 25, 2016, in response to a June 2015 U.S. Supreme Court opinion, the EPA published its supplemental finding regarding consideration of costs in support of the MATS rule. This finding does not impact MATS rule compliance requirements, costs, or deadlines, and all Gulf Power units that are subject to the MATS rule have completed the measures necessary to achieve compliance with the MATS rule by the applicable deadlines.

Also on April 25, 2016, the EPA issued proposed revisions to the regional haze regulations. The ultimate impact of the proposed revisions will depend on their ultimate adoption, implementation, and any legal challenges and cannot be determined at this time.

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.

Gulf Power's wholesale business consists of two types of agreements. The first type, referred to as requirements service, provides that Gulf Power serves the customer's capacity and energy requirements from Gulf Power resources. The second type, referred to as a unit sale, is a wholesale customer purchase from a dedicated generating plant unit where a portion of that unit is reserved for the customer. These agreements are associated with Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs) and consist of both capacity and energy sales. Through 2015, long-term non-affiliate capacity sales from Gulf Power's ownership of the unit provided the majority of Gulf Power's wholesale earnings. The revenues from wholesale contracts covering 100% of this capacity represented 82% of wholesale capacity revenues in 2015. Following contract expirations at the end of 2015 and the end of May 2016, Gulf Power's remaining contracted sales from the unit will cover approximately 24% of the unit through 2019. The expiration of these contracts will have a material negative impact on Gulf Power's earnings in 2016 and may continue to have a material negative impact in future years until Gulf Power is able to find a suitable alternative related to this asset. Gulf Power is actively evaluating alternatives, including, without limitation, rededication of the asset to serve retail customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or an asset sale. On May 5, 2016, Gulf Power delivered a letter to the Florida PSC requesting recognition of Gulf Power's ownership in Plant Scherer Unit 3 as being in service to retail customers when and as the contracts expire. The ultimate outcome of this matter cannot be determined at this time.

Retail Base Rate Case

In 2013, the Florida PSC approved the Rate Case Settlement Agreement that 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 may 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, 2015, and the first six months of 2016, Gulf Power recognized reductions in depreciation of $8.4 million, $20.1 million, and $6.4 million, respectively.

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GULF POWER COMPANY
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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.

Renewables

The Florida PSC issued a final approval order on Gulf Power's Community Solar Pilot Program on April 15, 2016. The program will offer all Gulf Power customers an opportunity to voluntarily contribute to the construction and operation of a solar photovoltaic facility with electric generating capacity of up to 1 MW through annual subscriptions. The energy generated from the solar facility is expected to provide power to all of Gulf Power's customers.

Other Matters

As a result of the cost to comply with environmental regulations imposed by the EPA, Gulf Power retired its coal-fired generation at Plant Smith Units 1 and 2 (357 MWs) on March 31, 2016. Gulf Power has filed a petition with the Florida PSC requesting permission to recover the remaining net book value of Plant Smith Units 1 and 2 and the remaining materials and supplies associated with these units as of the retirement date. In connection with this request, Gulf Power reclassified approximately $63 million to a regulatory asset. This amount is comprised of the reclassification of the net book value of these units from other utility plant, net and the associated materials and supplies, both as of March 31, 2016. The retirement of these units is not expected to have a material impact on Gulf Power's financial statements as Gulf Power expects to recover these amounts through its rates; however, the ultimate outcome depends on future rate proceedings with the Florida PSC and cannot be determined at this time.

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 or in Note 3 to the financial statements of Gulf Power in Item 8 of the Form 10-K, 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 Electric Utility Regulation, Asset Retirement Obligations, Pension and Other Postretirement Benefits, and Contingent Obligations.

Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires lessees to recognize on the balance sheet a lease liability and a right-of-use asset for all leases. ASU 2016-02 also changes the recognition, measurement, and presentation of expense associated with leases and provides clarification regarding the identification of certain components of contracts that would represent a lease. The accounting required by lessors is relatively unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Gulf Power is currently evaluating the new standard and has not yet determined its ultimate impact; however, adoption of ASU 2016-02 is expected to have a significant impact on Gulf Power's balance sheet.

