SOUTHERN CO
Form 10-Q
November 07, 2018

Table of Contents

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 September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

001-37803	Southern Power Company (A Delaware Corporation) 30 Ivan Allen Jr. Boulevard, N.W. Atlanta, Georgia 30308 (404) 506-5000	58-2598670
1-14174	Southern Company Gas (A Georgia Corporation) Ten Peachtree Place, N.E. Atlanta, Georgia 30309 (404) 584-4000	58-2210952

Table of Contents

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 every Interactive Data File required to be submitted 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 such files). Yes þ No ¨

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

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

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

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

Registrant	Description of Common Stock	Shares Outstanding at September 30, 2018
The Southern Company	Par Value $5 Per Share	1,028,888,684
Alabama Power Company	Par Value $40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	7,392,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value $0.01 Per Share	1,000
Southern Company Gas	Par Value $0.01 Per Share	100

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

INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2018

INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2018

Table of Contents

DEFINITIONS

Term	Meaning
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
ARO	Asset retirement obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Atlanta Gas Light	Atlanta Gas Light Company, a wholly-owned subsidiary of Southern Company Gas
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC, a joint venture to construct and operate a natural gas pipeline in which Southern Company Gas has a 5% ownership interest
Bechtel	Bechtel Power Corporation, the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4
Bechtel Agreement	The October 23, 2017 construction completion agreement between the Vogtle Owners and Bechtel
CCR	Coal combustion residuals
Chattanooga Gas	Chattanooga Gas Company, a wholly-owned subsidiary of Southern Company Gas
Clean Power Plan	Final action published by the EPA in 2015 that established guidelines for states to develop plans to meet EPA-mandated CO2 emission rates or emission reduction goals for existing electric generating units
CO_2	Carbon dioxide
COD	Commercial operation date
Contractor Settlement Agreement	The December 31, 2015 agreement between Westinghouse and the Vogtle Owners resolving disputes between the Vogtle Owners and the EPC Contractor under the Vogtle 3 and 4 Agreement
Cooperative Energy	Electric cooperative in Mississippi
CPCN	Certificate of public convenience and necessity
Customer Refunds	Refunds issued to Georgia Power customers in 2018 as ordered by the Georgia PSC related to the Guarantee Settlement Agreement
CWIP	Construction work in progress
Dalton Pipeline	A 50% undivided ownership interest of Southern Company Gas in a pipeline facility in Georgia
DOE	U.S. Department of Energy
ECO Plan	Mississippi Power's environmental compliance overview plan
Eligible Project Costs	Certain costs of construction relating to Plant Vogtle Units 3 and 4 that are eligible for financing under the loan guarantee program established under Title XVII of the Energy Policy Act of 2005
EPA	U.S. Environmental Protection Agency
EPC Contractor	Westinghouse and its affiliate, WECTEC Global Project Services Inc.; the former engineering, procurement, and construction contractor for Plant Vogtle Units 3 and 4
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FFB	Federal Financing Bank
Fitch	Fitch Ratings, Inc.
Form 10-K	Annual Report on Form 10-K of Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, and Southern Company Gas for the year ended December 31, 2017, as applicable
GAAP	U.S. generally accepted accounting principles

Georgia Power	Georgia Power Company
GHG	Greenhouse gas

Table of Contents

DEFINITIONS (continued)

Term	Meaning
Guarantee Settlement Agreement	The June 9, 2017 settlement agreement between the Vogtle Owners and Toshiba related to certain payment obligations of the EPC Contractor guaranteed by Toshiba
Gulf Power	Gulf Power Company
Heating Degree Days	A measure of weather, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Horizon Pipeline	Horizon Pipeline Company, LLC
IGCC	Integrated coal gasification combined cycle, the technology originally approved for Mississippi Power's Kemper County energy facility (Plant Ratcliffe)
IIC	Intercompany interchange contract
Illinois Commission	Illinois Commerce Commission
Interim Assessment Agreement	Agreement entered into by the Vogtle Owners and the EPC Contractor to allow construction to continue after the EPC Contractor's bankruptcy filing
IRS	Internal Revenue Service
ITC	Investment tax credit
JEA	Jacksonville Electric Authority
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LIFO	Last-in, first-out
LNG	Liquefied natural gas
Loan Guarantee Agreement	Loan guarantee agreement entered into by Georgia Power with the DOE in 2014, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its construction of Plant Vogtle Units 3 and 4
LOCOM	Lower of weighted average cost or current market price
LTSA	Long-term service agreement
MEAG	Municipal Electric Authority of Georgia
Merger	The merger, effective July 1, 2016, of a wholly-owned, direct subsidiary of Southern Company with and into Southern Company Gas, with Southern Company Gas continuing as the surviving corporation
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
MRA	Municipal and Rural Associations
MW	Megawatt
natural gas distribution utilities	Southern Company Gas' natural gas distribution utilities (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, Elizabethtown Gas, Florida City Gas, Chattanooga Gas, and Elkton Gas as of June 30, 2018) (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, and Chattanooga Gas as of July 29, 2018)
NCCR	Georgia Power's Nuclear Construction Cost Recovery
NextEra Energy	NextEra Energy, Inc.
Nicor Gas	Northern Illinois Gas Company, a wholly-owned subsidiary of Southern Company Gas
NRC	U.S. Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange, Inc.

OCI	Other comprehensive income
PennEast Pipeline	PennEast Pipeline Company, LLC, a joint venture to construct and operate a natural gas pipeline in which Southern Company Gas has a 20% ownership interest
PEP	Mississippi Power's Performance Evaluation Plan

Table of Contents

DEFINITIONS (continued)

Term	Meaning
Pivotal Home Solutions	Nicor Energy Services Company, until June 4, 2018 a wholly-owned subsidiary of Southern Company Gas, doing business as Pivotal Home Solutions
Pivotal Utility Holdings	Pivotal Utility Holdings, Inc., until July 29, 2018 a wholly-owned subsidiary of Southern Company Gas, doing business as Elizabethtown Gas (until July 1, 2018), Elkton Gas (until July 1, 2018), and Florida City Gas
PowerSecure	PowerSecure, Inc.
power pool	The operating arrangement whereby the integrated generating resources of the traditional electric operating companies and Southern Power (excluding subsidiaries) are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power purchase agreements, as well as, for Southern Power, contracts for differences that provide the owner of a renewable facility a certain fixed price for the electricity sold to the grid
PSC	Public Service Commission
PTC	Production tax credit
Rate CNP	Alabama Power's Rate Certificated New Plant
Rate CNP Compliance	Alabama Power's Rate Certificated New Plant Compliance
Rate CNP PPA	Alabama Power's Rate Certificated New Plant Power Purchase Agreement
Rate ECR	Alabama Power's Rate Energy Cost Recovery
Rate NDR	Alabama Power's Rate Natural Disaster Reserve
Rate RSE	Alabama Power's Rate Stabilization and Equalization plan
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power Company, and Southern Company Gas
ROE	Return on equity
S&P	S&P Global Ratings, a division of S&P Global Inc.
SCS	Southern Company Services, Inc. (the Southern Company system service company)
SEC	U.S. Securities and Exchange Commission
SNG	Southern Natural Gas Company, L.L.C.
Southern Company	The Southern Company
Southern Company Gas	Southern Company Gas and its subsidiaries
Southern Company Gas Capital	Southern Company Gas Capital Corporation, a 100%-owned subsidiary of Southern Company Gas
Southern Company Gas Dispositions	Southern Company Gas' disposition of Pivotal Home Solutions, Pivotal Utility Holdings' disposition of Elizabethtown Gas and Elkton Gas, and NUI Corporation's disposition of Pivotal Utility Holdings, which primarily consisted of Florida City Gas
Southern Company system	Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Electric Generating Company, Southern Nuclear, SCS, Southern Communications Services, Inc., PowerSecure, and other subsidiaries
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company and its subsidiaries
SPSH	SP Solar Holdings I, LP
SP Wind	SP Wind Holdings II, LLC
Tax Reform Legislation	The Tax Cuts and Jobs Act, which was signed into law on December 22, 2017 and became effective on January 1, 2018
Toshiba	Toshiba Corporation, parent company of Westinghouse

traditional electric operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Triton	Triton Container Investments, LLC
VCM	Vogtle Construction Monitoring
Virginia Commission	Virginia State Corporation Commission
Virginia Natural Gas	Virginia Natural Gas, Inc., a wholly-owned subsidiary of Southern Company Gas

Table of Contents

DEFINITIONS (continued)

Term	Meaning
Vogtle 3 and 4 Agreement	Agreement entered into with the EPC Contractor in 2008 by Georgia Power, acting for itself and as agent for the Vogtle Owners, and rejected in bankruptcy in July 2017, pursuant to which the EPC Contractor agreed to design, engineer, procure, construct, and test Plant Vogtle Units 3 and 4
Vogtle Owners	Georgia Power, Oglethorpe Power Corporation, MEAG, 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
Vogtle Services Agreement	The June 9, 2017 services agreement between the Vogtle Owners and the EPC Contractor, as amended and restated on July 20, 2017, for the EPC Contractor to transition construction management of Plant Vogtle Units 3 and 4 to Southern Nuclear and to provide ongoing design, engineering, and procurement services to Southern Nuclear
WACOG	Weighted average cost of gas
Westinghouse	Westinghouse Electric Company LLC

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning regulated rates, the strategic goals for the wholesale business, customer and sales growth, economic conditions, fuel and environmental cost recovery and other rate actions, projected equity ratios, costs of modernization efforts, current and proposed environmental regulations and related compliance plans and estimated expenditures, pending or potential litigation matters, access to sources of capital, financing activities, completion dates of construction projects, completion of announced dispositions, filings with state and federal regulatory authorities, impacts of the Tax Reform Legislation, federal and state 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," "would," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including environmental laws and regulations governing air, water, land, and protection of other natural resources, 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;
- the uncertainty surrounding the Tax Reform Legislation, including implementing regulations and IRS interpretations, actions that may be taken in response by regulatory authorities, and its impact, if any, on the credit ratings of Southern Company and its subsidiaries;
- current and future litigation or regulatory investigations, proceedings, or inquiries;
- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate, including from the development and deployment of alternative energy sources such as self-generation and distributed generation technologies;
- variations in demand for electricity and natural gas, including those relating to weather, the general economy, population and business growth (and declines), the effects of energy conservation and efficiency measures, and any potential economic impacts resulting from federal fiscal decisions;
- available sources and costs of natural gas and other fuels;
- limits on pipeline capacity;
- transmission constraints;
- effects of inflation;
- the ability to control costs and avoid cost and schedule overruns during the development, construction, and operation of facilities, including Plant Vogtle Units 3 and 4 which includes components based on new technology that only recently began initial operation in the global nuclear industry at scale, including changes in labor costs, availability, and productivity, challenges with management of contractors, subcontractors, or vendors, adverse weather conditions, shortages, increased costs or inconsistent quality of equipment, materials, and labor, including any changes related to imposition of import tariffs, 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;
- the ability to construct facilities in accordance with the requirements of permits and licenses (including satisfaction of NRC requirements), to satisfy any environmental performance standards and the requirements of tax credits and other incentives, and to integrate facilities into the Southern Company system upon completion of construction;
- investment performance of the Southern Company system's employee and retiree benefit plans and nuclear decommissioning trust funds;
- advances in technology;

- ongoing renewable energy partnerships and development agreements;
- state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;

Table of Contents

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;
- legal proceedings and regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals and NRC actions;
- under certain specified circumstances, a decision by holders of more than 10% of the ownership interests of Plant Vogtle Units 3 and 4 not to proceed with construction and the ability of other Vogtle Owners to tender a portion of their ownership interests to Georgia Power following certain construction cost increases;
- in the event Georgia Power becomes obligated to provide funding to MEAG with respect to the portion of MEAG's ownership interest in Plant Vogtle Units 3 and 4 involving JEA, any inability of Georgia Power to receive repayment of such funding;
- litigation or other disputes related to the Kemper County energy facility;
- the inherent risks involved in operating and constructing nuclear generating facilities, including environmental, health, regulatory, natural disaster, terrorism, and financial risks;
- the inherent risks involved in transporting and storing natural gas;
- the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;
- internal restructuring or other restructuring options that may be pursued;
- potential business strategies, including acquisitions or dispositions of assets or businesses, including the proposed dispositions of Gulf Power, Southern Power's plants located in Florida, and the Mankato natural gas facility and the proposed sale of a noncontrolling interest in Southern Power's wind facilities, 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 and the possibility that costs related to the integration of Southern Company and Southern Company Gas will be greater than expected;
- the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;
- the ability to obtain new short- and long-term contracts with wholesale customers;
- the direct or indirect effect on the Southern Company system's business resulting from cyber intrusion or physical attack and the threat of physical attacks;
- interest rate fluctuations and financial market conditions and the results of financing efforts;
- changes in Southern Company's and any of its subsidiaries' credit ratings, including impacts on interest rates, access to capital markets, and collateral requirements;
- the impacts of any sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on foreign currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the benefits of the DOE loan guarantees;
- the ability of Southern Company's electric utilities to obtain additional generating capacity (or sell excess generating capacity) at competitive prices;
- catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S. electric grid, natural gas pipeline infrastructure, or operation of generating or storage resources;
- impairments of goodwill or long-lived assets;
- 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.

Table of Contents

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail electric revenues	$4,605	$4,615	$11,913	$11,786
Wholesale electric revenues	693	718	1,923	1,867
Other electric revenues	170	168	509	510
Natural gas revenues (includes alternative revenue programs of $5, $-, $(23), and $9, respectively)	492	532	2,806	2,746
Other revenues	199	168	1,007	494
Total operating revenues	6,159	6,201	18,158	17,403
Operating Expenses:				
Fuel	1,310	1,285	3,514	3,372
Purchased power	257	256	760	646
Cost of natural gas	104	134	1,053	1,085
Cost of other sales	120	90	688	293
Other operations and maintenance	1,404	1,341	4,217	4,100
Depreciation and amortization	787	767	2,338	2,236
Taxes other than income taxes	319	303	990	941
Estimated loss on plants under construction	1	34	1,105	3,155
Gain on dispositions, net	(353)	—	(317)	(19)
Impairment charges	36	—	197	—
Total operating expenses	3,985	4,210	14,545	15,809
Operating Income	2,174	1,991	3,613	1,594
Other Income and (Expense):				
Allowance for equity funds used during construction	36	18	99	133
Earnings from equity method investments	36	32	108	100
Interest expense, net of amounts capitalized	(458)	(407)	(1,386)	(1,248)
Other income (expense), net	57	65	195	165
Total other income and (expense)	(329)	(292)	(984)	(850)
Earnings Before Income Taxes	1,845	1,699	2,629	744
Income taxes	623	590	598	317
Consolidated Net Income	1,222	1,109	2,031	427
Dividends on preferred and preference stock of subsidiaries	4	10	12	32
Net income attributable to noncontrolling interests	54	30	71	48
Consolidated Net Income Attributable to Southern Company	$1,164	$1,069	$1,948	$347
Common Stock Data:				
Earnings per share -				
Basic	$1.14	$1.07	$1.92	$0.35
Diluted	$1.13	$1.06	$1.91	$0.35
Average number of shares of common stock outstanding (in millions)				

Basic	1,023	1,003	1,016	998
Diluted	1,029	1,010	1,021	1,005
Cash dividends paid per share of common stock	$0.60	$0.58	$1.78	$1.72

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

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Consolidated Net Income	$1,222	$1,109	$2,031	$427
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(4), $15, $(6), and $32, respectively	(11)	25	(19)	54
Reclassification adjustment for amounts included in net income, net of tax of $5, $(10), $21, and $(36), respectively	14	(17)	60	(59)
Pension and other postretirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $3, $1, $4, and $2, respectively	8	1	11	3
Total other comprehensive income (loss)	11	9	52	(2)
Comprehensive Income	1,233	1,118	2,083	425
Dividends on preferred and preference stock of subsidiaries	4	10	12	32
Comprehensive income attributable to noncontrolling interests	54	30	71	48
Consolidated Comprehensive Income Attributable to Southern Company	$1,175	$1,078	$2,000	$345

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

Table of Contents

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

	For the Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Consolidated net income	$2,031	$427
Adjustments to reconcile consolidated net income to net cash provided from operating activities —		
Depreciation and amortization, total	2,647	2,564
Deferred income taxes	(286)	15
Allowance for equity funds used during construction	(99)	(133)
Pension, postretirement, and other employee benefits	(60)	(64)
Settlement of asset retirement obligations	(160)	(137)
Stock based compensation expense	108	95
Estimated loss on plants under construction	1,081	3,148
Gain on dispositions, net	(324)	(22)
Impairment charges	197	—
Other, net	(21)	(80)
Changes in certain current assets and liabilities —		
-Receivables	37	423
-Prepayments	14	(39)
-Natural gas for sale	87	—
-Other current assets	(90)	(66)
-Accounts payable	(248)	(467)
-Accrued taxes	839	157
-Accrued compensation	(138)	(230)
-Retail fuel cost over recovery	36	(211)
-Other current liabilities	(67)	(129)
Net cash provided from operating activities	5,584	5,251
Investing Activities:		
Business acquisitions, net of cash acquired	(64)	(1,016)
Property additions	(5,793)	(5,242)
Nuclear decommissioning trust fund purchases	(846)	(585)
Nuclear decommissioning trust fund sales	840	580
Dispositions	2,773	66
Cost of removal, net of salvage	(252)	(208)
Change in construction payables, net	91	120
Investment in unconsolidated subsidiaries	(93)	(134)
Payments pursuant to LTSAs	(157)	(189)
Other investing activities	1	(77)
Net cash used for investing activities	(3,500)	(6,685)
Financing Activities:		
Decrease in notes payable, net	(1,225)	(515)
Proceeds —		
Long-term debt	1,950	4,068

Common stock	878	613
Preferred stock	—	250
Short-term borrowings	3,150	1,263
Redemptions and repurchases —		
Long-term debt	(4,498)	(1,981)
Preferred and preference stock	—	(150)
Short-term borrowings	(1,800)	(409)
Distributions to noncontrolling interests	(86)	(89)
Capital contributions from noncontrolling interests	1,333	79
Payment of common stock dividends	(1,805)	(1,716)
Other financing activities	(237)	(113)
Net cash provided from (used for) financing activities	(2,340)	1,300
Net Change in Cash, Cash Equivalents, and Restricted Cash	(256)	(134)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	2,147	1,992
Cash, Cash Equivalents, and Restricted Cash at End of Period	$1,891	$1,858
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $53 and $72 capitalized for 2018 and 2017, respectively)	$1,402	$1,286
Income taxes, net	137	(187)
Noncash transactions — Accrued property additions at end of period	1,125	805

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

Table of Contents

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

Assets	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$1,847	$2,130
Receivables —		
Customer accounts receivable	1,730	1,806
Energy marketing receivables	498	607
Unbilled revenues	738	810
Under recovered fuel clause revenues	105	171
Other accounts and notes receivable	690	698
Accumulated provision for uncollectible accounts	(33)	(44)
Materials and supplies	1,418	1,438
Fossil fuel for generation	390	594
Natural gas for sale	486	595
Prepaid expenses	354	452
Other regulatory assets, current	522	604
Assets held for sale, current	407	12
Other current assets	232	199
Total current assets	9,384	10,072
Property, Plant, and Equipment:		
In service	100,672	103,542
Less: Accumulated depreciation	30,739	31,457
Plant in service, net of depreciation	69,933	72,085
Nuclear fuel, at amortized cost	844	883
Construction work in progress	7,655	6,904
Total property, plant, and equipment	78,432	79,872
Other Property and Investments:		
Goodwill	5,315	6,268
Equity investments in unconsolidated subsidiaries	1,569	1,513
Other intangible assets, net of amortization of $225 and $186 at September 30, 2018 and December 31, 2017, respectively	674	873
Nuclear decommissioning trusts, at fair value	1,872	1,832
Leveraged leases	794	775
Miscellaneous property and investments	258	249
Total other property and investments	10,482	11,510
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	792	825
Unamortized loss on reacquired debt	328	206
Other regulatory assets, deferred	6,196	6,943
Assets held for sale	4,667	—
Other deferred charges and assets	1,436	1,577
Total deferred charges and other assets	13,419	9,551
Total Assets	$111,717	$111,005

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

Table of Contents

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

Liabilities and Stockholders' Equity	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$3,013	$3,892
Notes payable	2,564	2,439
Energy marketing trade payables	521	546
Accounts payable	2,246	2,530
Customer deposits	524	542
Accrued taxes	1,060	636
Accrued interest	422	488
Accrued compensation	800	959
Asset retirement obligations, current	348	351
Other regulatory liabilities, current	349	337
Liabilities held for sale, current	355	—
Other current liabilities	763	874
Total current liabilities	12,965	13,594
Long-term Debt	41,425	44,462
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	6,035	6,842
Deferred credits related to income taxes	6,651	7,256
Accumulated deferred ITCs	2,377	2,267
Employee benefit obligations	2,017	2,256
Asset retirement obligations, deferred	5,817	4,473
Accrued environmental remediation	269	389
Other cost of removal obligations	2,330	2,684
Other regulatory liabilities, deferred	153	239
Liabilities held for sale	2,835	—
Other deferred credits and liabilities	454	691
Total deferred credits and other liabilities	28,938	27,097
Total Liabilities	83,328	85,153
Redeemable Preferred Stock of Subsidiaries	324	324
Stockholders' Equity:		
Common Stockholders' Equity:		
Common stock, par value $5 per share — Authorized — 1.5 billion shares Issued — 1.0 billion shares Treasury — September 30, 2018: 1.0 million shares — December 31, 2017: 0.9 million shares		
Par value	5,140	5,038
Paid-in capital	10,905	10,469
Treasury, at cost	(39)	(36)
Retained earnings	9,048	8,885
Accumulated other comprehensive loss	(177)	(189)

Total Common Stockholders' Equity	24,877	24,167
Noncontrolling Interests	3,188	1,361
Total Stockholders' Equity	28,065	25,528
Total Liabilities and Stockholders' Equity	$111,717	$111,005

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

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

THIRD QUARTER 2018 vs. THIRD QUARTER 2017
AND
YEAR-TO-DATE 2018 vs. YEAR-TO-DATE 2017

OVERVIEW

Southern Company is a holding company that owns all of the common stock of the traditional electric operating companies and the parent entities of Southern Power and Southern Company Gas and owns other direct and indirect subsidiaries. Discussion of the results of operations is focused on the Southern Company system's primary businesses of electricity sales by the traditional electric operating companies and Southern Power and the distribution of natural gas by Southern Company Gas. The four traditional electric operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power develops, constructs, acquires, owns, and manages power generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. During the second quarter 2018, Southern Power completed the sale of a 33% equity interest in a limited partnership indirectly owning substantially all of its solar facilities. On October 31, 2018, Southern Power entered into agreements with three financial investors for the sale of a noncontrolling interest for approximately $1.2 billion in tax equity in SP Wind, which owns a portfolio of eight operating wind facilities. On November 5, 2018, Southern Power entered into an agreement to sell all of its equity interests in Plant Mankato (including the 385-MW expansion currently under construction) for an aggregate purchase price of $650 million. Southern Company Gas distributes natural gas through its natural gas distribution utilities and is involved in several other complementary businesses including gas marketing services, wholesale gas services, and gas midstream operations. In July 2018, Southern Company Gas completed sales of three of its natural gas distribution utilities. During the second quarter 2018, Southern Company Gas also completed the sale of Pivotal Home Solutions. The Southern Company system's other business activities include providing energy technologies and services to electric utilities and large industrial, commercial, institutional, and municipal customers. Customer solutions include distributed generation systems, utility infrastructure solutions, and energy efficiency products and services. Other business activities also include investments in telecommunications, leveraged lease projects, and gas storage facilities. For additional information, see BUSINESS – "The Southern Company System – Traditional Electric Operating Companies," " – Southern Power," " – Southern Company Gas," and " – Other Businesses" in Item 1 of the Form 10-K. See FUTURE EARNINGS POTENTIAL and Note (J) to the Condensed Financial Statements herein for additional information regarding disposition activity.

On May 20, 2018, Southern Company entered into a stock purchase agreement with NextEra Energy to sell Gulf Power for an aggregate cash purchase price of $5.75 billion (less the amount of indebtedness assumed at closing, which is currently estimated at approximately $1.3 billion), subject to certain adjustments. The completion of the sale is expected to occur in the first quarter 2019 and is subject to the satisfaction or waiver of certain closing conditions. The ultimate outcome of this matter cannot be determined at this time. See Note (J) to the Condensed Financial Statements under "Southern Company's Sale of Gulf Power" herein for additional information.

In 2018, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Atlanta Gas Light, and Nicor Gas reached agreements with their respective state PSCs or other applicable state regulatory agencies relating to the regulatory impacts of the Tax Reform Legislation, which, for some companies, included capital structure adjustments expected to help mitigate the potential adverse impacts to certain of their credit metrics. See Note (B) to the Condensed Financial Statements under "Regulatory Matters" herein for additional information regarding state PSC or other regulatory agency actions related to the Tax Reform Legislation. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Southern Company in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk" and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation.

Southern Company continues to focus on several key performance indicators. These indicators include, but are not limited to, customer satisfaction, plant availability, electric and natural gas system reliability, execution of major construction projects, and earnings per share.

Plant Vogtle Units 3 and 4 Status

In 2009, the Georgia PSC certified construction of Plant Vogtle Units 3 and 4 (with electric generating capacity of approximately 1,100 MWs each). In March 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. In December 2017, the Georgia PSC approved Georgia Power's recommendation to continue construction. The current expected in-service dates remain November 2021 for Unit 3 and November 2022 for Unit 4.

In the second quarter 2018, Georgia Power revised its base cost forecast and estimated contingency to complete construction and start-up of Plant Vogtle Units 3 and 4 to $8.0 billion and $0.4 billion, respectively, for a total project capital cost forecast of $8.4 billion (net of $1.7 billion received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds). Although Georgia Power believes these incremental costs are reasonable and necessary to complete the project and the Georgia PSC has stated the $7.3 billion estimate included in the seventeenth VCM proceeding does not represent a cost cap, Georgia Power did not seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast (or any related financing costs) in the nineteenth VCM report filed with the Georgia PSC on August 31, 2018. In connection with future VCM filings, Georgia Power may request the Georgia PSC to evaluate costs included in the revised construction contingency estimate for rate recovery as and when they are appropriately included in the base capital cost forecast. After considering the significant level of uncertainty that exists regarding the future recoverability of costs included in the construction contingency estimate since the ultimate outcome of these matters is subject to the outcome of future assessments by management, as well as Georgia PSC decisions in these future regulatory proceedings, Georgia Power recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) in the second quarter 2018.

As a result of the increase in the total project capital cost forecast and Georgia Power's decision not to seek rate recovery of the increase in the base capital costs, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 were required to vote to continue construction. On September 26, 2018, the Vogtle Owners unanimously voted to continue construction of Plant Vogtle Units 3 and 4. In connection with the vote to continue construction, Georgia Power entered into (i) a binding term sheet (Vogtle Owner Term Sheet) with the other Vogtle Owners and certain of MEAG's wholly-owned subsidiaries, including MEAG Power SPVJ, LLC (MEAG SPVJ), to take certain actions which partially mitigate potential financial exposure for the other Vogtle Owners and (ii) a term sheet with MEAG and MEAG SPVJ to provide funding with respect to MEAG SPVJ's ownership interest in Plant Vogtle Units 3 and 4 under certain circumstances. Georgia Power is working with the other Vogtle Owners to clarify any interpretive issues related to the operation of certain provisions of the Vogtle Owner Term Sheet.

In September 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately $1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. In September 2018, the DOE extended the conditional commitment to March 31, 2019. Any further extension must be approved by the DOE. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions.

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

See FUTURE EARNINGS POTENTIAL – "Construction Program – Nuclear Construction" and ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" herein for additional information.

Table of Contents

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

RESULTS OF OPERATIONS

Net Income

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$95	8.9	$1,601	N/M

N/M - Not meaningful

Consolidated net income attributable to Southern Company was $1.2 billion ($1.14 per share) for the third quarter 2018 compared to $1.1 billion ($1.07 per share) for the corresponding period in 2017. The increase was primarily due to lower federal income tax expense as a result of the Tax Reform Legislation and higher retail electric revenues due to warmer weather in the third quarter 2018 compared to the corresponding period in 2017. These increases were partially offset by reductions in retail revenues related to Tax Reform Legislation impacts and an increase in operations and maintenance expenses.

Consolidated net income attributable to Southern Company was $1.9 billion ($1.92 per share) for year-to-date 2018 compared to $347 million ($0.35 per share) for the corresponding period in 2017. The increase was primarily due to charges of $3.2 billion ($2.2 billion after tax) in 2017 related to the Kemper IGCC at Mississippi Power, partially offset by a $1.1 billion ($0.8 billion after tax) charge in the second quarter 2018 for an estimated probable loss on Georgia Power's construction of Plant Vogtle Units 3 and 4. Also contributing to the increase were lower federal income tax expense as a result of the Tax Reform Legislation and higher retail electric revenues due to colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017, partially offset by reductions in retail revenues related to Tax Reform Legislation impacts and impairment charges at Southern Power and Southern Company Gas, primarily related to the dispositions described in Note (J) to the Condensed Financial Statements herein.

Retail Electric Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(10)	(0.2)	$127	1.1

In the third quarter 2018, retail electric revenues were $4.61 billion compared to $4.62 billion for the corresponding period in 2017. For year-to-date 2018, retail electric revenues were $11.9 billion compared to $11.8 billion for the corresponding period in 2017.

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

	Third Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail electric – prior year	$4,615		$11,786	
Estimated change resulting from –				
Rates and pricing	(198)	(4.2)	(444)	(3.8)
Sales growth	43	0.9	65	0.6
Weather	80	1.7	297	2.5
Fuel and other cost recovery	65	1.4	209	1.8
Retail electric – current year	$4,605	(0.2)%	$11,913	1.1%

Revenues associated with changes in rates and pricing decreased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to revenues deferred as regulatory liabilities for future customer bill credits related to the Tax Reform Legislation and decreases in revenues recognized under the NCCR tariff at Georgia Power. The year-to-date 2018 decrease was partially offset by higher contributions from variable demand-driven pricing from commercial and industrial customers at Georgia Power.

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

Revenues attributable to changes in sales increased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017. In the third quarter and year-to-date 2018, weather-adjusted residential KWH sales increased 1.2% and 0.8%, respectively, and weather-adjusted commercial KWH sales increased 0.8% and 0.6%, respectively, primarily due to customer growth. Industrial KWH sales increased 2.4% and 1.9% in the third quarter and year-to-date 2018, respectively, primarily in the primary metals sector, largely due to strong domestic demand for steel and aluminum, partially offset by decreased sales in the chemicals and paper sectors, primarily due to customer maintenance outages and on-site cogeneration.

Fuel and other cost recovery revenues increased $65 million and $209 million in the third quarter and year-to-date 2018, respectively, when compared to the corresponding periods in 2017 primarily due to higher energy sales resulting from colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017. Electric rates for the traditional electric operating companies include provisions to adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these provisions, fuel revenues generally equal fuel expenses, including the energy component of PPA costs, and do not affect net income. The traditional electric operating companies each have one or more regulatory mechanisms to recover other costs such as environmental and other compliance costs, storm damage, new plants, and PPA capacity costs.

Wholesale Electric Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(25)	(3.5)	$56	3.0

Wholesale electric revenues consist of PPAs primarily with investor-owned utilities and electric cooperatives and short-term opportunity sales. Wholesale electric revenues from PPAs (other than solar and wind PPAs) have both capacity and energy components. Capacity revenues generally represent the greatest contribution to net income and are designed to provide recovery of fixed costs plus a return on investment. Energy revenues will vary depending on fuel prices, the market prices of wholesale energy compared to the Southern Company system's generation, demand for energy within the Southern Company system's electric service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. Energy sales from solar and wind PPAs do not have a capacity charge and customers either purchase the energy output of a dedicated renewable facility through an energy charge or through a fixed price related to the energy. As a result, the ability to recover fixed and variable operations and maintenance expenses is dependent upon the level of energy generated from these facilities, which can be impacted by weather conditions, equipment performance, transmission constraints, and other factors. Wholesale electric revenues at Mississippi Power include FERC-regulated municipal and rural association sales under cost-based tariffs 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 third quarter 2018, wholesale electric revenues were $693 million compared to $718 million for the corresponding period in 2017. This decrease was related to a $20 million decrease in energy revenues and a $5 million decrease in capacity revenues. The decrease in energy revenues is primarily related to a decrease in non-PPA revenues from short-term sales at Southern Power and a decrease in revenue under the Shared Services Agreement

(SSA) between Mississippi Power and Cooperative Energy. These decreases were partially offset by an increase in revenues at Southern Power from new natural gas PPAs from existing facilities, an increase in sales from renewable facilities, and an increase in fuel costs that are contractually recovered through PPAs.

For year-to-date 2018, wholesale electric revenues were $1.92 billion compared to $1.87 billion for the corresponding period in 2017. This increase was related to a $70 million increase in energy revenues, partially offset by a $14 million decrease in capacity revenues. The increase in energy revenues primarily related to Southern Power included revenues from new natural gas PPAs from existing facilities, an increase in fuel costs that are contractually recovered through PPAs, and an increase in sales from renewable facilities. These increases were partially offset by a decrease in non-PPA revenues from short-term sales at Southern Power and a decrease in revenue under the SSA between Mississippi Power and Cooperative Energy.

Natural Gas Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(40)	(7.5)	$60	2.2

In the third quarter 2018, natural gas revenues were $492 million compared to $532 million for the corresponding period in 2017. For year-to-date 2018, natural gas revenues were $2.8 billion compared to $2.7 billion for the corresponding period in 2017.

Details of the changes in natural gas revenues were as follows:

	Third Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Natural gas revenues – prior year	$532		$2,746	
Estimated change resulting from –				
Infrastructure replacement programs and base rate changes	—	—	53	1.9
Gas costs and other cost recovery	(16)	(3.0)	(24)	(0.9)
Weather	1	0.2	17	0.6
Wholesale gas services	17	3.2	46	1.7
Dispositions(*)	(43)	(8.1)	(30)	(1.1)
Other	1	0.2	(2)	—
Natural gas revenues – current year	$492	(7.5)%	$2,806	2.2 %

(*) Includes Pivotal Utility Holdings' disposition of Elizabethtown Gas and Elkton Gas as well as NUI Corporation's disposition of Pivotal Utility Holdings, which primarily consisted of Florida City Gas. See Note (J) to the Condensed Financial Statements under "Southern Company Gas" herein for additional information.

Revenues attributable to infrastructure replacement programs and base rate changes at the natural gas distribution utilities increased for year-to-date 2018 due to continued investments recovered through infrastructure replacement programs and base rate increases as a result of rate cases, partially offset by revenue reductions for the impacts of the Tax Reform Legislation.

Revenues attributable to gas costs and other cost recovery in the third quarter 2018 decreased primarily due to reduced natural gas prices during the third quarter 2018 compared to the corresponding period in 2017 and decreased volumes of natural gas sold in the third quarter 2018 as a result of fewer customers served following the dispositions. Revenues attributable to gas costs and other cost recovery for year-to-date 2018 decreased due to reduced natural gas prices during 2018 compared to the corresponding period in 2017, partially offset by increased volumes of natural gas sold in 2018 as a result of colder weather, as determined by Heating Degree Days.

Table of Contents

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

Revenues increased due to colder weather, as determined by Heating Degree Days, in 2018 compared to the corresponding periods in 2017 that affected the utility customers in Illinois and Southern Company Gas' gas marketing services customers in Georgia and Illinois.

Revenues attributable to Southern Company Gas' wholesale gas services business increased primarily due to increased commercial activity, partially offset by derivative losses.

Natural gas distribution rates include provisions to adjust billings for fluctuations in natural gas costs. Therefore, gas costs recovered through natural gas revenues generally equal the amount expensed in cost of natural gas and do not affect net income from gas distribution operations.

See Note (B) to the Condensed Financial Statements herein under "Regulatory Matters – Southern Company Gas" for additional information.

Other Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$31	18.5	$513	103.8

In the third quarter 2018, other revenues were $199 million compared to $168 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $1.0 billion compared to $494 million for the corresponding period in 2017. These increases were related to an increase in sales of products and services from additional customer contracts in distributed generation and utility infrastructure at PowerSecure, partially offset by a decrease in revenues resulting from the sale of Pivotal Home Solutions on June 4, 2018 at Southern Company Gas. The year-to-date 2018 increase was primarily related to storm restoration services in Puerto Rico. Additionally, these increases reflect $21 million and $40 million of revenues in the third quarter and year-to-date 2018, respectively, from unregulated sales of products and services that were reclassified to other revenues as a result of the adoption of ASC 606, Revenue from Contracts with Customers (ASC 606). In prior periods, these revenues were included in other income (expense), net. See Note (A) to the Condensed Financial Statements herein for additional information regarding the adoption of ASC 606.

Fuel and Purchased Power Expenses

	Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 25	1.9	$ 142	4.2
Purchased power	1	0.4	114	17.6
Total fuel and purchased power expenses	$ 26		$ 256	

In the third quarter 2018, total fuel and purchased power expenses were $1.6 billion compared to $1.5 billion for the corresponding period in 2017. The increase was primarily the result of a $68 million increase in the volume of KWHs generated and purchased, partially offset by a $42 million decrease in the average cost of fuel and purchased power.

For year-to-date 2018, total fuel and purchased power expenses were $4.3 billion compared to $4.0 billion for the corresponding period in 2017. The increase was primarily the result of a $300 million increase in the volume of KWHs generated and purchased, partially offset by a $74 million net decrease in the average cost of fuel and purchased power. In addition, fuel expense increased $30 million for year-to-date 2018 in accordance with an Alabama PSC accounting order authorizing the use of excess deferred income taxes to offset under recovered fuel costs.

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

Fuel and purchased power energy transactions at the traditional electric operating companies are generally offset by fuel revenues and do not have a significant impact on net income. See FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Fuel Cost Recovery" and " – Alabama Power – Accounting Order" 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:

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in billions of KWHs)	56	55	153	147
Total purchased power (in billions of KWHs)	6	6	16	14
Sources of generation (percent) —				
Gas	47	47	46	46
Coal	32	31	30	30
Nuclear	14	15	15	16
Hydro	2	2	3	2
Other	5	5	6	6
Cost of fuel, generated (in cents per net KWH)[(a)] —				
Gas	2.78	2.92	2.79	2.93
Coal	2.75	2.75	2.79	2.82
Nuclear	0.81	0.80	0.80	0.80
Average cost of fuel, generated (in cents per net KWH)[(a)]	2.47	2.52	2.47	2.51
Average cost of purchased power (in cents per net KWH)[(b)]	5.32	5.36	5.52	5.32

(a) For year-to-date 2018, cost of fuel, generated and average cost of fuel, generated excludes a $30 million adjustment associated with the Alabama PSC accounting order related to excess deferred income taxes.

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

Fuel

In the third quarter 2018, fuel expense was $1.31 billion compared to $1.29 billion for the corresponding period in 2017. The increase was primarily due to a 7.5% increase in the volume of KWHs generated by natural gas and a 1.3% increase in the volume of KWHs generated by coal, partially offset by a 4.8% decrease in the average cost of natural gas per KWH generated.

For year-to-date 2018, fuel expense was $3.5 billion compared to $3.4 billion for the corresponding period in 2017. The increase was primarily due to a 9.3% increase in the volume of KWHs generated by natural gas and a 4.1% increase in the volume of KWHs generated by coal, partially offset by a 4.8% decrease in the average cost of natural gas per KWH generated and a 1.1% decrease in the average cost of coal per KWH generated.

Purchased Power

For year-to-date 2018, purchased power expense was $760 million compared to $646 million for the corresponding period in 2017. The increase was primarily due to a 10.5% increase in the volume of KWHs purchased and a 3.8% increase in the average cost per KWH purchased.

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

23

Cost of Natural Gas

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(30)	(22.4)	$(32)	(2.9)

Natural gas distribution rates include provisions to adjust billings for fluctuations in natural gas costs. Therefore, gas costs recovered through natural gas revenues generally equal the amount expensed in cost of natural gas and do not affect net income from the natural gas distribution utilities. Cost of natural gas at the natural gas distribution utilities represented 75% and 83% of total cost of natural gas for the third quarter and year-to-date 2018, respectively.

In the third quarter 2018, cost of natural gas was $104 million compared to $134 million for the corresponding period in 2017. The decrease reflects $14 million related to the Southern Company Gas Dispositions, which resulted in a decrease in the volume of natural gas sold in the third quarter 2018 as a result of fewer gas distribution customers, and a 3.2% decrease in natural gas prices during the third quarter 2018 compared to the corresponding period in 2017.

For year-to-date 2018, cost of natural gas was $1.05 billion compared to $1.09 billion for the corresponding period in 2017. The decrease reflects $8 million related to the Southern Company Gas Dispositions, which resulted in a decrease in the volume of natural gas sold in 2018 as a result of fewer gas distribution customers, as well as an 8.4% decrease in natural gas prices during 2018, partially offset by an increase in the volume of natural gas sold in 2018 as a result of colder weather compared to the corresponding period in 2017.

Cost of Other Sales

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$30	33.3	$395	134.8

In the third quarter 2018, cost of other sales was $120 million compared to $90 million for the corresponding period in 2017. For year-to-date 2018, cost of other sales was $688 million compared to $293 million for the corresponding period in 2017. These increases were related to an increase in sales of products and services from additional customer contracts in distributed generation and utility infrastructure at PowerSecure. The year-to-date 2018 increase was primarily related to storm restoration services in Puerto Rico.

Other Operations and Maintenance Expenses

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$63	4.7	$117	2.9

In the third quarter 2018, other operations and maintenance expenses were $1.4 billion compared to $1.3 billion for the corresponding period in 2017. The increase was primarily due to a $22 million increase in electric transmission and distribution costs, primarily due to additional line maintenance, and $21 million of disposition-related costs at Southern Company Gas. The increase also reflects $21 million of expenses from unregulated sales of products and services that were reclassified to other operations and maintenance expenses as a result of the adoption of ASC 606. In prior periods, these expenses were included in other income (expense), net.

For year-to-date 2018, other operations and maintenance expenses were $4.2 billion compared to $4.1 billion for the corresponding period in 2017. The increase was primarily due to a $60 million increase in electric transmission and distribution costs, primarily due to additional line maintenance, and $29 million of disposition-related costs at

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

Southern Company Gas. The increase also reflects $51 million of expenses from unregulated sales of products and services that were reclassified to other operations and maintenance expenses as a result of the adoption of ASC 606. In prior periods, these expenses were included in other income (expense), net. These increases were partially offset by a $32.5 million charge in the first quarter 2017 related to the write-down of Gulf Power's ownership of Plant Scherer Unit 3 in accordance with the settlement of Gulf Power's 2017 rate case. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information.
See Note (A) to the Condensed Financial Statements herein for additional information regarding the adoption of ASC 606.

Depreciation and Amortization

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$20	2.6	$102	4.6

In the third quarter 2018, depreciation and amortization was $787 million compared to $767 million for the corresponding period in 2017. For year-to-date 2018, depreciation and amortization was $2.3 billion compared to $2.2 billion for the corresponding period in 2017. These increases primarily reflect increases of $18 million and $76 million for the third quarter and year-to-date 2018, respectively, related to additional plant in service. Additionally, the year-to-date 2018 increase was due to $34 million in depreciation credits recognized in 2017, as authorized in Gulf Power's 2013 rate case settlement. See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information.

Taxes Other Than Income Taxes

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$16	5.3	$49	5.2

In the third quarter 2018, taxes other than income taxes were $319 million compared to $303 million for the corresponding period in 2017. For year-to-date 2018, taxes other than income taxes were $990 million compared to $941 million for the corresponding period in 2017. These increases were primarily due to increased property taxes at the traditional electric operating companies and investment capital taxes at Southern Company Gas. Also contributing to the year-to-date 2018 increase was an increase in municipal franchise fees primarily related to higher retail revenues at Georgia Power and an increase in revenue tax expenses as a result of higher revenues at Southern Company Gas.

Estimated Loss on Plants Under Construction

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(33)	(97.1)	$(2,050)	(65.0)

In the third quarter 2018, estimated loss on plants under construction was $1 million compared to $34 million for the corresponding period in 2017. For year-to-date 2018, estimated loss on plants under construction was $1.1 billion compared to $3.2 billion for the corresponding period in 2017. The third quarter 2018 decrease was primarily due to lower costs associated with abandonment and related closure activities for the mine and gasifier-related assets of the Kemper IGCC at Mississippi Power. The year-to-date 2018 decrease was primarily due to revisions to the estimated construction costs for, and subsequent suspension in June 2017 of, the Kemper IGCC at Mississippi

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

Power, partially offset by charges in 2018 related to Georgia Power's revised estimate to complete construction and start-up of Plant Vogtle Units 3 and 4.
See Note 3 to the financial statements of Southern Company under "Kemper County Energy Facility" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Kemper County Energy Facility" and "Nuclear Construction" herein for additional information.

Gain on Dispositions, Net

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$353	N/M	$298	N/M

N/M - Not meaningful

In the third quarter and year-to-date 2018, a net gain on dispositions of $353 million ($40 million gain after tax) and $317 million ($35 million loss after tax), respectively, were recorded related to the Southern Company Gas Dispositions. The year-to-date 2018 increase in gain on dispositions, net was partially offset by a $19 million decrease in gains from sales of integrated transmission system assets at Georgia Power. See Note (J) to the Condensed Financial Statements under "Southern Company Gas" herein for additional information regarding related income taxes which substantially offset the gains for the Southern Company Gas Dispositions.

Impairment Charges

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$36	N/M	$197	N/M

N/M - Not meaningful

Southern Power recorded a $36 million asset impairment charge in the third quarter 2018 on wind turbine equipment held for development projects and a $119 million asset impairment charge in the second quarter 2018 in contemplation of the sale of its Florida plants. Additionally, Southern Company Gas recorded a goodwill impairment charge of $42 million during the first quarter 2018 in contemplation of the sale of Pivotal Home Solutions.
See Notes (A) and (J) to the Condensed Financial Statements herein under "Goodwill and Other Intangible Assets" and under "Southern Power – Sale of Florida Plants" and "Southern Company Gas," respectively, for additional information.

Allowance for Equity Funds Used During Construction

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$18	100.0	$(34)	(25.6)

In the third quarter 2018, AFUDC equity was $36 million compared to $18 million in the corresponding period in 2017. The increase was primarily due to a higher AFUDC rate resulting from a higher equity ratio and lower short-term borrowings at Georgia Power and a higher AFUDC base related to environmental and transmission projects at Alabama Power.
For year-to-date 2018, AFUDC equity was $99 million compared to $133 million in the corresponding period in 2017. The decrease primarily resulted from Mississippi Power's suspension of the Kemper IGCC construction in June 2017, partially offset by a higher AFUDC rate resulting from a higher equity ratio and lower short-term borrowings at Georgia Power and a higher AFUDC base related to environmental and transmission projects at Alabama Power.

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

See Note 3 to the financial statements of Southern Company under "Kemper County Energy Facility" in Item 8 of the Form 10-K.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$51	12.5	$138	11.1

In the third quarter 2018, interest expense, net of amounts capitalized was $458 million compared to $407 million in the corresponding period in 2017. For year-to-date 2018, interest expense, net of amounts capitalized was $1.4 billion compared to $1.2 billion in the corresponding period in 2017. These increases were primarily due to an increase in variable interest rates and average outstanding debt at the parent company and a $33 million net reduction in the third quarter 2017 following a settlement with the IRS related to research and experimental deductions at Mississippi Power, partially offset by a decrease in average outstanding debt at Georgia Power. The year-to-date 2018 increase was also due to new debt issuances and short-term debt at Southern Company Gas and a reduction in AFUDC debt of $24 million related to the Kemper IGCC project suspension in June 2017 at Mississippi Power.

See FINANCIAL CONDITION AND LIQUIDITY – "Financing Activities" herein, Note 6 to the financial statements of Southern Company in Item 8 of the Form 10-K, and Note (F) to the Condensed Financial Statements herein for additional information.

Other Income (Expense), Net

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(8)	(12.3)	$30	18.2

In the third quarter 2018, other income (expense), net was $57 million compared to $65 million for the corresponding period in 2017. The decrease was primarily due to a reduction of gains from the settlement of contractor litigation claims at Southern Company Gas, partially offset by a gain from a joint-development wind project at Southern Power, which is attributable to Southern Power's partner in the project and fully offset within noncontrolling interests.

For year-to-date 2018, other income (expense), net was $195 million compared to $165 million for the corresponding period in 2017. The increase was primarily due to the settlement of Mississippi Power's Deepwater Horizon claim in May 2018 and a gain from a joint-development wind project at Southern Power, which is attributable to Southern Power's partner in the project and fully offset within noncontrolling interests, partially offset by a reduction of gains from the settlement of contractor litigation claims at Southern Company Gas.

See Note (B) to the Condensed Financial Statements herein under "General Litigation Matters – Mississippi Power" and "Regulatory Matters – Southern Company Gas – Atlanta Gas Light's Pipeline Replacement Program" and Note (J) to the Condensed Financial Statements herein under "Southern Power – Development Projects" for additional information.

Income Taxes

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$33	5.6	$281	88.6

In the third quarter 2018, income taxes were $623 million compared to $590 million for the corresponding period in 2017. The increase was primarily due to tax expense related to the sales of Elizabethtown Gas, Elkton Gas, and Florida City Gas and the recognition of a valuation allowance on certain state tax credit carryforwards at Georgia Power, partially offset by lower federal income tax expense as well as the benefit from the flowback of excess deferred income taxes as a result of the Tax Reform Legislation and a decrease in pre-tax earnings (excluding the gains on the sales of Elizabethtown Gas, Elkton Gas, and Florida City Gas).

For year-to-date 2018, income taxes were $598 million compared to $317 million for the corresponding period in 2017. The increase was primarily due to an increase in pre-tax earnings, primarily resulting from charges recorded in 2017 related to the Kemper IGCC at Mississippi Power partially offset by the estimated probable loss on Plant Vogtle Units 3 and 4 at Georgia Power recognized in the second quarter 2018, and tax expense related to the Southern Company Gas Dispositions. This increase was partially offset by lower federal income tax expense as well as the benefit from the flowback of excess deferred income taxes as a result of the Tax Reform Legislation and the net state income tax benefits arising from the reorganizations of certain of Southern Power's legal entities.

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

Dividends on Preferred and Preference Stock of Subsidiaries

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(6)	(60.0)	$(20)	(62.5)

In the third quarter 2018, dividends on preferred and preference stock of subsidiaries was $4 million compared to $10 million for the corresponding period in 2017. For year-to-date 2018, dividends on preferred and preference stock of subsidiaries was $12 million compared to $32 million for the corresponding period in 2017. These decreases were primarily due to the 2017 redemptions of all outstanding shares of preferred and preference stock at Georgia Power. See Note 6 the financial statements of Southern Company under "Redeemable Preferred Stock of Subsidiaries" in Item 8 of the Form 10-K for additional information. Also see FINANCIAL CONDITION AND LIQUIDITY – "Financing Activities" herein for information on Mississippi Power's redemption of all of its outstanding preferred stock subsequent to September 30, 2018.

Net Income Attributable to Noncontrolling Interests

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$24	80.0	$23	47.9

Substantially all noncontrolling interests relate to renewable projects at Southern Power. See Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information.

In the third quarter 2018, net income attributable to noncontrolling interests was $54 million compared to $30 million for the corresponding period in 2017. The increase was due to $14 million of other income allocations attributable to a joint-development wind project and $10 million of net income allocations primarily due to the sale of a 33% equity interest in SPSH in 2018, the company holding substantially all of Southern Power's solar facilities.

For year-to-date 2018, net income attributable to noncontrolling interests was $71 million compared to $48 million for the corresponding period in 2017. The increase was primarily due to $21 million of net income allocations due to the sale of a 33% equity interest in SPSH in 2018 and $14 million of other income allocations attributable to a joint-development wind project, partially offset by a reduction of $10 million of net income allocations to other partnership interests, primarily due to the tax equity partnership for Gaskell West 1.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of the Southern Company system's primary businesses of selling electricity and distributing natural gas. These factors include the traditional electric operating companies' and the natural gas distribution utilities' ability to maintain constructive regulatory environments that allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Plant Vogtle Units 3 and 4 construction and rate recovery and the profitability of Southern Power's competitive wholesale business and successful additional investments in renewable and other energy projects are also major factors.

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

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

On May 20, 2018, Southern Company entered into a stock purchase agreement with NextEra Energy to sell all of the capital stock of Gulf Power for an aggregate cash purchase price of $5.75 billion (less the amount of indebtedness assumed at closing, which is currently estimated at approximately $1.3 billion), subject to (i) customary adjustments for indebtedness and working capital and (ii) reduction by the amount (if any) by which Gulf Power fails to meet a specified capital expenditure target. The completion of the sale is expected to occur in the first quarter 2019 and is subject to the satisfaction or waiver of certain closing conditions, including, among others, (i) approval by the FERC and the Federal Communications Commission, (ii) the entry into certain ancillary agreements, including transmission-related agreements and a transition services agreement, among the parties and their affiliates, and (iii) other customary closing conditions. See Note (J) to the Condensed Financial Statements under "Southern Company's Sale of Gulf Power" herein for additional information. The ultimate outcome of this matter cannot be determined at this time.

On June 4, 2018, Southern Company Gas completed the stock sale of Pivotal Home Solutions to American Water Enterprises LLC for a total cash purchase price of $365 million, which includes the final working capital adjustment. This disposition resulted in an estimated net loss of $73 million, which includes $39 million of income tax expense, the calculation of which is expected to be finalized in the fourth quarter 2018. In contemplation of the transaction, a goodwill impairment charge of $42 million was recorded during the first quarter 2018.

On July 1, 2018, a Southern Company Gas subsidiary, Pivotal Utility Holdings, completed the sales of the assets of two of its natural gas distribution utilities, Elizabethtown Gas and Elkton Gas, to South Jersey Industries, Inc. for a total cash purchase price of $1.7 billion and an additional $40 million for working capital, subject to a final working capital adjustment expected in the fourth quarter 2018. This disposition resulted in an estimated pre-tax gain of approximately $230 million and an after-tax gain of approximately $18 million, the calculations of which are expected to be finalized in the fourth quarter 2018.

On July 29, 2018, Southern Company Gas and its wholly-owned direct subsidiary, NUI Corporation, completed the stock sale of Pivotal Utility Holdings, which primarily consisted of Florida City Gas, to NextEra Energy for a total cash purchase price of $530 million (less $3 million of indebtedness assumed at closing for customer deposits) and an additional $60 million for cash and other working capital, which includes the final working capital adjustment. This disposition resulted in an estimated pre-tax gain of approximately $121 million and an after-tax gain of approximately $20 million, the calculations of which are expected to be finalized in the fourth quarter 2018.

The after-tax impacts of the Southern Company Gas Dispositions included income tax expense on goodwill not deductible for tax purposes and for which a deferred tax liability had not been recorded previously. See Note (J) to the Condensed Financial Statements under "Southern Company Gas" herein for additional information.

In May 2018, Southern Power completed the sale of a 33% equity interest in SPSH, a limited partnership indirectly owning substantially all of Southern Power's solar facilities, for an aggregate purchase price of approximately $1.2 billion. On October 31, 2018, Southern Power entered into agreements with three financial investors for the sale of a noncontrolling interest for approximately $1.2 billion in tax equity in SP Wind, which owns a portfolio of eight operating wind facilities. The transaction is subject to Public Utility Commission of Texas approval and is expected to close by the end of 2018. On November 5, 2018, Southern Power entered into an agreement to sell all of its equity interests in Plant Mankato (including the 385-MW expansion currently under construction) for an aggregate purchase price of $650 million. The transaction is subject to the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and FERC and state commission approvals and is expected to close mid-2019. See Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information. The ultimate outcome of these matters cannot be determined at this time.

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

Environmental Matters

The Southern Company system's operations are regulated by state and federal environmental agencies through a variety of laws and regulations governing air, water, land, and protection of other natural resources. The Southern Company system maintains comprehensive environmental compliance and GHG strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures, operations and maintenance costs, and costs reflected in ARO liabilities, required to comply with environmental laws and regulations and to achieve stated goals may impact future unit retirement and replacement decisions, results of operations, cash flows, and financial condition. Related costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, and adding or changing fuel sources for certain existing units, as well as related upgrades to the transmission system. A major portion of these costs are expected to be recovered through existing ratemaking provisions. The ultimate impact of environmental laws and regulations and the GHG goals discussed below will depend on various factors, such as state adoption and implementation of requirements, the availability and cost of any deployed technology, and the outcome of pending and/or future legal challenges.

New or revised environmental laws and regulations could affect many areas of the traditional electric operating companies', Southern Power's, and the natural gas distribution utilities' operations. The impact of any such changes cannot be determined at this time. Environmental compliance costs could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis for the traditional electric operating companies and the natural gas distribution utilities or through long-term wholesale agreements for the traditional electric operating companies and Southern Power. Further, increased costs that are recovered through regulated rates could contribute to reduced demand for electricity and natural gas, which could negatively affect results of operations, cash flows, and financial condition. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity and natural gas. 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 Laws and Regulations

Water Quality

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

On May 2, 2018, the EPA updated its anticipated final rulemaking schedule for ELG from September 2020 to December 2019. The impact of any changes to the ELG rule will depend on the content of the final rule and the outcome of 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 Laws and Regulations – Coal Combustion Residuals" of Southern Company in Item 7 of the Form 10-K for additional information regarding the Disposal of Coal Combustion Residuals from Electric Utilities rule (CCR Rule).

The EPA published certain amendments to the CCR Rule, which became effective August 29, 2018. These amendments extend the date from April 2019 to October 31, 2020 to cease sending CCR and other waste streams to impoundments that demonstrate compliance with all except two specified criteria. These amendments also establish groundwater protection standards for four constituents that do not have established EPA maximum contaminant levels and allow a participating state director or the EPA (where the EPA is the permitting authority) to suspend groundwater monitoring requirements under certain circumstances. Specific site impacts are being evaluated by the traditional electric operating companies.

On October 15, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a mandate that broadens the CCR Rule to regulate previously-excluded inactive surface impoundments (legacy units) located at retired generation facilities and challenges both the ability of unlined impoundments to continue operating and the classification of clay lined units. It is anticipated that the EPA will issue a series of rulemakings to address this court action. The Southern Company system is evaluating the extent of potential impacts on legacy units but anticipates no significant impacts to its ongoing CCR strategies due to this mandate. The ultimate impact of these changes will not be known until the EPA rulemaking and any legal challenges are finalized.

In June 2018, Alabama Power recorded an increase of approximately $1.2 billion to its AROs related to the CCR Rule. The revised cost estimates were based on information from feasibility studies performed on ash ponds in use

31

at plants operated by Alabama Power, including a plant jointly-owned by Mississippi Power. During the second quarter 2018, Alabama Power's management completed its analysis of these studies which indicated that additional closure costs, primarily related to increases in estimated ash volume, water management requirements, and design revisions, will be required to close these ash ponds under the planned closure-in-place methodology. As the level of work becomes more defined in the next 12 months, it is likely that these cost estimates will change and the change could be material.

Georgia Power continues to perform engineering studies related to its plans to close the ash ponds at all of its generating plants, including one jointly owned with Gulf Power, in compliance with federal and state CCR rules. Georgia Power also continues to refine its closure strategy and cost estimates for each ash pond and is preparing permit applications as required by the State of Georgia CCR rule. While Georgia Power and Gulf Power believe their recorded liabilities for ash pond closures appropriately reflect their obligations under the current closure strategies they have elected, changes to such strategies and cost estimates would likely result in additional closure costs which would increase their ARO liabilities. It is not currently possible to quantify the impacts of any increase related to a change in closure strategies and/or ongoing engineering studies for the current closure strategies, and the timing of future cash outflows is indeterminable at this time; however, the impact on Georgia Power's and Gulf Power's ARO liabilities is expected to be material. As permit applications advance, engineering studies continue, and the timing of individual ash pond closures develops further during the fourth quarter 2018, Georgia Power and Gulf Power will record any necessary changes to their ARO liabilities.

The traditional electric operating companies expect to continue to periodically update their ARO cost estimates, which could increase further, as additional information becomes available. Absent continued recovery of ARO costs through regulated rates, Southern Company's results of operations, cash flows, and financial condition could be materially impacted. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information.

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

Nuclear Decommissioning

See Note 1 to the financial statements of Southern Company under "Nuclear Decommissioning" in Item 8 of the Form 10-K and Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" and "Nuclear Decommissioning" herein for additional information.

In June 2018, Alabama Power completed an updated decommissioning cost site study for Plant Farley. The estimated cost of decommissioning based on the study resulted in an increase in the ARO liability of approximately $300 million. Amounts previously contributed to Alabama Power's external trust funds are currently projected to be adequate to meet the updated decommissioning obligations.

Georgia Power expects to complete updated decommissioning cost site studies for Plant Hatch and Plant Vogtle Units 1 and 2 in the fourth quarter 2018, which could result in additional changes to Southern Company's ARO liability. The ultimate outcome of these studies cannot be determined at this time.

Global Climate Issues

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

On August 31, 2018, the EPA published a proposed Clean Power Plan replacement rule known as the Affordable Clean Energy rule (ACE Rule), which would require states to develop unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of September 30, 2018, the Southern Company system has ownership interests in 44 fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to the Southern Company system is currently unknown and will depend on changes

32

between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal proceedings.

Through 2017, the Southern Company system has achieved an estimated GHG emission reduction of 36% since 2007. In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, complete construction of Plant Vogtle Units 3 and 4, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies. The ultimate outcome of this matter cannot be determined at this time.

FERC Matters

Market-Based Rate Authority

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters – Market-Based Rate Authority" of Southern Company in Item 7 of the Form 10-K for additional information regarding proceedings related to the traditional electric operating companies' and Southern Power's 2014 and 2017 triennial market power analyses.

On May 4, 2018, the FERC issued an order terminating both proceedings, finding that the traditional electric operating companies and Southern Power satisfy the FERC's standards for market-based rates. On May 9, 2018, the traditional electric operating companies and Southern Power made the compliance filing required by the order. These proceedings are concluded.

Open Access Transmission Tariff

On May 10, 2018, the Alabama Municipal Electric Authority and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requests that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through September 30, 2018, the estimated maximum potential refund is not expected to be material to Southern Company's results of operations. The ultimate outcome of this matter cannot be determined at this time.

Southern Company Gas

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters – Southern Company Gas" of Southern Company in Item 7 of the Form 10-K for additional information regarding Southern Company Gas' gas pipeline construction projects.

The Atlantic Coast Pipeline has experienced challenges to its permits since construction began earlier in 2018 and continues to work with the appropriate agencies to obtain the necessary permits. The PennEast Pipeline continues to work with state and federal agencies to obtain the required permits to begin construction. Any material permitting delays may impact forecasted capital expenditures and in-service dates. The ultimate outcome of these matters cannot be determined at this time.

Regulatory Matters

Fuel Cost Recovery

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

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

Alabama Power

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

On May 1, 2018, the Alabama PSC approved modifications to Rate RSE and other commitments designed to position Alabama Power to address the growing pressure on its credit quality resulting from the Tax Reform Legislation, without increasing retail rates under Rate RSE in the near term. Alabama Power plans to reduce growth in total debt by increasing equity, with corresponding reductions in debt issuances, thereby de-leveraging its capital structure. Alabama Power's goal is to achieve an equity ratio of approximately 55% by the end of 2025. At September 30, 2018, Alabama Power's equity ratio was approximately 47%. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Federal Tax Reform Legislation" of Southern Company in Item 7 of the Form 10-K for additional information.

Rate RSE

The approved modifications to Rate RSE became effective June 2018 and are applicable for January 2019 billings and thereafter. The modifications include reducing the top of the allowed weighted common equity return (WCER) range from 6.21% to 6.15% and modifications to the refund mechanism applicable to prior year actual results. The modifications to the refund mechanism allow Alabama Power to retain a portion of the revenue that causes the actual WCER for a given year to exceed the allowed range.

In conjunction with these modifications to Rate RSE, on May 8, 2018, Alabama Power consented to a moratorium on any upward adjustments under Rate RSE for 2019 and 2020. Additionally, Alabama Power will return $50 million to customers through bill credits in 2019.

In accordance with an established retail tariff that provides for an interim adjustment to customer billings to recognize the impact of a change in the statutory income tax rate, Alabama Power has returned $151 million through September 30, 2018 and anticipates returning a total of approximately $257 million to retail customers through bill credits by December 31, 2018 as a result of the change in the federal income tax rate under the Tax Reform Legislation.

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

Rate ECR
On May 1, 2018, the Alabama PSC approved an increase to Rate ECR from 2.015 cents per KWH to 2.353 cents per KWH effective July 2018 which is expected to result in additional collections of approximately $100 million through December 31, 2018. The approved increase in the Rate ECR factor will have no significant effect on Southern Company's net income, but will increase operating cash flows related to fuel cost recovery in 2018. Absent any further order from the Alabama PSC, in January 2019, the rate will return to the originally authorized 5.910 cents per KWH.
Accounting Order
On May 1, 2018, the Alabama PSC approved an accounting order that authorizes Alabama Power to defer the benefits of federal excess deferred income taxes associated with the Tax Reform Legislation for the year ending December 31, 2018 as a regulatory liability and to use up to $30 million of such deferrals to offset under recovered amounts under Rate ECR. Any remaining amounts will be used for the benefit of customers as determined by the Alabama PSC. As of September 30, 2018, Alabama Power had applied the full $30 million to offset the under recovered balance under Rate ECR and expects the total deferrals for the year ending December 31, 2018 to be approximately $50 million. See Note 5 to the financial statements of Southern Company under "Federal Tax Reform Legislation" in Item 8 of the Form 10-K for additional information.
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 certified construction costs of Plant Vogtle Units 3 and 4 are being collected through the NCCR tariff and fuel costs are collected through a separate fuel cost recovery tariff. See Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein and Note 3 to the financial statements of Southern Company under "Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding Georgia Power's NCCR tariff. Also see Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Fuel Cost Recovery" herein for additional information regarding Georgia Power's fuel cost recovery.
Rate Plans
See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Georgia Power – Rate Plans" of Southern Company in Item 7 of the Form 10-K for additional information regarding Georgia Power's 2013 ARP and the Georgia PSC's 2018 order related to the Tax Reform Legislation.
On April 3, 2018, the Georgia PSC approved a settlement agreement between Georgia Power and the staff of the Georgia PSC regarding the retail rate impact of the Tax Reform Legislation (Georgia Power Tax Reform Settlement Agreement). Pursuant to the Georgia Power Tax Reform Settlement Agreement, to reflect the federal income tax rate reduction impact of the Tax Reform Legislation, Georgia Power will refund to customers a total of $330 million through bill credits. Georgia Power issued bill credits of approximately $130 million in October 2018 and will issue bill credits of approximately $95 million in June 2019 and $105 million in February 2020. In addition, Georgia Power is deferring as a regulatory liability (i) the revenue equivalent of the tax expense reduction resulting from legislation lowering the Georgia state income tax rate from 6.00% to 5.75% in 2019 and (ii) the entire benefit of approximately $700 million in federal and state excess accumulated deferred income taxes. At September 30, 2018, Georgia Power's related regulatory liability balance totaled $655 million. The amortization of these regulatory liabilities is expected to be addressed in Georgia Power's next base rate case, which is scheduled to be filed by July 1, 2019. If there is not a base rate case in 2019, customers will receive $185 million in annual bill credits beginning in 2020, with any additional federal and state income tax savings deferred as a regulatory liability, until Georgia Power's next base rate case.

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

To address the negative cash flow and credit metric impacts of the Tax Reform Legislation, the Georgia PSC also approved an increase in Georgia Power's retail equity ratio to the lower of (i) Georgia Power's actual common equity weight in its capital structure or (ii) 55%, until Georgia Power's next base rate case. At September 30, 2018, Georgia Power's actual retail common equity ratio (on a 13-month average basis) was approximately 53%. Benefits from reduced federal income tax rates in excess of the amounts refunded to customers will be retained by Georgia Power to cover the carrying costs of the incremental equity in 2018 and 2019.

Storm Damage Recovery

See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Storm Damage Recovery" in Item 8 of the Form 10-K for additional information regarding Georgia Power's storm damage reserve.

Georgia Power is accruing $30 million annually through December 31, 2019, as provided in the 2013 ARP, for incremental operations and maintenance costs of damage from major storms to its transmission and distribution facilities. As of September 30, 2018, the total balance in Georgia Power's regulatory asset related to storm damage was $311 million. During October 2018, Hurricane Michael caused significant damage to Georgia Power's transmission and distribution facilities. Georgia Power currently estimates the costs of repairing the damage will total approximately $125 million to $150 million, which will be charged to Georgia Power's storm damage reserve or capitalized. The rate of storm damage cost recovery is expected to be adjusted as part of Georgia Power's next base rate case, which is scheduled to be filed by July 1, 2019. The ultimate outcome of this matter cannot be determined at this time.

Gulf Power

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

Storm Damage Cost Recovery

On October 10, 2018, Hurricane Michael made landfall on the Gulf Coast of Florida causing substantial damage in Gulf Power's service territory. Gulf Power currently estimates the costs of repairing the damages to its transmission and distribution lines and uninsured facilities will total approximately $350 million to $400 million, which primarily will be charged to Gulf Power's property damage reserve or capitalized. Gulf Power maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generating facilities and other property. At September 30, 2018, Gulf Power had a balance of approximately $48 million in its property damage reserve. In accordance with the settlement agreement approved by the Florida PSC in April 2017 (2017 Gulf Power Rate Case Settlement Agreement), Gulf Power can petition the Florida PSC to seek recovery of the costs associated with Hurricane Michael, along with replenishing the property damage reserve to approximately $40 million. Any recovery from customers would begin, on an interim basis, 60 days following the filing of the cost recovery petition. The ultimate outcome of this matter cannot be determined at this time.

Retail Base Rate Case

As a continuation of the 2017 Gulf Power Rate Case Settlement Agreement, on March 26, 2018, the Florida PSC approved a stipulation and settlement agreement among Gulf Power and three intervenors addressing the retail revenue requirement effects of the Tax Reform Legislation (Gulf Power Tax Reform Settlement Agreement).

The Gulf Power Tax Reform Settlement Agreement results in annual reductions to Gulf Power's revenues of $18.2 million from base rates and $15.6 million from environmental cost recovery rates implemented April 1, 2018 and also provided for a one-time refund of $69.4 million for the retail portion of unprotected (not subject to normalization) deferred tax liabilities through a reduced fuel cost recovery rate over the remainder of 2018. Through September 30, 2018, approximately $53 million of this refund has been reflected in customer bills. As a result of the

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

Gulf Power Tax Reform Settlement Agreement, the Florida PSC also approved an increase in Gulf Power's maximum equity ratio from 52.5% to 53.5% for all retail regulatory purposes.

As part of the Gulf Power Tax Reform Settlement Agreement, a limited scope proceeding to address protected deferred tax liabilities consistent with IRS normalization principles was initiated on April 30, 2018. On October 30, 2018, the Florida PSC approved a $9.6 million annual reduction in base rate revenues effective January 2019, which concluded this proceeding. Through September 30, 2018, Gulf Power has deferred $7 million of related 2018 tax benefits as a regulatory liability to be refunded to retail customers in 2019 through Gulf Power's fuel cost recovery rate.

Mississippi Power

On February 7, 2018, Mississippi Power submitted its revised 2018 projected PEP filing to the Mississippi PSC, which reflected the impacts of the Tax Reform Legislation, requesting an increase in annual retail revenues of $26 million based on a performance-adjusted ROE of 9.33% and an increased equity ratio of 55%.

On July 27, 2018, Mississippi Power and the Mississippi Public Utilities Staff (MPUS) entered into a settlement agreement with respect to the 2018 PEP filing and all unresolved PEP filings for prior years (PEP Settlement Agreement), which was approved by the Mississippi PSC on August 7, 2018. Rates under the PEP Settlement Agreement became effective with the first billing cycle of September 2018. The PEP Settlement Agreement provides for an increase of approximately $21.6 million in annual base retail revenues, which excludes certain compensation costs contested by the MPUS, as well as approximately $2 million which was subsequently approved for recovery through a separate Mississippi Power cost rider. Under the PEP Settlement Agreement, Mississippi Power is deferring the contested compensation costs for 2018 and 2019 as a regulatory asset. The Mississippi PSC is currently expected to rule on the appropriate treatment for such costs in connection with Mississippi Power's next base rate case, which is scheduled to be filed in the fourth quarter 2019 (2019 Base Rate Case). The ultimate outcome of this matter cannot be determined at this time.

Pursuant to the PEP Settlement Agreement, Mississippi Power's performance-adjusted allowed ROE is 9.31% and its allowed equity ratio remains at 50%, pending further review by the Mississippi PSC. In lieu of the requested equity ratio increase, Mississippi Power retained $44 million of excess accumulated deferred income taxes resulting from the Tax Reform Legislation, which had been proposed to be amortized beginning in 2018, until the conclusion of the 2019 Base Rate Case. Further, Mississippi Power will seek equity contributions sufficient to restore its equity ratio (which was 45% at September 30, 2018) to 50% by December 31, 2018. In the event Mississippi Power's actual average equity ratio for 2018 is more than 1% higher or lower than the 50% target, Mississippi Power will defer the corresponding difference in its revenue requirement as a regulatory asset or liability for resolution in the 2019 Base Rate Case.

Pursuant to the PEP Settlement Agreement, PEP proceedings are suspended until after the conclusion of the 2019 Base Rate Case and Mississippi Power is not required to make any PEP filings for regulatory years 2018, 2019, and 2020. The PEP Settlement Agreement also resolved all open PEP filings with no change to customer rates. As a result, in the third quarter 2018, Mississippi Power recognized revenues of $5 million previously reserved in connection with the 2012 PEP lookback filing.

Southern Company Gas

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

On February 23, 2018, Atlanta Gas Light revised its annual base rate filing to reflect the impacts of the Tax Reform Legislation and requested a $16 million rate reduction in 2018. On May 15, 2018, the Georgia PSC approved a stipulation for Atlanta Gas Light's annual base rates to remain at the 2017 level for 2018 and 2019, with customer credits of $8 million in each of July 2018 and October 2018 to reflect the impacts of the Tax Reform Legislation.

Table of Contents

The Georgia PSC maintained Atlanta Gas Light's previously authorized earnings band based on a ROE between 10.55% and 10.95% and increased the allowed equity ratio by 4% to an equity ratio of 55% to address the negative cash flow and credit metric impacts of the Tax Reform Legislation. Additionally, Atlanta Gas Light is required to file a traditional base rate case on or before June 1, 2019 for rates effective January 1, 2020.

On May 2, 2018, the Illinois Commission approved Nicor Gas' rehearing request for revised base rates to incorporate the reduction in the federal income tax rate as a result of the Tax Reform Legislation. The resulting decrease of approximately $44 million in annual base rate revenues became effective May 5, 2018. Nicor Gas' previously-authorized capital structure and ROE of 9.8% were not addressed in the rehearing and remain unchanged.

Kemper County Energy Facility

For additional information on the Kemper County energy facility, see Note 3 to the financial statements of Southern Company under "Kemper County Energy Facility" in Item 8 of the Form 10-K.

As the mining permit holder for the Kemper County energy facility, Liberty Fuels Company, LLC has a legal obligation to perform mine reclamation, and Mississippi Power has a contractual obligation to fund all reclamation activities. Mine reclamation began in the first quarter 2018.

As of September 30, 2018, Mississippi Power recorded charges to income of an immaterial amount for the third quarter 2018 and $45 million ($34 million after tax) for year-to-date 2018, primarily resulting from the abandonment and related closure activities for the mine and gasifier-related assets at the Kemper County energy facility. Additional closure costs for the mine and gasifier-related assets, currently estimated to cost up to $20 million pre-tax (excluding salvage, net of dismantlement costs), may be incurred through the first half of 2020. In addition, period costs, including, but not limited to, costs for compliance and safety, ARO accretion, and property taxes for the mine and gasifier-related assets, are estimated at $2 million for the remainder of 2018, $8 million in 2019, and $4 million annually beginning in 2020. The ultimate outcome of this matter cannot be determined at this time.

The combined cycle and associated common facilities portions of the Kemper County energy facility were dedicated as Plant Ratcliffe on April 27, 2018.

Reserve Margin Plan

On August 6, 2018, Mississippi Power filed its proposed Reserve Margin Plan (RMP), as required by the Mississippi PSC's order in the docket established for the purposes of pursuing a global settlement of the costs related to the Kemper County energy facility. Under the RMP, Mississippi Power proposes alternatives that would reduce its reserve margin, with the most economic of the alternatives being the two-year and seven-year acceleration of the retirement of Plant Watson Units 4 and 5, respectively, to the first quarter 2022 and the four-year acceleration of the retirement of Plant Greene County Units 1 and 2 to the third quarter 2021 and the third quarter 2022, respectively, in order to lower or avoid operating costs. The Plant Greene County unit retirements would require the completion by Alabama Power of proposed transmission and system reliability improvements, as well as agreement by Alabama Power. The RMP filing also states that, in the event the Mississippi PSC ultimately approves an alternative that includes an accelerated retirement, Mississippi Power would require authorization to defer in a regulatory asset for future recovery the remaining net book value of the units at the time of retirement. Mississippi Power expects the MPUS and other interested parties to review the proposal prior to resolution by the Mississippi PSC. The ultimate outcome of this matter cannot be determined at this time. However, if approved by the Mississippi PSC, the alternatives are not expected to have any adverse impact on customer rates.

Construction Program

Overview

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. The Southern Company system intends to continue its strategy of developing and constructing new electric generating facilities, adding environmental modifications to certain existing units, expanding the electric transmission and distribution systems, and updating and expanding the natural gas distribution systems. For the traditional electric operating companies, major generation construction projects are subject to state PSC approval in order to be included in retail rates. While Southern Power generally constructs and acquires generation assets covered by long-term PPAs, any uncontracted capacity could negatively affect future earnings. Southern Company Gas is engaged in various infrastructure improvement programs designed to update or expand the natural gas distribution systems of the natural gas distribution utilities to improve reliability and meet operational flexibility and growth. The natural gas distribution utilities recover their investment and a return associated with these infrastructure programs through their regulated rates. See Notes 3 and 12 to the financial statements of Southern Company under "Regulatory Matters – Southern Company Gas – Regulatory Infrastructure Programs" and "Southern Power – Construction Projects in Progress," respectively, in Item 8 of the Form 10-K and Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information.

The largest construction project currently underway in the Southern Company system is Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in the two units, each with approximately 1,100 MWs). See Note 3 to the financial statements of Southern Company under "Nuclear Construction" in Item 8 of the Form 10-K and "Nuclear Construction" herein for additional information.

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.

Nuclear Construction

See Note 3 to the financial statements of Southern Company under "Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding the construction of Plant Vogtle Units 3 and 4, VCM reports, and the NCCR tariff.

In 2009, the Georgia PSC certified construction of Plant Vogtle Units 3 and 4. In 2012, the NRC issued the related combined construction and operating licenses, which allowed full construction of the two AP1000 nuclear units (with electric generating capacity of approximately 1,100 MWs each) and related facilities to begin. Until March 2017, construction on Plant Vogtle Units 3 and 4 continued under the Vogtle 3 and 4 Agreement, which was a substantially fixed price agreement. In March 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

In connection with the EPC Contractor's bankruptcy filing, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Interim Assessment Agreement with the EPC Contractor to allow construction to continue. The Interim Assessment Agreement expired in July 2017 when Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into the Vogtle Services Agreement. Under the Vogtle Services Agreement, Westinghouse provides facility design and engineering services, procurement and technical support, and staff augmentation on a time and materials cost basis. The Vogtle Services Agreement will continue until the start-up and testing of Plant Vogtle Units 3 and 4 are complete and electricity is generated and sold from both units. The Vogtle Services Agreement is terminable by the Vogtle Owners upon 30 days' written notice.

In October 2017, Georgia Power, acting for itself and as agent for the other Vogtle Owners, executed the Bechtel Agreement, a cost reimbursable plus fee arrangement, whereby Bechtel is reimbursed for actual costs plus a base fee and an at-risk fee, which is subject to adjustment based on Bechtel's performance against cost and schedule targets. Each Vogtle Owner is severally (not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to Bechtel under the Bechtel Agreement. The Vogtle Owners may terminate the Bechtel Agreement at any time for their convenience, provided that the Vogtle Owners will be required to pay amounts related to work performed prior to the termination (including the applicable portion of the base fee), certain termination-related costs, and, at certain stages of the work, the applicable portion of the at-risk fee. Bechtel may

39

terminate the Bechtel Agreement under certain circumstances, including certain Vogtle Owner suspensions of work, certain breaches of the Bechtel Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events. Pursuant to the Loan Guarantee Agreement between Georgia Power and the DOE, Georgia Power is required to obtain the DOE's approval of the Bechtel Agreement prior to obtaining any further advances under the Loan Guarantee Agreement.

In December 2017, the Georgia PSC approved Georgia Power's seventeenth VCM report, which included a recommendation to continue construction of Plant Vogtle Units 3 and 4, with Southern Nuclear serving as project manager and Bechtel serving as the primary construction contractor.

Cost and Schedule

In preparation for its nineteenth VCM filing, Georgia Power requested Southern Nuclear to perform a full cost reforecast for the project. Georgia Power's approximate proportionate share of the remaining estimated capital cost to complete Plant Vogtle Units 3 and 4 by the expected in-service dates of November 2021 and November 2022, respectively, is as follows:

	(in billions)
Base project capital cost forecast[(a)(b)]	$ 8.0
Construction contingency estimate	0.4
Total project capital cost forecast[(a)(b)]	8.4
Net investment as of September 30, 2018[(b)]	(4.3)
Remaining estimate to complete[(a)]	$ 4.1

(a) Excludes financing costs expected to be capitalized through AFUDC of approximately $350 million.

(b) Net of $1.7 billion received from Toshiba under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds.

Georgia Power estimates that its financing costs for construction of Plant Vogtle Units 3 and 4 will total approximately $3.2 billion, of which $1.8 billion had been incurred through September 30, 2018.