On March 30, 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 changes the accounting for income taxes and the cash flow presentation for share-based payment award transactions. Most significantly, entities are required to recognize all excess tax benefits and deficiencies related to the exercise or vesting of stock compensation as income tax expense or benefit in the income statement. Gulf Power currently recognizes any excess tax benefits and deficiencies related to the exercise and vesting of stock compensation in additional paid-in capital. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and Gulf Power intends to adopt the ASU in the fourth quarter 2016. The adoption is not expected to have a material impact on the results of operations, financial position, or cash flows of Gulf Power.

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, 2016. 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 \$195 million for the first six months of 2016 compared to \$183 million for the corresponding period in 2015. The \$12 million increase in net cash was primarily due to a federal income tax refund and the timing of fossil fuel stock purchases, partially offset by increases in accounts receivable. Net cash used for investing activities totaled \$84 million in the first six months of 2016 primarily due to property additions to utility plant. Net cash used for financing activities totaled \$139 million for the first six months of 2016 primarily due to the payment of common stock dividends and a redemption of long-term debt, partially offset by an increase in notes payable. 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 2016 include decreases of \$125 million in long-term debt due to a redemption and \$110 million in net property, plant, and equipment primarily due to the retirement of Plant Smith Units 1 and 2.

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

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interest, leases, derivative obligations, preference stock dividends, purchase commitments, and trust funding requirements. Approximately $195 million will be required through June 30, 2017 to fund maturities of long-term debt. 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 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 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, 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.
At June 30, 2016, Gulf Power had approximately $46 million of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2016 were as follows:

Expires					Executable Term Loans		Due Within One Year	
2016	2017	2018	Total	Unused	One Year	Two Years	Term Out	No Term Out
(in millions)			(in millions)		(in millions)		(in millions)	
$75	$40	$165	$280	$ 280	$ 45	$ —	$45	$ 70

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) that are restricted only to the indebtedness 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. Gulf Power is currently 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

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revenue bonds outstanding requiring liquidity support as of June 30, 2016 was approximately $82 million. In addition, at June 30, 2016, Gulf Power had approximately $21 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 company under these arrangements are several and there is no cross-affiliate credit support.

Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 2016		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	$87	0.8 %	$62	0.8 %	$ 94
Short-term bank debt	100	1.2 %	54	1.2 %	100
Total	$187	1.0 %	$116	1.0 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 30, 2016.

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

Gulf 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 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, 2016 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 137
Below BBB- and/or Baa3	$ 526

Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants 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.

Market Price Risk

Gulf Power's market risk exposure relative to interest rate changes for the second quarter and year-to-date 2016 has not changed materially compared to the December 31, 2015 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 agreements shift substantially all fuel cost responsibility to the purchaser. However, Gulf Power could become exposed to market volatility in energy-related commodity prices to the extent any wholesale generating capacity is uncontracted.

For an in-depth 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. Gulf Power is actively evaluating alternatives, including, without limitation, rededication of Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs) to serve retail customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or an asset sale. On May 5, 2016, Gulf Power delivered a letter to the Florida PSC requesting recognition of Gulf Power's ownership in Plant Scherer Unit 3 as being in service to retail customers when and as the contracts expire. The ultimate outcome of this matter cannot be determined at this time.

Financing Activities

In May 2016, Gulf Power redeemed $125 million aggregate principal amount of its Series 2011A 5.75% Senior Notes due June 1, 2051.

Also in May 2016, Gulf Power entered into an 11-month floating rate bank loan bearing interest based on one-month LIBOR. This short-term loan was for $100 million aggregate principal amount and the proceeds were used to repay existing indebtedness and for working capital and other general corporate purposes.

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,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$206	$189	$389	$357
Wholesale revenues, non-affiliates	60	63	120	141
Wholesale revenues, affiliates	7	18	16	45
Other revenues	4	5	8	9
Total operating revenues	277	275	533	552
Operating Expenses:				
Fuel	81	115	157	229
Purchased power, non-affiliates	1	2	1	3
Purchased power, affiliates	4	2	9	4
Other operations and maintenance	68	68	136	144
Depreciation and amortization	45	30	84	57
Taxes other than income taxes	25	23	50	48
Estimated loss on Kemper IGCC	81	23	134	32
Total operating expenses	305	263	571	517
Operating Income (Loss)	(28)	12	(38)	35
Other Income and (Expense):				
Allowance for equity funds used during construction	30	25	59	53
Interest expense, net of amounts capitalized	(15)	30	(31)	19
Other income (expense), net	(1)	(1)	(3)	(2)
Total other income and (expense)	14	54	25	70
Earnings (Loss) Before Income Taxes	(14)	66	(13)	105
Income taxes (benefit)	(17)	16	(27)	20
Net Income	3	50	14	85
Dividends on Preferred Stock	1	1	1	1
Net Income After Dividends on Preferred Stock	$2	$49	$13	$84

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Net Income	$ 3	$ 50	$ 14	$ 85
Other comprehensive income (loss)	—	—	—	—
Comprehensive Income	$ 3	$ 50	$ 14	$ 85

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,	
	2016	2015
	(in millions)	
Operating Activities:		
Net income	$14	$85
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	82	55
Deferred income taxes	(16)	694
Investment tax credits	—	32
Allowance for equity funds used during construction	(59)	(53)
Regulatory assets associated with Kemper IGCC	(10)	(50)
Estimated loss on Kemper IGCC	134	32
Income taxes receivable, non-current	—	(544)
Other, net	3	8
Changes in certain current assets and liabilities —		
-Receivables	15	6
-Fossil fuel stock	6	5
-Prepaid income taxes	34	24
-Other current assets	(3)	(7)
-Accounts payable	(12)	(25)
-Accrued taxes	19	(51)
-Accrued interest	—	(7)
-Accrued compensation	(12)	(12)
-Over recovered regulatory clause revenues	4	32
-Mirror CWIP	—	82
-Customer liability associated with Kemper refunds	(69)	—
-Other current liabilities	7	3
Net cash provided from operating activities	137	309
Investing Activities:		
Property additions	(403)	(428)
Construction payables	(11)	(15)
Capital grant proceeds	137	—
Other investing activities	(19)	(17)
Net cash used for investing activities	(296)	(460)
Financing Activities:		
Increase in notes payable, net	—	475
Proceeds —		
Capital contributions from parent company	226	77
Long-term debt issuance to parent company	200	—
Other long-term debt issuances	900	—
Short-term borrowings	—	30
Redemptions —		
Short-term borrowings	(475)	—

Long-term debt to parent company	(225)	—
Other long-term debt	(425)	(350)
Other financing activities	(3)	(2)
Net cash provided from financing activities	198	230
Net Change in Cash and Cash Equivalents	39	79
Cash and Cash Equivalents at Beginning of Period	98	133
Cash and Cash Equivalents at End of Period	$137	$212
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (paid $49 and $39, net of $23 and $37 capitalized for 2016 and 2015, respectively)	$26	$2
Income taxes, net	(122)	(181)
Noncash transactions —		
Accrued property additions at end of period	94	99
Issuance of promissory note to parent related to repayment of interest-bearing refundable deposits and accrued interest	—	301

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, 2016	At December 31, 2015
	(in millions)	
Current Assets:		
Cash and cash equivalents	$137	$ 98
Receivables —		
Customer accounts receivable	35	26
Unbilled revenues	46	36
Income taxes receivable, current	—	20
Other accounts and notes receivable	5	10
Affiliated companies	12	20
Fossil fuel stock, at average cost	99	104
Materials and supplies, at average cost	77	75
Other regulatory assets, current	97	95
Prepaid income taxes	5	39
Other current assets	7	8
Total current assets	520	531
Property, Plant, and Equipment:		
In service	4,809	4,886
Less accumulated provision for depreciation	1,248	1,262
Plant in service, net of depreciation	3,561	3,624
Construction work in progress	2,429	2,254
Total property, plant, and equipment	5,990	5,878
Other Property and Investments	11	11
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	317	290
Other regulatory assets, deferred	520	525
Income taxes receivable, non-current	544	544
Other deferred charges and assets	85	61
Total deferred charges and other assets	1,466	1,420
Total Assets	$7,987	$ 7,840