The table above reflects the $0.7 billion increase to the base capital cost forecast reported in the second quarter 2018 and is based on the cost reforecast performed prior to the nineteenth VCM filing, which primarily resulted from changed assumptions related to the finalization of contract scopes and management responsibilities for Bechtel and over 60 subcontractors, labor productivity rates, and craft labor incentives, as well as the related levels of project management, oversight, and support, including field supervision and engineering support.

Although Georgia Power believes these incremental costs are reasonable and necessary to complete the project and the Georgia PSC's order in the seventeenth VCM proceeding specifically states that the construction of Plant Vogtle Units 3 and 4 is not subject to a cost cap, Georgia Power did not seek rate recovery for these cost increases included in the current base capital cost forecast (or any related financing costs) in the nineteenth VCM report that was filed with the Georgia PSC on August 31, 2018. In connection with future VCM filings, Georgia Power may request the Georgia PSC to evaluate costs currently included in the construction contingency estimate for rate recovery as and when they are appropriately included in the base capital cost forecast. After considering the significant level of uncertainty that exists regarding the future recoverability of costs included in the construction contingency estimate since the ultimate outcome of these matters is subject to the outcome of future assessments by management, as well as Georgia PSC decisions in these future regulatory proceedings, Georgia Power recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) in the second quarter 2018, which includes the total increase in the base capital cost forecast and construction contingency estimate.

As construction continues, challenges with management of contractors, subcontractors, and vendors; labor productivity, availability, and/or cost escalation; procurement, fabrication, delivery, assembly, and/or installation, including any required engineering changes, of plant systems, structures, and components (some of which are based on new technology that only recently began initial operation in the global nuclear industry at this scale); or other

issues could arise and change the projected schedule and estimated cost. Monthly construction production targets required to maintain the current project schedule continue to increase significantly through the remainder of 2018 and into 2019. To meet these increasing monthly targets, existing craft construction productivity must improve and additional craft laborers must be retained and deployed.

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. 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 (ITAAC) and the related approvals by the NRC, may arise, 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.

The ultimate outcome of these matters cannot be determined at this time. However, any extension of the project schedule is currently estimated to result in additional base capital costs of approximately $50 million per month, based on Georgia Power's ownership interests, and AFUDC of approximately $12 million per month. While Georgia Power is not precluded from seeking recovery of any future capital cost forecast increase, management will ultimately determine whether or not to seek recovery. Any further changes to the capital cost forecast that are not expected to be recoverable through regulated rates will be required to be charged to income and such charges could be material.

Joint Owner Contracts

In November 2017, the Vogtle Owners entered into an amendment to their joint ownership agreements for Plant Vogtle Units 3 and 4 to provide for, among other conditions, additional Vogtle Owner approval requirements. Effective August 31, 2018, the Vogtle Owners further amended the joint ownership agreements to clarify and provide procedures for certain provisions of the joint ownership agreements related to adverse events that require the vote of the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 to continue construction (as amended, and together with the November 2017 amendment, the Vogtle Joint Ownership Agreements). The Vogtle Joint Ownership Agreements also confirm that the Vogtle Owners' sole recourse against Georgia Power or Southern Nuclear for any action or inaction in connection with their performance as agent for the Vogtle Owners is limited to removal of Georgia Power and/or Southern Nuclear as agent, except in cases of willful misconduct.

As a result of the increase in the total project capital cost forecast and Georgia Power's decision not to seek rate recovery of the increase in the base capital costs as described above, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 were required to vote to continue construction. On September 26, 2018, the Vogtle Owners unanimously voted to continue construction of Plant Vogtle Units 3 and 4.

Amendments to the Vogtle Joint Ownership Agreements

In connection with the vote to continue construction, Georgia Power entered into (i) the Vogtle Owner Term Sheet with the other Vogtle Owners and MEAG's wholly-owned subsidiaries MEAG SPVJ, MEAG Power SPVM, LLC (MEAG SPVM), and MEAG Power SPVP, LLC (MEAG SPVP) to take certain actions which partially mitigate potential financial exposure for the other Vogtle Owners, including additional amendments to the Vogtle Joint Ownership Agreements and the purchase of PTCs from the other Vogtle Owners, and (ii) a term sheet (MEAG Term Sheet and, together with the Vogtle Owner Term Sheet, Term Sheets) with MEAG and MEAG SPVJ to provide funding with respect to MEAG SPVJ's ownership interest in Plant Vogtle Units 3 and 4 (Project J) under certain circumstances. Pursuant to the Vogtle Owner Term Sheet, the Vogtle Joint Ownership Agreements will be modified as follows: (i) each Vogtle Owner will pay its proportionate share of qualifying construction costs for Plant Vogtle Units 3 and 4 based on its ownership percentage up to the estimated cost at completion (EAC) for Plant Vogtle Units

41

3 and 4 which forms the basis of Georgia Power's forecast of $8.4 billion in the nineteenth VCM plus $800 million of additional construction costs; (ii) Georgia Power will be responsible for 55.7% of actual qualifying construction costs between $800 million and $1.6 billion over the EAC in the nineteenth VCM (resulting in $80 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 44.3% of such costs pro rata in accordance with their respective ownership interests; and (iii) Georgia Power will be responsible for 65.7% of qualifying construction costs between $1.6 billion and $2.1 billion over the EAC in the nineteenth VCM (resulting in a further $100 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 34.3% of such costs pro rata in accordance with their respective ownership interests.

If the EAC is revised and exceeds the EAC in the nineteenth VCM by more than $2.1 billion, each of the other Vogtle Owners will have a one-time option to tender a portion of its ownership interest to Georgia Power in exchange for Georgia Power's agreement to pay 100% of such Vogtle Owner's remaining share of total construction costs in excess of the EAC in the nineteenth VCM plus $2.1 billion. In this event, Georgia Power will have the option of cancelling the project in lieu of purchasing a portion of the ownership interest of any other Vogtle Owner. If Georgia Power accepts the offer to purchase a portion of another Vogtle Owner's ownership interest in Plant Vogtle Units 3 and 4, the ownership interest(s) to be conveyed from the tendering Vogtle Owner(s) to Georgia Power would be calculated based on the proportion of the cumulative amount of construction costs paid by each such tendering Vogtle Owner(s) and by Georgia Power as of the commercial operation date of Plant Vogtle Unit 4. For purposes of this calculation, payments made by Georgia Power on behalf of another Vogtle Owner in accordance with the second and third items described in the paragraph above would be treated as payments made by the applicable Vogtle Owner.

In the event the actual costs at completion are less than the EAC reflected in the nineteenth VCM report and Plant Vogtle Unit 3 is placed in service by the currently scheduled date of November 2021 or Plant Vogtle Unit 4 is placed in service by the currently scheduled date of November 2022, Georgia Power would be entitled to 60.7% of the cost savings with respect to the relevant unit and the remaining Vogtle Owners would be entitled to 39.3% of such savings on a pro rata basis in accordance with their respective ownership interests.

For purposes of the foregoing provisions, qualifying construction costs would not include costs (i) resulting from force majeure events, including governmental actions or inactions (or significant delays associated with issuance of such actions) that affect the licensing, completion, startup, operations, or financing of Plant Vogtle Units 3 and 4, administrative proceedings or litigation regarding ITAAC or other regulatory challenges to commencement of operation of Plant Vogtle Units 3 and 4, and changes in laws or regulations governing Plant Vogtle Units 3 and 4, (ii) legal fees and legal expenses incurred due to litigation with contractors or subcontractors that are not subsidiaries or affiliates of Southern Company, and (iii) additional costs caused by Vogtle Owner requests other than Georgia Power, except for the exercise of a right to vote granted under the Vogtle Joint Ownership Agreements, that increase costs by $100,000 or more.

Georgia Power is working with the other Vogtle Owners to clarify any interpretive issues related to the operation of certain of the above provisions of the Vogtle Owner Term Sheet.

Under the Vogtle Owner Term Sheet, the provisions of the Vogtle Joint Ownership Agreements requiring that Vogtle Owners holding 90% of the ownership interests in Plant Vogtle Units 3 and 4 vote to continue construction following certain adverse events (Project Adverse Events) will be modified. Pursuant to the Vogtle Joint Ownership Agreements and the Vogtle Owner Term Sheet, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction if certain Project Adverse Events occur, including: (i) the bankruptcy of Toshiba; (ii) the termination or rejection in bankruptcy of certain agreements, including the Vogtle Services Agreement, the Bechtel Agreement, or the agency agreement with Southern Nuclear; (iii) Georgia Power publicly announces its intention not to submit for rate recovery any portion of its investment in Plant Vogtle Units 3 and 4 or the Georgia PSC determines that any of Georgia Power's costs relating to the construction of Plant Vogtle Units 3 and 4 will not be recovered in retail rates, excluding any additional amounts paid by Georgia Power on behalf of the other Vogtle Owners pursuant to the Vogtle Owner Term Sheet provisions described above and the first 6% of costs during any six-month VCM reporting period that are disallowed by the Georgia PSC for recovery, or for which Georgia Power elects not to seek cost recovery, through retail rates; and (iv) an incremental extension of one year or more over the most recently approved schedule. Under the Vogtle Owner Term Sheet, Georgia Power may cancel the project at any time in its sole discretion.

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

The Vogtle Owner Term Sheet provides that if the holders of at least 90% of the ownership interests fail to vote in favor of continuing the project following any future Project Adverse Event, work on Plant Vogtle Units 3 and 4 would continue for a period of 30 days if the holders of more than 50% of the ownership interests vote in favor of continuing construction (Majority Voting Owners). In such a case, the Vogtle Owners (i) would agree to negotiate in good faith towards the resumption of the project, (ii) if no agreement was reached during such 30-day period, the project would be cancelled, and (iii) in the event of such a cancellation, the Majority Voting Owners would be obligated to reimburse any other Vogtle Owner for the costs it incurred during such 30-day negotiation period.

Purchase of PTCs During Commercial Operation

In addition, under the terms of the Vogtle Owner Term Sheet, Georgia Power agreed to purchase additional PTCs from OPC, Dalton, MEAG SPVM, MEAG SPVP, and MEAG SPVJ (to the extent any MEAG SPVJ PTC rights remain after any purchases required under the MEAG Term Sheet as described below) at varying purchase prices dependent upon the actual cost to complete construction of Plant Vogtle Units 3 and 4 as compared to the EAC included in the nineteenth VCM report. The purchases will be at the option of the applicable Vogtle Owner and will occur during the month after such PTCs are earned.

Potential Funding to MEAG Project J

Pursuant to the MEAG Term Sheet, if MEAG SPVJ is unable to make its payments due under the Vogtle Joint Ownership Agreements solely because (i) the conduct of JEA, such as JEA's legal challenges of its obligations under a PPA with MEAG (PPA-J), materially impedes access to capital markets for MEAG for Project J, or (ii) PPA-J is declared void by a court of competent jurisdiction or rejected by JEA under the applicable provisions of the U.S. Bankruptcy Code (each of (i) and (ii), a JEA Default), Georgia Power would purchase from MEAG SPVJ the rights to PTCs attributable to MEAG SPVJ's share of Plant Vogtle Units 3 and 4 (approximately 206 MWs) at varying prices dependent upon the stage of construction of Plant Vogtle Units 3 and 4. The aggregate purchase price of the PTCs, together with any advances made as described in the next paragraph, shall not exceed $300 million.

At the option of MEAG, as an alternative or supplement to Georgia Power's purchase of PTCs as described above, Georgia Power has agreed to provide up to $250 million in funding to MEAG for Project J in the form of advances (either advances under the Vogtle Joint Ownership Agreements or the purchase of MEAG Project J bonds, at the discretion of Georgia Power), subject to any required approvals of the Georgia PSC and the DOE.

In the event MEAG SPVJ certifies to Georgia Power that it is unable to fund its obligations under the Vogtle Joint Ownership Agreements as a result of a JEA Default and Georgia Power becomes obligated to provide funding as described above, MEAG is required to (i) assign to Georgia Power its right to vote on any future Project Adverse Event and (ii) diligently pursue JEA for its breach of PPA-J. In addition, Georgia Power agreed that it will not sue MEAG for any amounts due from MEAG SPVJ under MEAG's guarantee of MEAG SPVJ's obligations so long as MEAG SPVJ complies with the terms of the MEAG Term Sheet as to its payment obligations and the other provisions of the Vogtle Joint Ownership Agreements.

Under the terms of the MEAG Term Sheet, Georgia Power may decline to provide any funding in the form of advances, including in the event of a failure to receive any required Georgia PSC or DOE approvals, and cancel the project in lieu of providing such funding.

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

43

Regulatory Matters

In 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 with a certified capital cost of $4.418 billion. In addition, in 2009 the Georgia PSC approved inclusion of the Plant Vogtle Units 3 and 4 related CWIP accounts in rate base, and the State of Georgia enacted the Georgia Nuclear Energy Financing Act, which allows Georgia Power to recover financing costs for Plant Vogtle Units 3 and 4. Financing costs are recovered on all applicable certified costs through annual adjustments to the NCCR tariff up to the certified capital cost of $4.418 billion. As of September 30, 2018, Georgia Power had recovered approximately $1.8 billion of financing costs. Financing costs related to capital costs above $4.418 billion will be recovered through AFUDC; however, Georgia Power will not record AFUDC related to any capital costs in excess of the total deemed reasonable by the Georgia PSC (currently $7.3 billion) and not requested for rate recovery. Georgia Power expects to file on November 9, 2018 to increase the NCCR tariff by approximately $90 million annually, effective January 1, 2019, pending Georgia PSC approval.

Georgia Power is required to file semi-annual VCM reports with the Georgia PSC by February 28 and August 31 of each year. In 2013, in connection with the eighth VCM report, the Georgia PSC approved a stipulation between Georgia Power and the staff of the Georgia PSC to waive the requirement to amend the Plant Vogtle Units 3 and 4 certificate in accordance with the 2009 certification order until the completion of Plant Vogtle Unit 3, or earlier if deemed appropriate by the Georgia PSC and Georgia Power.

In 2016, the Georgia PSC voted to approve a settlement agreement (Vogtle Cost Settlement Agreement) resolving certain prudency matters in connection with the fifteenth VCM report. In December 2017, the Georgia PSC voted to approve (and issued its related order on January 11, 2018) certain recommendations made by Georgia Power in the seventeenth VCM report and modifying the Vogtle Cost Settlement Agreement. The Vogtle Cost Settlement Agreement, as modified by the January 11, 2018 order, resolved the following regulatory matters related to Plant Vogtle Units 3 and 4: (i) none of the $3.3 billion of costs incurred through December 31, 2015 and reflected in the fourteenth VCM report should be disallowed from rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement was reasonable and prudent and none of the amounts paid pursuant to the Contractor Settlement Agreement should be disallowed from rate base on the basis of imprudence; (iii) (a) capital costs incurred up to $5.68 billion would be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, (b) Georgia Power would have the burden to show that any capital costs above $5.68 billion were prudent, and (c) a revised capital cost forecast of $7.3 billion (after reflecting the impact of payments received under the Guarantee Settlement Agreement and related Customer Refunds) was found reasonable; (iv) construction of Plant Vogtle Units 3 and 4 should be completed, with Southern Nuclear serving as project manager and Bechtel as primary contractor; (v) approved and deemed reasonable Georgia Power's revised schedule placing Plant Vogtle Units 3 and 4 in service in November 2021 and November 2022, respectively; (vi) confirmed that the revised cost forecast does not represent a cost cap and that prudence decisions on cost recovery will be made at a later date, consistent with applicable Georgia law; (vii) reduced the ROE used to calculate the NCCR tariff (a) from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016, (b) from 10.00% to 8.30%, effective January 1, 2020, and (c) from 8.30% to 5.30%, effective January 1, 2021 (provided that the ROE in no case will be less than Georgia Power's average cost of long-term debt); (viii) reduced the ROE used for AFUDC equity for Plant Vogtle Units 3 and 4 from 10.00% to Georgia Power's average cost of long-term debt, effective January 1, 2018; and (ix) agreed that upon Unit 3 reaching commercial operation, retail base rates would be adjusted to include carrying costs on those capital costs deemed prudent in the Vogtle Cost Settlement Agreement. The January 11, 2018 order also stated that if Plant Vogtle Units 3 and 4 are not commercially operational by June 1, 2021 and June 1, 2022, respectively, the ROE used to calculate the NCCR tariff will be further reduced by 10 basis points each month (but not lower than Georgia Power's average cost of long-term debt) until the respective unit is commercially operational. The ROE reductions negatively impacted earnings by approximately $25 million in 2017 and are estimated to have negative earnings impacts of approximately $100 million in 2018 and an aggregate of $680 million from 2019 to

2022.

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

In its January 11, 2018 order, the Georgia PSC also stated if other conditions change and assumptions upon which Georgia Power's seventeenth VCM report are based do not materialize, the Georgia PSC reserved the right to reconsider the decision to continue construction.

On February 12, 2018, Georgia Interfaith Power & Light, Inc. and Partnership for Southern Equity, Inc. filed a petition appealing the Georgia PSC's January 11, 2018 order with the Fulton County Superior Court. On March 8, 2018, Georgia Watch filed a similar appeal to the Fulton County Superior Court for judicial review of the Georgia PSC's final decision and denial of Georgia Watch's motion for reconsideration. Georgia Power believes the two appeals have no merit; however, an adverse outcome in either appeal combined with subsequent adverse action by the Georgia PSC could have a material impact on Southern Company's results of operations, financial condition, and liquidity.

The Georgia PSC has approved eighteen VCM reports covering the periods through December 31, 2017, including total construction capital costs incurred through that date of $4.9 billion (before $1.7 billion of payments received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds). On August 31, 2018, Georgia Power filed its nineteenth VCM report with the Georgia PSC, which requested approval of $578 million of construction capital costs incurred from January 1, 2018 through June 30, 2018.

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

See RISK FACTORS of Southern Company in Item 1A herein and in 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.

DOE Financing

As of September 30, 2018, Georgia Power had borrowed $2.6 billion related to Plant Vogtle Units 3 and 4 costs through the Loan Guarantee Agreement and a multi-advance credit facility among Georgia Power, the DOE, and the FFB, which provides for borrowings of up to $3.46 billion, subject to the satisfaction of certain conditions. In September 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately $1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. In September 2018, the DOE extended the conditional commitment to March 31, 2019. Any further extension must be approved by the DOE. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information, including applicable covenants, events of default, mandatory prepayment events (including any decision not to continue construction of Plant Vogtle Units 3 and 4), and conditions to borrowing.

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

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Southern Company in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk," Note (B) to the Condensed Financial Statements under "Regulatory Matters," and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation and related regulatory actions.

Southern Power

In April 2018, Southern Power completed the final stage of a legal entity reorganization of various direct and indirect subsidiaries that own and operate substantially all of its solar facilities, including certain subsidiaries owned in partnership with various third parties. The reorganization resulted in net state tax benefits related to certain changes in apportionment rates totaling approximately $54 million, which were recorded in the first half of 2018.

Table of Contents

In September 2018, Southern Power also completed a legal reorganization of eight operating wind facilities under a new holding company, SP Wind, which resulted in net state tax benefits totaling approximately $11 million related to certain changes in apportionment rates.

Other Matters

Southern Company and its subsidiaries are involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations 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 or regulatory matters cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Southern Company's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

On October 2, 2018, the Mississippi PSC approved executed agreements between Mississippi Power and its largest retail customer, Chevron, for Mississippi Power to continue providing retail service to the Chevron refinery in Pascagoula, Mississippi through 2038. The new agreements are not expected to have a material impact on earnings.

Litigation

In 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 to include, among other things, Southern Company as a defendant. The individual plaintiff alleged that Mississippi Power and Southern Company violated the Mississippi Unfair Trade Practices Act. All plaintiffs 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 County energy facility and that these alleged breaches unjustly enriched Mississippi Power and Southern Company. The plaintiffs sought unspecified actual damages and punitive damages; asked the Circuit Court to appoint a receiver to oversee, operate, manage, and otherwise control all affairs relating to the Kemper County energy facility; asked the Circuit Court to revoke any licenses or certificates authorizing Mississippi Power or Southern Company to engage in any business related to the Kemper County energy facility in Mississippi; and sought attorney's fees, costs, and interest. The plaintiffs also sought an injunction to prevent any Kemper County energy facility costs from being charged to customers through electric rates. In June 2017, the Circuit Court ruled in favor of motions by Southern Company and Mississippi Power and dismissed the case. In July 2017, the plaintiffs filed notice of an appeal. On July 13, 2018, Mississippi Power and Southern Company reached a settlement agreement with the plaintiffs and the plaintiffs' appeal was dismissed with prejudice. The settlement had no material impact on Southern Company's financial statements.

In January 2017, a putative securities class action complaint was filed against Southern Company, certain of its officers, and certain former Mississippi Power officers in the U.S. District Court for the Northern District of Georgia, Atlanta Division, by Monroe County Employees' Retirement System on behalf of all persons who purchased shares of Southern Company's common stock between April 25, 2012 and October 29, 2013. The complaint alleges that Southern Company, certain of its officers, and certain former Mississippi Power officers made materially false and misleading statements regarding the Kemper County energy facility in violation of certain provisions under the Securities Exchange Act of 1934, as amended. The complaint seeks, among other things, compensatory damages and litigation costs and attorneys' fees. In June 2017, the plaintiffs filed an amended

46

complaint that provided additional detail about their claims, increased the purported class period by one day, and added certain other former Mississippi Power officers as defendants. In July 2017, the defendants filed a motion to dismiss the plaintiffs' amended complaint with prejudice, to which the plaintiffs filed an opposition in September 2017. On March 29, 2018, the U.S. District Court for the Northern District of Georgia, Atlanta Division, issued an order granting, in part, the defendants' motion to dismiss. The court dismissed certain claims against certain officers of Southern Company and Mississippi Power and dismissed the allegations related to a number of the statements that plaintiffs challenged as being false or misleading. On April 26, 2018, the defendants filed a motion for reconsideration of the court's order, seeking dismissal of the remaining claims in the lawsuit. On August 10, 2018, the court denied the motion for reconsideration and denied a motion to certify the issue for interlocutory appeal.

In February 2017, Jean Vineyard filed a shareholder derivative lawsuit and, in May 2017, Judy Mesirov filed a shareholder derivative lawsuit, each in the U.S. District Court for the Northern District of Georgia. Each of these lawsuits names as defendants Southern Company, certain of its directors, certain of its officers, and certain former Mississippi Power officers. In August 2017, these two shareholder derivative lawsuits were consolidated in the U.S. District Court for the Northern District of Georgia. The complaints allege that the defendants caused Southern Company to make false or misleading statements regarding the Kemper County energy facility cost and schedule. Further, the complaints allege that the defendants were unjustly enriched and caused the waste of corporate assets and also allege that the individual defendants violated their fiduciary duties. Each plaintiff seeks to recover, on behalf of Southern Company, unspecified actual damages and, on each plaintiff's own behalf, attorneys' fees and costs in bringing the lawsuit. Each plaintiff also seeks certain changes to Southern Company's corporate governance and internal processes. On April 25, 2018, the court entered an order staying this lawsuit until 30 days after the resolution of any dispositive motions or any settlement, whichever is earlier, in the putative securities class action.

In May 2017, Helen E. Piper Survivor's Trust filed a shareholder derivative lawsuit in the Superior Court of Gwinnett County, State of Georgia that names as defendants Southern Company, certain of its directors, certain of its officers, and certain former Mississippi Power officers. The complaint alleges that the individual defendants, among other things, breached their fiduciary duties in connection with schedule delays and cost overruns associated with the construction of the Kemper County energy facility. The complaint further alleges that the individual defendants authorized or failed to correct false and misleading statements regarding the Kemper County energy facility schedule and cost and failed to implement necessary internal controls to prevent harm to Southern Company. The plaintiff seeks to recover, on behalf of Southern Company, unspecified actual damages and disgorgement of profits and, on its behalf, attorneys' fees and costs in bringing the lawsuit. The plaintiff also seeks certain unspecified changes to Southern Company's corporate governance and internal processes. On May 4, 2018, the court entered an order staying this lawsuit until 30 days after the resolution of any dispositive motions or any settlement, whichever is earlier, in the putative securities class action.

On May 18, 2018, Southern Company and Mississippi Power received a notice of dispute and arbitration demand filed by Martin Product Sales, LLC (Martin) based on two agreements, both related to Kemper IGCC byproducts for which Mississippi Power provided termination notices in September 2017. Martin alleges breach of contract, breach of good faith and fair dealing, fraud and misrepresentation, and civil conspiracy and makes a claim for damages in the amount of approximately $143 million, as well as additional unspecified damages, attorney's fees, costs, and interest.

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

Investments in Leveraged Leases

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Other Matters – Investments in Leveraged Leases" of Southern Company in Item 7 and Note 1 to the financial statements of Southern Company under "Leveraged Leases" in Item 8 of the Form 10-K for additional information regarding the leveraged lease agreements of a subsidiary of Southern Company Holdings Inc. (Southern Holdings) and concerns about the financial and operational performance of one of the lessees and the associated generation assets.

The ability of the lessees to make required payments to the Southern Holdings subsidiary is dependent on the operational performance of the assets. As a result of operational improvements in the first half of 2018, the June 2018 lease payment was paid in full and the December 2018 lease payment is currently expected to be paid in full. However, operational issues and the resulting cash liquidity challenges persist and significant concerns continue regarding the lessee's ability to make the remaining semi-annual lease payments. These operational challenges may also impact the expected residual value of the assets at the end of the lease term in 2047. If any future lease payment is not paid in full, the Southern Holdings subsidiary may be unable to make its corresponding payment to the holders of the underlying non-recourse debt related to the generation assets. Failure to make the required payment to the debtholders would represent an event of default that would give the debtholders the right to foreclose on, and take ownership of, the generation assets from the Southern Holdings subsidiary, in effect terminating the lease and resulting in the write-off of the related lease receivable, which would result in a reduction in net income of approximately $86 million after tax based on the lease receivable balance as of September 30, 2018. Southern Company has evaluated the recoverability of the lease receivable and the expected residual value of the generation assets at the end of the lease under various scenarios and has concluded that its investment in the leveraged lease is not impaired as of September 30, 2018. Southern Company will continue to monitor the operational performance of the underlying assets and evaluate the ability of the lessee to continue to make the required lease payments. The ultimate outcome of this matter cannot be determined at this time.

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.

Estimated Cost, Schedule, and Rate Recovery for the Construction of Plant Vogtle Units 3 and 4

In December 2016, the Georgia PSC approved the Vogtle Cost Settlement Agreement, which resolved certain prudency matters in connection with Georgia Power's fifteenth VCM report. In December 2017, the Georgia PSC approved Georgia Power's seventeenth VCM report, which included a recommendation to continue construction of Plant Vogtle Units 3 and 4, with Southern Nuclear serving as project manager and Bechtel serving as the primary construction contractor, as well as a modification of the Vogtle Cost Settlement Agreement. The Georgia PSC's related order stated that under the modified Vogtle Cost Settlement Agreement, (i) none of the $3.3 billion of costs incurred through December 31, 2015 should be disallowed as imprudent; (ii) capital costs incurred up to $5.68 billion would be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs; (iii) Georgia Power would have the burden of proof to show that any capital costs above $5.68 billion were prudent; (iv) Georgia Power's total project capital cost forecast of $7.3 billion (net of $1.7 billion received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds) was found reasonable and did not represent a cost cap; and (v) prudence decisions would be made subsequent to achieving fuel load for Unit 4.

In its order, the Georgia PSC also stated if other conditions change and assumptions upon which Georgia Power's seventeenth VCM report are based do not materialize, the Georgia PSC reserved the right to reconsider the decision to continue construction.

In the second quarter 2018, Georgia Power revised its base cost forecast and estimated contingency to complete construction and start-up of Plant Vogtle Units 3 and 4 to $8.0 billion and $0.4 billion, respectively, for a total project capital cost forecast of $8.4 billion (net of $1.7 billion received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds). Although Georgia Power believes these incremental costs are reasonable and necessary to complete the project and the Georgia PSC has stated the $7.3 billion estimate included in the seventeenth VCM proceeding does not represent a cost cap, Georgia Power did not seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast in the nineteenth VCM report filed with the Georgia PSC on August 31, 2018. In connection with future VCM filings, Georgia Power may request the Georgia PSC to evaluate costs included in the revised construction contingency estimate for rate recovery as and when they are appropriately included in the base capital cost forecast. After considering the significant level of uncertainty that exists regarding the future recoverability of costs included in the construction contingency estimate since the ultimate outcome of these matters is subject to the outcome of future assessments by management, as well as Georgia PSC decisions in these future regulatory proceedings, Georgia Power recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) in the second quarter 2018.

Georgia Power's revised cost estimate reflects an expected in-service date of November 2021 for Unit 3 and November 2022 for Unit 4.

As construction continues, challenges with management of contractors, subcontractors, and vendors; labor productivity, availability, and/or cost escalation; procurement, fabrication, delivery, assembly, and/or installation, including any required engineering changes, of plant systems, structures, and components (some of which are based on new technology that only recently began initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost. Monthly construction production targets required to maintain the current project schedule continue to increase significantly through the remainder of 2018 and into 2019. To meet these increasing monthly targets, existing craft construction productivity must improve and additional craft laborers must be retained and deployed.

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. 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 ITAAC and the related approvals by the NRC, may arise, 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.

The ultimate outcome of these matters cannot be determined at this time. Any extension of the in-service dates of November 2021 for Unit 3 and November 2022 for Unit 4 is currently estimated to result in additional base capital costs of approximately $50 million per month, based on Georgia Power's ownership interests, and AFUDC of approximately $12 million per month. While Georgia Power is not precluded from seeking recovery of any future capital cost forecast increase, management will ultimately determine whether or not to seek recovery. Any further changes to the capital cost forecast that are not expected to be recoverable through regulated rates will be required to be charged to income and such charges could be material.

Given the significant complexity involved in estimating the future costs to complete construction and start-up of Plant Vogtle Units 3 and 4 and the significant management judgment necessary to assess the related uncertainties surrounding future rate recovery of any projected cost increases, as well as the potential impact on Southern

Company's results of operations and cash flows, Southern Company considers these items to be critical accounting estimates. See Note 3 to the financial statements of Southern Company under "Nuclear Construction" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information.

Recently Issued Accounting Standards

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Southern Company in Item 7 of the Form 10-K for additional information regarding ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). See Note (A) to the Condensed Financial Statements herein for information regarding Southern Company's recently adopted accounting standards.

In 2016, the FASB issued ASU No. 2016-02, which 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 and Southern Company will adopt the new standard effective January 1, 2019.

Southern Company has elected the transition methodology provided by ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, whereby it will apply the requirements of ASU 2016-02 on a prospective basis as of the adoption date of January 1, 2019, without restating prior periods. Southern Company expects to elect the package of practical expedients provided by ASU 2016-02 that allows prior determinations of whether existing contracts are, or contain, leases and the classification of existing leases to continue without reassessment. Additionally, Southern Company expects to apply the use-of-hindsight practical expedient in determining lease terms as of the date of adoption and to elect the practical expedient that allows existing land easements not previously accounted for as leases not to be reassessed. Southern Company also expects to make accounting policy elections to account for short-term leases in all asset classes as off-balance sheet leases and to combine lease and non-lease components in the computations of lease obligations and right-of-use assets for most asset classes.

The Southern Company system is continuing to complete the implementation of an information technology system to track and account for its leases and of changes to its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. The Southern Company system has substantially completed its lease inventory and determined its most significant leases involve PPAs, real estate, and communication towers where certain of Southern Company's subsidiaries are the lessee and PPAs where certain of Southern Company's subsidiaries are the lessor. While Southern Company has not yet determined the ultimate impact, adoption of ASU 2016-02 is expected to result in recording lease liabilities and right-of-use assets on Southern Company's balance sheet each totaling approximately $2.1 billion, with no material impact on Southern Company's statement of income.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Company in Item 7 of the Form 10-K for additional information. Southern Company's financial condition remained stable at September 30, 2018. Southern Company intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $5.6 billion for the first nine months of 2018, an increase of $0.3 billion from the corresponding period in 2017. The increase in net cash provided from operating activities was primarily due to increased fuel cost recovery and the timing of vendor payments. Net cash used for investing activities totaled $3.5 billion for the first nine months of 2018 primarily due to the traditional electric operating companies' installation of equipment to comply with environmental standards and construction of electric

generation, transmission, and distribution facilities and capital expenditures for Southern Company Gas' infrastructure replacement programs, partially offset by proceeds from the Southern Company Gas Dispositions. Net cash used for financing activities totaled $2.3 billion for the first nine months of 2018 primarily due to net redemptions and repurchases of long-term debt, common stock dividend payments, and a decrease in commercial paper borrowings, partially offset by net issuances of short-term bank debt, proceeds from Southern Power's sale of a 33% equity interest in a limited partnership indirectly owning substantially all of its solar facilities, and the issuance of common stock. Cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first nine months of 2018 include the reclassification of $5.1 billion and $3.2 billion in total assets and liabilities held for sale, respectively, primarily associated with Gulf Power, as well as decreases of $2.8 billion and $0.4 billion in total assets and liabilities, respectively, associated with the Southern Company Gas Dispositions. See Note (J) to the Condensed Financial Statements under "Assets Held for Sale" and "Southern Company Gas" herein for additional information. After adjusting for these changes, other significant balance sheet changes include an increase of $4.0 billion in total property, plant, and equipment primarily related to the traditional electric operating companies' installation of equipment to comply with environmental standards and construction of electric generation, transmission, and distribution facilities, as well as an increase in AROs at Alabama Power, partially offset by the second quarter 2018 charge related to the construction of Plant Vogtle Units 3 and 4; a decrease of $2.6 billion in long-term debt (including amounts due within one year) resulting from the repayment of long-term debt; an increase of $1.8 billion in noncontrolling interests primarily related to Southern Power's sale of a 33% equity interest in a limited partnership indirectly owning substantially all of its solar facilities; and an increase of $1.5 billion in ARO liabilities primarily related to revised estimates for ash pond closure costs at Alabama Power to comply with the CCR Rule. See Notes (A), (B), (F), and (J) to the Condensed Financial Statements under "Asset Retirement Obligations," "Nuclear Construction," "Financing Activities," and "Southern Power – Sale of Solar Facility Interests," respectively, herein for additional information.

At the end of the third quarter 2018, the market price of Southern Company's common stock was $43.60 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $24.18 per share, representing a market-to-book ratio of 180%, compared to $48.09, $23.99, and 201%, respectively, at the end of 2017. Southern Company's common stock dividend for the third quarter 2018 was $0.60 per share compared to $0.58 per share in the third quarter 2017.

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 and contractual obligations. Subsequent to September 30, 2018, Mississippi Power completed the redemption of $30 million aggregate principal amount of its Series G 5.40% Senior Notes due July 1, 2035 and $125 million aggregate principal amount of its Series 2009A 5.55% Senior Notes due March 1, 2019, Alabama Power purchased and held $120 million of pollution control revenue bonds, and Southern Company Gas Capital repaid at maturity $155 million aggregate principal amount of 3.50% Series B Senior Notes. An additional $2.6 billion will be required through September 30, 2019 to fund maturities of long-term debt. See "Sources of Capital" herein for additional information.

The Southern Company system's construction program is currently estimated to total approximately $8.8 billion for 2018, $8.2 billion for 2019, $7.2 billion for 2020, $7.0 billion for 2021, and $6.7 billion for 2022. These amounts include expenditures of approximately $1.4 billion, $1.4 billion, $0.9 billion, $1.0 billion, and $0.6 billion for the construction of Plant Vogtle Units 3 and 4 in 2018, 2019, 2020, 2021, and 2022, respectively, and an average of approximately $0.5 billion per year for 2018 through 2022 for Southern Power's planned expenditures for plant acquisitions and placeholder growth, as revised subsequent to Tax Reform Legislation. These amounts also include capital expenditures related to contractual purchase commitments for nuclear fuel, capital expenditures covered under

LTSAs, and costs, which are immaterial to Southern Company, relating to assets divested during 2018 and held for sale at September 30, 2018. Estimated capital expenditures to comply with environmental laws and regulations included in these amounts are $1.1 billion, $0.3 billion, $0.4 billion, $0.5 billion, and $0.5 billion for 2018, 2019, 2020, 2021, and 2022, respectively. These estimated expenditures do not include any potential compliance costs associated with pending regulation of CO_2 emissions from fossil fuel-fired electric generating units.

The traditional electric operating companies also anticipate costs associated with closure and monitoring of ash ponds in accordance with the CCR Rule, which are reflected in Southern Company's ARO liabilities. These costs, which are expected to change as the Southern Company system continues to refine its assumptions underlying the cost estimates and evaluate the method and timing of compliance activities, are currently estimated to be approximately $0.3 billion, $0.4 billion, $0.5 billion, $0.6 billion, and $0.5 billion for 2018, 2019, 2020, 2021, and 2022, respectively. For information regarding expected changes to these cost estimates during the fourth quarter 2018, see FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" and Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein. Also see Note 1 to the financial statements of Southern Company under "Asset Retirement Obligations and Other Costs of Removal" in Item 8 of the Form 10-K for additional information on AROs.

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 laws and regulations; the outcome of any legal challenges to environmental rules; changes in electric generating plants, including unit retirements and replacements and adding or changing fuel sources at existing electric generating units, to meet regulatory requirements; changes in FERC rules and regulations; state regulatory agency approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. Additionally, planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power's ability to execute its growth strategy. See Note 12 to the financial statements of Southern Company under "Southern Power" in Item 8 of the Form 10-K and Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information regarding Southern Power's plant acquisitions.

The construction program also includes Plant Vogtle Units 3 and 4, which includes components based on new technology that only recently began initial operation in the global nuclear industry at scale and which may be subject to additional revised cost estimates during construction. The ability to control costs and avoid cost and schedule overruns during the development, construction, and operation of new facilities is subject to a number of factors, including, but not limited to, changes in labor costs, availability, and productivity, challenges with management of contractors, subcontractors, or vendors, 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. See Note 3 to the financial statements of Southern Company under "Nuclear Construction" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for information regarding Plant Vogtle Units 3 and 4 and additional factors that may impact construction expenditures.

Sources of Capital

Southern Company intends to meet its future capital needs through operating cash flows, borrowings from financial institutions, and debt and equity issuances in the capital markets. Southern Company also plans to utilize the proceeds from the disposition of Gulf Power when completed for future capital needs. 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 and debt issuances in 2018, as well as in subsequent years, will be contingent on Southern Company's investment opportunities and the Southern Company system's capital

requirements and will depend upon prevailing market conditions and other factors. See "Capital Requirements and Contractual Obligations" herein for additional information.

Except as described herein, the traditional electric operating companies, Southern Power, and Southern Company Gas plan to obtain the funds required for construction and other purposes from operating cash flows, external security issuances, borrowings from financial institutions, and equity contributions or loans from Southern Company. Southern Power also plans to utilize tax equity partnership contributions. However, the amount, type, and timing of any future financings, if needed, will depend upon prevailing market conditions, regulatory approval, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" of Southern Company in Item 7 of the Form 10-K for additional information.

In addition, in 2014, Georgia Power entered into the Loan Guarantee Agreement with the DOE, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its construction of Plant Vogtle Units 3 and 4. Under the Loan Guarantee Agreement, the DOE agreed to guarantee borrowings of up to $3.46 billion (not to exceed 70% of 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. As of September 30, 2018, Georgia Power had borrowed $2.6 billion under the FFB Credit Facility. In July 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement, which provides that further advances are conditioned upon the DOE's approval of any agreements entered into in replacement of the Vogtle 3 and 4 Agreement and satisfaction of certain other conditions.

In September 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately $1.67 billion of additional guaranteed loans under the Loan Guarantee Agreement. This conditional commitment expires on March 31, 2019, subject to any further extension approved by the DOE. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information regarding the Loan Guarantee Agreement, including applicable covenants, events of default, mandatory prepayment events (including any decision not to continue construction of Plant Vogtle Units 3 and 4), and additional conditions to borrowing. Also see Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

Southern Company's current liabilities frequently exceed current assets because of scheduled maturities of long-term debt and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs. As of September 30, 2018, Southern Company's current liabilities exceeded current assets by $3.6 billion due to long-term debt that is due within one year of $3.0 billion (including approximately $1.3 billion at the parent company, $0.3 billion at Alabama Power, $0.5 billion at Georgia Power, $0.2 billion at Mississippi Power, and $0.5 billion at Southern Company Gas) and notes payable of $2.6 billion (including approximately $2.0 billion at the parent company, $0.1 billion at Georgia Power, $0.1 billion at Gulf Power, $0.2 billion at Southern Power, and $0.1 billion at Southern Company Gas). To meet short-term cash needs and contingencies, the Southern Company system has substantial cash flow from operating activities and access to capital markets and financial institutions. Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas intend to utilize operating cash flows, as well as commercial paper, lines of credit, bank notes, and securities issuances, as market conditions permit, as well as, under certain circumstances for the traditional electric operating companies, Southern Power, and Southern Company Gas, equity contributions and/or loans from Southern Company to meet their short-term capital needs.