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, 2016	At December 31, 2015
	(in millions)	
Current Liabilities:		
Securities due within one year	$343	$ 728
Notes payable	25	500
Accounts payable —		
Affiliated	87	85
Other	120	135
Customer deposits	16	16
Accrued taxes —		
Accrued income taxes	57	—
Other accrued taxes	48	85
Accrued interest	19	18
Accrued compensation	14	26
Asset retirement obligations, current	21	22
Over recovered regulatory clause liabilities	100	96
Customer liability associated with Kemper refunds	5	73
Other current liabilities	41	52
Total current liabilities	896	1,836
Long-term Debt:		
Long-term debt, affiliated	551	576
Long-term debt, non-affiliated	2,164	1,310
Total Long-term Debt	2,715	1,886
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	773	762
Deferred credits related to income taxes	8	8
Accumulated deferred investment tax credits	5	5
Employee benefit obligations	148	153
Asset retirement obligations, deferred	157	154
Unrecognized tax benefits	368	368
Other cost of removal obligations	169	165
Other regulatory liabilities, deferred	74	71
Other deferred credits and liabilities	40	40
Total deferred credits and other liabilities	1,742	1,726
Total Liabilities	5,353	5,448
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	3,122	2,893
Accumulated deficit	(553)	(566)
Accumulated other comprehensive loss	(6)	(6)

Total common stockholder's equity	2,601	2,359
Total Liabilities and Stockholder's Equity	$7,987	$ 7,840

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

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SECOND QUARTER 2016 vs. SECOND QUARTER 2015
AND
YEAR-TO-DATE 2016 vs. YEAR-TO-DATE 2015

OVERVIEW
Mississippi Power operates as a vertically integrated utility providing electricity 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 selling electricity. 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 completion and operation of major construction projects, primarily the Kemper IGCC and the Plant Daniel scrubber project, projected long-term demand growth, reliability, fuel, and increasingly stringent environmental standards, as well as ongoing capital expenditures required for maintenance. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Mississippi Power for the foreseeable future.
In 2010, the Mississippi PSC issued a CPCN authorizing the acquisition, construction, and operation of the Kemper IGCC. The certificated cost estimate of the Kemper IGCC established by the Mississippi PSC was $2.4 billion with 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). On April 8, 2016, Mississippi Power received approximately $137 million in additional grants from the DOE for the Kemper IGCC (Additional DOE Grants), which are expected to be used to reduce future rate impacts for customers.
Mississippi Power placed the combined cycle and the associated common facilities portion of the Kemper IGCC in service in August 2014 and continues to progress towards completing the remainder of the Kemper IGCC, including the gasifiers and the gas clean-up facilities. The in-service date for the remainder of the Kemper IGCC is currently expected to occur by October 31, 2016, which reflects a one-month extension. The initial production of syngas began on July 14, 2016 and testing has continued on gasifier 'B' and the related lignite feed and ash systems. The schedule extension provides for time to complete mechanical equipment modifications to the gasifiers' supporting systems to increase capacity to the levels necessary to complete the remaining start-up activities and achieve sustained operations on both gasifiers. The remaining schedule also reflects the time expected to complete the initial operation and testing of the facility's syngas clean-up systems, as well as the integration of all systems necessary for both combustion turbines to simultaneously generate electricity with syngas.
Mississippi Power's current cost estimate for the Kemper IGCC in total is approximately $6.68 billion, which includes approximately $5.43 billion of costs subject to the construction cost cap and is net of the Additional DOE Grants. Mississippi Power does not intend to seek any rate recovery for any related costs that exceed the $2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. Mississippi Power recorded pre-tax charges to income for revisions to the cost estimate totaling $81 million ($50 million after tax) in the second quarter 2016 and a total of $134 million ($83 million after tax) for the six months ended June 30, 2016. Since 2012, in the aggregate, Mississippi Power has incurred charges of $2.55 billion ($1.57 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC through June 30, 2016. The current cost estimate includes costs through October 31, 2016.
In December 2015, the Mississippi PSC issued an order (In-Service Asset Rate Order), based on a stipulation (the 2015 Stipulation) between Mississippi Power and the Mississippi Public Utilities Staff (MPUS), authorizing rates

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that provide for the recovery of approximately $126 million annually related to Kemper IGCC assets previously placed in service. On July 27, 2016, the Mississippi Supreme Court (Court) dismissed Greenleaf CO_2 Solutions, LLC's (Greenleaf) motion for reconsideration of its previous decision to dismiss Greenleaf's appeal of the In-Service Asset Rate Order. Further proceedings related to cost recovery for the Kemper IGCC are expected after the remainder of the Kemper IGCC is placed in service, which is currently expected to occur by October 31, 2016. The ultimate outcome of these matters cannot be determined at this time.