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

At September 30, 2018, Southern Company and its subsidiaries had approximately $1.8 billion of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2018 were as follows:

	Expires						Executable Term Loans	Expires Within One Year	
Company	2018	2019	2020	2022	Total	Unused	One Year	Term Out	No Term Out
	(in millions)								
Southern Company[(a)]	$—	$—	$—	$2,000	$2,000	$1,999	$ —	$—	$ —
Alabama Power	—	33	500	800	1,333	1,333	—	—	33
Georgia Power	—	—	—	1,750	1,750	1,736	—	—	—
Gulf Power	20	25	235	—	280	280	45	45	—
Mississippi Power	—	100	—	—	100	100	—	—	—
Southern Power Company[(b)]	—	—	—	750	750	728	—	—	—
Southern Company Gas[(c)]	—	—	—	1,900	1,900	1,895	—	—	—
Other	—	30	—	—	30	30	—	—	30
Southern Company Consolidated	$20	$188	$735	$7,200	$8,143	$8,101	$ 45	$45	$ 63

(a) Represents the Southern Company parent entity.

(b) Does not include Southern Power Company's $120 million continuing letter of credit facility for standby letters of credit expiring in 2019, of which $22 million remains unused at September 30, 2018.

(c) Southern Company Gas, as the parent entity, guarantees the obligations of Southern Company Gas Capital, which is the borrower of $1.4 billion of these arrangements. Southern Company Gas' committed credit arrangements also include $500 million for which Nicor Gas is the borrower and which is restricted for working capital needs of Nicor Gas.

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

Most of these bank credit arrangements, as well as the term loan arrangements of Southern Company, Alabama Power, and Southern Power Company contain covenants that limit debt levels and contain cross-acceleration or cross-default provisions to other indebtedness (including guarantee obligations) that are restricted only to the indebtedness of the individual company. Such cross-default provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness or guarantee obligations over a specified threshold. Such cross-acceleration provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness, the payment of which was then accelerated. At September 30, 2018, Southern Company, the traditional electric operating companies, Southern Power Company, Southern Company Gas, and Nicor Gas were in compliance with all such covenants. All but $40 million of the bank credit arrangements do not 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 revenue bonds of the traditional electric operating companies and the commercial paper programs of Southern Company, the traditional electric operating companies, Southern Power Company, Southern Company Gas, and Nicor Gas. The amount of variable rate revenue bonds of the traditional electric operating companies outstanding requiring liquidity support as of September 30, 2018 was approximately $1.5 billion. In addition, at September 30, 2018, the traditional electric operating companies had approximately $573 million of revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to September 30, 2018, Alabama Power purchased and held approximately $120 million of its outstanding pollution control revenue bonds required to be remarketed.

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

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

	Short-term Debt at September 30, 2018		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	$611	2.5 %	$1,323	2.4 %	$ 3,008
Short-term bank debt	1,953	2.9 %	1,790	3.0 %	2,003
Total	$2,564	2.8 %	$3,113	2.7 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2018.

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

Credit Rating Risk

At September 30, 2018, Southern Company and its subsidiaries did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

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

The maximum potential collateral requirements under these contracts at September 30, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and/or Baa2	$ 38
At BBB- and/or Baa3	$ 578
At BB+ and/or Ba1(*)	$ 2,120

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

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

On February 26, 2018, Moody's revised its rating outlook for Mississippi Power from stable to positive. On August 8, 2018, Moody's upgraded Mississippi Power's senior unsecured rating to Baa3 from Ba1 and maintained the positive rating outlook.

On February 28, 2018, Fitch removed Mississippi Power from rating watch negative and revised its rating outlook from stable to positive.

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

Also on February 28, 2018, Fitch downgraded the senior unsecured long-term debt rating of Southern Company to BBB+ from A- with a stable outlook and of Georgia Power to A from A+ with a negative outlook. On August 9, 2018, Fitch downgraded the senior unsecured long-term debt rating of Georgia Power to A- from A.

On March 14, 2018, S&P upgraded the senior unsecured long-term debt rating of Mississippi Power to A- from BBB+. The outlook remained negative.

On May 21, 2018, S&P revised its rating outlook for Gulf Power from negative to stable.

On August 8, 2018, Moody's downgraded the senior unsecured debt rating of Georgia Power to Baa1 from A3.

On September 28, 2018, Moody's revised its rating outlooks for Southern Company, Alabama Power, and Georgia Power from negative to stable.

Also on September 28, 2018, Fitch assigned a negative rating outlook to the ratings of Southern Company and its subsidiaries (excluding Gulf Power and Mississippi Power).

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries may be negatively impacted. Southern Company and most of its regulated subsidiaries have taken actions to mitigate the resulting impacts, which, among other alternatives, include adjusting capital structure. Absent actions by Southern Company and its subsidiaries that fully mitigate the impacts, the credit ratings of Southern Company and certain of its subsidiaries could be negatively affected. See Note 3 to the financial statements of Southern Company in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements herein for additional information related to state PSC or other regulatory agency actions related to the Tax Reform Legislation, including approvals of capital structure adjustments for Alabama Power, Georgia Power, Gulf Power, and Atlanta Gas Light by their respective state PSCs, which are expected to help mitigate the potential adverse impacts to certain of their credit metrics.

Financing Activities

During the first nine months of 2018, Southern Company issued approximately 9.2 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately $338 million.

In addition, during the third quarter 2018, Southern Company issued a total of approximately 12.1 million shares of common stock through at-the-market issuances pursuant to sales agency agreements related to Southern Company's continuous equity offering program and received cash proceeds of approximately $540 million, net of approximately $5 million in commissions. Subsequent to September 30, 2018, Southern Company issued an additional approximately 2.5 million shares of common stock through at-the-market issuances and received cash proceeds of approximately $107 million, net of approximately $1 million in commissions.

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

The following table outlines the long-term debt financing activities for Southern Company and its subsidiaries for the first nine months of 2018:

Company	Senior Note Issuances	Senior Note Maturities, Redemptions, and Repurchases	Revenue Bond Maturities, Redemptions, and Repurchases	Other Long-Term Debt Issuances	Other Long-Term Debt Redemptions and Maturities[(a)]
	(in millions)				
Southern Company[(b)]	$750	$ 1,000	$ —	$ —	$ —
Alabama Power	500	—	—	—	—
Georgia Power	—	1,000	469	—	107
Mississippi Power	600	—	43	—	900
Southern Power	—	350	—	—	420
Southern Company Gas	—	—	200	100	—
Other	—	—	—	—	10
Elimination[(c)]	—	—	—	—	(1)
Southern Company Consolidated	$1,850	$ 2,350	$ 712	$ 100	$ 1,436

(a) Includes reductions in capital lease obligations resulting from cash payments under capital leases.
(b) Represents the Southern Company parent entity.
(c) Represents reductions in affiliate capital lease obligations at Georgia Power, which are eliminated in Southern Company's Consolidated Financial Statements.

Except as otherwise described herein, Southern Company and its subsidiaries used the proceeds of debt issuances for their redemptions and maturities shown in the table above, to repay short-term indebtedness, and for general corporate purposes, including working capital. The subsidiaries also used the proceeds for their construction programs.

In March 2018, Southern Company entered into a $900 million short-term floating rate bank loan bearing interest based on one-month LIBOR, which was repaid in August 2018.

In April 2018, Southern Company borrowed $250 million pursuant to a short-term uncommitted bank credit arrangement, bearing interest at a rate agreed upon by Southern Company and the bank from time to time and payable on no less than 30 days' demand by the bank.

In June 2018, Southern Company repaid at maturity two $100 million short-term floating rate bank term loans.

In August 2018, Southern Company issued $750 million aggregate principal amount of Series 2018A Floating Rate Senior Notes due February 14, 2020 bearing interest based on three-month LIBOR, entered into a $1.5 billion short-term floating rate bank loan bearing interest based on one-month LIBOR, and repaid $250 million borrowed in August 2017 pursuant to a short-term uncommitted bank credit arrangement.

In the third quarter 2018, Southern Company repaid at maturity $500 million aggregate principal amount of 1.55% Senior Notes and $500 million aggregate principal amount of Series 2013A 2.45% Senior Notes.

Subsequent to September 30, 2018, Alabama Power purchased and held $120 million aggregate principal amount of The Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Plant Barry Project), Series 2008. These bonds may be remarketed to the public in the future.

In January 2018, Georgia Power repaid its outstanding $150 million short-term floating rate bank loan due May 31, 2018.

In May 2018, through cash tender offers, Georgia Power repurchased and retired $89 million of the $250 million aggregate principal amount outstanding of its Series 2007A 5.65% Senior Notes due March 1, 2037, $326 million of

the $500 million aggregate principal amount outstanding of its Series 2009A 5.95% Senior Notes due February 1, 2039, and $335 million of the $600 million aggregate principal amount outstanding of its Series 2010B 5.40% Senior Notes due June 1, 2040, for an aggregate purchase price, excluding accrued and unpaid interest, of $902 million.

In March 2018, Mississippi Power entered into a $300 million short-term floating rate bank loan bearing interest based on one-month LIBOR, of which $200 million was repaid in the second quarter 2018 and $100 million was repaid in the third quarter 2018. The proceeds of this loan, together with the proceeds of Mississippi Power's $600 million senior notes issuances, were used to repay Mississippi Power's $900 million unsecured floating rate term loan.

Subsequent to September 30, 2018, Mississippi Power completed the redemption of all 334,210 outstanding shares of its preferred stock (as well as related depositary shares), with an aggregate par value of approximately $33.4 million; all $30 million aggregate principal amount outstanding of its Series G 5.40% Senior Notes due July 1, 2035; and all $125 million aggregate principal amount outstanding of its Series 2009A 5.55% Senior Notes due March 1, 2019.

In May 2018, Southern Power entered into two short-term floating rate bank loans, each for an aggregate principal amount of $100 million, which bear interest based on one-month LIBOR.

During the nine months ended September 30, 2018, Southern Power received approximately $148 million of third-party tax equity related to certain of its renewable facilities. See Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information.

Prior to its sale, in the second quarter 2018, Pivotal Utility Holdings caused $200 million aggregate principal amount of gas facility revenue bonds to be redeemed.

In May 2018, Southern Company Gas Capital borrowed $95 million pursuant to a short-term uncommitted bank credit arrangement, guaranteed by Southern Company Gas, bearing interest at a rate agreed upon by Southern Company Gas Capital and the bank from time to time and payable on no less than 30 days' demand by the bank. The proceeds of the loan were used to repay short-term debt. In July 2018, Southern Company Gas Capital repaid this loan.

In July 2018, Nicor Gas agreed to issue $300 million aggregate principal amount of first mortgage bonds in a private placement, $100 million of which was issued in August 2018 and $200 million of which was issued in November 2018.

Subsequent to September 30, 2018, Southern Company Gas Capital repaid at maturity $155 million aggregate principal amount of 3.50% Series B Senior Notes.

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.

Table of Contents

PART I

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the nine months ended September 30, 2018, there were no material changes to Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, and Southern Power's disclosures about market risk. For additional market risk disclosures relating to Southern Company Gas, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of Southern Company Gas herein. For an in-depth discussion of each registrant's market risks, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of each registrant in Item 7 of the Form 10-K and Note 1 to the financial statements of each registrant under "Financial Instruments," Note 11 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 10 to the financial statements of Gulf Power, Mississippi Power, and Southern Company Gas, and Note 9 to the financial statements of Southern Power in Item 8 of the Form 10-K. Also see Note (D) and Note (I) to the Condensed Financial Statements herein for information relating to derivative instruments.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls over financial reporting.

There have been no changes in Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, Southern Power's, or Southern Company Gas' internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the third quarter 2018 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, Southern Power's, or Southern Company Gas' internal control over financial reporting.

Table of Contents

Table of Contents

ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,584	$1,595	$4,208	$4,155
Wholesale revenues, non-affiliates	74	77	213	210
Wholesale revenues, affiliates	14	18	96	83
Other revenues	68	50	199	158
Total operating revenues	1,740	1,740	4,716	4,606
Operating Expenses:				
Fuel	356	343	1,028	944
Purchased power, non-affiliates	64	57	176	132
Purchased power, affiliates	69	55	149	117
Other operations and maintenance	401	406	1,191	1,177
Depreciation and amortization	192	185	570	549
Taxes other than income taxes	97	93	289	284
Total operating expenses	1,179	1,139	3,403	3,203
Operating Income	561	601	1,313	1,403
Other Income and (Expense):				
Allowance for equity funds used during construction	16	11	43	27
Interest expense, net of amounts capitalized	(82)	(76)	(240)	(229)
Other income (expense), net	9	10	24	35
Total other income and (expense)	(57)	(55)	(173)	(167)
Earnings Before Income Taxes	504	546	1,140	1,236
Income taxes	127	216	272	493
Net Income	377	330	868	743
Dividends on Preferred and Preference Stock	4	5	11	14
Net Income After Dividends on Preferred and Preference Stock	$373	$325	$857	$729

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income	$377	$330	$868	$743
Other comprehensive income (loss):				

Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $1, $1, and $2, respectively	1	1	3	3
Total other comprehensive income (loss)	1	1	3	3
Comprehensive Income	$378	$331	$871	$746

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

Table of Contents

ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income	$868	$743
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	683	666
Deferred income taxes	104	260
Allowance for equity funds used during construction	(43)	(27)
Settlement of asset retirement obligations	(31)	(20)
Other, net	(6)	59
Changes in certain current assets and liabilities —		
-Receivables	(207)	(163)
-Prepayments	(26)	(28)
-Materials and supplies	(69)	(29)
-Other current assets	66	33
-Accounts payable	(194)	(125)
-Accrued taxes	225	159
-Accrued compensation	(41)	(48)
-Retail fuel cost over recovery	—	(76)
-Other current liabilities	60	7
Net cash provided from operating activities	1,389	1,411
Investing Activities:		
Property additions	(1,529)	(1,211)
Nuclear decommissioning trust fund purchases	(207)	(174)
Nuclear decommissioning trust fund sales	207	174
Cost of removal, net of salvage	(78)	(82)
Change in construction payables	30	105
Other investing activities	(23)	(29)
Net cash used for investing activities	(1,600)	(1,217)
Financing Activities:		
Proceeds —		
Senior notes	500	550
Capital contributions from parent company	495	337
Preferred stock	—	250
Redemptions —		
Senior notes	—	(200)
Pollution control revenue bonds	—	(36)
Payment of common stock dividends	(602)	(536)
Other financing activities	(24)	(26)
Net cash provided from financing activities	369	339

Net Change in Cash, Cash Equivalents, and Restricted Cash	158	533
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	544	420
Cash, Cash Equivalents, and Restricted Cash at End of Period	$702	$953
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of $15 and $10 capitalized for 2018 and 2017, respectively)	$220	$217
Income taxes, net	30	146
Noncash transactions — Accrued property additions at end of period	275	189

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

Table of Contents

ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$702	$544
Receivables —		
Customer accounts receivable	455	355
Unbilled revenues	159	162
Under recovered regulatory clause revenues	48	—
Affiliated	68	43
Other accounts and notes receivable	54	55
Accumulated provision for uncollectible accounts	(9)	(9)
Fossil fuel stock	117	184
Materials and supplies	536	458
Prepaid expenses	59	85
Other regulatory assets, current	141	124
Other current assets	8	5
Total current assets	2,338	2,006
Property, Plant, and Equipment:		
In service	29,568	27,326
Less: Accumulated provision for depreciation	9,932	9,563
Plant in service, net of depreciation	19,636	17,763
Nuclear fuel, at amortized cost	316	339
Construction work in progress	1,457	908
Total property, plant, and equipment	21,409	19,010
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	63	67
Nuclear decommissioning trusts, at fair value	938	903
Miscellaneous property and investments	127	124
Total other property and investments	1,128	1,094
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	236	239
Deferred under recovered regulatory clause revenues	88	54
Other regulatory assets, deferred	1,209	1,272
Other deferred charges and assets	202	189
Total deferred charges and other assets	1,735	1,754
Total Assets	$26,610	$23,864

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

Table of Contents

ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$321	$—
Accounts payable —		
Affiliated	341	327
Other	425	585
Customer deposits	96	92
Accrued taxes —		
Accrued income taxes	97	9
Other accrued taxes	132	45
Accrued interest	81	77
Accrued compensation	169	205
Asset retirement obligations, current	111	7
Other regulatory liabilities, current	57	1
Other current liabilities	46	52
Total current liabilities	1,876	1,400
Long-term Debt	7,803	7,628
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,882	2,760
Deferred credits related to income taxes	2,051	2,082
Accumulated deferred ITCs	107	112
Employee benefit obligations	283	304
Asset retirement obligations	3,090	1,702
Other cost of removal obligations	542	609
Other regulatory liabilities, deferred	52	84
Other deferred credits and liabilities	48	63
Total deferred credits and other liabilities	9,055	7,716
Total Liabilities	18,734	16,744
Redeemable Preferred Stock	291	291
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	3,490	2,986
Retained earnings	2,902	2,647
Accumulated other comprehensive loss	(29)	(26)
Total common stockholder's equity	7,585	6,829
Total Liabilities and Stockholder's Equity	$26,610	$23,864

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

Table of Contents

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

THIRD QUARTER 2018 vs. THIRD QUARTER 2017
AND
YEAR-TO-DATE 2018 vs. YEAR-TO-DATE 2017

OVERVIEW

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

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

On May 1, 2018, the Alabama PSC approved modifications to Rate RSE and other commitments designed to position Alabama Power to address the retail rate impact and the growing pressure on its credit quality resulting from the Tax Reform Legislation. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk" herein for additional information and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate RSE" in Item 8 of the Form 10-K for additional information on Alabama Power's established retail tariff.

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

RESULTS OF OPERATIONS

Net Income

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$48	14.8	$128	17.6

Alabama Power's net income after dividends on preferred and preference stock for the third quarter 2018 was $373 million compared to $325 million for the corresponding period in 2017. Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2018 was $857 million compared to $729 million for the corresponding period in 2017. These increases were primarily related to an increase in retail revenues associated with colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 in Alabama Power's service territory compared to the corresponding periods in 2017 and a decrease in income tax expense, partially offset by customer bill credits related to the Tax Reform Legislation. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" herein and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate RSE" in Item 8 of the Form 10-K for additional information.

Retail Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(11)	(0.7)	$53	1.3

In the third quarter 2018, retail revenues were $1.58 billion compared to $1.60 billion for the corresponding period in 2017. For year-to-date 2018, retail revenues were $4.21 billion compared to $4.16 billion for the corresponding period in 2017.

Details of the changes in retail revenues were as follows:

	Third Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,595		$4,155	
Estimated change resulting from –				
Rates and pricing	(87)	(5.5)	(195)	(4.7)
Sales decline	(2)	(0.1)	(8)	(0.1)
Weather	37	2.3	130	3.1
Fuel and other cost recovery	41	2.6	126	3.0
Retail – current year	$1,584	(0.7)%	$4,208	1.3 %

Revenues associated with changes in rates and pricing decreased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to customer bill credits related to the Tax Reform Legislation. See Note (B) to the Condensed Financial Statements under "Regulatory Matters – Alabama Power" herein and Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K for additional information.

Revenues attributable to changes in sales decreased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017. Weather-adjusted commercial KWH sales decreased 1.1% and 1.4% for the third quarter and year-to-date 2018, respectively, and weather-adjusted residential KWH sales decreased 0.3% and 0.5% for the third quarter and year-to-date 2018, respectively, when compared to the corresponding periods in 2017 primarily due to lower customer usage related to energy efficiency. Industrial KWH sales increased 1.3% and 2.4% for the third quarter and year-to-date 2018, respectively, when compared to the corresponding periods in 2017 as a result of an increase in demand resulting from changes in production levels primarily in the primary metals sector, largely due to strong domestic demand for steel and aluminum, and in the pipelines sector, partially offset by a decrease in demand in the paper and chemicals sectors, primarily due to customer maintenance outages and on-site cogeneration.

Revenues resulting from changes in weather increased in the third quarter and year-to-date 2018 due to colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 in Alabama Power's service territory compared to the corresponding periods in 2017. For the third quarter 2018, the resulting increases were 3.9% and 2.2% for residential and commercial sales revenues, respectively. For year-to-date 2018, the resulting increases were 5.7% and 2.3% for residential and commercial sales revenues, respectively.

Fuel and other cost recovery revenues increased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to increases in KWH generation and 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.

Table of Contents

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

Wholesale Revenues – Affiliates

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(4)	(22.2)	$13	15.7

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

For year-to-date 2018, wholesale revenues from sales to affiliates were $96 million compared to $83 million for the corresponding period in 2017. The increase was primarily due to a 12% increase in the price of energy and a 3% increase in KWH sales as a result of increased demand due to colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017.

Other Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$18	36.0	$41	25.9

In the third quarter 2018, other revenues were $68 million compared to $50 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $199 million compared to $158 million for the corresponding period in 2017. These increases were primarily due to revenues related to unregulated sales of products and services that were reclassified as other revenues as a result of the adoption of ASC 606, Revenue from Contracts with Customers (ASC 606). In prior periods, these revenues were included in other income (expense), net. See Note (A) to the Condensed Financial Statements herein for additional information regarding Alabama Power's adoption of ASC 606. The year-to-date 2018 increase was partially offset by decreases in open access transmission tariff revenues primarily due to expected declines in customers' needs and a lower rate related to the Tax Reform Legislation.

Fuel and Purchased Power Expenses

	Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 13	3.8	$ 84	8.9
Purchased power – non-affiliates	7	12.3	44	33.3
Purchased power – affiliates	14	25.5	32	27.4
Total fuel and purchased power expenses	$ 34		$ 160	

In the third quarter 2018, fuel and purchased power expenses were $489 million compared to $455 million for the corresponding period in 2017. The increase was primarily due to a $23 million increase related to the volume of KWHs generated and purchased and a $16 million increase related to the average cost of fuel, partially offset by a $5 million decrease in the average cost of purchased power.

For year-to-date 2018, fuel and purchased power expenses were $1.35 billion compared to $1.19 billion for the corresponding period in 2017. The increase was primarily due to a $98 million increase related to the volume of KWHs generated and purchased and a $32 million increase related to the average cost of fuel.

67

In addition, fuel expense increased $30 million year-to-date 2018 in accordance with an Alabama PSC accounting order authorizing the use of excess deferred income taxes to offset under recovered fuel costs. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Accounting Order" herein for additional information.

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

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

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in billions of KWHs)	16	16	47	46
Total purchased power (in billions of KWHs)	3	2	6	5
Sources of generation (percent) —				
Coal	54	52	52	49
Nuclear	24	24	22	25
Gas	18	19	19	20
Hydro	4	5	7	6
Cost of fuel, generated (in cents per net KWH)[(a)] —				
Coal	2.74	2.61	2.74	2.61
Nuclear	0.78	0.75	0.77	0.75
Gas	2.80	2.72	2.72	2.74
Average cost of fuel, generated (in cents per net KWH)[(a)(b)]	2.27	2.17	2.27	2.15
Average cost of purchased power (in cents per net KWH)[(c)]	5.43	5.65	5.59	5.57

(a) Cost of fuel, generated and average cost of fuel, generated excludes a $30 million adjustment for year-to-date 2018 associated with the Alabama PSC accounting order related to excess deferred income taxes.

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

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

Fuel

In the third quarter 2018, fuel expense was $356 million compared to $343 million for the corresponding period in 2017. The increase was primarily due to a 16.6% decrease in the volume of KWHs generated by hydro facilities due to lower rainfall, a 5.0% increase in the average cost of coal per KWH generated, a 4.0% increase in the average cost of nuclear fuel per KWH generated, and a 3.9% decrease in the volume of KWHs generated by nuclear facilities due to the timing of outages. In addition, the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements, increased 2.9% and the volume of KWHs generated by coal increased 2.0%. These increases were partially offset by an 8.4% decrease in the volume of KWHs generated by natural gas.

For year-to-date 2018, fuel expense was $1.03 billion compared to $944 million for the corresponding period in 2017. The increase was primarily due to a 10.8% decrease in the volume of KWHs generated by nuclear facilities due to outages, a 6.9% increase in the volume of KWHs generated by coal, and a 5.0% increase in the average cost of coal per KWH generated. These increases were partially offset by an 11.7% increase in the volume of KWHs generated by hydro facilities due to the timing of rainfall and a 4.1% decrease in the volume of KWHs generated by natural gas.

Table of Contents

In addition, fuel expense increased $30 million year-to-date 2018 in accordance with an Alabama PSC accounting order authorizing the use of excess deferred income taxes to offset under recovered fuel costs. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Accounting Order" herein for additional information.

Purchased Power – Non-Affiliates

In the third quarter 2018, purchased power expense from non-affiliates was $64 million compared to $57 million for the corresponding period in 2017. The increase was primarily related to a 14.8% increase in the amount of energy purchased due to warmer weather in the third quarter 2018 compared to the corresponding period in 2017.

For year-to-date 2018, purchased power expense from non-affiliates was $176 million compared to $132 million for the corresponding period in 2017. The increase was primarily related to a 24.3% increase in the amount of energy purchased and a 6.7% increase in the average cost of purchased power per KWH due to colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017.

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 third quarter 2018, purchased power expense from affiliates was $69 million compared to $55 million for the corresponding period in 2017. The increase was primarily related to a 28% increase in the amount of energy purchased due to warmer weather in the third quarter 2018 compared to the corresponding period in 2017.

For year-to-date 2018, purchased power expense from affiliates was $149 million compared to $117 million for the corresponding period in 2017. The increase was primarily related to a 35% increase in the amount of energy purchased as a result of colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017.

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

Other Operations and Maintenance Expenses

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(5)	(1.2)	$14	1.2

For year-to-date 2018, other operations and maintenance expenses were $1.19 billion compared to $1.18 billion for the corresponding period in 2017. The increase was primarily due to $33 million of expenses from unregulated sales of products and services that were reclassified as other operations and maintenance expenses as a result of the adoption of ASC 606. In prior periods, these expenses were included in other income (expense), net. In addition, distribution costs increased $29 million primarily due to additional line maintenance. These increases were partially offset by a $23 million decrease in steam generation costs primarily due to the timing of outages, an $8 million decrease in employee benefits as a result of amounts capitalized in connection with an increase in construction projects, a $7 million decrease in nuclear generation costs primarily due to the timing of plant improvement projects, and a $6 million decrease in property insurance primarily due to the receipt of refunds.

See Note (A) to the Condensed Financial Statements herein for additional information regarding Alabama Power's adoption of ASC 606.

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

Depreciation and Amortization

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$7	3.8	$21	3.8

In the third quarter 2018, depreciation and amortization was $192 million compared to $185 million for the corresponding period in 2017. For year-to-date 2018, depreciation and amortization was $570 million compared to $549 million for the corresponding period in 2017. These increases were primarily due to additional plant in service related to steam generation, transmission, and distribution assets. See Note 1 to the financial statements of Alabama Power under "Depreciation and Amortization" in Item 8 of the Form 10-K for additional information.

Allowance for Equity Funds Used During Construction

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$5	45.5	$16	59.3

In the third quarter 2018, AFUDC equity was $16 million compared to $11 million for the corresponding period in 2017. For year-to-date 2018, AFUDC equity was $43 million compared to $27 million for the corresponding period in 2017. These increases were primarily due to an increase in capital expenditures related to environmental and transmission projects.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$6	7.9	$11	4.8

In the third quarter 2018, interest expense, net of amounts capitalized was $82 million compared to $76 million for the corresponding period in 2017. For year-to-date 2018, interest expense, net of amounts capitalized was $240 million compared to $229 million for the corresponding period in 2017. These increases were primarily due to an increase in the average debt outstanding and higher interest rates, partially offset by an increase in the amounts capitalized.

Other Income (Expense), Net

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(10.0)	$(11)	(31.4)

For year-to-date 2018, other income (expense), net was $24 million compared to $35 million for the corresponding period in 2017. This decrease was primarily due to the reclassification of revenues and expenses associated with unregulated sales of products and services to other revenues and operations and maintenance expense, respectively, as a result of the adoption of ASC 606. See Note (A) to the Condensed Financial Statements herein for additional information regarding Alabama Power's adoption of ASC 606.

Income Taxes

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(89)	(41.2)	$(221)	(44.8)

In the third quarter 2018, income taxes were $127 million compared to $216 million for the corresponding period in 2017. For year-to-date 2018, income taxes were $272 million compared to $493 million for the corresponding period in 2017. These decreases were primarily due to the reduction in the federal income tax rate and the benefit from the flowback of excess deferred income taxes as a result of the Tax Reform Legislation and lower pre-tax earnings. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Accounting Order" and Note (H) to the Condensed Financial Statements under "Effective Tax Rate" herein 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 providing electric service. These factors include Alabama Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Future earnings will be impacted by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies and increasing volumes of electronic commerce transactions, both of which could contribute to a net reduction in customer usage. Earnings are subject to a variety of other factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Alabama Power's service territory. Demand for electricity is primarily driven by the pace of economic growth that may be affected by changes in regional and global economic conditions, which may impact future earnings. 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

Alabama Power's operations are regulated by state and federal environmental agencies through a variety of laws and regulations governing air, water, land, and protection of other natural resources. Alabama Power maintains comprehensive environmental compliance and GHG strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures, operations and maintenance costs, and costs reflected in ARO liabilities, required to comply with environmental laws and regulations and to achieve stated goals may impact future unit retirement and replacement decisions, results of operations, cash flows, and financial condition. Related costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, and adding or changing fuel sources for certain existing units, as well as related upgrades to the transmission system. A major portion of these costs are expected to be recovered through existing ratemaking provisions. The ultimate impact of environmental laws and regulations and the GHG goals discussed below will depend on various factors, such as state adoption and implementation of requirements, the availability and cost of any deployed technology, and the outcome of pending and/or future legal challenges.

New or revised environmental laws and regulations could affect many areas of Alabama Power's operations. The impact of any such changes cannot be determined at this time. Environmental compliance costs could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis. Environmental compliance costs are recovered through Rate CNP Compliance. Further, increased 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. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity. 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" and "Retail Regulatory Matters – Rate CNP Compliance" in Item 8 of the Form 10-K for additional information.

Environmental Laws and Regulations

Water Quality

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

On May 2, 2018, the EPA updated its anticipated final rulemaking schedule for ELG from September 2020 to December 2019. The impact of any changes to the ELG rule will depend on the content of the final rule and the outcome of 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 Laws and Regulations – Coal Combustion Residuals" of Alabama Power in Item 7 of the Form 10-K for additional information regarding the Disposal of Coal Combustion Residuals from Electric Utilities rule (CCR Rule).

The EPA published certain amendments to the CCR Rule, which became effective August 29, 2018. These amendments extend the date from April 2019 to October 31, 2020 to cease sending CCR and other waste streams to impoundments that demonstrate compliance with all except two specified criteria. These amendments also establish groundwater protection standards for four constituents that do not have established EPA maximum contaminant levels and allow a participating state director or the EPA (where the EPA is the permitting authority) to suspend groundwater monitoring requirements under certain circumstances. Specific site impacts are being evaluated by Alabama Power.

On October 15, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a mandate that broadens the CCR Rule to regulate previously-excluded inactive surface impoundments (legacy units) located at retired generation facilities and challenges both the ability of unlined impoundments to continue operating and the classification of clay lined units. It is anticipated that the EPA will issue a series of rulemakings to address this court action. Alabama Power is evaluating the extent of potential impacts on legacy units. The ultimate impact of these changes will not be known until the EPA rulemaking and any legal challenges are finalized.

On April 20, 2018, the Alabama Environmental Management Commission approved a state CCR rule that has been provided to the EPA for a six-month review period. This state CCR rule is generally consistent with the federal CCR Rule. The ultimate outcome of this matter cannot be determined at this time.

In June 2018, Alabama Power recorded an increase of approximately $1.2 billion to its AROs related to the CCR Rule. The revised cost estimates were based on information from feasibility studies performed on ash ponds in use at plants operated by Alabama Power. During the second quarter 2018, Alabama Power's management completed its analysis of these studies which indicated that additional closure costs, primarily related to increases in estimated ash volume, water management requirements, and design revisions, will be required to close these ash ponds under the planned closure-in-place methodology. As further analysis is performed and closure details are developed with respect to ash pond closures, Alabama Power expects to periodically update these cost estimates. As the level of work becomes more defined in the next 12 months, it is likely that these cost estimates will change and the change could be material. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information.

Absent continued recovery of ARO costs through regulated rates, Alabama Power's results of operations, cash flows, and financial condition could be materially impacted. The ultimate outcome of these matters cannot be determined at this time.

Nuclear Decommissioning

See Note 1 to the financial statements of Alabama Power under "Nuclear Decommissioning" in Item 8 of the Form 10-K and Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" and "Nuclear Decommissioning" herein for additional information.

In June 2018, Alabama Power completed an updated decommissioning cost site study for Plant Farley. The estimated cost of decommissioning based on the study resulted in an increase in the ARO liability of approximately $300 million. Amounts previously contributed to the external trust funds are currently projected to be adequate to meet the updated decommissioning obligations.

Global Climate Issues

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

On August 31, 2018, the EPA published a proposed Clean Power Plan replacement rule known as the Affordable Clean Energy rule (ACE Rule), which would require states to develop unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of September 30, 2018, Alabama Power has ownership interests in 20 fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to Alabama Power is currently unknown and will depend on changes between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal proceedings.

Through 2017, the Southern Company system has achieved an estimated GHG emission reduction of 36% since 2007. In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies. The ultimate outcome of this matter cannot be determined at this time.

FERC Matters

Market-Based Rate Authority

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Alabama Power in Item 7 of the Form 10-K for additional information regarding proceedings related to the traditional electric operating companies' (including Alabama Power's) and Southern Power's 2014 and 2017 triennial market power analyses.

On May 4, 2018, the FERC issued an order terminating both proceedings, finding that the traditional electric operating companies (including Alabama Power) and Southern Power satisfy the FERC's standards for market-based rates. On May 9, 2018, the traditional electric operating companies (including Alabama Power) and Southern Power made the compliance filing required by the order. These proceedings are concluded.

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

Open Access Transmission Tariff
On May 10, 2018, the Alabama Municipal Electric Authority and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies (including Alabama Power) claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' (including Alabama Power's) open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requests that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies (including Alabama Power) filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through September 30, 2018, the estimated maximum potential refund is not expected to be material to Alabama Power's results of operations. The ultimate outcome of this matter cannot be determined at this time.
Relicensing of Hydroelectric Developments
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 July 6, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a decision vacating the FERC's 2013 order issuing a new 30-year license to Alabama Power for seven hydroelectric developments on the Coosa River and remanding the proceeding to the FERC for further proceedings. Alabama Power continues to operate the Coosa River developments under annual licenses issued by the FERC. The ultimate outcome of this matter cannot be determined at this time.
Retail Regulatory Matters
Alabama Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Alabama PSC. Alabama Power currently recovers its costs from the regulated retail business primarily through Rate RSE, Rate CNP, Rate ECR, and Rate NDR. In addition, the Alabama PSC issues accounting orders to address current events impacting Alabama Power. See Notes 1 and 3 to the financial statements of Alabama Power under "Nuclear Outage Accounting Order" and "Retail Regulatory Matters," respectively, in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements herein for additional information regarding Alabama Power's rate mechanisms, accounting orders, and the recovery balance of each regulatory clause for Alabama Power.
On May 1, 2018, the Alabama PSC approved modifications to Rate RSE and other commitments designed to position Alabama Power to address the growing pressure on its credit quality resulting from the Tax Reform Legislation, without increasing retail rates under Rate RSE in the near term. Alabama Power plans to reduce growth in total debt by increasing equity, with corresponding reductions in debt issuances, thereby de-leveraging its capital structure. Alabama Power's goal is to achieve an equity ratio of approximately 55% by the end of 2025. At September 30, 2018, Alabama Power's equity ratio was approximately 47%. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Federal Tax Reform Legislation" of Alabama Power in Item 7 of the Form 10-K for additional information.
Rate RSE
The approved modifications to Rate RSE became effective June 2018 and are applicable for January 2019 billings and thereafter. The modifications include reducing the top of the allowed weighted common equity return (WCER) range from 6.21% to 6.15% and modifications to the refund mechanism applicable to prior year actual results. The modifications to the refund mechanism allow Alabama Power to retain a portion of the revenue that causes the actual WCER for a given year to exceed the allowed range.

In conjunction with these modifications to Rate RSE, on May 8, 2018, Alabama Power consented to a moratorium on any upward adjustments under Rate RSE for 2019 and 2020. Additionally, Alabama Power will return $50 million to customers through bill credits in 2019.

In accordance with an established retail tariff that provides for an interim adjustment to customer billings to recognize the impact of a change in the statutory income tax rate, Alabama Power has returned $151 million through September 30, 2018 and anticipates returning a total of approximately $257 million to retail customers through bill credits by December 31, 2018 as a result of the change in the federal income tax rate under the Tax Reform Legislation.

Rate ECR

On May 1, 2018, the Alabama PSC approved an increase to Rate ECR from 2.015 cents per KWH to 2.353 cents per KWH effective July 2018 which is expected to result in additional collections of approximately $100 million through December 31, 2018. The approved increase in the Rate ECR factor will have no significant effect on Alabama Power's net income, but will increase operating cash flows related to fuel cost recovery in 2018. Absent any further order from the Alabama PSC, in January 2019, the rate will return to the originally authorized 5.910 cents per KWH.

Accounting Order

On May 1, 2018, the Alabama PSC approved an accounting order that authorizes Alabama Power to defer the benefits of federal excess deferred income taxes associated with the Tax Reform Legislation for the year ending December 31, 2018 as a regulatory liability and to use up to $30 million of such deferrals to offset under recovered amounts under Rate ECR. Any remaining amounts will be used for the benefit of customers as determined by the Alabama PSC. As of September 30, 2018, Alabama Power had applied the full $30 million to offset the under recovered balance under Rate ECR and expects the total deferrals for the year ending December 31, 2018 to be approximately $50 million. See Note 5 to the financial statements of Alabama Power under "Federal Tax Reform Legislation" and "Current and Deferred Income Taxes" in Item 8 of the Form 10-K for additional information.

Plant Greene County

Alabama Power jointly owns Plant Greene County with an affiliate, Mississippi Power. See Note 4 to the financial statements of Alabama Power in Item 8 of the Form 10-K for additional information regarding the joint ownership agreement. On August 6, 2018, Mississippi Power filed its proposed Reserve Margin Plan (RMP) with the Mississippi PSC, which proposes a four-year acceleration of the retirement of Plant Greene County Units 1 and 2 to the third quarter 2021 and the third quarter 2022, respectively. Mississippi Power's proposed Plant Greene County unit retirements would require the completion of proposed transmission and system reliability improvements, as well as agreement by Alabama Power. Alabama Power will monitor Mississippi Power's proposed RMP and associated regulatory process as well as the proposed transmission and system reliability improvements. Alabama Power will review all the facts and circumstances and will evaluate all its alternatives prior to reaching a final determination on the ongoing operations of Plant Greene County. The ultimate outcome of this matter cannot be determined at this time.

Request for Proposals for Future Generation

On September 21, 2018, Alabama Power issued a request for proposals of between 100 MWs and 1,200 MWs of capacity beginning no later than 2023. Any purchases will depend upon the cost competitiveness of the respective offers as well as other options available to Alabama Power. The ultimate outcome of this matter cannot be determined at this time.

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Alabama Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY –

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

"Credit Rating Risk," Note (B) to the Condensed Financial Statements under "Regulatory Matters – Alabama Power," and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation and related regulatory actions.

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 laws and regulations governing air, water, land, and protection of natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations 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 or regulatory matters cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Alabama Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

On March 2, 2018, the Alabama Department of Environmental Management (ADEM) issued proposed administrative orders assessing a penalty of $1.25 million to Alabama Power for unpermitted discharge of fluids and/or pollutants to groundwater at five electric generating plants. The orders were finalized and Alabama Power paid the penalty on September 27, 2018. This matter is now concluded.

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.

Recently Issued Accounting Standards

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Alabama Power in Item 7 of the Form 10-K for additional information regarding ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). See Note (A) to the Condensed Financial Statements herein for information regarding Alabama Power's recently adopted accounting standards.

In 2016, the FASB issued ASU No. 2016-02, which 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 and Alabama Power will adopt the new standard effective January 1, 2019.

Alabama Power has elected the transition methodology provided by ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, whereby it will apply the requirements of ASU 2016-02 on a prospective basis as of the

adoption date of January 1, 2019, without restating prior periods. Alabama Power expects to elect the package of practical expedients provided by ASU 2016-02 that allows prior determinations of whether existing contracts are, or contain, leases and the classification of existing leases to continue without reassessment. Additionally, Alabama Power expects to apply the use-of-hindsight practical expedient in determining lease terms as of the date of adoption and to elect the practical expedient that allows existing land easements not previously accounted for as leases not to be reassessed. Alabama Power also expects to make accounting policy elections to account for short-term leases in all asset classes as off-balance sheet leases and to combine lease and non-lease components in the computations of lease obligations and right-of-use assets for most asset classes.