Southern Company and Mississippi Power are defendants in lawsuits that allege improper disclosure of important facts about the Kemper IGCC. One lawsuit was filed in Harrison County Circuit Court by Biloxi Freezing & Processing Inc., Gulfside Casino Partnership, and John Carlton Dean and seeks unspecified actual damages, punitive damages, and attorney's fees, costs, and interest. Another lawsuit was filed by Treetop Midstream Services, LLC (Treetop) and other related parties and seeks $100 million in compensatory damages, as well as punitive damages, costs, and interest. While Mississippi Power believes that these lawsuits are without merit, an adverse outcome could have a material impact on Mississippi Power's results of operations, financial condition, and liquidity. In addition, 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.

For additional information on the Kemper IGCC, 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.

On March 8, 2016, Mississippi Power borrowed $900 million under a new term loan agreement with a syndicate of financial institutions and used the proceeds to repay $900 million in maturing bank loans. Mississippi Power has the right to borrow the $300 million remaining under the agreement on or before October 15, 2016 and expects to use those funds to repay senior notes maturing in October 2016. On June 27, 2016, Mississippi Power received a $225 million capital contribution from Southern Company which was used to repay to Southern Company a portion of an existing promissory note.

Mississippi Power continues to focus on several key performance indicators, including the construction, start-up, and rate recovery of the Kemper IGCC. 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 return. In addition to the PEP performance indicators, Mississippi Power focuses on other performance measures, including broader measures of customer satisfaction, plant availability, system reliability, and net income after dividends on preferred stock. For additional information on these indicators, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Key Performance Indicators" of Mississippi Power in Item 7 of the Form 10-K.

RESULTS OF OPERATIONS

Net Income

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(47)	(95.9)	$(71)	(84.5)

Mississippi Power's net income after dividends on preferred stock for the second quarter 2016 was $2 million compared to $49 million for the corresponding period in 2015. The decrease was primarily related to higher pre-tax charges of $81 million ($50 million after tax) in the second quarter 2016 compared to pre-tax charges of $23 million ($14 million after tax) in the second quarter 2015 for revisions of the estimated costs expected to be incurred on

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Mississippi Power's construction of the Kemper IGCC above the $2.88 billion cost cap established by the Mississippi PSC, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. The decrease in net income was also due to a decrease in interest on deposits resulting from the termination of an asset purchase agreement between Mississippi Power and SMEPA in May 2015. Also contributing to the decrease was higher depreciation and amortization and a decrease in wholesale revenues, partially offset by an increase in retail revenues.

For year-to-date 2016, net income after dividends on preferred stock was $13 million compared to $84 million for the corresponding period in 2015. The decrease was primarily related to higher pre-tax charges of $134 million ($83 million after tax) in 2016 compared to pre-tax charges of $32 million ($20 million after tax) in 2015 for revisions of the estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC above the $2.88 billion cost cap established by the Mississippi PSC, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. The decrease in net income was also due to a decrease in interest on deposits resulting from the termination of an asset purchase agreement between Mississippi Power and SMEPA in May 2015. Also contributing to the decrease was higher depreciation and amortization and a decrease in wholesale revenues, partially offset by an increase in retail revenues.

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.

Retail Revenues

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$17	9.0	$32	9.0

In the second quarter 2016, retail revenues were $206 million compared to $189 million for the corresponding period in 2015. For year-to-date 2016, retail revenues were $389 million compared to $357 million for the corresponding period in 2015.