Alabama Power is continuing to complete the implementation of an information technology system to track and account for its leases and of changes to its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. Alabama Power has substantially completed its lease inventory and determined its most significant leases involve PPAs. While Alabama Power has not yet determined the ultimate impact, adoption of ASU 2016-02 is expected to result in recording lease liabilities and right-of-use assets on Alabama Power's balance sheet each totaling approximately $200 million, with no material impact on Alabama Power's statement of income.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Alabama Power in Item 7 of the Form 10-K for additional information. Alabama Power's financial condition remained stable at September 30, 2018. Alabama Power intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See "Capital Requirements and Contractual Obligations," "Sources of Capital," and "Financing Activities" herein for additional information.

Net cash provided from operating activities totaled $1.39 billion for the first nine months of 2018, a decrease of $22 million as compared to the first nine months of 2017. The decrease in net cash provided from operating activities was primarily due to the timing of vendor payments partially offset by income tax refunds received in 2018. Net cash used for investing activities totaled $1.60 billion for the first nine months of 2018 primarily due to gross property additions related to environmental, distribution, transmission, and steam assets. Net cash provided from financing activities totaled $369 million for the first nine months of 2018 primarily due to an issuance of long-term debt and additional capital contributions from Southern Company, partially offset by common stock dividend payments. Fluctuations in cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first nine months of 2018 include increases of $2.40 billion in property, plant, and equipment primarily due to increases in AROs related to the CCR Rule and additions to distribution, transmission, and steam assets, $1.39 billion in AROs related to the CCR Rule and nuclear decommissioning, $504 million in additional paid-in capital primarily due to capital contributions from Southern Company, and $496 million in long-term debt primarily due to a senior note issuance. In addition, $321 million of long-term debt was reclassified as securities due within one year. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information related to changes in Alabama Power's AROs.

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 and contractual obligations. Subsequent to September 30, 2018, Alabama Power purchased and held $120 million aggregate principal amount of The Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Plant Barry Project), Series 2008.

An additional $201 million will be required through September 30, 2019 to fund maturities of long-term debt.

Table of Contents

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

In October 2018, Alabama Power's Board of Directors approved updates to its construction program that is currently estimated to total $1.8 billion for 2019, $1.6 billion for 2020, $1.6 billion for 2021, $1.4 billion for 2022, and $1.5 billion for 2023. The construction program includes capital expenditures related to contractual purchase commitments for nuclear fuel and capital expenditures covered under LTSAs. Estimated capital expenditures to comply with environmental statutes and regulations included in these amounts are $0.3 billion for 2019, $0.1 billion for 2020, $0.2 billion for 2021, $0.2 billion for 2022, and $0.1 billion for 2023. These estimated expenditures do not include any potential compliance costs associated with pending regulation of CO_2 emissions from fossil-fuel-fired electric generating units.

Alabama Power anticipates costs associated with closure-in-place and monitoring of ash ponds in accordance with the CCR Rule, which are reflected in Alabama Power's ARO liabilities. These costs, which are expected to change, could change materially as Alabama Power continues to refine its assumptions underlying the cost estimates and evaluate the method and timing of compliance activities. These costs are expected to begin in 2019 and are currently estimated to be approximately $232 million for 2019, $238 million for 2020, $246 million for 2021, $252 million for 2022, and $258 million for 2023. See FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" herein, Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein, and Note 1 to the financial statements of Alabama Power under "Asset Retirement Obligations and Other Costs of Removal" in Item 8 of the Form 10-K for additional information.

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 laws and regulations; the outcome of any legal challenges to environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing generating units, to meet regulatory requirements; changes in the expected environmental compliance program; changes in FERC rules and regulations; Alabama PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

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

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

At September 30, 2018, Alabama Power had approximately $702 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2018 were as follows:

Expires					Expires Within One Year	
2019	2020	2022	Total	Unused	Term Out	No Term Out

(in millions)

$33	$500	$800	$1,333	$1,333	$—	$ 33

78

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

See Note 6 to the financial statements of Alabama Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (F) 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. At September 30, 2018, Alabama Power was in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowings.

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

A portion of the unused credit with banks is allocated to provide liquidity support to Alabama Power's pollution control revenue bonds and commercial paper programs. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support was approximately $854 million as of September 30, 2018. At September 30, 2018, Alabama Power had $120 million aggregate principal amount of fixed rate The Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Plant Barry Project), Series 2008 outstanding that were required to be reoffered within the next 12 months. Subsequent to September 30, 2018, Alabama Power purchased and held all of these bonds.

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

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2018		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	$ —	— %	$ 11	2.2 %	$ 135
Short-term bank loan	3	3.7 %	3	3.7 %	3
Total	$ 3	3.7 %	$ 14	2.6 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2018.

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

Credit Rating Risk

At September 30, 2018, Alabama Power did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

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

The maximum potential collateral requirements under these contracts at September 30, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements (in millions)
At BBB and/or Baa2	$ 1
At BBB- and/or Baa3	$ 1
Below BBB- and/or Baa3	$ 284

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

On September 28, 2018, Fitch assigned a negative rating outlook to the ratings of Southern Company and certain of its subsidiaries (including Alabama Power).

Also on September 28, 2018, Moody's revised its rating outlook for Alabama Power from negative to stable.

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries, including Alabama Power, may be negatively impacted. The modifications to Rate RSE and other commitments approved by the Alabama PSC are expected to help mitigate these potential adverse impacts to certain credit metrics and will help Alabama Power meet its goal of achieving an equity ratio of approximately 55% by the end of 2025. See Note 3 to the financial statements of Alabama Power under "Retail Regulatory Matters – Rate RSE" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Alabama Power – Rate RSE" herein for additional information.

Financing Activities

In June 2018, Alabama Power issued $500 million aggregate principal amount of Series 2018A 4.30% Senior Notes due July 15, 2048. The proceeds were used to repay outstanding commercial paper and for general corporate purposes, including Alabama Power's continuous construction program.

Subsequent to September 30, 2018, Alabama Power purchased and held $120 million aggregate principal amount of The Industrial Development Board of the City of Mobile, Alabama Pollution Control Revenue Bonds (Alabama Power Company Plant Barry Project), Series 2008. These bonds may be remarketed to the public in the future.

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.

Table of Contents

Table of Contents

GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$2,425	$2,402	$6,112	$5,995
Wholesale revenues, non-affiliates	43	45	123	124
Wholesale revenues, affiliates	4	6	17	23
Other revenues	121	93	349	284
Total operating revenues	2,593	2,546	6,601	6,426
Operating Expenses:				
Fuel	480	482	1,269	1,297
Purchased power, non-affiliates	106	119	338	310
Purchased power, affiliates	206	161	555	470
Other operations and maintenance	460	430	1,325	1,248
Depreciation and amortization	232	225	690	669
Taxes other than income taxes	118	112	332	311
Estimated loss on Plant Vogtle Units 3 and 4	—	—	1,060	—
Total operating expenses	1,602	1,529	5,569	4,305
Operating Income	991	1,017	1,032	2,121
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(95)	(105)	(303)	(310)
Other income (expense), net	30	22	104	95
Total other income and (expense)	(65)	(83)	(199)	(215)
Earnings Before Income Taxes	926	934	833	1,906
Income taxes	262	350	212	705
Net Income	664	584	621	1,201
Dividends on Preferred and Preference Stock	—	4	—	13
Net Income After Dividends on Preferred and Preference Stock	$664	$580	$621	$1,188

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income	$664	$584	$621	$1,201
Other comprehensive income (loss):				
Qualifying hedges:				

Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $1, and $1, respectively	1	1	3	2
Total other comprehensive income (loss)	1	1	3	2
Comprehensive Income	$665	$585	$624	$1,203

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

Table of Contents

GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income	$621	$1,201
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	854	821
Deferred income taxes	(185)	328
Allowance for equity funds used during construction	(50)	(29)
Pension, postretirement, and other employee benefits	(46)	(42)
Settlement of asset retirement obligations	(82)	(95)
Estimated loss on Plant Vogtle Units 3 and 4	1,060	—
Other, net	9	(51)
Changes in certain current assets and liabilities —		
-Receivables	(205)	(254)
-Fossil fuel stock	70	(2)
-Prepaid income taxes	231	(5)
-Other current assets	(36)	(24)
-Accounts payable	109	(161)
-Accrued taxes	26	(52)
-Accrued compensation	(32)	(60)
-Retail fuel cost over recovery	—	(84)
-Other current liabilities	(111)	(11)
Net cash provided from operating activities	2,233	1,480
Investing Activities:		
Property additions	(2,276)	(1,907)
Nuclear decommissioning trust fund purchases	(638)	(411)
Nuclear decommissioning trust fund sales	633	406
Cost of removal, net of salvage	(71)	(54)
Change in construction payables, net of joint owner portion	72	180
Payments pursuant to LTSAs	(52)	(59)
Asset dispositions	138	63
Other investing activities	(19)	(52)
Net cash used for investing activities	(2,213)	(1,834)
Financing Activities:		
Increase (decrease) in notes payable, net	102	(391)
Proceeds —		
Capital contributions from parent company	2,335	412
Senior notes	—	1,350
Short-term borrowings	—	700
Other long-term debt	—	370
Redemptions and repurchases —		
Senior notes	(1,000)	(450)

Pollution control revenue bonds	(469)	(65)
Short-term borrowings	(150)	(300)
Other long-term debt	(100)	—
Payment of common stock dividends	(1,043)	(961)
Premiums on redemption and repurchases of senior notes	(152)	—
Other financing activities	(15)	(48)
Net cash provided from (used for) financing activities	(492)	617
Net Change in Cash, Cash Equivalents, and Restricted Cash	(472)	263
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	852	3
Cash, Cash Equivalents, and Restricted Cash at End of Period	$380	$266
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of $19 and $17 capitalized for 2018 and 2017, respectively)	$315	$284
Income taxes, net	141	369
Noncash transactions — Accrued property additions at end of period	670	470

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

Table of Contents

GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$380	$ 852
Receivables —		
Customer accounts receivable	747	544
Unbilled revenues	245	255
Under recovered fuel clause revenues	105	165
Joint owner accounts receivable	208	262
Affiliated	39	24
Other accounts and notes receivable	96	76
Accumulated provision for uncollectible accounts	(3)	(3)
Fossil fuel stock	244	314
Materials and supplies	494	504
Prepaid expenses	77	216
Other regulatory assets, current	199	205
Other current assets	91	14
Total current assets	2,922	3,428
Property, Plant, and Equipment:		
In service	35,671	34,861
Less: Accumulated provision for depreciation	12,029	11,704
Plant in service, net of depreciation	23,642	23,157
Nuclear fuel, at amortized cost	528	544
Construction work in progress	4,655	4,613
Total property, plant, and equipment	28,825	28,314
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	50	53
Nuclear decommissioning trusts, at fair value	933	929
Miscellaneous property and investments	61	59
Total other property and investments	1,044	1,041
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	519	516
Other regulatory assets, deferred	3,041	2,932
Other deferred charges and assets	510	548
Total deferred charges and other assets	4,070	3,996
Total Assets	$36,861	$ 36,779

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

Table of Contents

GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$511	$ 857
Notes payable	102	150
Accounts payable —		
Affiliated	515	493
Other	909	834
Customer deposits	275	270
Accrued taxes	345	344
Accrued interest	108	123
Accrued compensation	185	219
Asset retirement obligations, current	193	270
Other regulatory liabilities, current	151	191
Other current liabilities	180	198
Total current liabilities	3,474	3,949
Long-term Debt	9,863	11,073
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,999	3,175
Deferred credits related to income taxes	3,218	3,248
Accumulated deferred ITCs	264	248
Employee benefit obligations	650	659
Asset retirement obligations, deferred	2,401	2,368
Other deferred credits and liabilities	141	128
Total deferred credits and other liabilities	9,673	9,826
Total Liabilities	23,010	24,848
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — 9,261,500 shares	398	398
Paid-in capital	9,670	7,328
Retained earnings	3,792	4,215
Accumulated other comprehensive loss	(9)	(10)
Total common stockholder's equity	13,851	11,931
Total Liabilities and Stockholder's Equity	$36,861	$ 36,779

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

Table of Contents

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

THIRD QUARTER 2018 vs. THIRD QUARTER 2017
AND
YEAR-TO-DATE 2018 vs. YEAR-TO-DATE 2017

OVERVIEW

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

Many factors affect the opportunities, challenges, and risks of Georgia Power's business of providing electric service. These factors include the ability to maintain a constructive regulatory environment, to maintain and grow energy sales, and to effectively manage and secure timely recovery of costs. These costs include those related to projected long-term demand growth, stringent environmental standards, reliability, fuel, capital expenditures, and restoration following major storms. Georgia Power has various regulatory mechanisms that operate to address cost recovery. Effectively operating pursuant to these regulatory mechanisms and appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Georgia Power for the foreseeable future. On April 3, 2018, the Georgia PSC approved a settlement agreement between Georgia Power and the staff of the Georgia PSC regarding the retail rate impact of the Tax Reform Legislation (Tax Reform Settlement Agreement). The Tax Reform Settlement Agreement provides for a total of $330 million in customer refunds for 2018 and 2019 and the deferral of certain revenues and tax benefits to be addressed in Georgia Power's next base rate case, which is scheduled to be filed by July 1, 2019. The Georgia PSC also approved an increase to Georgia Power's retail equity ratio to address the negative cash flow and credit metric impacts of the Tax Reform Legislation. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate Plans" herein for additional information on the Tax Reform Settlement Agreement.

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

Plant Vogtle Units 3 and 4 Status

In 2009, the Georgia PSC certified construction of Plant Vogtle Units 3 and 4 (with electric generating capacity of approximately 1,100 MWs each). In March 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. In December 2017, the Georgia PSC approved Georgia Power's recommendation to continue construction. The current expected in-service dates remain November 2021 for Unit 3 and November 2022 for Unit 4.

In the second quarter 2018, Georgia Power revised its base cost forecast and estimated contingency to complete construction and start-up of Plant Vogtle Units 3 and 4 to $8.0 billion and $0.4 billion, respectively, for a total project capital cost forecast of $8.4 billion (net of $1.7 billion received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds). Although Georgia Power believes these incremental costs are reasonable and necessary to complete the project and the Georgia PSC has stated the $7.3 billion estimate included in the seventeenth VCM proceeding does not represent a cost cap, Georgia Power did not seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast (or any related financing costs) in the nineteenth VCM report filed with the Georgia PSC on August 31, 2018. In connection with future VCM filings, Georgia Power may request the Georgia PSC to evaluate costs included in the revised construction contingency estimate for rate recovery as and when they are appropriately included in the base capital cost forecast. After considering the significant level of uncertainty that exists regarding the future recoverability of costs included in the construction contingency estimate since the ultimate outcome of these matters is subject to the outcome of future assessments by management, as well as Georgia PSC decisions in these future regulatory proceedings, Georgia Power recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) in the second quarter 2018.

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

As a result of the increase in the total project capital cost forecast and Georgia Power's decision not to seek rate recovery of the increase in the base capital costs, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 were required to vote to continue construction. On September 26, 2018, the Vogtle Owners unanimously voted to continue construction of Plant Vogtle Units 3 and 4. In connection with the vote to continue construction, Georgia Power entered into (i) a binding term sheet (Vogtle Owner Term Sheet) with the other Vogtle Owners and certain of MEAG's wholly-owned subsidiaries, including MEAG Power SPVJ, LLC (MEAG SPVJ), to take certain actions which partially mitigate potential financial exposure for the other Vogtle Owners and (ii) a term sheet with MEAG and MEAG SPVJ to provide funding with respect to MEAG SPVJ's ownership interest in Plant Vogtle Units 3 and 4 under certain circumstances. Georgia Power is working with the other Vogtle Owners to clarify any interpretive issues related to the operation of certain provisions of the Vogtle Owner Term Sheet.

In September 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately $1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. In September 2018, the DOE extended the conditional commitment to March 31, 2019. Any further extension must be approved by the DOE. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions.

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

See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" and ACCOUNTING POLICIES – "Application of Critical Accounting Policies and Estimates" herein for additional information on Plant Vogtle Units 3 and 4.

RESULTS OF OPERATIONS

Net Income

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$84	14.5	$(567)	(47.7)

Georgia Power's net income after dividends on preferred and preference stock for the third quarter 2018 was $664 million compared to $580 million for the corresponding period in 2017. The increase was primarily due to lower federal income tax expense as a result of the Tax Reform Legislation and an increase in retail revenues associated with customer growth and warmer weather in the third quarter 2018 compared to the corresponding period in 2017. Partially offsetting the increase were revenues deferred as a regulatory liability for future customer bill credits related to the Tax Reform Legislation as well as higher non-fuel operations and maintenance expenses.

For year-to-date 2018, net income after dividends on preferred and preference stock was $621 million compared to $1.19 billion for the corresponding period in 2017. The decrease was primarily due to a $1.1 billion ($0.8 billion after tax) charge in the second quarter 2018 for an estimated probable loss related to Georgia Power's construction of Plant Vogtle Units 3 and 4, revenues deferred as a regulatory liability for future customer bill credits related to the Tax Reform Legislation, and higher non-fuel operations and maintenance expenses. Partially offsetting the decrease were lower federal income tax expense as a result of the Tax Reform Legislation and an increase in retail revenues associated with colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 compared to the corresponding periods in 2017.

See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate Plans" herein for additional information on regulatory actions related to the Tax Reform Legislation. Also, see Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information on the estimated loss related to Georgia Power's construction of Plant Vogtle Units 3 and 4.

87

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

Retail Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$23	1.0	$117	2.0

In the third quarter 2018, retail revenues were $2.43 billion compared to $2.40 billion for the corresponding period in 2017. For year-to-date 2018, retail revenues were $6.11 billion compared to $6.00 billion for the corresponding period in 2017.

Details of the changes in retail revenues were as follows:

	Third Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$2,402		$5,995	
Estimated change resulting from –				
Rates and pricing	(87)	(3.6)	(196)	(3.2)
Sales growth	44	1.9	70	1.2
Weather	34	1.4	139	2.3
Fuel cost recovery	32	1.3	104	1.7
Retail – current year	$2,425	1.0 %	$6,112	2.0 %

Revenues associated with changes in rates and pricing decreased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to revenues deferred as a regulatory liability for future customer bill credits related to the Tax Reform Legislation and decreases in revenues recognized under the NCCR tariff, also primarily related to the Tax Reform Legislation. Partially offsetting the decrease for year-to-date 2018 were higher contributions from variable demand-driven pricing from commercial and industrial customers. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate Plans" herein for additional information on regulatory actions related to the Tax Reform Legislation. Also, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" of Georgia Power in Item 7 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction – Regulatory Matters" herein for additional information related to the NCCR tariff.

Revenues attributable to changes in sales increased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017. Weather-adjusted residential KWH sales increased 3.3% and 1.9% and weather-adjusted commercial KWH sales increased 2.1% and 1.8% for the third quarter and year-to-date 2018, respectively, largely due to customer growth. Weather-adjusted industrial KWH sales increased 2.5% and 1.2% for the third quarter and year-to-date 2018, respectively. The increases were primarily driven by increased demand in the paper sector as a result of increased export demand and for shipping supplies resulting from increased electronic commerce, the lumber sector as a result of increased construction activity, and the rubber sector as a result of increased demand by the tire industry. Additionally, customer usage for all customer classes increased in the third quarter and year-to-date 2018 due to the negative impacts of Hurricane Irma during the corresponding periods in 2017.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. Retail fuel cost recovery revenues increased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to increased energy sales driven by higher purchased power costs and warmer weather in the third quarter 2018. Additionally, the increase for year-to-date 2018 was due to colder weather in the first quarter 2018 and warmer weather in the second quarter 2018. Electric rates include provisions to periodically adjust billings for fluctuations in fuel costs, including the energy component of purchased power costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses and do not affect net income. See MANAGEMENT'S DISCUSSION

88

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

AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" of Georgia Power in Item 7 of the Form 10-K for additional information.

Wholesale Revenues – Affiliates

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(2)	(33.3)	$(6)	(26.1)

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.

For year-to-date 2018, wholesale revenues from sales to affiliates were $17 million compared to $23 million for the corresponding period in 2017. The decrease was due to a 54.3% decrease in KWH sales primarily due to the higher cost of Georgia Power-owned generation as compared to the market cost of available energy.

Other Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$28	30.1	$65	22.9

In the third quarter 2018, other revenues were $121 million compared to $93 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $349 million compared to $284 million for the corresponding period in 2017. The increases were primarily due to $24 million and $62 million of revenues in the third quarter and year-to-date 2018, respectively, primarily from unregulated sales of products and services that were reclassified as other revenues as a result of the adoption of ASC 606, Revenue from Contracts with Customers (ASC 606). In prior periods, these revenues were included in other income (expense), net. See Note (A) to the Condensed Financial Statements herein for additional information regarding Georgia Power's adoption of ASC 606.

Fuel and Purchased Power Expenses

	Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (2)	(0.4)	$ (28)	(2.2)
Purchased power – non-affiliates	(13)	(10.9)	28	9.0
Purchased power – affiliates	45	28.0	85	18.1
Total fuel and purchased power expenses	$ 30		$ 85	

In the third quarter 2018, total fuel and purchased power expenses were $792 million compared to $762 million in the corresponding period in 2017. The increase was primarily due to a $43 million net increase related to the volume of KWHs generated and purchased due to warmer weather, partially offset by a $13 million decrease related to the average cost of purchased power primarily due to lower natural gas prices.

For year-to-date 2018, total fuel and purchased power expenses were $2.16 billion compared to $2.08 billion in the corresponding period in 2017. The increase was primarily due to a $77 million increase related to the volume of KWHs purchased due to colder weather in the first quarter 2018 and warmer weather in the second and third quarters 2018 and a $10 million net increase in the average cost of fuel and purchased power.

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

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

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in billions of KWHs)	18	18	49	48
Total purchased power (in billions of KWHs)	8	7	22	20
Sources of generation (percent) —				
Gas	44	41	43	41
Coal	32	35	30	33
Nuclear	22	23	25	24
Hydro	2	1	2	2
Cost of fuel, generated (in cents per net KWH) —				
Gas	2.58	2.63	2.64	2.71
Coal	3.14	3.08	3.25	3.17
Nuclear	0.83	0.84	0.83	0.84
Average cost of fuel, generated (in cents per net KWH)	2.36	2.38	2.36	2.40
Average cost of purchased power (in cents per net KWH)(*)	4.52	4.68	4.70	4.63

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

Fuel

For year-to-date 2018, fuel expense was $1.27 billion compared to $1.30 billion in the corresponding period in 2017. The decrease was primarily due to an 8.0% decrease in the volume of KWHs generated by coal largely due to scheduled generation outages and a 2.6% decrease in the average cost of fuel per KWH generated by natural gas, partially offset by a 6.8% increase in the volume of KWHs generated by natural gas and a 2.5% increase in the average cost of fuel per KWH generated by coal.

Purchased Power – Non-Affiliates

In the third quarter 2018, purchased power expense from non-affiliates was $106 million compared to $119 million in the corresponding period in 2017. The decrease was primarily due to a 17.8% decrease in the volume of KWHs purchased primarily due to the higher market cost of available energy as compared to Southern Company system resources, partially offset by an 8.3% increase in the average cost per KWH purchased primarily due to higher energy prices.

For year-to-date 2018, purchased power expense from non-affiliates was $338 million compared to $310 million in the corresponding period in 2017. The increase was primarily due to a 10.2% increase in the average cost per KWH purchased primarily due to higher energy 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 electric service territory, and the availability of the Southern Company system's generation.

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

Purchased Power – Affiliates

In the third quarter 2018, purchased power expense from affiliates was $206 million compared to $161 million in the corresponding period in 2017. The increase was primarily due to a 28.3% increase in the volume of KWHs purchased due to scheduled generation outages and warmer weather, partially offset by a 3.4% decrease in the average cost per KWH purchased primarily resulting from lower natural gas prices.

For year-to-date 2018, purchased power expense from affiliates was $555 million compared to $470 million in the corresponding period in 2017. The increase was primarily due to an 11.1% increase in the volume of KWHs purchased due to colder weather in the first quarter 2018 and scheduled generation outages and warmer weather in the second and third quarters 2018.

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

Other Operations and Maintenance Expenses

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$30	7.0	$77	6.2

In the third quarter 2018, other operations and maintenance expenses were $460 million compared to $430 million in the corresponding period in 2017. The increase was primarily due to $23 million of expenses from unregulated sales of products and services that were reclassified to other operations and maintenance expenses as a result of the adoption of ASC 606. In prior periods, these expenses were included in other income (expense), net. Also contributing to the increase was $11 million in transmission and distribution costs, primarily due to additional line maintenance and billing adjustments with integrated transmission system owners, partially offset by a decrease of $9 million in certain employee compensation and benefit costs.

For year-to-date 2018, other operations and maintenance expenses were $1.33 billion compared to $1.25 billion in the corresponding period in 2017. The increase was primarily due to $58 million of expenses from unregulated sales of products and services that were reclassified to other operations and maintenance expenses as a result of the adoption of ASC 606. In prior periods, these expenses were included in other income (expense), net. Also contributing to the increase were a $19 million decrease in gains from sales of integrated transmission system assets and increases of $11 million in demand-side management costs related to the timing of new programs, $8 million related to additional distribution line maintenance, and $8 million in billing adjustments with integrated transmission system owners, partially offset by decreases of $14 million in certain employee compensation and benefit costs and $10 million related to affiliate labor billing adjustments.

See Note (A) to the Condensed Financial Statements herein for additional information regarding Georgia Power's adoption of ASC 606.

Depreciation and Amortization

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$7	3.1	$21	3.1

In the third quarter 2018, depreciation and amortization was $232 million compared to $225 million in the corresponding period in 2017. For year-to-date 2018, depreciation and amortization was $690 million compared to $669 million in the corresponding period in 2017. The increases were primarily due to increases of $8 million and $23 million related to additional plant in service in the third quarter and year-to-date 2018, respectively.

91

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

Taxes Other Than Income Taxes

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$6	5.4	$21	6.8

In the third quarter 2018, taxes other than income taxes were $118 million compared to $112 million in the corresponding period in 2017. For year-to-date 2018, taxes other than income taxes were $332 million compared to $311 million in the corresponding period in 2017. The increases were primarily due to increases in property taxes of $4 million and $11 million in the third quarter and year-to-date 2018, respectively, as a result of an increase in the assessed value of property and increases in municipal franchise fees of $3 million and $10 million in the third quarter and year-to-date 2018, respectively, largely related to higher retail revenues.

Estimated Loss on Plant Vogtle Units 3 and 4

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$—	N/M	$1,060	N/M

N/M - Not meaningful

In the second quarter 2018, an estimated probable loss of $1.1 billion was recorded to reflect Georgia Power's revised estimate to complete construction and start-up of Plant Vogtle Units 3 and 4, which reflects the increase in costs included in the revised base capital cost forecast for which Georgia Power did not seek rate recovery and costs included in the revised construction contingency estimate for which Georgia Power may seek rate recovery as and when such costs are appropriately included in the base capital cost forecast. See Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information.

Interest Expense, Net of Amounts Capitalized

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(10)	(9.5)	$(7)	(2.3)

In the third quarter 2018, interest expense, net of amounts capitalized was $95 million compared to $105 million in the corresponding period in 2017. For year-to-date 2018, interest expense, net of amounts capitalized was $303 million compared to $310 million in the corresponding period in 2017. The decreases were primarily due to a decrease in outstanding borrowings. See FINANCIAL CONDITION AND LIQUIDITY – "Sources of Capital" and "Financing Activities" herein for additional information.

Other Income (Expense), Net

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$8	36.4	$9	9.5

In the third quarter 2018, other income (expense), net was $30 million compared to $22 million in the corresponding period in 2017. For year-to-date 2018, other income (expense), net was $104 million compared to $95 million in the corresponding period in 2017. The increases were primarily due to increases in AFUDC equity of $14 million and $21 million in the third quarter and year-to-date 2018, respectively, resulting from a higher AFUDC rate due to a higher equity ratio and lower short-term borrowings. These increases were partially offset by $3 million and $11 million in the third quarter and year-to-date 2017, respectively, of revenues and expenses, net from unregulated sales of products and services. In 2018, these revenues and expenses are included in other revenues and

Table of Contents

other operations and maintenance expenses, respectively, as a result of the adoption of ASC 606. See Note (A) to the Condensed Financial Statements herein for additional information regarding Georgia Power's adoption of ASC 606.

Income Taxes

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(88)	(25.1)	$(493)	(69.9)

In the third quarter 2018, income taxes were $262 million compared to $350 million in the corresponding period in 2017. For year-to-date 2018, income taxes were $212 million compared to $705 million in the corresponding period in 2017. The decreases were primarily due to a lower federal income tax rate as a result of the Tax Reform Legislation, partially offset by the recognition of a valuation allowance on certain state tax credit carryforwards. Also contributing to the decrease for year-to-date 2018 was the reduction in pre-tax earnings resulting from the estimated probable loss related to Plant Vogtle Units 3 and 4.

See Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information on the estimated loss related to Georgia Power's construction of Plant Vogtle Units 3 and 4. Also, see Note (H) to the Condensed Financial Statements herein for additional information on the Tax Reform Legislation and the net state income tax valuation allowance.

Dividends on Preferred and Preference Stock

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(4)	(100.0)	$(13)	(100.0)

In the third quarter and year-to-date 2018, there were no dividends on preferred and preference stock compared to $4 million and $13 million, respectively, in the corresponding periods in 2017. The decreases were due to the redemption in October 2017 of all outstanding shares of Georgia Power's preferred and preference stock. See Note 6 to the financial statements of Georgia Power under "Outstanding Classes of Capital 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 Georgia Power's future earnings potential. The level of Georgia Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Georgia Power's business of providing electric service. These factors include Georgia Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Plant Vogtle Units 3 and 4 construction and rate recovery are also major factors. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies, increasing volumes of electronic commerce transactions, and more multi-family home construction, all of which could contribute to a net reduction in customer usage. Earnings are subject to a variety of other factors. These factors include weather, competition, new energy contracts with other utilities, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Georgia Power's service territory. Demand for electricity is primarily driven by the pace of economic growth that may be affected by changes in regional and global economic conditions, which may impact future earnings.

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

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.

Environmental Matters

Georgia Power's operations are regulated by state and federal environmental agencies through a variety of laws and regulations governing air, water, land, and protection of other natural resources. Georgia Power maintains comprehensive environmental compliance and GHG strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures, operations and maintenance costs, and costs reflected in ARO liabilities, required to comply with environmental laws and regulations and to achieve stated goals may impact future unit retirement and replacement decisions, results of operations, cash flows, and financial condition. Related costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, and adding or changing fuel sources for certain existing units, as well as related upgrades to the transmission system. A major portion of these costs are expected to be recovered through existing ratemaking provisions. The ultimate impact of environmental laws and regulations and the GHG goals discussed below will depend on various factors, such as state adoption and implementation of requirements, the availability and cost of any deployed technology, and the outcome of pending and/or future legal challenges.

New or revised environmental laws and regulations could affect many areas of Georgia Power's operations. The impact of any such changes cannot be determined at this time. Environmental compliance costs 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. Further, increased 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. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity. 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 Laws and Regulations

Water Quality

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

On May 2, 2018, the EPA updated its anticipated final rulemaking schedule for ELG from September 2020 to December 2019. The impact of any changes to the ELG rule will depend on the content of the final rule and the outcome of 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 Laws and Regulations – Coal Combustion Residuals" of Georgia Power in Item 7 of the Form 10-K for additional information regarding the Disposal of Coal Combustion Residuals from Electric Utilities rule (CCR Rule).

The EPA published certain amendments to the CCR Rule, which became effective August 29, 2018. These amendments extend the date from April 2019 to October 31, 2020 to cease sending CCR and other waste streams to impoundments that demonstrate compliance with all except two specified criteria. These amendments also establish

groundwater protection standards for four constituents that do not have established EPA maximum contaminant levels and allow a participating state director or the EPA (where the EPA is the permitting authority) to suspend groundwater monitoring requirements under certain circumstances. However, the Georgia Department of Natural Resources has not incorporated these amendments into its state CCR rule. Specific site impacts are being evaluated by Georgia Power.

On October 15, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a mandate that broadens the CCR Rule to regulate previously-excluded inactive surface impoundments (legacy units) located at retired generation facilities and challenges both the ability of unlined impoundments to continue operating and the classification of clay lined units. It is anticipated that the EPA will issue a series of rulemakings to address this court action. Georgia Power is evaluating the extent of potential impacts on legacy units but anticipates no significant impacts to its ongoing CCR strategy due to this mandate. The ultimate impact of these changes will not be known until the EPA rulemaking and any legal challenges are finalized.

Georgia Power continues to perform engineering studies related to its plans to close the ash ponds at all of its generating plants, including one jointly owned with Gulf Power, in compliance with federal and state CCR rules. Georgia Power also continues to refine its closure strategy and cost estimates for each ash pond and is preparing permit applications as required by the State of Georgia CCR rule. While Georgia Power believes its recorded liability for ash pond closures appropriately reflects its obligations under the current closure strategies it has elected, changes to such strategies and cost estimates would likely result in additional closure costs which would increase the ARO liability. It is not currently possible to quantify the impacts of any increase related to a change in closure strategies and/or ongoing engineering studies for the current closure strategies, and the timing of future cash outflows is indeterminable at this time; however, the impact on the ARO liability is expected to be material. As permit applications advance, engineering studies continue, and the timing of individual ash pond closures develops further during the fourth quarter 2018, Georgia Power will record any necessary changes to its ARO liability. Georgia Power expects to continue to periodically update these cost estimates, which could increase further, as additional information becomes available. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information.

Absent continued recovery of ARO costs through regulated rates, Georgia Power's results of operations, cash flows, and financial condition could be materially impacted. The ultimate outcome of these matters cannot be determined at this time.

Nuclear Decommissioning

See Note 1 to the financial statements of Georgia Power under "Nuclear Decommissioning" in Item 8 of the Form 10-K for additional information.

Georgia Power expects to complete updated decommissioning cost site studies for Plant Hatch and Plant Vogtle Units 1 and 2 in the fourth quarter 2018, which could result in additional changes to Georgia Power's ARO liability. The ultimate outcome of these studies cannot be determined at this time.

Global Climate Issues

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

On August 31, 2018, the EPA published a proposed Clean Power Plan replacement rule known as the Affordable Clean Energy rule (ACE Rule), which would require states to develop unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of September 30, 2018, Georgia Power has ownership interests in 20 fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to Georgia Power is currently unknown and will depend on changes between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal proceedings.

95

Table of Contents

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

Through 2017, the Southern Company system has achieved an estimated GHG emission reduction of 36% since 2007. In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, complete construction of Plant Vogtle Units 3 and 4, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies. The ultimate outcome of this matter cannot be determined at this time.

FERC Matters

Market-Based Rate Authority

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Georgia Power in Item 7 of the Form 10-K for additional information regarding proceedings related to the traditional electric operating companies' (including Georgia Power's) and Southern Power's 2014 and 2017 triennial market power analyses.

On May 4, 2018, the FERC issued an order terminating both proceedings, finding that the traditional electric operating companies (including Georgia Power) and Southern Power satisfy the FERC's standards for market-based rates. On May 9, 2018, the traditional electric operating companies (including Georgia Power) and Southern Power made the compliance filing required by the order. These proceedings are concluded.

Open Access Transmission Tariff

On May 10, 2018, the Alabama Municipal Electric Authority and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies (including Georgia Power) claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' (including Georgia Power's) open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requests that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies (including Georgia Power) filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through September 30, 2018, the estimated maximum potential refund is not expected to be material to Georgia Power's results of operations. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Georgia Power's revenues from regulated retail operations are collected through various rate mechanisms subject to the oversight of the Georgia PSC. Georgia Power currently recovers its costs from the regulated retail business through the 2013 ARP, which includes traditional base tariff rates, Demand-Side Management tariffs, ECCR tariffs, and Municipal Franchise Fee tariffs. In addition, financing costs related to certified construction costs of Plant Vogtle Units 3 and 4 are being collected through the NCCR tariff and fuel costs are collected through a separate fuel cost recovery tariff. See "Nuclear Construction" herein and Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 of the Form 10-K for additional information regarding the NCCR tariff. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" of Georgia Power in Item 7 of the Form 10-K for additional information regarding fuel cost recovery.

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

Rate Plans

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Rate Plans" of Georgia Power in Item 7 of the Form 10-K for additional information regarding Georgia Power's 2013 ARP and the Georgia PSC's 2018 order related to the Tax Reform Legislation.

On April 3, 2018, the Georgia PSC approved the Tax Reform Settlement Agreement. Pursuant to the Tax Reform Settlement Agreement, to reflect the federal income tax rate reduction impact of the Tax Reform Legislation, Georgia Power will refund to customers a total of $330 million through bill credits. Georgia Power issued bill credits of approximately $130 million in October 2018 and will issue bill credits of approximately $95 million in June 2019 and $105 million in February 2020. In addition, Georgia Power is deferring as a regulatory liability (i) the revenue equivalent of the tax expense reduction resulting from legislation lowering the Georgia state income tax rate from 6.00% to 5.75% in 2019 and (ii) the entire benefit of approximately $700 million in federal and state excess accumulated deferred income taxes. At September 30, 2018, the related regulatory liability balance totaled $655 million. The amortization of these regulatory liabilities is expected to be addressed in Georgia Power's next base rate case, which is scheduled to be filed by July 1, 2019. If there is not a base rate case in 2019, customers will receive $185 million in annual bill credits beginning in 2020, with any additional federal and state income tax savings deferred as a regulatory liability, until Georgia Power's next base rate case.

To address the negative cash flow and credit metric impacts of the Tax Reform Legislation, the Georgia PSC also approved an increase in Georgia Power's retail equity ratio to the lower of (i) Georgia Power's actual common equity weight in its capital structure or (ii) 55%, until Georgia Power's next base rate case. At September 30, 2018, Georgia Power's actual retail common equity ratio (on a 13-month average basis) was approximately 53%. Benefits from reduced federal income tax rates in excess of the amounts refunded to customers will be retained by Georgia Power to cover the carrying costs of the incremental equity in 2018 and 2019.

Storm Damage Recovery

See Note 1 to the financial statements of Georgia Power under "Storm Damage Recovery" in Item 8 of the Form 10-K for additional information regarding Georgia Power's storm damage reserve.

Georgia Power is accruing $30 million annually through December 31, 2019, as provided in the 2013 ARP, for incremental operations and maintenance costs of damage from major storms to its transmission and distribution facilities. As of September 30, 2018, the total balance in the regulatory asset related to storm damage was $311 million. During October 2018, Hurricane Michael caused significant damage to Georgia Power's transmission and distribution facilities. Georgia Power currently estimates the costs of repairing the damage will total approximately $125 million to $150 million, which will be charged to the storm damage reserve or capitalized. The rate of storm damage cost recovery is expected to be adjusted as part of Georgia Power's next base rate case, which is scheduled to be filed by July 1, 2019. The ultimate outcome of this matter cannot be determined at this time.

Nuclear Construction

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

In 2009, the Georgia PSC certified construction of Plant Vogtle Units 3 and 4. In 2012, the NRC issued the related combined construction and operating licenses, which allowed full construction of the two AP1000 nuclear units (with electric generating capacity of approximately 1,100 MWs each) and related facilities to begin. Until March 2017, construction on Plant Vogtle Units 3 and 4 continued under the Vogtle 3 and 4 Agreement, which was a substantially fixed price agreement. In March 2017, the EPC Contractor filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

In connection with the EPC Contractor's bankruptcy filing, Georgia Power, acting for itself and as agent for the Vogtle Owners, entered into the Interim Assessment Agreement with the EPC Contractor to allow construction to continue.

The Interim Assessment Agreement expired in July 2017 when Georgia Power, acting for itself and as agent for the other Vogtle Owners, and the EPC Contractor entered into the Vogtle Services Agreement. Under the Vogtle Services Agreement, Westinghouse provides facility design and engineering services, procurement and technical support, and staff augmentation on a time and materials cost basis. The Vogtle Services Agreement will continue until the start-up and testing of Plant Vogtle Units 3 and 4 are complete and electricity is generated and sold from both units. The Vogtle Services Agreement is terminable by the Vogtle Owners upon 30 days' written notice.

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

In December 2017, the Georgia PSC approved Georgia Power's seventeenth VCM report, which included a recommendation to continue construction of Plant Vogtle Units 3 and 4, with Southern Nuclear serving as project manager and Bechtel serving as the primary construction contractor.

Cost and Schedule

In preparation for its nineteenth VCM filing, Georgia Power requested Southern Nuclear to perform a full cost reforecast for the project. Georgia Power's approximate proportionate share of the remaining estimated capital cost to complete Plant Vogtle Units 3 and 4 by the expected in-service dates of November 2021 and November 2022, respectively, is as follows:

	(in billions)
Base project capital cost forecast[(a)(b)]	$ 8.0
Construction contingency estimate	0.4
Total project capital cost forecast[(a)(b)]	8.4
Net investment as of September 30, 2018[(b)]	(4.3)
Remaining estimate to complete[(a)]	$ 4.1

(a) Excludes financing costs expected to be capitalized through AFUDC of approximately $350 million.

(b) Net of $1.7 billion received from Toshiba under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds.

Georgia Power estimates that its financing costs for construction of Plant Vogtle Units 3 and 4 will total approximately $3.2 billion, of which $1.8 billion had been incurred through September 30, 2018.

The table above reflects the $0.7 billion increase to the base capital cost forecast reported in the second quarter 2018 and is based on the cost reforecast performed prior to the nineteenth VCM filing, which primarily resulted from changed assumptions related to the finalization of contract scopes and management responsibilities for Bechtel and over 60 subcontractors, labor productivity rates, and craft labor incentives, as well as the related levels of project management, oversight, and support, including field supervision and engineering support.

Although Georgia Power believes these incremental costs are reasonable and necessary to complete the project and the Georgia PSC's order in the seventeenth VCM proceeding specifically states that the construction of Plant Vogtle

Units 3 and 4 is not subject to a cost cap, Georgia Power did not seek rate recovery for these cost increases included in the current base capital cost forecast (or any related financing costs) in the nineteenth VCM report that was filed with the Georgia PSC on August 31, 2018. In connection with future VCM filings, Georgia Power may request the Georgia PSC to evaluate costs currently included in the construction contingency estimate for rate recovery as and when they are appropriately included in the base capital cost forecast. After considering the significant level of uncertainty that exists regarding the future recoverability of costs included in the construction contingency estimate since the ultimate outcome of these matters is subject to the outcome of future assessments by management, as well as Georgia PSC decisions in these future regulatory proceedings, Georgia Power recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) in the second quarter 2018, which includes the total increase in the base capital cost forecast and construction contingency estimate.

As construction continues, challenges with management of contractors, subcontractors, and vendors; labor productivity, availability, and/or cost escalation; procurement, fabrication, delivery, assembly, and/or installation, including any required engineering changes, of plant systems, structures, and components (some of which are based on new technology that only recently began initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost. Monthly construction production targets required to maintain the current project schedule continue to increase significantly through the remainder of 2018 and into 2019. To meet these increasing monthly targets, existing craft construction productivity must improve and additional craft laborers must be retained and deployed.

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. 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 (ITAAC) and the related approvals by the NRC, may arise, 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.

The ultimate outcome of these matters cannot be determined at this time. However, any extension of the project schedule is currently estimated to result in additional base capital costs of approximately $50 million per month, based on Georgia Power's ownership interests, and AFUDC of approximately $12 million per month. While Georgia Power is not precluded from seeking recovery of any future capital cost forecast increase, management will ultimately determine whether or not to seek recovery. Any further changes to the capital cost forecast that are not expected to be recoverable through regulated rates will be required to be charged to income and such charges could be material.

Joint Owner Contracts

In November 2017, the Vogtle Owners entered into an amendment to their joint ownership agreements for Plant Vogtle Units 3 and 4 to provide for, among other conditions, additional Vogtle Owner approval requirements. Effective August 31, 2018, the Vogtle Owners further amended the joint ownership agreements to clarify and provide procedures for certain provisions of the joint ownership agreements related to adverse events that require the vote of the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 to continue construction (as amended, and together with the November 2017 amendment, the Vogtle Joint Ownership Agreements). The Vogtle Joint Ownership Agreements also confirm that the Vogtle Owners' sole recourse against Georgia Power or Southern Nuclear for any action or inaction in connection with their performance as agent for the Vogtle Owners is limited to removal of Georgia Power and/or Southern Nuclear as agent, except in cases of willful misconduct.

As a result of the increase in the total project capital cost forecast and Georgia Power's decision not to seek rate recovery of the increase in the base capital costs as described above, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 were required to vote to continue construction. On September 26, 2018, the Vogtle Owners unanimously voted to continue construction of Plant Vogtle Units 3 and 4.

Amendments to the Vogtle Joint Ownership Agreements

In connection with the vote to continue construction, Georgia Power entered into (i) the Vogtle Owner Term Sheet with the other Vogtle Owners and MEAG's wholly-owned subsidiaries MEAG SPVJ, MEAG Power SPVM, LLC (MEAG SPVM), and MEAG Power SPVP, LLC (MEAG SPVP) to take certain actions which partially mitigate potential financial exposure for the other Vogtle Owners, including additional amendments to the Vogtle Joint Ownership Agreements and the purchase of PTCs from the other Vogtle Owners, and (ii) a term sheet (MEAG Term Sheet and, together with the Vogtle Owner Term Sheet, Term Sheets) with MEAG and MEAG SPVJ to provide funding with respect to MEAG SPVJ's ownership interest in Plant Vogtle Units 3 and 4 (Project J) under certain circumstances. Pursuant to the Vogtle Owner Term Sheet, the Vogtle Joint Ownership Agreements will be modified as follows: (i) each Vogtle Owner will pay its proportionate share of qualifying construction costs for Plant Vogtle Units 3 and 4 based on its ownership percentage up to the estimated cost at completion (EAC) for Plant Vogtle Units 3 and 4 which forms the basis of Georgia Power's forecast of $8.4 billion in the nineteenth VCM plus $800 million of additional construction costs; (ii) Georgia Power will be responsible for 55.7% of actual qualifying construction costs between $800 million and $1.6 billion over the EAC in the nineteenth VCM (resulting in $80 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 44.3% of such costs pro rata in accordance with their respective ownership interests; and (iii) Georgia Power will be responsible for 65.7% of qualifying construction costs between $1.6 billion and $2.1 billion over the EAC in the nineteenth VCM (resulting in a further $100 million of potential additional costs to Georgia Power), with the remaining Vogtle Owners responsible for 34.3% of such costs pro rata in accordance with their respective ownership interests.

If the EAC is revised and exceeds the EAC in the nineteenth VCM by more than $2.1 billion, each of the other Vogtle Owners will have a one-time option to tender a portion of its ownership interest to Georgia Power in exchange for Georgia Power's agreement to pay 100% of such Vogtle Owner's remaining share of total construction costs in excess of the EAC in the nineteenth VCM plus $2.1 billion. In this event, Georgia Power will have the option of cancelling the project in lieu of purchasing a portion of the ownership interest of any other Vogtle Owner. If Georgia Power accepts the offer to purchase a portion of another Vogtle Owner's ownership interest in Plant Vogtle Units 3 and 4, the ownership interest(s) to be conveyed from the tendering Vogtle Owner(s) to Georgia Power would be calculated based on the proportion of the cumulative amount of construction costs paid by each such tendering Vogtle Owner(s) and by Georgia Power as of the commercial operation date of Plant Vogtle Unit 4. For purposes of this calculation, payments made by Georgia Power on behalf of another Vogtle Owner in accordance with the second and third items described in the paragraph above would be treated as payments made by the applicable Vogtle Owner.

In the event the actual costs at completion are less than the EAC reflected in the nineteenth VCM report and Plant Vogtle Unit 3 is placed in service by the currently scheduled date of November 2021 or Plant Vogtle Unit 4 is placed in service by the currently scheduled date of November 2022, Georgia Power would be entitled to 60.7% of the cost savings with respect to the relevant unit and the remaining Vogtle Owners would be entitled to 39.3% of such savings on a pro rata basis in accordance with their respective ownership interests.

For purposes of the foregoing provisions, qualifying construction costs would not include costs (i) resulting from force majeure events, including governmental actions or inactions (or significant delays associated with issuance of such actions) that affect the licensing, completion, startup, operations, or financing of Plant Vogtle Units 3 and 4, administrative proceedings or litigation regarding ITAAC or other regulatory challenges to commencement of operation of Plant Vogtle Units 3 and 4, and changes in laws or regulations governing Plant Vogtle Units 3 and 4, (ii) legal fees and legal expenses incurred due to litigation with contractors or subcontractors that are not subsidiaries or affiliates of Southern Company, and (iii) additional costs caused by Vogtle Owner requests other than Georgia Power, except for the exercise of a right to vote granted under the Vogtle Joint Ownership Agreements, that increase costs by

$100,000 or more.

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

Georgia Power is working with the other Vogtle Owners to clarify any interpretive issues related to the operation of certain of the above provisions of the Vogtle Owner Term Sheet.
Under the Vogtle Owner Term Sheet, the provisions of the Vogtle Joint Ownership Agreements requiring that Vogtle Owners holding 90% of the ownership interests in Plant Vogtle Units 3 and 4 vote to continue construction following certain adverse events (Project Adverse Events) will be modified. Pursuant to the Vogtle Joint Ownership Agreements and the Vogtle Owner Term Sheet, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction if certain Project Adverse Events occur, including: (i) the bankruptcy of Toshiba; (ii) the termination or rejection in bankruptcy of certain agreements, including the Vogtle Services Agreement, the Bechtel Agreement, or the agency agreement with Southern Nuclear; (iii) Georgia Power publicly announces its intention not to submit for rate recovery any portion of its investment in Plant Vogtle Units 3 and 4 or the Georgia PSC determines that any of Georgia Power's costs relating to the construction of Plant Vogtle Units 3 and 4 will not be recovered in retail rates, excluding any additional amounts paid by Georgia Power on behalf of the other Vogtle Owners pursuant to the Vogtle Owner Term Sheet provisions described above and the first 6% of costs during any six-month VCM reporting period that are disallowed by the Georgia PSC for recovery, or for which Georgia Power elects not to seek cost recovery, through retail rates; and (iv) an incremental extension of one year or more over the most recently approved schedule. Under the Vogtle Owner Term Sheet, Georgia Power may cancel the project at any time in its sole discretion.
In addition, pursuant to the Vogtle Joint Ownership Agreements, the required approval of holders of ownership interests in Plant Vogtle Units 3 and 4 is at least (i) 90% for a change of the primary construction contractor and (ii) 67% for material amendments to the Vogtle Services Agreement or agreements with Southern Nuclear or the primary construction contractor, including the Bechtel Agreement.
The Vogtle Owner Term Sheet provides that if the holders of at least 90% of the ownership interests fail to vote in favor of continuing the project following any future Project Adverse Event, work on Plant Vogtle Units 3 and 4 would continue for a period of 30 days if the holders of more than 50% of the ownership interests vote in favor of continuing construction (Majority Voting Owners). In such a case, the Vogtle Owners (i) would agree to negotiate in good faith towards the resumption of the project, (ii) if no agreement was reached during such 30-day period, the project would be cancelled, and (iii) in the event of such a cancellation, the Majority Voting Owners would be obligated to reimburse any other Vogtle Owner for the costs it incurred during such 30-day negotiation period.
Purchase of PTCs During Commercial Operation
In addition, under the terms of the Vogtle Owner Term Sheet, Georgia Power agreed to purchase additional PTCs from OPC, Dalton, MEAG SPVM, MEAG SPVP, and MEAG SPVJ (to the extent any MEAG SPVJ PTC rights remain after any purchases required under the MEAG Term Sheet as described below) at varying purchase prices dependent upon the actual cost to complete construction of Plant Vogtle Units 3 and 4 as compared to the EAC included in the nineteenth VCM report. The purchases will be at the option of the applicable Vogtle Owner and will occur during the month after such PTCs are earned.
Potential Funding to MEAG Project J
Pursuant to the MEAG Term Sheet, if MEAG SPVJ is unable to make its payments due under the Vogtle Joint Ownership Agreements solely because (i) the conduct of JEA, such as JEA's legal challenges of its obligations under a PPA with MEAG (PPA-J), materially impedes access to capital markets for MEAG for Project J, or (ii) PPA-J is declared void by a court of competent jurisdiction or rejected by JEA under the applicable provisions of the U.S. Bankruptcy Code (each of (i) and (ii), a JEA Default), Georgia Power would purchase from MEAG SPVJ the rights to PTCs attributable to MEAG SPVJ's share of Plant Vogtle Units 3 and 4 (approximately 206 MWs) at varying prices dependent upon the stage of construction of Plant Vogtle Units 3 and 4. The aggregate purchase price of the PTCs, together with any advances made as described in the next paragraph, shall not exceed $300 million.

At the option of MEAG, as an alternative or supplement to Georgia Power's purchase of PTCs as described above, Georgia Power has agreed to provide up to $250 million in funding to MEAG for Project J in the form of advances (either advances under the Vogtle Joint Ownership Agreements or the purchase of MEAG Project J bonds, at the discretion of Georgia Power), subject to any required approvals of the Georgia PSC and the DOE.

In the event MEAG SPVJ certifies to Georgia Power that it is unable to fund its obligations under the Vogtle Joint Ownership Agreements as a result of a JEA Default and Georgia Power becomes obligated to provide funding as described above, MEAG is required to (i) assign to Georgia Power its right to vote on any future Project Adverse Event and (ii) diligently pursue JEA for its breach of PPA-J. In addition, Georgia Power agreed that it will not sue MEAG for any amounts due from MEAG SPVJ under MEAG's guarantee of MEAG SPVJ's obligations so long as MEAG SPVJ complies with the terms of the MEAG Term Sheet as to its payment obligations and the other provisions of the Vogtle Joint Ownership Agreements.

Under the terms of the MEAG Term Sheet, Georgia Power may decline to provide any funding in the form of advances, including in the event of a failure to receive any required Georgia PSC or DOE approvals, and cancel the project in lieu of providing such funding.

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

Regulatory Matters

In 2009, the Georgia PSC voted to certify construction of Plant Vogtle Units 3 and 4 with a certified capital cost of $4.418 billion. In addition, in 2009 the Georgia PSC approved inclusion of the Plant Vogtle Units 3 and 4 related CWIP accounts in rate base, and the State of Georgia enacted the Georgia Nuclear Energy Financing Act, which allows Georgia Power to recover financing costs for Plant Vogtle Units 3 and 4. Financing costs are recovered on all applicable certified costs through annual adjustments to the NCCR tariff up to the certified capital cost of $4.418 billion. As of September 30, 2018, Georgia Power had recovered approximately $1.8 billion of financing costs. Financing costs related to capital costs above $4.418 billion will be recovered through AFUDC; however, Georgia Power will not record AFUDC related to any capital costs in excess of the total deemed reasonable by the Georgia PSC (currently $7.3 billion) and not requested for rate recovery. Georgia Power expects to file on November 9, 2018 to increase the NCCR tariff by approximately $90 million annually, effective January 1, 2019, pending Georgia PSC approval.

Georgia Power is required to file semi-annual VCM reports with the Georgia PSC by February 28 and August 31 of each year. In 2013, in connection with the eighth VCM report, the Georgia PSC approved a stipulation between Georgia Power and the staff of the Georgia PSC to waive the requirement to amend the Plant Vogtle Units 3 and 4 certificate in accordance with the 2009 certification order until the completion of Plant Vogtle Unit 3, or earlier if deemed appropriate by the Georgia PSC and Georgia Power.

In 2016, the Georgia PSC voted to approve a settlement agreement (Vogtle Cost Settlement Agreement) resolving certain prudency matters in connection with the fifteenth VCM report. In December 2017, the Georgia PSC voted to approve (and issued its related order on January 11, 2018) certain recommendations made by Georgia Power in the seventeenth VCM report and modifying the Vogtle Cost Settlement Agreement. The Vogtle Cost Settlement Agreement, as modified by the January 11, 2018 order, resolved the following regulatory matters related to Plant Vogtle Units 3 and 4: (i) none of the $3.3 billion of costs incurred through December 31, 2015 and reflected in the fourteenth VCM report should be disallowed from rate base on the basis of imprudence; (ii) the Contractor Settlement Agreement was reasonable and prudent and none of the amounts paid pursuant to the Contractor Settlement Agreement should be disallowed from rate base on the basis of imprudence; (iii) (a) capital costs incurred up to $5.68 billion would be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, (b) Georgia Power would have the burden to show that any capital costs above $5.68 billion were prudent, and (c) a revised capital cost forecast of $7.3 billion (after reflecting the impact of payments received under the Guarantee Settlement Agreement and related Customer Refunds) was found reasonable; (iv) construction of Plant Vogtle Units 3 and 4 should be completed, with Southern Nuclear serving as project manager and Bechtel as primary contractor; (v) approved and deemed reasonable Georgia Power's revised schedule placing Plant Vogtle Units 3 and 4 in service in

November 2021 and November 2022, respectively; (vi) confirmed that the revised cost forecast does not represent a cost cap and that prudence decisions on cost recovery will be made at a later date,

consistent with applicable Georgia law; (vii) reduced the ROE used to calculate the NCCR tariff (a) from 10.95% (the ROE rate setting point authorized by the Georgia PSC in the 2013 ARP) to 10.00% effective January 1, 2016, (b) from 10.00% to 8.30%, effective January 1, 2020, and (c) from 8.30% to 5.30%, effective January 1, 2021 (provided that the ROE in no case will be less than Georgia Power's average cost of long-term debt); (viii) reduced the ROE used for AFUDC equity for Plant Vogtle Units 3 and 4 from 10.00% to Georgia Power's average cost of long-term debt, effective January 1, 2018; and (ix) agreed that upon Unit 3 reaching commercial operation, retail base rates would be adjusted to include carrying costs on those capital costs deemed prudent in the Vogtle Cost Settlement Agreement.
The January 11, 2018 order also stated that if Plant Vogtle Units 3 and 4 are not commercially operational by June 1, 2021 and June 1, 2022, respectively, the ROE used to calculate the NCCR tariff will be further reduced by 10 basis points each month (but not lower than Georgia Power's average cost of long-term debt) until the respective unit is commercially operational. The ROE reductions negatively impacted earnings by approximately $25 million in 2017 and are estimated to have negative earnings impacts of approximately $100 million in 2018 and an aggregate of $680 million from 2019 to 2022.
In its January 11, 2018 order, the Georgia PSC also stated if other conditions change and assumptions upon which Georgia Power's seventeenth VCM report are based do not materialize, the Georgia PSC reserved the right to reconsider the decision to continue construction.
On February 12, 2018, Georgia Interfaith Power & Light, Inc. and Partnership for Southern Equity, Inc. filed a petition appealing the Georgia PSC's January 11, 2018 order with the Fulton County Superior Court. On March 8, 2018, Georgia Watch filed a similar appeal to the Fulton County Superior Court for judicial review of the Georgia PSC's final decision and denial of Georgia Watch's motion for reconsideration. Georgia Power believes the two appeals have no merit; however, an adverse outcome in either appeal combined with subsequent adverse action by the Georgia PSC could have a material impact on Georgia Power's results of operations, financial condition, and liquidity.
The Georgia PSC has approved eighteen VCM reports covering the periods through December 31, 2017, including total construction capital costs incurred through that date of $4.9 billion (before $1.7 billion of payments received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds). On August 31, 2018, Georgia Power filed its nineteenth VCM report with the Georgia PSC, which requested approval of $578 million of construction capital costs incurred from January 1, 2018 through June 30, 2018.
The ultimate outcome of these matters cannot be determined at this time.
See RISK FACTORS of Georgia Power in Item 1A herein and in 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.
DOE Financing
As of September 30, 2018, Georgia Power had borrowed $2.6 billion related to Plant Vogtle Units 3 and 4 costs through the Loan Guarantee Agreement and a multi-advance credit facility among Georgia Power, the DOE, and the FFB, which provides for borrowings of up to $3.46 billion, subject to the satisfaction of certain conditions. In September 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately $1.67 billion in additional guaranteed loans under the Loan Guarantee Agreement. In September 2018, the DOE extended the conditional commitment to March 31, 2019. Any further extension must be approved by the DOE. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information, including applicable covenants, events of default, mandatory prepayment events (including any decision not to continue construction of Plant Vogtle Units 3 and 4), and conditions to borrowing.

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

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Georgia Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk," Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power," and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation and related regulatory actions.

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 laws and regulations governing air, water, land, and protection of natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations 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 or regulatory matters cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Georgia Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

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.

Estimated Cost, Schedule, and Rate Recovery for the Construction of Plant Vogtle Units 3 and 4

In December 2016, the Georgia PSC approved the Vogtle Cost Settlement Agreement, which resolved certain prudency matters in connection with Georgia Power's fifteenth VCM report. In December 2017, the Georgia PSC approved Georgia Power's seventeenth VCM report, which included a recommendation to continue construction of Plant Vogtle Units 3 and 4, with Southern Nuclear serving as project manager and Bechtel serving as the primary construction contractor, as well as a modification of the Vogtle Cost Settlement Agreement. The Georgia PSC's related order stated that under the modified Vogtle Cost Settlement Agreement, (i) none of the $3.3 billion of costs incurred through December 31, 2015 should be disallowed as imprudent; (ii) capital costs incurred up to $5.68 billion would be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs; (iii) Georgia Power would have the burden of proof to show that any capital costs above $5.68 billion were prudent; (iv) Georgia Power's total project capital cost forecast of $7.3 billion (net of $1.7 billion received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds) was found reasonable and did not represent a cost cap; and (v) prudence decisions would be made subsequent to achieving fuel load for Unit 4.

In its order, the Georgia PSC also stated if other conditions change and assumptions upon which Georgia Power's seventeenth VCM report are based do not materialize, the Georgia PSC reserved the right to reconsider the decision to continue construction.

In the second quarter 2018, Georgia Power revised its base cost forecast and estimated contingency to complete construction and start-up of Plant Vogtle Units 3 and 4 to $8.0 billion and $0.4 billion, respectively, for a total project capital cost forecast of $8.4 billion (net of $1.7 billion received under the Guarantee Settlement Agreement and approximately $188 million in related Customer Refunds). Although Georgia Power believes these incremental costs are reasonable and necessary to complete the project and the Georgia PSC has stated the $7.3 billion estimate included in the seventeenth VCM proceeding does not represent a cost cap, Georgia Power did not seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast in the nineteenth VCM report filed with the Georgia PSC on August 31, 2018. In connection with future VCM filings, Georgia Power may request the Georgia PSC to evaluate costs included in the revised construction contingency estimate for rate recovery as and when they are appropriately included in the base capital cost forecast. After considering the significant level of uncertainty that exists regarding the future recoverability of costs included in the construction contingency estimate since the ultimate outcome of these matters is subject to the outcome of future assessments by management, as well as Georgia PSC decisions in these future regulatory proceedings, Georgia Power recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) in the second quarter 2018.

Georgia Power's revised cost estimate reflects an expected in-service date of November 2021 for Unit 3 and November 2022 for Unit 4.

As construction continues, challenges with management of contractors, subcontractors, and vendors; labor productivity, availability, and/or cost escalation; procurement, fabrication, delivery, assembly, and/or installation, including any required engineering changes, of plant systems, structures, and components (some of which are based on new technology that only recently began initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost. Monthly construction production targets required to maintain the current project schedule continue to increase significantly through the remainder of 2018 and into 2019. To meet these increasing monthly targets, existing craft construction productivity must improve and additional craft laborers must be retained and deployed.

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. 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 ITAAC and the related approvals by the NRC, may arise, 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.

The ultimate outcome of these matters cannot be determined at this time. Any extension of the in-service dates of November 2021 for Unit 3 and November 2022 for Unit 4 is currently estimated to result in additional base capital costs of approximately $50 million per month, based on Georgia Power's ownership interests, and AFUDC of approximately $12 million per month. While Georgia Power is not precluded from seeking recovery of any future capital cost forecast increase, management will ultimately determine whether or not to seek recovery. Any further changes to the capital cost forecast that are not expected to be recoverable through regulated rates will be required to be charged to income and such charges could be material.

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

Given the significant complexity involved in estimating the future costs to complete construction and start-up of Plant Vogtle Units 3 and 4 and the significant management judgment necessary to assess the related uncertainties surrounding future rate recovery of any projected cost increases, as well as the potential impact on Georgia Power's results of operations and cash flows, Georgia Power considers these items to be critical accounting estimates. 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 "Nuclear Construction" herein for additional information.

Recently Issued Accounting Standards

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Georgia Power in Item 7 of the Form 10-K for additional information regarding ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). See Note (A) to the Condensed Financial Statements herein for information regarding Georgia Power's recently adopted accounting standards.

In 2016, the FASB issued ASU No. 2016-02, which 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 and Georgia Power will adopt the new standard effective January 1, 2019.

Georgia Power has elected the transition methodology provided by ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, whereby it will apply the requirements of ASU 2016-02 on a prospective basis as of the adoption date of January 1, 2019, without restating prior periods. Georgia Power expects to elect the package of practical expedients provided by ASU 2016-02 that allows prior determinations of whether existing contracts are, or contain, leases and the classification of existing leases to continue without reassessment. Additionally, Georgia Power expects to apply the use-of-hindsight practical expedient in determining lease terms as of the date of adoption and to elect the practical expedient that allows existing land easements not previously accounted for as leases not to be reassessed. Georgia Power also expects to make accounting policy elections to account for short-term leases in all asset classes as off-balance sheet leases and to combine lease and non-lease components in the computations of lease obligations and right-of-use assets for most asset classes.

Georgia Power is continuing to complete the implementation of an information technology system to track and account for its leases and of changes to its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. Georgia Power has substantially completed its lease inventory and determined its most significant leases involve PPAs and real estate. While Georgia Power has not yet determined the ultimate impact, adoption of ASU 2016-02 is expected to result in recording lease liabilities and right-of-use assets on Georgia Power's balance sheet each totaling approximately $1.8 billion, with no material impact on Georgia Power's statement of income.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Georgia Power in Item 7 of the Form 10-K for additional information. Georgia Power's financial condition remained stable at September 30, 2018. 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 $2.23 billion for the first nine months of 2018 compared to $1.48 billion for the corresponding period in 2017. The increase was primarily due to the timing of vendor and property tax payments, a decrease in current income taxes related to the Tax Reform Legislation, income tax refunds received, increased fuel cost recovery, and the timing of fossil fuel stock purchases, partially offset by payments of customer refunds primarily related to the Guarantee Settlement Agreement. Net cash used for investing activities totaled $2.21 billion for the first nine months of 2018 primarily related to installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities, including $0.9 billion related to the construction of Plant Vogtle Units 3 and 4. Net cash used for financing activities totaled $492 million for the first nine months of 2018 primarily due to payments of common stock dividends, the redemption and repurchase of senior notes, and pollution control revenue bond purchases, partially offset by capital contributions 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 nine months of 2018 include an increase of $2.3 billion in paid-in capital primarily due to capital contributions received from Southern Company, a decrease of $1.6 billion in long-term debt (including securities due within one year) primarily due to the redemption and repurchase of senior notes and the purchase of pollution control revenue bonds, and an increase of $0.5 billion in property, plant, and equipment to comply with environmental standards and the construction of generation, transmission, and distribution facilities, net of the $1.1 billion charge related to the construction of Plant Vogtle Units 3 and 4. See Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

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 and contractual obligations. Approximately $511 million will be required through September 30, 2019 to fund maturities of long-term debt. See "Sources of Capital" herein for additional information. Also see FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" for additional information regarding Plant Vogtle Units 3 and 4.

Georgia Power's construction program is currently estimated to total approximately $3.5 billion for 2018, $3.6 billion for 2019, $2.8 billion for 2020, $2.7 billion for 2021, and $2.4 billion for 2022. These amounts include expenditures of approximately $1.4 billion, $1.4 billion, $0.9 billion, $1.0 billion, and $0.6 billion for the construction of Plant Vogtle Units 3 and 4 in 2018, 2019, 2020, 2021, and 2022, respectively. These amounts also include capital expenditures related to contractual purchase commitments for nuclear fuel and capital expenditures covered under LTSAs. Estimated capital expenditures to comply with environmental laws and regulations included in these amounts are $0.5 billion, $0.1 billion, $0.2 billion, $0.2 billion, and $0.2 billion for 2018, 2019, 2020, 2021, and 2022, respectively. These estimated expenditures do not include any potential compliance costs associated with pending regulation of CO_2 emissions from fossil fuel-fired electric generating units.

Georgia Power also anticipates costs associated with closure and monitoring of ash ponds in accordance with the CCR Rule, which are reflected in Georgia Power's ARO liabilities. These costs, which are expected to change as Georgia Power continues to refine its assumptions underlying the cost estimates and evaluate the method and timing of compliance activities, are estimated to be $0.2 billion per year for 2018 through 2020 and $0.3 billion per year for 2021 and 2022. For information regarding expected changes to these cost estimates during the fourth quarter 2018, see FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" and Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein. Also see Note 1 to the financial statements of Georgia Power under "Asset Retirement Obligations and Other Costs of Removal" in Item 8 of the Form 10-K for additional information on AROs.

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 laws and regulations; the outcome of any legal challenges to environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing generating units, to meet regulatory requirements; changes in FERC rules and regulations; Georgia PSC approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. The construction program also includes Plant Vogtle Units 3 and 4, which includes components based on new technology that only recently began initial operation in the global nuclear industry at scale and which may be subject to additional revised cost estimates during construction. The ability to control costs and avoid cost and schedule overruns during the development, construction, and operation of new facilities is subject to a number of factors, including, but not limited to, changes in labor costs, availability, and productivity, challenges with management of contractors, subcontractors, or vendors, 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. 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 "Nuclear Construction" herein for information regarding additional factors that may impact construction expenditures.

Sources of Capital

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

In 2014, Georgia Power entered into the Loan Guarantee Agreement with the DOE, under which the proceeds of borrowings may be used to reimburse Georgia Power for Eligible Project Costs incurred in connection with its 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. As of September 30, 2018, Georgia Power had borrowed $2.6 billion under the FFB Credit Facility. In July 2017, Georgia Power entered into an amendment to the Loan Guarantee Agreement, which provides that further advances are conditioned upon the DOE's approval of any agreements entered into in replacement of the Vogtle 3 and 4 Agreement and satisfaction of certain other conditions.

In September 2017, the DOE issued a conditional commitment to Georgia Power for up to approximately $1.67 billion of additional guaranteed loans under the Loan Guarantee Agreement. This conditional commitment expires on March 31, 2019, subject to any further extension approved by the DOE. Final approval and issuance of these additional loan guarantees by the DOE cannot be assured and are subject to the negotiation of definitive agreements, completion of due diligence by the DOE, receipt of any necessary regulatory approvals, and satisfaction of other conditions. See Note 6 to the financial statements of Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements under "DOE Loan Guarantee Borrowings" herein for additional information regarding the Loan Guarantee Agreement, including applicable covenants, events of default, mandatory prepayment events (including any decision not to continue construction of Plant Vogtle Units 3 and 4), and additional conditions to borrowing. Also see Note (B) to the Condensed Financial Statements under "Nuclear Construction" herein for additional information regarding Plant Vogtle Units 3 and 4.

At September 30, 2018, Georgia Power's current liabilities exceeded current assets by $552 million primarily due to long-term debt that is due within one year of $511 million. Georgia Power's current liabilities frequently exceed current assets because of scheduled maturities of long-term debt and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs. Georgia Power intends to utilize operating cash flows, external security issuances, borrowings from financial institutions, and equity contributions from Southern

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

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 September 30, 2018, Georgia Power had approximately $380 million of cash and cash equivalents. Georgia Power's committed credit arrangement with banks was $1.75 billion at September 30, 2018, of which $1.74 billion was unused. This credit arrangement expires in 2022.

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. At September 30, 2018, Georgia Power was in compliance with this covenant. This bank credit arrangement does not contain a material adverse change clause at the time of borrowing.

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

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

A portion of the $1.74 billion unused credit with banks is allocated to provide liquidity support to Georgia Power's pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 2018 was approximately $550 million. In addition, at September 30, 2018, Georgia Power had $345 million of pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.

Georgia Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Georgia Power and the other traditional electric operating companies. Proceeds from such issuances for the benefit of Georgia Power are loaned directly to Georgia Power. The obligations of each traditional electric operating company under these arrangements are several and there is no cross-affiliate credit support. Short-term borrowings are included in notes payable in the balance sheets.

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2018		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	$102	2.4 %	$260	2.3 %	$ 480

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2018.

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

Credit Rating Risk

At September 30, 2018, Georgia Power did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel

109

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.

The maximum potential collateral requirements under these contracts at September 30, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 87
Below BBB- and/or Baa3	$ 1,025

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

On February 28, 2018, Fitch downgraded the senior unsecured long-term debt rating of Georgia Power to A from A+ with a negative outlook. On August 9, 2018, Fitch downgraded the senior unsecured long-term debt rating of Georgia Power to A- from A. On September 28, 2018, Fitch assigned a negative rating outlook to the ratings of Southern Company and certain of its subsidiaries (including Georgia Power).

On August 8, 2018, Moody's downgraded the senior unsecured debt rating of Georgia Power to Baa1 from A3. On September 28, 2018, Moody's revised its rating outlook for Georgia Power from negative to stable.

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries, including Georgia Power, may be negatively impacted. The Tax Reform Settlement Agreement approved by the Georgia PSC on April 3, 2018 is expected to help mitigate these potential adverse impacts to certain credit metrics by allowing a higher retail equity ratio until the conclusion of Georgia Power's next base rate case, which is scheduled to be filed by July 1, 2019. See Note 3 to the financial statements of Georgia Power under "Retail Regulatory Matters – Rate Plans" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Georgia Power – Rate Plans" herein for additional information.

Financing Activities

In January 2018, Georgia Power repaid its outstanding $150 million and $100 million floating rate bank loans due May 31, 2018 and October 26, 2018, respectively.

In April 2018, Georgia Power redeemed all $250 million aggregate principal amount of its Series 2008B 5.40% Senior Notes due June 1, 2018.

In May 2018, through cash tender offers, Georgia Power repurchased and retired $89 million of the $250 million aggregate principal amount outstanding of its Series 2007A 5.65% Senior Notes due March 1, 2037, $326 million of the $500 million aggregate principal amount outstanding of its Series 2009A 5.95% Senior Notes due February 1, 2039, and $335 million of the $600 million aggregate principal amount outstanding of its Series 2010B 5.40% Senior Notes due June 1, 2040, for an aggregate purchase price, excluding accrued and unpaid interest, of $902 million.

During 2018, Georgia Power purchased and held the following pollution control revenue bonds, which may be reoffered to the public at a later date:

- $104.6 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), First Series 2013

- $173 million aggregate principal amount of Development Authority of Bartow County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Bowen Project), First Series 2009
- $55 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Fifth Series 1994
- $65 million aggregate principal amount of Development Authority of Burke County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Vogtle Project), Second Series 2008
- $71.735 million aggregate principal amount of Development Authority of Bartow County (Georgia) Pollution Control Revenue Bonds (Georgia Power Company Plant Bowen Project), First Series 2013

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.

Table of Contents

GULF POWER COMPANY

Table of Contents

GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$341	$375	$932	$972
Wholesale revenues, non-affiliates	15	14	41	44
Wholesale revenues, affiliates	40	28	83	75
Other revenues	18	20	50	53
Total operating revenues	414	437	1,106	1,144
Operating Expenses:				
Fuel	132	127	305	323
Purchased power	44	38	135	116
Other operations and maintenance	82	84	248	260
Depreciation and amortization	48	42	142	95
Taxes other than income taxes	33	33	91	88
Loss on Plant Scherer Unit 3	—	—	—	33
Total operating expenses	339	324	921	915
Operating Income	75	113	185	229
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(13)	(13)	(39)	(37)
Other income (expense), net	(3)	3	—	7
Total other income and (expense)	(16)	(10)	(39)	(30)
Earnings Before Income Taxes	59	103	146	199
Income taxes (benefit)	(4)	40	(1)	78
Net Income	63	63	147	121
Dividends on Preference Stock	—	—	—	4
Net Income After Dividends on Preference Stock	$63	$63	$147	$117

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income	$ 63	$ 63	$147	$121
Other comprehensive income (loss):				
Qualifying hedges:				

Changes in fair value, net of tax of $-, $-, $-, and $(1), respectively	—	—	—	(1)
Total other comprehensive income (loss)	—	—	—	(1)
Comprehensive Income	$ 63	$ 63	$ 147	$ 120

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

113

Table of Contents

GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income	$147	$121
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	147	100
Deferred income taxes	(45)	57
Loss on Plant Scherer Unit 3	—	33
Other, net	(10)	(5)
Changes in certain current assets and liabilities —		
-Receivables	(5)	(65)
-Other current assets	9	18
-Accrued taxes	35	21
-Accrued compensation	(9)	(10)
-Over recovered regulatory clause revenues	39	(8)
-Other current liabilities	10	10
Net cash provided from operating activities	318	272
Investing Activities:		
Property additions	(207)	(142)
Cost of removal, net of salvage	(18)	(16)
Change in construction payables	5	(9)
Other investing activities	(18)	(6)
Net cash used for investing activities	(238)	(173)
Financing Activities:		
Increase (decrease) in notes payable, net	5	(268)
Proceeds —		
Common stock issued to parent	—	175
Capital contributions from parent company	40	7
Senior notes	—	300
Redemptions —		
Preference stock	—	(150)
Senior notes	—	(85)
Payment of common stock dividends	(115)	(94)
Other financing activities	(1)	(3)
Net cash used for financing activities	(71)	(118)
Net Change in Cash, Cash Equivalents, and Restricted Cash	9	(19)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	28	56
Cash, Cash Equivalents, and Restricted Cash at End of Period	$37	$37
Supplemental Cash Flow Information:		
Cash paid during the period for —		

Interest (net of $- and $- capitalized for 2018 and 2017, respectively)	$26	$24
Income taxes, net	28	19
Noncash transactions — Accrued property additions at end of period	31	25

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

Table of Contents

GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$37	$ 28
Receivables —		
Customer accounts receivable	100	76
Unbilled revenues	69	67
Under recovered regulatory clause revenues	—	27
Affiliated	20	14
Other	5	7
Accumulated provision for uncollectible accounts	(1)	(1)
Fossil fuel stock	58	63
Materials and supplies	61	57
Other regulatory assets, current	47	56
Other current assets	13	21
Total current assets	409	415
Property, Plant, and Equipment:		
In service	5,313	5,196
Less: Accumulated provision for depreciation	1,540	1,461
Plant in service, net of depreciation	3,773	3,735
Construction work in progress	152	91
Total property, plant, and equipment	3,925	3,826
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	30	31
Other regulatory assets, deferred	495	502
Other deferred charges and assets	46	23
Total deferred charges and other assets	571	556
Total Assets	$4,905	$ 4,797

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

Table of Contents

GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Notes payable	$50	$ 45
Accounts payable —		
Affiliated	64	52
Other	67	75
Customer deposits	35	35
Accrued taxes	45	10
Accrued interest	20	9
Accrued compensation	30	39
Deferred capacity expense, current	22	22
Asset retirement obligations, current	43	37
Other regulatory liabilities, current	69	—
Other current liabilities	20	27
Total current liabilities	465	351
Long-term Debt	1,285	1,285
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	542	537
Deferred credits related to income taxes	380	458
Employee benefit obligations	96	102
Deferred capacity expense	81	97
Asset retirement obligations, deferred	121	105
Other cost of removal obligations	218	221
Other regulatory liabilities, deferred	51	43
Other deferred credits and liabilities	62	67
Total deferred credits and other liabilities	1,551	1,630
Total Liabilities	3,301	3,266
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 20,000,000 shares		
Outstanding — 7,392,717 shares	678	678
Paid-in capital	636	594
Retained earnings	291	259
Accumulated other comprehensive loss	(1)	—
Total common stockholder's equity	1,604	1,531
Total Liabilities and Stockholder's Equity	$4,905	$ 4,797

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

Table of Contents

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

THIRD QUARTER 2018 vs. THIRD QUARTER 2017
AND
YEAR-TO-DATE 2018 vs. YEAR-TO-DATE 2017

OVERVIEW

Gulf Power operates as a vertically integrated utility providing electric service to retail customers within its traditional service territory located in northwest Florida and to wholesale customers in the Southeast.

On May 20, 2018, Southern Company entered into a stock purchase agreement with NextEra Energy to sell Gulf Power for an aggregate cash purchase price of $5.75 billion (less the amount of indebtedness assumed at closing, which is currently estimated at approximately $1.3 billion), subject to certain adjustments. The completion of the sale is expected to occur in the first quarter 2019 and is subject to the satisfaction or waiver of certain closing conditions. The ultimate outcome of this matter cannot be determined at this time. See Note (J) to the Condensed Financial Statements under "Southern Company's Sale of Gulf Power" herein for additional information.

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

As a continuation of a settlement agreement approved by the Florida PSC in April 2017 (2017 Gulf Power Rate Case Settlement Agreement), on March 26, 2018, the Florida PSC approved a stipulation and settlement agreement among Gulf Power and three intervenors addressing the retail revenue requirement effects of the Tax Reform Legislation (Gulf Power Tax Reform Settlement Agreement).

The Gulf Power Tax Reform Settlement Agreement results in annual reductions to Gulf Power's revenues of $18.2 million from base rates and $15.6 million from environmental cost recovery rates implemented April 1, 2018 and also provided for a one-time refund of $69.4 million for the retail portion of unprotected (not subject to normalization) deferred tax liabilities through a reduced fuel cost recovery rate over the remainder of 2018. Through September 30, 2018, approximately $53 million of this refund has been reflected in customer bills. As a result of the Gulf Power Tax Reform Settlement Agreement, the Florida PSC also approved an increase in Gulf Power's maximum equity ratio from 52.5% to 53.5% for all retail regulatory purposes.

As part of the Gulf Power Tax Reform Settlement Agreement, a limited scope proceeding to address protected deferred tax liabilities consistent with IRS normalization principles was initiated on April 30, 2018. On October 30, 2018, the Florida PSC approved a $9.6 million annual reduction in base rate revenues effective January 2019, which concluded this proceeding. Through September 30, 2018, Gulf Power has deferred $7 million of related 2018 tax benefits as a regulatory liability to be refunded to retail customers in 2019 through Gulf Power's fuel cost recovery rate.

See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information.