Details of the changes in retail revenues were as follows:

	Second Quarter 2016		Year-to-Date 2016	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$189		$357	
Estimated change resulting from –				
Rates and pricing	32	16.9	57	16.0
Sales growth (decline)	(1)	(0.5)	3	0.8
Weather	1	0.5	(2)	(0.6)
Fuel and other cost recovery	(15)	(7.9)	(26)	(7.2)
Retail – current year	$206	9.0 %	$389	9.0 %

Revenues associated with changes in rates and pricing increased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015, primarily due to the implementation of rates for certain Kemper IGCC in-service assets. See Note 3 to the financial statements of Mississippi Power under "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" 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.

Revenues attributable to changes in sales decreased in the second quarter 2016 when compared to the corresponding period in 2015. Weather-adjusted KWH sales to residential and commercial customers decreased 2.2% and 4.0%, respectively, in the second quarter 2016 due to decreased customer usage, partially offset by customer growth.

KWH sales to industrial customers increased 2.9% in the second quarter 2016 due to increased usage by larger customers.

Revenues attributable to changes in sales were relatively flat for year-to-date 2016 when compared to the corresponding period in 2015. Weather-adjusted KWH sales to commercial customers decreased 1.9% due to decreased customer usage, partially offset by customer growth. KWH sales to industrial customers and weather-adjusted KWH sales to residential customers were relatively flat.

In the first quarter 2015, Mississippi Power updated the methodology to estimate the unbilled revenue allocation among customer classes. This change did not have a significant impact on net income. The KWH sales variances discussed above reflect an adjustment to the estimated allocation of Mississippi Power's unbilled first quarter 2015 KWH sales among customer classes that is consistent with the actual allocation in 2016. Without this adjustment, year-to-date 2016 weather-adjusted residential KWH sales increased 3.0%, weather-adjusted KWH sales to commercial customers increased 1.6%, and KWH sales to industrial customers increased 1.0% as compared to the corresponding period in 2015.

Fuel and other cost recovery revenues decreased in the second quarter and year-to-date 2016 when compared to the corresponding periods in 2015, primarily as a result of lower 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 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(3)	(4.8)	$(21)	(14.9)

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 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 2016, wholesale revenues from sales to non-affiliates were $60 million compared to $63 million for the corresponding period in 2015. The decrease was primarily due to a $6 million decrease in energy revenues primarily resulting from lower fuel prices, partially offset by a $3 million increase in base and capacity revenues primarily resulting from a wholesale rate increase. For year-to-date 2016, wholesale revenues from sales to non-affiliates were $120 million compared to $141 million for the corresponding period in 2015. The decrease was primarily due to a $14 million decrease in energy revenues primarily resulting from lower fuel prices and decreased usage and a $7 million decrease in base and capacity revenues primarily resulting from milder weather.

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Wholesale Revenues – Affiliates

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$(11)	(61.1)	$(29)	(64.4)

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

In the second quarter 2016, wholesale revenues from sales to affiliates were $7 million compared to $18 million for the corresponding period in 2015. The decrease was due to a $9 million decrease in KWH sales resulting from a decrease in sales from coal generation and a $2 million decrease associated with lower natural gas prices.

For year-to-date 2016, wholesale revenues from sales to affiliates were $16 million compared to $45 million for the corresponding period in 2015. The decrease was due to a $23 million decrease in KWH sales resulting from a decrease in sales from coal generation and a $6 million decrease associated with lower natural gas prices.

Fuel and Purchased Power Expenses

	Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (34)	(29.6)	$ (72)	(31.4)
Purchased power – non-affiliates	(1)	(50.0)	(2)	(66.7)
Purchased power – affiliates	2	100.0	5	125.0
Total fuel and purchased power expenses	$ (33)		$ (69)	

In the second quarter 2016, total fuel and purchased power expenses were $86 million compared to $119 million for the corresponding period in 2015. The decrease was due to a $16 million decrease in the volume of KWHs generated and purchased and a $17 million decrease in the average cost of fuel.

For year-to-date 2016, total fuel and purchased power expenses were $167 million compared to $236 million for the corresponding period in 2015. The decrease was due to a $34 million decrease in the volume of KWHs generated and purchased and a $35 million decrease in the average cost of fuel.

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.