On October 10, 2018, Hurricane Michael made landfall on the Gulf Coast of Florida causing substantial damage in Gulf Power's service territory. Gulf Power currently estimates the costs of repairing the damages to its transmission and distribution lines and uninsured facilities will total approximately $350 million to $400 million, which primarily will be charged to the property damage reserve or capitalized. At September 30, 2018, Gulf Power had a balance of approximately $48 million in its property damage reserve. In accordance with the 2017 Gulf Power Rate Case Settlement Agreement, Gulf Power can petition the Florida PSC to seek recovery of the costs associated with

Table of Contents

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

Hurricane Michael, along with replenishing the property damage reserve to approximately $40 million. The ultimate outcome of this matter cannot be determined at this time. See Note 1 to the financial statements of Gulf Power under "Property Damage Reserve" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Storm Damage Cost Recovery" herein for additional information.

Gulf Power continues to focus on several key performance indicators including, but not limited to, customer satisfaction, plant availability, system reliability, and net income.

RESULTS OF OPERATIONS

Net Income

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$—	—	$30	25.6

Gulf Power's net income after dividends on preference stock for the third quarter 2018 and the corresponding period in 2017 was $63 million. Net income reflects lower federal income tax expense as a result of the Tax Reform Legislation, substantially offset by a reduction in retail revenues related to the Gulf Power Tax Reform Settlement Agreement.

Gulf Power's net income after dividends on preference stock for year-to-date 2018 was $147 million compared to $117 million for the corresponding period in 2017. The increase was primarily due to higher retail base revenues effective July 2017 and the first quarter 2017 write-down of $32.5 million ($20 million after tax) of Gulf Power's ownership of Plant Scherer Unit 3 in accordance with the 2017 Gulf Power Rate Case Settlement Agreement, partially offset by depreciation credits recognized in 2017. In addition, the increase in net income reflects lower federal income tax expense as a result of the Tax Reform Legislation, partially offset by a reduction in retail revenues related to the Gulf Power Tax Reform Settlement Agreement.

See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information regarding the 2017 Gulf Power Rate Case Settlement Agreement.

Retail Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(34)	(9.1)	$(40)	(4.1)

In the third quarter 2018, retail revenues were $341 million compared to $375 million for the corresponding period in 2017. For year-to-date 2018, retail revenues were $932 million compared to $972 million for the corresponding period in 2017.

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

Details of the changes in retail revenues were as follows:

	Third Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$375		$972	
Estimated change resulting from –				
Rates and pricing	(35)	(9.3)	(51)	(5.2)
Sales growth (decline)	(2)	(0.6)	2	0.2
Weather	6	1.6	16	1.6
Fuel and other cost recovery	(3)	(0.8)	(7)	(0.7)
Retail – current year	$341	(9.1)%	$932	(4.1)%

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 decreased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to a decrease in revenues effective January 1, 2018 due to the Gulf Power Tax Reform Settlement Agreement. In addition, the year-to-date 2018 amounts were partially offset by an increase in retail base rates effective July 2017 in accordance with the 2017 Gulf Power Rate Case Settlement Agreement.

Revenues attributable to changes in sales decreased in the third quarter 2018 when compared to the corresponding period in 2017. For the third quarter 2018, weather-adjusted KWH sales to residential customers decreased 3.9% due to lower customer usage, primarily resulting from efficiency improvements, partially offset by customer growth. Weather-adjusted KWH sales to commercial customers decreased 2.5% primarily due to lower energy usage resulting from energy efficiency improvements in appliances and lighting. KWH sales to industrial customers increased 4.8% for the third quarter 2018 primarily due to decreased customer cogeneration levels and other changes in customers' operations.

Revenues attributable to changes in sales increased for year-to-date 2018 when compared to the corresponding period in 2017. For year-to-date 2018, weather-adjusted KWH sales to residential customers were essentially flat due to lower customer usage, primarily resulting from efficiency improvements, offset by customer growth. Weather-adjusted KWH sales to commercial customers decreased 0.7% primarily due to lower energy usage resulting from energy efficiency improvements in appliances and lighting. KWH sales to industrial customers increased 1.3% year-to-date 2018 primarily due to changes in customer cogeneration levels.

Fuel and other cost recovery revenues decreased in the third quarter 2018 when compared to the corresponding period in 2017, primarily due to lower recoverable costs under the fuel cost recovery clause. Fuel and other cost recovery revenues decreased year-to-date 2018 when compared to the corresponding period in 2017, primarily due to lower recoverable costs under the purchased power capacity and fuel cost recovery clauses. Fuel and other cost recovery provisions include fuel expenses, the energy component of purchased power costs, purchased power capacity costs, the difference between projected and actual costs and revenues related to energy conservation and environmental compliance, and a credit for certain wholesale revenues as a result of the 2017 Gulf Power Rate Case Settlement Agreement.

See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses" and " – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information regarding cost recovery clauses and the 2017 Gulf Power Rate Case Settlement Agreement, respectively. Also see FUTURE EARNINGS

Table of Contents

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

POTENTIAL – "Retail Regulatory Matters – Retail Base Rate Case" herein for additional information regarding the Gulf Power Tax Reform Settlement Agreement.

Wholesale Revenues – Affiliates

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$12	42.9	$8	10.7

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

In the third quarter 2018, wholesale revenues from sales to affiliates were $40 million compared to $28 million for the corresponding period in 2017. The increase was primarily due to a 31.6% increase in KWH sales primarily resulting from increased generation to serve territorial load driven by warmer weather in the third quarter 2018 and a 7.9% increase in the price of energy sold to affiliates attributable to increased sales during peak load hours.

For year-to-date 2018, wholesale revenues from sales to affiliates were $83 million compared to $75 million for the corresponding period in 2017. The increase was primarily due to a 24.5% increase in the price of energy sold due to dispatching higher-priced generating resources driven by the colder weather in January 2018 and warmer weather in the third quarter 2018. Partially offsetting this increase was an 11.3% decrease in KWH sales primarily resulting from lower availability due to planned outages at Gulf Power generating units in the first half of 2018.

Fuel and Purchased Power Expenses

	Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 5	3.9	$ (18)	(5.6)
Purchased power	6	15.8	19	16.4
Total fuel and purchased power expenses	$ 11		$ 1	

In the third quarter 2018, total fuel and purchased power expenses were $176 million compared to $165 million for the corresponding period in 2017. The increase was primarily the result of a $21 million increase related to the volume of KWHs generated and purchased, partially offset by a $10 million decrease related to the lower average cost of fuel and purchased power due to lower natural gas prices.

For year-to-date 2018, total fuel and purchased power expenses were $440 million compared to $439 million for the corresponding period in 2017. The increase was primarily the result of a $31 million increase related to volume of KWHs generated and purchased, partially offset by a $30 million decrease related to the lower average cost of fuel and purchased power resulting from lower natural gas prices.

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:

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in millions of KWHs)	2,992	2,780	7,002	7,000
Total purchased power (in millions of KWHs)	2,016	1,686	4,997	4,362
Sources of generation (percent) –				
Coal	61	59	53	55
Gas	39	41	47	45
Cost of fuel, generated (in cents per net KWH) –				
Coal	3.06	3.04	3.12	3.15
Gas	3.40	3.71	3.25	3.60
Average cost of fuel, generated (in cents per net KWH)	3.19	3.31	3.18	3.35
Average cost of purchased power (in cents per net KWH)(*)	3.99	4.32	4.33	4.70

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

Fuel

In the third quarter 2018, fuel expense was $132 million compared to $127 million for the corresponding period in 2017. The increase was primarily due to a 7.6% increase in the volume of KWHs generated primarily to serve higher territorial load driven by warmer weather, partially offset by a 3.6% decrease in the average cost of fuel resulting from lower natural gas prices.

For year-to-date 2018, fuel expense was $305 million compared to $323 million for the corresponding period in 2017. The decrease was primarily due to a 5.1% decrease in the average cost of fuel resulting from lower natural gas prices.

Purchased Power

In the third quarter 2018, purchased power expense was $44 million compared to $38 million for the corresponding period in 2017. The increase was primarily due to a 19.6% increase in the volume of KWHs purchased due to higher territorial load driven by warmer weather, partially offset by a 7.6% decrease in the average cost of purchased power due to lower natural gas prices.

For year-to-date 2018, purchased power expense was $135 million compared to $116 million for the corresponding period in 2017. The increase was primarily due to a 14.6% increase in the volume of KWHs purchased primarily due to higher territorial load driven by colder weather in January 2018 and warmer weather in the third quarter 2018, partially offset by a 7.9% decrease in the average cost of purchased power due to lower natural gas prices.

Energy purchases from non-affiliates and affiliates will vary depending on the market prices of wholesale energy as compared to the cost of the Southern Company system's generation, demand for energy within the Southern Company system's electric service territory, and the availability of the Southern Company system's generation. Affiliate purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

Table of Contents

Other Operations and Maintenance Expenses

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(2)	(2.4)	$(12)	(4.6)

For year-to-date 2018, other operations and maintenance expenses were $248 million compared to $260 million for the corresponding period in 2017. The decrease was primarily due to decreases of $11 million in planned and routine generation maintenance expenses, including environmental expenditures, $3 million in energy service expenses, and $6 million in employee compensation and benefits, partially offset by a $9 million increase to the property damage reserve accrual. See Note 1 to the financial statements of Gulf Power under "Property Damage Reserve" in Item 8 of the Form 10-K for additional information.

Expenses from energy services did not have a significant impact on earnings since they were generally offset by associated revenues. Environmental compliance expenses did not have a significant impact on earnings since they were offset by environmental revenues through Gulf Power's environmental cost recovery clause. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Cost Recovery Clauses – Environmental Cost Recovery" in Item 8 of the Form 10-K for additional information.

Depreciation and Amortization

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$6	14.3	$47	49.5

In the third quarter 2018, depreciation and amortization was $48 million compared to $42 million for the corresponding period in 2017. The increase was primarily due to an increase in depreciation rates as authorized by the 2017 Gulf Power Rate Case Settlement Agreement.

For year-to-date 2018, depreciation and amortization was $142 million compared to $95 million for the corresponding period in 2017. The increase was primarily due to an increase in depreciation rates as authorized by the 2017 Gulf Power Rate Case Settlement Agreement and depreciation credits of $34 million recognized in year-to-date 2017 as authorized in a settlement agreement approved by the Florida PSC in 2013. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information.

Loss on Plant Scherer Unit 3

In the first quarter 2017, Gulf Power recorded a $32.5 million write-down related to its ownership of Plant Scherer Unit 3 in accordance with the 2017 Gulf Power Rate Case Settlement Agreement. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information.

Income Taxes (Benefit)

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(44)	(110.0)	$(79)	(101.3)

In the third quarter 2018, income tax benefit was $4 million compared to tax expense of $40 million for the corresponding period in 2017. For year-to-date 2018, income tax benefit was $1 million compared to income tax expense of $78 million for the corresponding period in 2017. The changes were primarily due to the reduction in the federal income tax rate and the benefit from the flowback of excess deferred income taxes as a result of the Tax Reform Legislation as well as lower pre-tax earnings.

See Note (H) to the Condensed Financial Statements under "Effective Tax Rate" herein for additional information. Also see Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Cases" in Item 8 of the Form 10-K for more information regarding the 2017 Gulf Power Rate Case Settlement Agreement.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Gulf Power's future earnings potential. The level of Gulf Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Gulf Power's business of providing electric service. These factors include Gulf Power's ability to maintain a constructive regulatory environment that continues to allow for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies due to changes in the minimum allowable equipment efficiencies along with the continuation of changes in customer behavior, both of which could contribute to a net reduction in customer usage. Earnings are subject to a variety of other factors. These factors include weather, competition, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Gulf Power's service territory. Demand for electricity is primarily driven by the pace of economic growth that 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.

On May 20, 2018, Southern Company entered into a stock purchase agreement with NextEra Energy to sell all of the capital stock of Gulf Power for an aggregate cash purchase price of $5.75 billion (less the amount of indebtedness assumed at closing, which is currently estimated at approximately $1.3 billion), subject to (i) customary adjustments for indebtedness and working capital and (ii) reduction by the amount (if any) by which Gulf Power fails to meet a specified capital expenditure target. The completion of the sale is expected to occur in the first quarter 2019 and is subject to the satisfaction or waiver of certain closing conditions, including, among others, (i) approval by the FERC and the Federal Communications Commission, (ii) the entry into certain ancillary agreements, including transmission-related agreements and a transition services agreement, among the parties and their affiliates, and (iii) other customary closing conditions. See Note (J) to the Condensed Financial Statements under "Southern Company's Sale of Gulf Power" herein for additional information. The ultimate outcome of this matter cannot be determined at this time.

Environmental Matters

Gulf Power's operations are regulated by state and federal environmental agencies through a variety of laws and regulations governing air, water, land, and protection of other natural resources. Gulf Power maintains comprehensive environmental compliance and GHG strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures, operations and maintenance costs, and costs reflected in ARO liabilities, required to comply with environmental laws and regulations and to achieve stated goals may impact future unit retirement and replacement decisions, results of operations, cash flows, and financial condition. Related costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, and adding or changing fuel sources for certain existing units, as well as related upgrades to the transmission system. A major portion of these costs are expected to be recovered through existing ratemaking provisions. The ultimate impact of environmental laws and regulations and the GHG goals discussed below will depend on various factors, such as state adoption and

implementation of requirements, the availability and cost of any deployed technology, and the outcome of pending and/or future legal challenges.

New or revised environmental laws and regulations could affect many areas of Gulf Power's operations. The impact of any such changes cannot be determined at this time. Environmental compliance costs could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis or through long-term wholesale agreements. 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. Further, increased 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. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which for some may have the potential to ultimately affect their demand for electricity. 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, including a discussion on the State of Florida's statutory provisions on environmental cost recovery.

Environmental Laws and Regulations

Water Quality

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

On May 2, 2018, the EPA updated its anticipated final rulemaking schedule for ELG from September 2020 to December 2019. The impact of any changes to the ELG rule will depend on the content of the final rule and the outcome of 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 Laws and Regulations – Coal Combustion Residuals" of Gulf Power in Item 7 of the Form 10-K for additional information regarding the Disposal of Coal Combustion Residuals from Electric Utilities rule (CCR Rule).

The EPA published certain amendments to the CCR Rule, which became effective August 29, 2018. These amendments extend the date from April 2019 to October 31, 2020 to cease sending CCR and other waste streams to impoundments that demonstrate compliance with all except two specified criteria. These amendments also establish groundwater protection standards for four constituents that do not have established EPA maximum contaminant levels and allow a participating state director or the EPA (where the EPA is the permitting authority) to suspend groundwater monitoring requirements under certain circumstances. Specific site impacts are being evaluated by Gulf Power.

On October 15, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a mandate that broadens the CCR Rule to regulate previously-excluded inactive surface impoundments (legacy units) located at retired generation facilities and challenges both the ability of unlined impoundments to continue operating and the classification of clay lined units. It is anticipated that the EPA will issue a series of rulemakings to address this court action. Gulf Power is evaluating the extent of potential impacts on legacy units but anticipates no significant impacts to its ongoing CCR strategy due to this mandate. The ultimate impact of these changes will not be known until the EPA rulemaking and any legal challenges are finalized.

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

Georgia Power continues to perform engineering studies related to its plans to close the ash ponds at all of its generating plants, including Plant Scherer Unit 3, which is jointly owned with Gulf Power, in compliance with federal and state CCR rules. Georgia Power also continues to refine its closure strategy and cost estimates for each ash pond and is preparing permit applications as required by the State of Georgia CCR rule. While Gulf Power believes its recorded liability for ash pond closures appropriately reflects its obligations under the current closure strategy elected for Plant Scherer Unit 3, changes to such strategy and cost estimate would likely result in additional closure costs which would increase Gulf Power's ARO liability. It is not currently possible to quantify the impacts of any increase related to a change in closure strategy and/or ongoing engineering studies for the current closure strategy, and the timing of future cash outflows is indeterminable at this time; however, the impact on the ARO liability is expected to be material. As permit applications advance, engineering studies continue, and the timing of the ash pond closure for Plant Scherer Unit 3 develops further during the fourth quarter 2018, Gulf Power will record any necessary changes to its ARO liability related to its share of Plant Scherer Unit 3. Gulf Power expects to continue to periodically update these cost estimates, which could increase further, as additional information becomes available. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information.

Absent continued recovery of ARO costs through regulated rates, Gulf Power's results of operations, cash flows, and financial condition could be materially impacted. The ultimate outcome of these matters cannot be determined at this time.

Global Climate Issues

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

On August 31, 2018, the EPA published a proposed Clean Power Plan replacement rule known as the Affordable Clean Energy rule (ACE Rule), which would require states to develop unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of September 30, 2018, Gulf Power has ownership interests in seven fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to Gulf Power is currently unknown and will depend on changes between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal proceedings.

Through 2017, the Southern Company system has achieved an estimated GHG emission reduction of 36% since 2007. In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies. The ultimate outcome of this matter cannot be determined at this time.

FERC Matters

Market-Based Rate Authority

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Gulf Power in Item 7 of the Form 10-K for additional information regarding proceedings related to the traditional electric operating companies' (including Gulf Power's) and Southern Power's 2014 and 2017 triennial market power analyses.

On May 4, 2018, the FERC issued an order terminating both proceedings, finding that the traditional electric operating companies (including Gulf Power) and Southern Power satisfy the FERC's standards for market-based

rates. On May 9, 2018, the traditional electric operating companies (including Gulf Power) and Southern Power made the compliance filing required by the order. These proceedings are concluded.

Open Access Transmission Tariff

On May 10, 2018, the Alabama Municipal Electric Authority and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies (including Gulf Power) claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' (including Gulf Power's) open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requests that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies (including Gulf Power) filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through September 30, 2018, the estimated maximum potential refund is not expected to be material to Gulf Power's results of operations. The ultimate outcome of this matter 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. The recovery balance of each regulatory clause for Gulf Power is reported in Note (B) to the Condensed Financial Statements herein.

Storm Damage Cost Recovery

See Note 1 to the financial statements of Gulf Power under "Property Damage Reserve" in Item 8 of the Form 10-K for information on how Gulf Power maintains a reserve for property damage to cover the cost of damages from major storms to its transmission and distribution lines and the cost of uninsured damages to its generating facilities and other property.

On October 10, 2018, Hurricane Michael made landfall on the Gulf Coast of Florida causing substantial damage in Gulf Power's service territory. Gulf Power currently estimates the costs of repairing the damages to its transmission and distribution lines and uninsured facilities will total approximately $350 million to $400 million, which primarily will be charged to the property damage reserve or capitalized. At September 30, 2018, Gulf Power had a balance of approximately $48 million in its property damage reserve. In accordance with the 2017 Gulf Power Rate Case Settlement Agreement, Gulf Power can petition the Florida PSC to seek recovery of the costs associated with Hurricane Michael, along with replenishing the property damage reserve to approximately $40 million. Any recovery from customers would begin, on an interim basis, 60 days following the filing of the cost recovery petition. The ultimate outcome of this matter cannot be determined at this time.

Retail Base Rate Case

As a continuation of the 2017 Gulf Power Rate Case Settlement Agreement, on March 26, 2018, the Florida PSC approved the Gulf Power Tax Reform Settlement Agreement.

The Gulf Power Tax Reform Settlement Agreement results in annual reductions to Gulf Power's revenues of $18.2 million from base rates and $15.6 million from environmental cost recovery rates implemented April 1, 2018 and also provided for a one-time refund of $69.4 million for the retail portion of unprotected (not subject to

normalization) deferred tax liabilities through a reduced fuel cost recovery rate over the remainder of 2018. Through September 30, 2018, approximately $53 million of this refund has been reflected in customer bills. As a result of the Gulf Power Tax Reform Settlement Agreement, the Florida PSC also approved an increase in Gulf Power's maximum equity ratio from 52.5% to 53.5% for all retail regulatory purposes.

As part of the Gulf Power Tax Reform Settlement Agreement, a limited scope proceeding to address protected deferred tax liabilities consistent with IRS normalization principles was initiated on April 30, 2018. On October 30, 2018, the Florida PSC approved a $9.6 million annual reduction in base rate revenues effective January 2019, which concluded this proceeding. Through September 30, 2018, Gulf Power has deferred $7 million of related 2018 tax benefits as a regulatory liability to be refunded to retail customers in 2019 through Gulf Power's fuel cost recovery rate.

See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters – Retail Base Rate Cases" in Item 8 of the Form 10-K for additional information.

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 and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power – Cost Recovery Clauses" herein 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.

On November 5, 2018, the Florida PSC approved Gulf Power's annual rate clause request for its fuel, purchased power capacity, environmental, and energy conservation cost recovery factors for 2019. The net effect of the approved changes is a $38 million decrease in annual revenues effective in January 2019, the majority of which will be offset by related expense decreases.

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Gulf Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk," Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power," and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation and related regulatory actions.

Other Matters

Gulf Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Gulf Power is subject to certain claims and legal actions arising in the ordinary course of business. Gulf Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations 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 or regulatory matters cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on 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.

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

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.
Recently Issued Accounting Standards
See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Gulf Power in Item 7 of the Form 10-K for additional information regarding ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). See Note (A) to the Condensed Financial Statements herein for information regarding Gulf Power's recently adopted accounting standards.
In 2016, the FASB issued ASU No. 2016-02, which 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 and Gulf Power will adopt the new standard effective January 1, 2019.
Gulf Power has elected the transition methodology provided by ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, whereby it will apply the requirements of ASU 2016-02 on a prospective basis as of the adoption date of January 1, 2019, without restating prior periods. Gulf Power expects to elect the package of practical expedients provided by ASU 2016-02 that allows prior determinations of whether existing contracts are, or contain, leases and the classification of existing leases to continue without reassessment. Additionally, Gulf Power expects to apply the use-of-hindsight practical expedient in determining lease terms as of the date of adoption and to elect the practical expedient that allows existing land easements not previously accounted for as leases not to be reassessed. Gulf Power also expects to make accounting policy elections to account for short-term leases in all asset classes as off-balance sheet leases and to combine lease and non-lease components in the computations of lease obligations and right-of-use assets for most asset classes.
Gulf Power is continuing to complete the implementation of an information technology system to track and account for its leases and of changes to its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. Gulf Power has substantially completed its lease inventory and determined its most significant leases involve PPAs and real estate. While Gulf Power has not yet determined the ultimate impact, adoption of ASU 2016-02 is expected to result in recording lease liabilities and right-of-use assets on Gulf Power's balance sheet each totaling approximately $200 million, with no material impact on Gulf Power's statement of income.
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 September 30, 2018. 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 $318 million for the first nine months of 2018 compared to $272 million for the corresponding period in 2017. The $46 million increase was primarily due to increased fuel cost recovery. Net cash used for investing activities totaled $238 million in the first nine months of 2018 primarily due to property additions. Net cash used for financing activities totaled $71 million for the first nine months of 2018 primarily due to the payment of common stock dividends, partially offset by capital contributions 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 nine months of 2018 include an increase of $99 million in property, plant, and equipment primarily due to additions at generation and distribution facilities; an increase of $69 million in other regulatory liabilities, current primarily due to over recovered cost recovery balances; and a decrease of $78 million in deferred credits related to income taxes primarily as a result of the Gulf Power Tax Reform Settlement Agreement. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Retail Base Rate Case" herein for additional information regarding the Gulf Power Tax Reform Settlement Agreement.

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 and contractual obligations. There are no scheduled maturities of long-term debt through September 30, 2019. 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 laws and regulations; the outcome of any legal challenges to environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing generating units, to meet regulatory requirements; changes in the expected environmental compliance programs; changes in FERC rules and regulations; Florida PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

Gulf Power plans to obtain the funds required to meet its future capital needs from sources similar to those used in the past, which were primarily from operating cash flows, external security issuances, borrowings from financial institutions, 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.

At September 30, 2018, Gulf Power's current liabilities exceeded current assets by $56 million. Gulf Power's current liabilities may exceed current assets because of scheduled maturities of long-term debt and the periodic use of short-term debt as a funding source, as well as significant seasonal fluctuations in cash needs.

Gulf Power intends to utilize operating cash flows, external security issuances, and borrowings from financial institutions to fund its short-term capital 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 funding needs related to Hurricane Michael. See Note 1 to the financial statements of Gulf Power under "Property Damage Reserve" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Storm Damage Cost Recovery" herein for additional information.

Table of Contents

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

At September 30, 2018, Gulf Power had approximately $37 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2018 were as follows:

Expires					Executable Term Loans	Expires Within One Year	
2018	2019	2020	Total	Unused	One Year	Term Out	No Term Out
(in millions)							
$20	$25	$235	$280	$280	$45	$45	$—

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

Most of these bank credit arrangements contain covenants that limit debt levels and contain cross-acceleration provisions to other indebtedness (including guarantee obligations) of Gulf Power. Such cross-acceleration provisions to other indebtedness would trigger an event of default if Gulf Power defaulted on indebtedness, the payment of which was then accelerated. At September 30, 2018, Gulf Power was in compliance with all such covenants. A portion ($40 million) 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.

A portion of the $280 million unused credit arrangements with banks is allocated to provide liquidity support to Gulf Power's pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of September 30, 2018 was approximately $82 million. In addition, at September 30, 2018, Gulf Power had approximately $58 million of fixed rate pollution control revenue bonds outstanding that were required to be remarketed within the next 12 months.

Gulf Power may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of Gulf Power and the other traditional electric operating companies. Proceeds from such issuances for the benefit of Gulf Power are loaned directly to Gulf Power. The obligations of each traditional electric operating company under these arrangements are several and there is no cross-affiliate credit support. Short-term borrowings are included in notes payable on the balance sheets.

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2018		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	$50	2.5 %	$59	2.3 %	$136

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2018.

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.

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

Credit Rating Risk

At September 30, 2018, Gulf Power did not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to BBB- and/or Baa3 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, and energy price risk management.

The maximum potential collateral requirements under these contracts at September 30, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 117
Below BBB- and/or Baa3	$ 423

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

On May 21, 2018, S&P revised its rating outlook for Gulf Power from negative to stable.

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries, including Gulf Power, may be negatively impacted. The Gulf Power Tax Reform Settlement Agreement is expected to help mitigate these potential adverse impacts to Gulf Power's credit metrics by allowing a maximum equity ratio of 53.5% for all retail regulatory purposes. See Note 3 to the financial statements of Gulf Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Gulf Power" herein for additional information.

Financing Activities

Gulf Power did not issue or redeem any securities during the nine months ended September 30, 2018.

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.

Table of Contents

Table of Contents

MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$254	$243	$660	$665
Wholesale revenues, non-affiliates	65	72	184	196
Wholesale revenues, affiliates	28	21	81	40
Other revenues	11	5	31	14
Total operating revenues	358	341	956	915
Operating Expenses:				
Fuel	116	120	312	301
Purchased power	11	6	27	20
Other operations and maintenance	80	68	222	213
Depreciation and amortization	42	39	126	120
Taxes other than income taxes	28	25	83	77
Estimated loss on Kemper IGCC	1	34	45	3,155
Total operating expenses	278	292	815	3,886
Operating Income (Loss)	80	49	141	(2,971)
Other Income and (Expense):				
Allowance for equity funds used during construction	—	1	—	72
Interest expense, net of amounts capitalized	(19)	13	(59)	(23)
Other income (expense), net	—	1	28	4
Total other income and (expense)	(19)	15	(31)	53
Earnings (Loss) Before Income Taxes	61	64	110	(2,918)
Income taxes (benefit)	14	24	23	(885)
Net Income (Loss)	47	40	87	(2,033)
Dividends on Preferred Stock	—	—	1	1
Net Income (Loss) After Dividends on Preferred Stock	$47	$40	$86	$(2,034)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income (Loss)	$47	$40	$87	$(2,033)
Other comprehensive income (loss):				

Qualifying hedges:				
Changes in fair value, net of tax of $-, $-, $(1), and $-, respectively	—	(1)	(1)	—
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $-, and $-, respectively	—	—	1	1
Total other comprehensive income (loss)	—	(1)	—	1
Comprehensive Income (Loss)	$ 47	$ 39	$ 87	$ (2,032)

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

Table of Contents

MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income (loss)	$87	$(2,033)
Adjustments to reconcile net income (loss) to net cash provided from operating activities —		
Depreciation and amortization, total	129	144
Deferred income taxes	420	(1,159)
Allowance for equity funds used during construction	—	(72)
Estimated loss on Kemper IGCC	21	3,148
Other, net	5	(26)
Changes in certain current assets and liabilities —		
-Receivables	(46)	438
-Fossil fuel stock	(2)	21
-Other current assets	(5)	(9)
-Accounts payable	(3)	(21)
-Accrued taxes	57	20
-Accrued compensation	(9)	(12)
-Over recovered regulatory clause revenues	20	(47)
-Other current liabilities	(18)	(31)
Net cash provided from operating activities	656	361
Investing Activities:		
Property additions	(117)	(411)
Construction payables	(9)	(47)
Payments pursuant to LTSAs	(28)	(10)
Other investing activities	(16)	(15)
Net cash used for investing activities	(170)	(483)
Financing Activities:		
Decrease in notes payable, net	(4)	(23)
Proceeds —		
Senior notes	600	—
Short-term borrowings	300	113
Capital contributions from parent company	(2)	1,002
Long-term debt to parent company	—	40
Redemptions —		
Other long-term debt	(900)	(300)
Short-term borrowings	(300)	(109)
Pollution control revenue bonds	(43)	—
Long-term debt to parent company	—	(591)
Other financing activities	(6)	(3)
Net cash provided from (used for) financing activities	(355)	129
Net Change in Cash, Cash Equivalents, and Restricted Cash	131	7
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	248	224

Cash, Cash Equivalents, and Restricted Cash at End of Period	$379	$231
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (paid $57 and $73, net of $- and $28 capitalized for 2018 and 2017, respectively)	$57	$45
Income taxes, net	(483)	(209)
Noncash transactions — Accrued property additions at end of period	23	32

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

Table of Contents

MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$379	$ 248
Receivables —		
Customer accounts receivable	49	36
Unbilled revenues	43	41
Income taxes receivable, current	3	4
Affiliated	35	16
Other accounts and notes receivable	47	12
Fossil fuel stock	19	17
Materials and supplies, current	52	44
Other regulatory assets, current	110	125
Other current assets	4	9
Total current assets	741	552
Property, Plant, and Equipment:		
In service	4,819	4,773
Less: Accumulated provision for depreciation	1,389	1,325
Plant in service, net of depreciation	3,430	3,448
Construction work in progress	106	84
Total property, plant, and equipment	3,536	3,532
Other Property and Investments	24	30
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	34	35
Other regulatory assets, deferred	466	437
Accumulated deferred income taxes	—	247
Other deferred charges and assets	16	33
Total deferred charges and other assets	516	752
Total Assets	$4,817	$ 4,866

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

MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$204	$ 989
Notes payable	—	4
Accounts payable —		
Affiliated	55	59
Other	90	96
Accrued taxes —		
Accrued income taxes	75	40
Other accrued taxes	74	101
Accrued interest	21	16
Accrued compensation	30	39
Accrued plant closure costs	30	35
Asset retirement obligations, current	41	37
Other current liabilities	56	47
Total current liabilities	676	1,463
Long-term Debt	1,532	1,097
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	193	—
Deferred credits related to income taxes	420	372
Employee benefit obligations	111	116
Asset retirement obligations, deferred	136	137
Other cost of removal obligations	181	178
Other regulatory liabilities, deferred	75	79
Other deferred credits and liabilities	17	33
Total deferred credits and other liabilities	1,133	915
Total Liabilities	3,341	3,475
Redeemable Preferred Stock	33	33
Common Stockholder's Equity:		
Common stock, without par value —		
Authorized — 1,130,000 shares		
Outstanding — 1,121,000 shares	38	38
Paid-in capital	4,528	4,529
Accumulated deficit	(3,119)	(3,205)
Accumulated other comprehensive loss	(4)	(4)
Total common stockholder's equity	1,443	1,358
Total Liabilities and Stockholder's Equity	$4,817	$ 4,866

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

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2018 vs. THIRD QUARTER 2017
AND
YEAR-TO-DATE 2018 vs. YEAR-TO-DATE 2017

OVERVIEW

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

Many factors affect the opportunities, challenges, and risks of Mississippi Power's business of providing electric service. These factors include Mississippi Power's ability to maintain and grow energy sales and to operate in a constructive regulatory environment that provides timely recovery of prudently-incurred costs. These costs include those related to reliability, fuel, and stringent environmental standards, as well as ongoing capital and operations and maintenance expenditures and restoration following major storms. Appropriately balancing required costs and capital expenditures with customer prices will continue to challenge Mississippi Power for the foreseeable future.

On July 27, 2018, Mississippi Power and the Mississippi Public Utilities Staff (MPUS) entered into a settlement agreement with respect to the 2018 PEP filing and all unresolved PEP filings for prior years (PEP Settlement Agreement), which was approved by the Mississippi PSC on August 7, 2018. Rates under the PEP Settlement Agreement, which result in approximately $21.6 million in additional revenue annually, became effective with the first billing cycle of September 2018.

On August 3, 2018, Mississippi Power and the MPUS entered into a settlement agreement to increase rates approximately $17 million annually with respect to the 2018 ECO Plan filing (ECO Settlement Agreement), which was approved by the Mississippi PSC on August 7, 2018. Rates under the ECO Settlement Agreement became effective with the first billing cycle of September 2018.

The PEP and ECO Plan rates are expected to continue through the conclusion of the next base rate proceeding which is scheduled to be filed in the fourth quarter 2019 (2019 Base Rate Case).

On May 8, 2018, the Mississippi PSC issued an order to begin an operations review of Mississippi Power, which began in August 2018, with the final report expected by February 28, 2019. Mississippi Power expects that the review will include, but not be limited to, a comparative analysis of its costs, its cost recovery framework, and ways in which it may streamline management operations for the reasonable benefit of ratepayers. The ultimate outcome of this matter cannot be determined at this time.

See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Mississippi Power" herein for additional information.

On October 2, 2018, the Mississippi PSC approved the executed agreements between Mississippi Power and its largest retail customer, Chevron Products Company (Chevron), for Mississippi Power to continue providing retail service to the Chevron refinery in Pascagoula, Mississippi through 2038. The new agreements are not expected to have a material impact on earnings. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "General" of Mississippi Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk" herein for additional information.

As of September 30, 2018, Mississippi Power recorded charges to income of an immaterial amount for the third quarter 2018 and $45 million ($34 million after tax) for year-to-date 2018, primarily resulting from the abandonment and related closure activities for the mine and gasifier-related assets at the Kemper County energy facility. Additional closure costs for the mine and gasifier-related assets, currently estimated to cost up to $20 million pre-tax (excluding salvage, net of dismantlement costs), may be incurred through the first half of 2020. In addition, period costs, including, but not limited to, costs for compliance and safety, ARO accretion, and property taxes for the mine and gasifier-related assets, are estimated at $2 million for the remainder of 2018, $8 million in

137

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2019, and $4 million annually beginning in 2020. The ultimate outcome of this matter cannot be determined at this time.

On August 6, 2018, Mississippi Power filed its proposed Reserve Margin Plan (RMP), as required by the Mississippi PSC's order in the docket established for the purposes of pursuing a global settlement of the costs related to the Kemper County energy facility (Kemper Settlement Docket). Under the RMP, Mississippi Power proposes alternatives that would reduce its reserve margin, with the most economic of the alternatives being the two-year and seven-year acceleration of the retirement of Plant Watson Units 4 and 5, respectively, to the first quarter 2022 and the four-year acceleration of the retirement of Plant Greene County Units 1 and 2 to the third quarter 2021 and the third quarter 2022, respectively, in order to lower or avoid operating costs. The Plant Greene County unit retirements would require the completion by Alabama Power of proposed transmission and system reliability improvements, as well as agreement by Alabama Power. The RMP filing also states that, in the event the Mississippi PSC ultimately approves an alternative that includes an accelerated retirement, Mississippi Power would require authorization to defer in a regulatory asset for future recovery the remaining net book value of the units at the time of retirement. Mississippi Power expects the MPUS and other interested parties to review the proposal prior to resolution by the Mississippi PSC. The ultimate outcome of this matter cannot be determined at this time. However, if approved by the Mississippi PSC, the alternatives are not expected to have any adverse impact on customer rates.

For additional information on the Kemper County energy facility, see Note 3 to the financial statements of Mississippi Power under "Kemper County Energy Facility" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Kemper County Energy Facility" and Note (B) to the Condensed Financial Statements under "Kemper County Energy Facility" herein.

In March 2018, Mississippi Power issued $300 million aggregate principal amount of Series 2018A Floating Rate Senior Notes due March 27, 2020 bearing interest based on three-month LIBOR and $300 million aggregate principal amount of Series 2018B 3.95% Senior Notes due March 30, 2028. In March 2018, Mississippi Power also entered into a $300 million short-term floating rate bank loan bearing interest based on one-month LIBOR, of which $200 million was repaid in the second quarter 2018 and $100 million was repaid in the third quarter 2018. Mississippi Power used the proceeds from these financings to repay a $900 million unsecured term loan.

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

RESULTS OF OPERATIONS

Net Income (Loss)

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$7	17.5	$2,120	N/M

N/M - Not meaningful

Mississippi Power's net income after dividends on preferred stock for the third quarter 2018 was $47 million compared to $40 million for the corresponding period in 2017. The increase in net income was primarily due to an increase in retail revenues as a result of PEP and ECO Plan rate increases that became effective with the first billing cycle of September 2018 and lower pre-tax charges associated with the Kemper IGCC, partially offset by an increase in operations and maintenance expenses and interest expense, net of amounts capitalized.

Mississippi Power's net income after dividends on preferred stock for year-to-date 2018 was $86 million compared to a loss of $2.03 billion for the corresponding period in 2017. The increase in net income is primarily attributable

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

to lower pre-tax charges associated with the Kemper IGCC, partially offset by the cessation of AFUDC equity related to the Kemper IGCC in the second quarter 2017 and higher interest expense, net of amounts capitalized.
See Note 3 to the financial statements of Mississippi Power under "Kemper County Energy Facility" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Kemper County Energy Facility" herein for additional information regarding the Kemper IGCC.
Retail Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$11	4.5	$(5)	(0.8)

In the third quarter 2018, retail revenues were $254 million compared to $243 million for the corresponding period in 2017. For year-to-date 2018, retail revenues were $660 million compared to $665 million for the corresponding period in 2017.
Details of the changes in retail revenues were as follows:

	Third Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$243		$665	
Estimated change resulting from –				
Rates and pricing	11	4.5 %	(3)	(0.5)%
Sales growth	3	1.3	1	0.2
Weather	2	0.8	12	1.8
Fuel and other cost recovery	(5)	(2.1)	(15)	(2.3)
Retail – current year	$254	4.5 %	$660	(0.8)%

Revenues associated with changes in rates and pricing increased in the third quarter 2018 when compared to the corresponding period in 2017 primarily due to the PEP and ECO Plan rate changes that became effective for the first billing cycle of September 2018 resulting in retail revenue increases of $4 million and $9 million, respectively. In addition, as a result of the PEP Settlement Agreement, Mississippi Power recognized revenues of $5 million previously reserved in connection with the 2012 PEP lookback filing, partially offset by the recognition of regulatory liabilities of $5 million and $2 million related to the equity ratio provisions of the PEP and ECO Settlement Agreements, respectively.
Revenues associated with changes in rates and pricing decreased year-to-date 2018 when compared to the corresponding period in 2017 primarily due to a decrease in annual retail revenues of $12 million for lower base rates related to the Kemper County energy facility that became effective for the first billing cycle of April 2018 and recognition in 2018 of regulatory liabilities of $5 million and $2 million related to the equity ratio provisions of the PEP and ECO Settlement Agreements, respectively, partially offset by higher retail revenues of $5 million for PEP and ECO Plan rates that became effective with the first billing cycle of September 2018, recognition of $5 million previously reserved in connection with the 2012 PEP lookback filing as a result of the PEP Settlement Agreement, and the recognition in the third quarter 2017 of a $7 million regulatory liability.
See Note 3 to the financial statements of Mississippi Power under "Retail Regulatory Matters – Performance Evaluation Plan" and " – Environmental Compliance Overview Plan" and "Kemper County Energy Facility – Rate Recovery" in Item 8 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters" herein for additional information.
Revenues attributable to changes in sales increased for the third quarter and year-to-date 2018 compared to the corresponding periods in 2017. Weather-adjusted residential and commercial KWH sales increased 2.7% and 1.0%,

139

respectively, in the third quarter 2018 due to increased customer usage and slight customer growth. Weather-adjusted residential KWH sales increased 1.1% year-to-date 2018 due to increased customer usage. Weather-adjusted commercial KWH sales remained relatively flat year-to-date 2018. Industrial KWH sales increased 2.0% and 0.4% for the third quarter and year-to-date 2018, respectively, primarily due to increased usage by several large industrial customers.

Fuel and other cost recovery revenues decreased in the third quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily as a result of lower recoverable fuel costs. 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

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(7)	(9.7)	$(12)	(6.1)

Wholesale revenues from sales to non-affiliates will vary depending on fuel prices, the market prices of wholesale energy compared to the cost of Mississippi Power's and the Southern Company system's generation, demand for energy within the Southern Company system's electric service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. In addition, Mississippi Power provides service under long-term contracts with rural electric cooperative associations and municipalities located in southeastern Mississippi under cost-based electric tariffs which are subject to regulation by the FERC. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Mississippi Power in Item 7 of the Form 10-K and FUTURE EARNINGS POTENTIAL – "FERC Matters" herein for additional information.