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

	Second Quarter 2016	Second Quarter 2015	Year-to-Date 2016	Year-to-Date 2015
Total generation (millions of KWHs)	3,728	4,109	7,315	8,455
Total purchased power (millions of KWHs)	188	114	449	227
Sources of generation (percent) –				
Coal	5	18	8	20
Gas	95	82	92	80
Cost of fuel, generated (cents per net KWH) –				
Coal	5.49	4.14	4.16	3.64
Gas	2.17	2.71	2.16	2.69
Average cost of fuel, generated (cents per net KWH)	2.33	2.98	2.32	2.90
Average cost of purchased power (cents per net KWH)	2.55	3.19	2.33	3.37

Fuel

In the second quarter 2016, fuel expense was $81 million compared to $115 million for the corresponding period in 2015. The decrease was due to a 10% decrease in the volume of KWHs generated, primarily as a result of milder weather, and a 22% decrease in the average cost of fuel per KWH generated primarily due to higher gas-fired generation, including the Kemper IGCC combined cycle that was placed in service in 2014. The decrease in volume included a decrease in coal-fired generation of 76% and an increase in gas-fired generation of 5%.

For year-to-date 2016, total fuel expense was $157 million compared to $229 million for the corresponding period in 2015. The decrease was due to a 15% decrease in the volume of KWHs generated, primarily as a result of milder weather, and a 20% decrease in the average cost of fuel per KWH generated primarily due to higher gas-fired generation, including the Kemper IGCC combined cycle that was placed in service in 2014. The decrease in volume also included a 68% decrease in coal-fired generation.

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 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$—	—	$(8)	(5.6)

For year-to-date 2016, other operations and maintenance expenses were $136 million compared to $144 million for the corresponding period in 2015. The decrease was primarily due to a $16 million decrease in generation outage costs, a $4 million decrease primarily related to pension costs, a $2 million decrease in transmission and distribution overhead line maintenance and vegetation management, and a $2 million decrease in uncollectibles expense and customer incentives. The decreases were partially offset by a $16 million increase in maintenance expenses related to the combined cycle and the associated common facilities portion of the Kemper IGCC that Mississippi Power began expensing in the third quarter 2015 in connection with the implementation of interim rates associated with the Kemper IGCC in-service assets. See FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification

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Combined Cycle – Rate Recovery of Kemper IGCC Costs – 2015 Rate Case" and " – Regulatory Assets and Liabilities" herein for additional information. See Note (F) to the Condensed Financial Statements herein for additional information related to pension costs.

Depreciation and Amortization

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$15	50.0	$27	47.4

In the second quarter 2016, depreciation and amortization was $45 million compared to $30 million for the corresponding period in 2015. For year-to-date 2016, depreciation and amortization was $84 million compared to $57 million for the corresponding period in 2015. These increases were primarily due to additional amortization expenses and lower deferrals associated with the Kemper IGCC combined cycle assets of $13 million and $22 million in the second quarter and year-to-date 2016, respectively, in accordance with the In-Service Asset Rate Order. Additionally, increases of $2 million and $5 million in the second quarter and year-to-date 2016, respectively, are related to additional plant in service.

See Note 1 to the financial statements of Mississippi Power under "Depreciation, Depletion, and Amortization" in Item 8 of the Form 10-K for additional information. Also, 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 – Rate Recovery of Kemper IGCC Costs – 2015 Rate Case" and " – Regulatory Assets and Liabilities" herein for additional information.

Estimated Loss on Kemper IGCC

Second Quarter 2016 vs. Second Quarter 2015		Year-to-Date 2016 vs. Year-to-Date 2015	
(change in millions)	(% change)	(change in millions)	(% change)
$58	N/M	$102	N/M

N/M - Not meaningful

In the second quarters of 2016 and 2015, estimated probable losses on the Kemper IGCC of $81 million and $23 million, respectively, were recorded at Mississippi Power. For year-to-date 2016 and year-to-date 2015, estimated probable losses on the Kemper IGCC of $134 million and $32 million, respectively, were recorded at Mississippi Power. These losses reflect revisions of estimated costs expected to be incurred on the construction of the Kemper IGCC 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.

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.

Allowance for Equity Funds Used During Construction

Second Quarter 2016 vs. Second Quarter 2015	Year-to-Date 2016 vs. Year-to-Date 2015
(change in millions)	