In the third quarter 2018, wholesale revenues from sales to non-affiliates were $65 million compared to $72 million for the corresponding period in 2017. For year-to-date 2018, wholesale revenues from sales to non-affiliates were $184 million compared to $196 million for the corresponding period in 2017. These decreases primarily resulted from a decrease in revenue under the Shared Services Agreement (SSA) between Mississippi Power and Cooperative Energy of $6 million and $16 million in the third quarter and year-to-date 2018, respectively, as a result of transmission revenue now being recovered under the Open Access Transmission Tariff (OATT) and included in other revenues on the statements of operations. The year-to-date 2018 decrease was partially offset by an increase in sales due to colder weather in January 2018 and warmer weather during the second and third quarters 2018.

Wholesale Revenues – Affiliates

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$7	33.3	$41	N/M

N/M - Not meaningful

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

Table of Contents

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

In the third quarter 2018, wholesale revenues from sales to affiliates were $28 million compared to $21 million for the corresponding period in 2017. For year-to-date 2018, wholesale revenues from sales to affiliates were $81 million compared to $40 million for the corresponding period in 2017. These increases were primarily due to increases in KWH sales due to increased availability of Mississippi Power's lower cost generation resources to serve the Southern Company system's territorial load in 2018 as compared to 2017.

Other Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$6	N/M	$17	N/M

N/M - Not meaningful

In the third quarter 2018, other revenues were $11 million compared to $5 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $31 million compared to $14 million for the corresponding period in 2017. These increases were primarily due to increases in transmission revenue related to SSA customers now being recovered under the OATT of $6 million and $16 million in the third quarter and year-to-date 2018, respectively.

Fuel and Purchased Power Expenses

	Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (4)	(3.3)	$ 11	3.7
Purchased power	5	83.3	7	35.0
Total fuel and purchased power expenses	$ 1		$ 18	

In the third quarter 2018, total fuel and purchased power expenses were $127 million compared to $126 million for the corresponding period in 2017. The increase was primarily due to an $11 million increase in the volume of KWHs generated and purchased, partially offset by a $10 million decrease in the cost of natural gas and purchased power.

For year-to-date 2018, total fuel and purchased power expenses were $339 million compared to $321 million for the corresponding period in 2017. The increase was primarily due to a $39 million increase in the volume of KWHs generated and purchased, partially offset by a $20 million decrease in the cost of natural gas and 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 Mississippi Power's fuel cost recovery clause.

Table of Contents

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

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

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in millions of KWHs)	4,581	4,453	12,665	11,542
Total purchased power (in millions of KWHs)(*)	348	164	781	527
Sources of generation (percent) –				
Coal	8	8	7	8
Gas	92	92	93	92
Cost of fuel, generated (in cents per net KWH) –				
Coal	3.51	3.80	3.50	3.60
Gas	2.58	2.77	2.57	2.72
Average cost of fuel, generated (in cents per net KWH)	2.66	2.86	2.63	2.80
Average cost of purchased power (in cents per net KWH)(*)	3.18	3.74	3.47	3.78

(*) Year-to-date 2017 includes energy produced during the test period for the Kemper IGCC and accounted for in accordance with FERC guidance.

Fuel

In the third quarter 2018, fuel expense was $116 million compared to $120 million for the corresponding period in 2017. The decrease was primarily due to a 6.7% decrease in the cost of natural gas, partially offset by a 3.2% increase in the volume of KWHs generated due to warmer weather in the third quarter 2018.

For year-to-date 2018, fuel expense was $312 million compared to $301 million for the corresponding period in 2017. The increase was primarily due to a 10.3% increase in the volume of KWHs generated due to colder weather in January 2018 and warmer weather during the second and third quarters 2018, partially offset by a 5.7% decrease in the cost of natural gas.

Purchased Power

In the third quarter 2018, purchased power expense was $11 million compared to $6 million for the corresponding period in 2017. The increase was primarily due to a $7 million increase in the volume of KWHs purchased, partially offset by a $2 million decrease in the cost of purchased power.

For year-to-date 2018, purchased power expense was $27 million compared to $20 million for the corresponding period in 2017. The increase was primarily due to a $9 million increase in the volume of KWHs purchased, partially offset by a $2 million decrease in the cost of 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. These purchases are made in accordance with the IIC or other contractual agreements, as approved by the FERC.

Other Operations and Maintenance Expenses

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$12	17.6	$9	4.2

In the third quarter 2018, other operations and maintenance expenses were $80 million compared to $68 million for the corresponding period in 2017. For year-to-date 2018, other operations and maintenance expenses were $222 million compared to $213 million for the corresponding period in 2017. The increases were primarily due to costs

related to an employee attrition plan. The year-to-date 2018 increase also reflects a $4 million increase primarily related to additional overhead line maintenance and vegetation management, offset by a $7 million decrease in expenses related to the combined cycle and associated common facilities portion of the Kemper County energy facility.

Depreciation and Amortization

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$3	7.7	$6	5.0

In the third quarter 2018, depreciation and amortization was $42 million compared to $39 million for the corresponding period in 2017. The increase was primarily related to a $3 million change in net amortization associated with ECO Plan regulatory assets.

For year-to-date 2018, depreciation and amortization was $126 million compared to $120 million for the corresponding period in 2017. The increase was primarily related to $5 million of depreciation for additional plant in service and $1 million related to changes in net amortization associated with regulatory assets and liabilities.

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.

Taxes Other Than Income Taxes

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$3	12.0	$6	7.8

In the third quarter 2018, taxes other than income taxes were $28 million compared to $25 million for the corresponding period in 2017. For year-to-date 2018, taxes other than income taxes were $83 million compared to $77 million for the corresponding period in 2017. These increases were primarily related to increases in ad valorem taxes related to an increase in the assessed value of property.

The retail portion of ad valorem taxes is recoverable under Mississippi Power's ad valorem tax cost recovery clause and, therefore, does not affect net income.

Estimated Loss on Kemper IGCC

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(33)	(97.1)	$(3,110)	(98.6)

Estimated losses on the Kemper IGCC were $1 million for the third quarter 2018 and $45 million for year-to-date 2018, resulting from the abandonment and related closure activities for the mine and gasifier-related assets as compared to $34 million and $3.2 billion for the corresponding periods in 2017 related to revisions to the estimated construction costs for, and subsequent suspension in June 2017 of, the Kemper IGCC.

See Note 3 to the financial statements of Mississippi Power under "Kemper County Energy Facility" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Kemper County Energy Facility" herein for additional information.

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Allowance for Equity Funds Used During Construction

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(100.0)	$(72)	(100.0)

For year-to-date 2018, AFUDC equity was immaterial compared to $72 million for the corresponding period in 2017. The decrease resulted from suspension of the Kemper IGCC construction in June 2017.
See Note 3 to the financial statements of Mississippi Power under "Kemper County Energy Facility" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Kemper County Energy Facility" herein for additional information.
Interest Expense, Net of Amounts Capitalized

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$32	N/M	$36	N/M

N/M - Not meaningful
In the third quarter 2018, interest expense, net of amounts capitalized was $19 million compared to an interest benefit of $13 million for the corresponding period in 2017. For year-to-date 2018, interest expense, net of amounts capitalized was $59 million compared to $23 million for the corresponding period in 2017. The increases primarily reflect a $33 million net reduction in interest recorded in the third quarter 2017 following a settlement with the IRS related to research and experimental deductions. The year-to-date 2018 increase also reflects a reduction in AFUDC debt of $24 million related to the Kemper IGCC project suspension in June 2017, offset by decreases of $9 million in interest expense as a result of lower average outstanding debt, $8 million related to uncertain tax positions, and $7 million due to the completion of Kemper IGCC carrying cost amortization in 2017.
See Note 3 to the financial statements of Mississippi Power under "Kemper County Energy Facility" in Item 8 of the Form 10-K and Note (H) to the Condensed Financial Statements herein for additional information.
Other Income (Expense)

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(100.0)	$24	N/M

N/M - Not meaningful
For year-to-date 2018, other income (expense), net was $28 million compared to $4 million for the corresponding period in 2017. The increase was primarily due to the settlement of Mississippi Power's Deepwater Horizon claim in May 2018. See Note (B) to the Condensed Financial Statements under "General Litigation Matters – Mississippi Power" herein for additional information.
Income Taxes (Benefit)

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(10)	(41.7)	$908	102.6

In the third quarter 2018, income taxes were $14 million compared to $24 million for the corresponding period in 2017. This change was primarily due to the reduction in the federal corporate income tax rate as a result of the Tax Reform Legislation, partially offset by higher pre-tax earnings due to lower estimated losses on the Kemper IGCC.

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For year-to-date 2018, income taxes were $23 million compared to an income tax benefit of $885 million for the corresponding period in 2017. This change was primarily due to higher pre-tax earnings due to lower estimated losses on the Kemper IGCC, net of the non-deductible AFUDC equity portion and the related state valuation allowance. This change was partially offset by the reduction in the federal corporate income tax rate as a result of the Tax Reform Legislation.
See Note (H) to the Condensed Financial Statements herein for additional information.
FUTURE EARNINGS POTENTIAL
The results of operations discussed above are not necessarily indicative of Mississippi Power's future earnings potential. The level of Mississippi Power's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of Mississippi Power's business of providing electric service. These factors include Mississippi Power's ability to recover its prudently-incurred costs in a timely manner during a time of increasing costs and limited projected demand growth over the next several years. Mississippi Power is scheduled to file the 2019 Base Rate Case in the fourth quarter 2019. Another factor is Mississippi Power's ability to prevail against legal challenges associated with the Kemper County energy facility. Future earnings will be driven primarily by customer growth. Earnings will also depend upon maintaining and growing sales, considering, among other things, the adoption and/or penetration rates of increasingly energy-efficient technologies and increasing volumes of electronic commerce transactions, both of which could contribute to a net reduction in customer usage. Earnings are subject to a variety of other factors. These factors include weather, competition, developing new and maintaining existing energy contracts and associated load requirements with other utilities and other wholesale customers, energy conservation practiced by customers, the use of alternative energy sources by customers, the price of electricity, the price elasticity of demand, and the rate of economic growth or decline in Mississippi Power's service territory. Demand for electricity is primarily driven by the pace of economic growth that 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 Mississippi Power in Item 7 of the Form 10-K.
Environmental Matters
Mississippi Power's operations are regulated by state and federal environmental agencies through a variety of laws and regulations governing air, water, land, and protection of other natural resources. Mississippi Power maintains comprehensive environmental compliance and GHG strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures, operations and maintenance costs, and costs reflected in ARO liabilities, required to comply with environmental laws and regulations and to achieve stated goals may impact future unit retirement and replacement decisions, results of operations, cash flows, and financial condition. Related costs may result from the installation of additional environmental controls, closure and monitoring of CCR facilities, unit retirements, and adding or changing fuel sources for certain existing units, as well as related upgrades to the transmission system. A major portion of these costs are expected to be recovered through existing ratemaking provisions. The ultimate impact of environmental laws and regulations and the GHG goals discussed below will depend on various factors, such as state adoption and implementation of requirements, the availability and cost of any deployed technology, and the outcome of pending and/or future legal challenges.
New or revised environmental laws and regulations could affect many areas of Mississippi Power's operations. The impact of any such changes cannot be determined at this time. Environmental compliance costs could affect earnings if such costs cannot continue to be fully recovered in rates on a timely basis or through long-term wholesale agreements. Further, increased 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. Additionally, many commercial and industrial customers may also be affected by existing and future environmental requirements, which

for some may have the potential to ultimately affect their demand for electricity.

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Mississippi Power in Item 7 and Note 3 to the financial statements of Mississippi Power under "Environmental Matters" in Item 8 of the Form 10-K for additional information.

Environmental Laws and Regulations

Water Quality

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

On May 2, 2018, the EPA updated its anticipated final rulemaking schedule for ELG from September 2020 to December 2019. The impact of any changes to the ELG rule will depend on the content of the final rule and the outcome of 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 Laws and Regulations – Coal Combustion Residuals" of Mississippi Power in Item 7 of the Form 10-K for additional information regarding the Disposal of Coal Combustion Residuals from Electric Utilities rule (CCR Rule).

The EPA published certain amendments to the CCR Rule, which became effective August 29, 2018. These amendments extend the date from April 2019 to October 31, 2020 to cease sending CCR and other waste streams to impoundments that demonstrate compliance with all except two specified criteria. These amendments also establish groundwater protection standards for four constituents that do not have established EPA maximum contaminant levels and allow a participating state director or the EPA (where the EPA is the permitting authority) to suspend groundwater monitoring requirements under certain circumstances. Specific site impacts are being evaluated by Mississippi Power.

On October 15, 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued a mandate that broadens the CCR Rule to regulate previously-excluded inactive surface impoundments (legacy units) located at retired generation facilities and challenges both the ability of unlined impoundments to continue operating and the classification of clay lined units. It is anticipated that the EPA will issue a series of rulemakings to address this court action. Mississippi Power is evaluating the extent of potential impacts on legacy units but anticipates no significant impacts to its ongoing CCR strategy due to this mandate. The ultimate impact of these changes will not be known until the EPA rulemaking and any legal challenges are finalized.

During the nine months ended September 30, 2018, Mississippi Power recorded increases of approximately $21 million to its AROs related to the CCR Rule. Approximately $11 million of the revised cost estimates as of September 30, 2018 are based on information from feasibility studies performed on an ash pond at Plant Greene County, which is co-owned with Alabama Power. These studies indicated that additional closure costs, primarily related to increases in estimated ash volume, water management requirements, and design revisions, will be required to close the ash pond under the planned closure-in-place methodology. As the level of work becomes more defined in the next 12 months, it is likely that these cost estimates will change and the change could be material.

As further analysis is performed and closure details are developed with respect to ash pond closures, Mississippi Power expects to periodically update its ARO cost estimates. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information.

Absent continued recovery of ARO costs through regulated rates, Mississippi Power's results of operations, cash flows, and financial condition could be materially impacted. The ultimate outcome of these matters cannot be determined at this time.

Table of Contents

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

Global Climate Issues

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

On August 31, 2018, the EPA published a proposed Clean Power Plan replacement rule known as the Affordable Clean Energy rule (ACE Rule), which would require states to develop unit-specific emission rate standards based on heat-rate efficiency improvements for existing fossil fuel-fired steam units. As proposed, combustion turbines, including natural gas combined cycles, are not affected sources. As of September 30, 2018, Mississippi Power has ownership interests in six fossil fuel-fired steam units to which the proposed ACE Rule is applicable. The ultimate impact of this rule to Mississippi Power is currently unknown and will depend on changes between the proposal and the final rule, subsequent state plan developments and requirements, and any associated legal proceedings.

Through 2017, the Southern Company system has achieved an estimated GHG emission reduction of 36% since 2007. In April 2018, Southern Company established an intermediate goal of a 50% reduction in carbon emissions from 2007 levels by 2030 and a long-term goal of low- to no-carbon operations by 2050. To achieve these goals, the Southern Company system expects to continue growing its renewable energy portfolio, optimize technology advancements to modernize its transmission and distribution systems, increase the use of natural gas for generation, invest in energy efficiency, and continue research and development efforts focused on technologies to lower GHG emissions. The Southern Company system's ability to achieve these goals also will be dependent on many external factors, including supportive national energy policies, low natural gas prices, and the development, deployment, and advancement of relevant energy technologies. The ultimate outcome of this matter cannot be determined at this time.

FERC Matters

Municipal and Rural Association Tariff

See Note 3 to the financial statements of Mississippi Power under "FERC Matters – Municipal and Rural Associations Tariff" in Item 8 of the Form 10-K for additional information.

Mississippi Power expects to make an MRA filing in the fourth quarter 2018. The ultimate outcome of this matter cannot be determined at this time.

Fuel Cost Recovery

Mississippi Power has a wholesale MRA and a Market Based (MB) fuel cost recovery factor. At September 30, 2018, the amount of over-recovered wholesale MRA fuel costs included in other regulatory liabilities, current on the condensed balance sheet was approximately $7 million compared to an immaterial amount at December 31, 2017. Under-recovered wholesale MB fuel costs included in the balance sheets were immaterial at September 30, 2018 and December 31, 2017.

See Note 3 to the financial statements of Mississippi Power under "FERC Matters – Fuel Cost Recovery" in Item 8 of the Form 10-K for additional information.

Market-Based Rate Authority

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters – Market-Based Rate Authority" of Mississippi Power in Item 7 of the Form 10-K for additional information regarding proceedings related to the traditional electric operating companies' (including Mississippi Power's) and Southern Power's 2014 and 2017 triennial market power analyses.

On May 4, 2018, the FERC issued an order terminating both proceedings, finding that the traditional electric operating companies (including Mississippi Power) and Southern Power satisfy the FERC's standards for market-based rates. On May 9, 2018, the traditional electric operating companies (including Mississippi Power) and Southern Power made the compliance filing required by the order. These proceedings are concluded.

Table of Contents

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

Cooperative Energy Power Supply Agreement

See Note 3 to the financial statements of Mississippi Power under "FERC Matters – Cooperative Energy Power Supply Agreement" in Item 8 of the Form 10-K for additional information regarding Cooperative Energy's network integration transmission service agreement (NITSA) with SCS.

On March 23, 2018, the FERC accepted the amendment to the NITSA between Cooperative Energy and SCS, effective April 1, 2018.

Open Access Transmission Tariff

On May 10, 2018, the Alabama Municipal Electric Authority and Cooperative Energy filed with the FERC a complaint against SCS and the traditional electric operating companies (including Mississippi Power) claiming that the current 11.25% base ROE used in calculating the annual transmission revenue requirements of the traditional electric operating companies' (including Mississippi Power's) open access transmission tariff is unjust and unreasonable as measured by the applicable FERC standards. The complaint requests that the base ROE be set no higher than 8.65% and that the FERC order refunds for the difference in revenue requirements that results from applying a just and reasonable ROE established in this proceeding upon determining the current ROE is unjust and unreasonable. On June 18, 2018, SCS and the traditional electric operating companies (including Mississippi Power) filed their response challenging the adequacy of the showing presented by the complainants and offering support for the current ROE. On September 6, 2018, the FERC issued an order establishing a refund effective date of May 10, 2018 in the event a refund is due and initiating an investigation and settlement procedures regarding the current base ROE. Through September 30, 2018, the estimated maximum potential refund is not expected to be material to Mississippi Power's results of operations. The ultimate outcome of this matter cannot be determined at this time.

Retail Regulatory Matters

Mississippi Power's rates and charges for service to retail customers are subject to the regulatory oversight of the Mississippi PSC. Mississippi Power's rates are a combination of base rates under PEP and several separate cost recovery clauses for specific categories of costs. These separate cost recovery clauses address such items as fuel and purchased power, energy efficiency programs, ad valorem taxes, property damage, and the costs of compliance with environmental laws and regulations. Costs not addressed through one of the specific cost recovery clauses are expected to be recovered through Mississippi Power's base rates.

On May 8, 2018, the Mississippi PSC issued an order to begin an operations review of Mississippi Power, which began in August 2018, with the final report expected by February 28, 2019. Mississippi Power expects that the review will include, but not be limited to, a comparative analysis of its costs, its cost recovery framework, and ways in which it may streamline management operations for the reasonable benefit of ratepayers. The ultimate outcome of this matter cannot be determined at this time.

See Note 3 to the financial statements of Mississippi Power under "Retail Regulatory Matters" and "Kemper County Energy Facility" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Mississippi Power" herein for additional information.

Performance Evaluation Plan

On February 7, 2018, Mississippi Power submitted its revised 2018 projected PEP filing to the Mississippi PSC, which reflected the impacts of the Tax Reform Legislation, requesting an increase in annual retail revenues of $26 million based on a performance-adjusted ROE of 9.33% and an increased equity ratio of 55%.

On March 22, 2018, Mississippi Power submitted its annual PEP lookback filing for 2017, which reflected no surcharge or refund.

On July 27, 2018, Mississippi Power and the MPUS entered into the PEP Settlement Agreement, which was approved by the Mississippi PSC on August 7, 2018. Rates under the PEP Settlement Agreement became effective with the first billing cycle of September 2018. The PEP Settlement Agreement provides for an increase of

approximately $21.6 million in annual base retail revenues, which excludes certain compensation costs contested by the MPUS, as well as approximately $2 million which was subsequently approved for recovery through the 2018 Energy Efficiency Cost Rider as discussed below. Under the PEP Settlement Agreement, Mississippi Power is deferring the contested compensation costs for 2018 and 2019 as a regulatory asset, which totaled $3 million as of September 30, 2018 and is included in other regulatory assets, deferred on the condensed balance sheet. The Mississippi PSC is currently expected to rule on the appropriate treatment for such costs in connection with the 2019 Base Rate Case. The ultimate outcome of this matter cannot be determined at this time.

Pursuant to the PEP Settlement Agreement, Mississippi Power's performance-adjusted allowed ROE is 9.31% and its allowed equity ratio remains at 50%, pending further review by the Mississippi PSC. In lieu of the requested equity ratio increase, Mississippi Power retained $44 million of excess accumulated deferred income taxes resulting from the Tax Reform Legislation, which had been proposed to be amortized beginning in 2018, until the conclusion of the 2019 Base Rate Case. Further, Mississippi Power will seek equity contributions sufficient to restore its equity ratio (which was 45% at September 30, 2018) to 50% by December 31, 2018. In the event Mississippi Power's actual average equity ratio for 2018 is more than 1% higher or lower than the 50% target, Mississippi Power will defer the corresponding difference in its revenue requirement as a regulatory asset or liability for resolution in the 2019 Base Rate Case. As of September 30, 2018, Mississippi Power has recorded $5 million in other regulatory liabilities, deferred on the condensed balance sheet related to the estimated December 31, 2018 average equity ratio differential from target applicable to PEP.

Pursuant to the PEP Settlement Agreement, PEP proceedings are suspended until after the conclusion of the 2019 Base Rate Case and Mississippi Power is not required to make any PEP filings for regulatory years 2018, 2019, and 2020. The PEP Settlement Agreement also resolved all open PEP filings with no change to customer rates. As a result, in the third quarter 2018, Mississippi Power recognized revenues of $5 million previously reserved in connection with the 2012 PEP lookback filing.

Energy Efficiency

On May 8, 2018, the Mississippi PSC issued an order approving Mississippi Power's revised annual projected Energy Efficiency Cost Rider 2018 compliance filing, which increased annual retail revenues by approximately $3 million effective with the first billing cycle for June 2018.

Ad Valorem Tax Adjustment

On May 8, 2018, the Mississippi PSC also approved Mississippi Power's annual ad valorem tax adjustment factor filing for 2018, which included an annual rate increase of 0.8%, or $7 million, in annual retail revenues effective with the first billing cycle for June 2018, primarily due to increased assessments.

Environmental Compliance Overview Plan

On August 3, 2018, Mississippi Power and the MPUS entered into the ECO Settlement Agreement, which provides for an increase of approximately $17 million in annual base retail revenues and was approved by the Mississippi PSC on August 7, 2018. Rates under the ECO Settlement Agreement became effective with the first billing cycle of September 2018 and will continue in effect until modified by the Mississippi PSC. These revenues are expected to be sufficient to recover the costs included in Mississippi Power's request for 2018, as well as the remaining deferred amounts that were originally expected to be recovered in 2019. In accordance with the ECO Settlement Agreement, ECO Plan proceedings are suspended until after the conclusion of the 2019 Base Rate Case and Mississippi Power is not required to make any ECO Plan filings for 2018, 2019, and 2020, with any necessary true-ups to be reflected in the 2019 Base Rate Case. The ECO Settlement Agreement contains the same terms as the PEP Settlement Agreement described herein with respect to allowed ROE and equity ratio. As of September 30, 2018, Mississippi Power has recorded $2 million in other regulatory liabilities, deferred on the condensed balance sheet related to the estimated December 31, 2018 average equity ratio differential from target applicable to the ECO Plan.

Table of Contents

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

Fuel Cost Recovery

At September 30, 2018, the amount of over-recovered retail fuel costs included on Mississippi Power's condensed balance sheet in customer accounts receivable was approximately $13 million compared to $6 million under recovered at December 31, 2017.

During the fourth quarter 2018, Mississippi Power expects to file its annual rate adjustment under the retail fuel cost recovery clause. The ultimate outcome of this matter cannot be determined at this time.

Mississippi Power's operating revenues are adjusted for differences in actual recoverable fuel cost and amounts billed in accordance with the currently approved cost recovery rate. Accordingly, changes in the billing factor should have no significant effect on Mississippi Power's revenues or net income, but will affect cash flow.

Kemper County Energy Facility

For additional information on the Kemper County energy facility, see Note 3 to the financial statements of Mississippi Power under "Kemper County Energy Facility" in Item 8 of the Form 10-K.

As the mining permit holder for the Kemper County energy facility, Liberty Fuels Company, LLC has a legal obligation to perform mine reclamation, and Mississippi Power has a contractual obligation to fund all reclamation activities. Mine reclamation began in the first quarter 2018. See Note 1 to the financial statements of Mississippi Power under "Variable Interest Entities" in Item 8 of the Form 10-K for additional information.

As of September 30, 2018, Mississippi Power recorded charges to income of an immaterial amount for the third quarter 2018 and $45 million ($34 million after tax) for year-to-date 2018, primarily resulting from the abandonment and related closure activities for the mine and gasifier-related assets at the Kemper County energy facility. Additional closure costs for the mine and gasifier-related assets, currently estimated to cost up to $20 million pre-tax (excluding salvage, net of dismantlement costs), may be incurred through the first half of 2020. In addition, period costs, including, but not limited to, costs for compliance and safety, ARO accretion, and property taxes for the mine and gasifier-related assets, are estimated at $2 million for the remainder of 2018, $8 million in 2019, and $4 million annually beginning in 2020. The ultimate outcome of this matter cannot be determined at this time.

The combined cycle and associated common facilities portions of the Kemper County energy facility were dedicated as Plant Ratcliffe on April 27, 2018.

Reserve Margin Plan

On August 6, 2018, Mississippi Power filed its proposed RMP, as required by the Mississippi PSC's order in the Kemper Settlement Docket. Under the RMP, Mississippi Power proposes alternatives that would reduce its reserve margin, with the most economic of the alternatives being the two-year and seven-year acceleration of the retirement of Plant Watson Units 4 and 5, respectively, to the first quarter 2022 and the four-year acceleration of the retirement of Plant Greene County Units 1 and 2 to the third quarter 2021 and the third quarter 2022, respectively, in order to lower or avoid operating costs. The Plant Greene County unit retirements would require the completion by Alabama Power of proposed transmission and system reliability improvements, as well as agreement by Alabama Power. The RMP filing also states that, in the event the Mississippi PSC ultimately approves an alternative that includes an accelerated retirement, Mississippi Power would require authorization to defer in a regulatory asset for future recovery the remaining net book value of the units at the time of retirement. Mississippi Power expects the MPUS and other interested parties to review the proposal prior to resolution by the Mississippi PSC. The ultimate outcome of this matter cannot be determined at this time. However, if approved by the Mississippi PSC, the alternatives are not expected to have any adverse impact on customer rates.

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Mississippi Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY –

Table of Contents

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

"Credit Rating Risk," Note (B) to the Condensed Financial Statements under "Regulatory Matters – Mississippi Power," and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation and related regulatory actions.

Other Matters

Mississippi Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Mississippi Power is subject to certain claims and legal actions arising in the ordinary course of business. Mississippi Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations 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 or regulatory matters cannot be predicted at this time; however, for current proceedings not specifically reported in Note (B) to the Condensed Financial Statements herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on Mississippi Power's financial statements. See Note (B) to the Condensed Financial Statements herein for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

On May 14, 2018, Mississippi Power's claim for lost revenue resulting from the Deepwater Horizon oil spill in the Gulf of Mexico in 2010 was settled. The settlement proceeds of $18 million, net of expenses and income tax, are included in Mississippi Power's earnings for the nine months ended September 30, 2018.

To mitigate customer rate impacts associated with rising costs and declining sales, Mississippi Power management approved an employee attrition plan on July 13, 2018. In the third quarter 2018, Mississippi Power recorded $14 million in expenses related to this plan.

On October 2, 2018, the Mississippi PSC approved the executed agreements between Mississippi Power and its largest retail customer, Chevron, for Mississippi Power to continue providing retail service to the Chevron refinery in Pascagoula, Mississippi through 2038. The new agreements are not expected to have a material impact on earnings.

Litigation

In 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 to include, among other things, Southern Company as a defendant. The individual plaintiff alleged that Mississippi Power and Southern Company violated the Mississippi Unfair Trade Practices Act. All plaintiffs 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 County energy facility and that these alleged breaches unjustly enriched Mississippi Power and Southern Company. The plaintiffs sought unspecified actual damages and punitive damages; asked the Circuit Court to appoint a receiver to oversee, operate, manage, and otherwise control all affairs relating to the Kemper County energy facility; asked the Circuit Court to revoke any licenses or certificates authorizing Mississippi Power or Southern Company to engage in any business related to the Kemper County energy facility in Mississippi; and sought attorney's fees, costs, and interest. The plaintiffs also sought an injunction to prevent any Kemper County energy facility costs from being charged to customers through electric rates. In June 2017, the Circuit Court ruled in favor of motions by Southern Company and Mississippi Power and dismissed the case. In July 2017, the plaintiffs filed notice of an appeal. On July 13, 2018, Mississippi Power and Southern Company reached a settlement agreement with the plaintiffs and the plaintiffs' appeal was dismissed with prejudice. The settlement had no material impact on Mississippi Power's financial statements.

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On May 18, 2018, Southern Company and Mississippi Power received a notice of dispute and arbitration demand filed by Martin Product Sales, LLC (Martin) based on two agreements, both related to Kemper IGCC byproducts for which Mississippi Power provided termination notices in September 2017. Martin alleges breach of contract, breach of good faith and fair dealing, fraud and misrepresentation, and civil conspiracy and makes a claim for damages in the amount of approximately $143 million, as well as additional unspecified damages, attorney's fees, costs, and interest. Mississippi Power believes this legal challenge has no merit; however, an adverse outcome in this proceeding could have a material impact on Mississippi Power's results of operations, financial condition, and liquidity. Mississippi Power will vigorously defend itself in this matter, the ultimate outcome of which cannot be determined at this time.

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

Kemper County Energy Facility Closure Costs

As of September 30, 2018, Mississippi Power recorded charges to income of an immaterial amount for the third quarter 2018 and $45 million ($34 million after tax) for year-to-date 2018, primarily resulting from the abandonment and related closure activities for the mine and gasifier-related assets at the Kemper County energy facility. Additional closure costs for the mine and gasifier-related assets, currently estimated to cost up to $20 million pre-tax (excluding salvage, net of dismantlement costs), may be incurred through the first half of 2020. In addition, period costs, including, but not limited to, costs for compliance and safety, ARO accretion, and property taxes for the mine and gasifier-related assets, are estimated at $2 million for the remainder of 2018, $8 million in 2019, and $4 million annually beginning in 2020. The ultimate outcome of this matter cannot be determined at this time.

See Notes 1 and 3 to the financial statements of Mississippi Power under "Variable Interest Entities" and "Kemper County Energy Facility," respectively, in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Kemper County Energy Facility" herein for additional information.

Recently Issued Accounting Standards

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Mississippi Power in Item 7 of the Form 10-K for additional information regarding ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). See Note (A) to the Condensed Financial Statements herein for information regarding Mississippi Power's recently adopted accounting standards.

In 2016, the FASB issued ASU No. 2016-02, which 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 and Mississippi Power will adopt the new standard effective January 1, 2019.

Mississippi Power has elected the transition methodology provided by ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, whereby it will apply the requirements of ASU 2016-02 on a prospective basis as of the adoption date of January 1, 2019, without restating prior periods. Mississippi Power expects to elect the package of practical expedients provided by ASU 2016-02 that allows prior determinations of whether existing contracts are, or contain, leases and the classification of existing leases to continue without reassessment. Additionally, Mississippi Power expects to apply the use-of-hindsight practical expedient in determining lease terms as of the date of adoption and to elect the practical expedient that allows existing land easements not previously accounted for as leases not to be reassessed. Mississippi Power also expects to make accounting policy elections to account for short-term leases in all asset classes as off-balance sheet leases and to combine lease and non-lease components in the computations of lease obligations and right-of-use assets for most asset classes.

Mississippi Power is continuing to complete the implementation of an information technology system to track and account for its leases and of changes to its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. Mississippi Power has substantially completed its lease inventory and determined its most significant leases involve equipment and railcar leases. While Mississippi Power has not yet determined the ultimate impact, adoption of ASU 2016-02 is not expected to have a material impact on Mississippi Power's balance sheet or statement of income.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Mississippi Power in Item 7 of the Form 10-K for additional information.

Mississippi Power's cash requirements primarily consist of funding ongoing operations, capital expenditures, and debt maturities. Capital expenditures and other investing activities include investments to maintain existing generation facilities, to comply with environmental regulations including adding environmental modifications to certain existing generating units, to expand and improve transmission and distribution facilities, and for restoration following major storms.

In March 2018, Mississippi Power issued $300 million aggregate principal amount of Series 2018A Floating Rate Senior Notes due March 27, 2020 bearing interest based on three-month LIBOR and $300 million aggregate principal amount of Series 2018B 3.95% Senior Notes due March 30, 2028. In March 2018, Mississippi Power also entered into a $300 million short-term floating rate bank loan bearing interest based on one-month LIBOR, of which $200 million was repaid in the second quarter 2018 and $100 million was repaid in the third quarter 2018. Mississippi Power used the proceeds from these financings to repay a $900 million unsecured term loan.

Net cash provided from operating activities totaled $656 million for the first nine months of 2018, an increase of $295 million as compared to the corresponding period in 2017. The increase in net cash provided from operating activities is primarily related to increased income tax refunds in 2018 primarily related to the tax abandonment of the Kemper IGCC, partially offset by an increase in ad valorem taxes and the timing of collections of receivables. Net cash used for investing activities totaled $170 million for the first nine months of 2018 primarily due to gross property additions related to steam production, distribution, and transmission. Net cash used for financing activities totaled $355 million for the first nine months of 2018 primarily due to redemptions of long-term debt and short-term borrowings, partially offset by the issuance of senior notes and short-term borrowings. Cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first nine months of 2018 include increases of $435 million in long-term debt primarily due to the issuance of senior notes and $131 million in cash and cash equivalents primarily due to tax refunds, a net change of $440 million in accumulated deferred income taxes primarily due to the tax abandonment of the Kemper IGCC, and a decrease of $785 million in securities due within one year due to the repayment of a $900 million unsecured term loan.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Mississippi Power in Item 7 of the Form 10-K for a

Table of Contents
MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

description of Mississippi Power's capital requirements and contractual obligations. Subsequent to September 30, 2018, Mississippi Power completed the redemption of $30 million aggregate principal amount of its Series G 5.40% Senior Notes due July 1, 2035 and $125 million aggregate principal amount of its Series 2009A 5.55% Senior Notes due March 1, 2019. There are no additional scheduled maturities or announced redemptions of long-term debt through September 30, 2019. Approximately $50 million of revenue bonds will be required to be remarketed over the next 12 months. See "Sources of Capital" herein for additional information.

Mississippi Power's purchase commitments related to LTSAs have changed to approximately $43 million for 2018, $28 million for 2019, $28 million for 2020, $29 million for 2021, $49 million for 2022, and $257 million for 2023 and thereafter due to an increase in estimated expenditures covered under the LTSA for the Kemper County energy facility.

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 laws and regulations; the outcome of any legal challenges to environmental rules; changes in generating plants, including unit retirements and replacements and adding or changing fuel sources at existing electric generating units, to meet regulatory requirements; changes in FERC rules and regulations; Mississippi PSC approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Sources of Capital

Mississippi Power plans to obtain the funds required for construction and other purposes from operating cash flows, lines of credit, bank term loans, external security issuances, commercial paper (to the extent it is eligible to participate), monetization of income tax deductions associated with the abandonment of the gasifier portion of the Kemper County energy facility, and equity contributions from Southern Company. The amount, type, and timing of future financings will depend upon regulatory approval, prevailing market conditions, and other factors. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" in Item 7 of the Form 10-K for additional information.

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

At September 30, 2018, Mississippi Power had approximately $379 million of cash and cash equivalents. Committed credit arrangements with banks at September 30, 2018 were as follows:

Expires			Executable Term Loans	Expires Within One Year	
2019	Total	Unused	One Year	Term Out	No Term Out
(in millions)					
$100	$100	$ 100	$ —	$ —	$ —

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

All of these bank credit arrangements contain covenants that limit debt levels and contain cross acceleration to other indebtedness (including guarantee obligations) of Mississippi Power. Such cross-acceleration provisions to other indebtedness would trigger an event of default if Mississippi Power defaulted on indebtedness, the payment of which was then accelerated. At September 30, 2018, Mississippi Power was in compliance with all such covenants. None of the bank credit arrangements contain material adverse change clauses at the time of borrowing.

Table of Contents

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

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

A portion of the $100 million unused credit arrangements with banks is allocated to provide liquidity support to Mississippi Power's revenue bonds. The amount of variable rate revenue bonds outstanding requiring liquidity support as of September 30, 2018 was approximately $40 million. In addition, at September 30, 2018, Mississippi Power had approximately $50 million of revenue bonds outstanding that were required to be remarketed within the next 12 months.

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

	Short-term Debt During the Period(*)		
	Average Amount Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		(in millions)
Short-term bank debt	$50	3.3 %	$ 100

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2018. No short-term debt was outstanding at September 30, 2018.

Credit Rating Risk

At September 30, 2018, Mississippi Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

On October 2, 2018, the Mississippi PSC approved the executed agreements between Mississippi Power and its largest retail customer, Chevron, for Mississippi Power to continue providing retail service to the Chevron refinery in Pascagoula, Mississippi through 2038. The agreements grant Chevron a security interest in the co-generation assets, with a net book value of approximately $93 million, located at the refinery that is exercisable upon the occurrence of (i) certain bankruptcy events or (ii) other events of default coupled with specific reductions in steam output at the facility and a downgrade of Mississippi Power's credit rating to below investment grade by two of the three rating agencies.

There are certain contracts that have required or could require collateral, but not accelerated payment, in the event of a credit rating change to BBB and/or Baa2 or below. These contracts are for physical electricity purchases and sales, fuel transportation and storage, energy price risk management, and transmission. At September 30, 2018, the maximum potential collateral requirements at a rating below BBB- and/or Baa3 equaled approximately $202 million. Included in these amounts are certain agreements that could require collateral in the event that Alabama Power or Georgia Power (affiliate companies of Mississippi Power) has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, a credit rating downgrade could impact the ability of Mississippi Power to access capital markets, and would be likely to impact the cost at which it does so.

On February 26, 2018, Moody's revised its rating outlook for Mississippi Power from stable to positive. On August 8, 2018, Moody's upgraded Mississippi Power's senior unsecured rating to Baa3 from Ba1 and maintained the positive rating outlook.

On February 28, 2018, Fitch removed Mississippi Power from rating watch negative and revised its rating outlook from stable to positive.

155

On March 14, 2018, S&P upgraded the senior unsecured long-term debt rating of Mississippi Power to A- from BBB+. The outlook remained negative.

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries, including Mississippi Power, may be negatively impacted. The PEP Settlement Agreement is expected to help mitigate these potential adverse impacts by allowing Mississippi Power to retain the excess deferred taxes resulting from the Tax Reform Legislation until the conclusion of the 2019 Base Rate Case. In addition, Mississippi Power has committed to seek equity contributions sufficient to restore its equity ratio to the 50% target. See Note 3 to the financial statements of Mississippi Power under "Retail Regulatory Matters" in Item 8 of the Form 10-K and Note (B) to the Condensed Financial Statements under "Regulatory Matters – Mississippi Power" herein for additional information.

Financing Activities

In March 2018, Mississippi Power issued $300 million aggregate principal amount of Series 2018A Floating Rate Senior Notes due March 27, 2020 bearing interest based on three-month LIBOR and $300 million aggregate principal amount of Series 2018B 3.95% Senior Notes due March 30, 2028. In March 2018, Mississippi Power also entered into a $300 million short-term floating rate bank loan bearing interest based on one-month LIBOR, of which $200 million was repaid in the second quarter 2018 and $100 million was repaid in the third quarter 2018. Mississippi Power used the proceeds from these financings to repay a $900 million unsecured term loan.

In July 2018, Mississippi Power purchased and held approximately $43 million aggregate principal amount of Mississippi Business Finance Corporation Pollution Control Revenue Refunding Bonds, Series 2002. Mississippi Power may reoffer these bonds to the public at a later date.

Subsequent to September 30, 2018, Mississippi Power completed the redemption of all 334,210 outstanding shares of its preferred stock (as well as related depositary shares), with an aggregate par value of approximately $33.4 million; all $30 million aggregate principal amount outstanding of its Series G 5.40% Senior Notes due July 1, 2035; and all $125 million aggregate principal amount outstanding of its Series 2009A 5.55% Senior Notes due March 1, 2019.

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

Table of Contents

SOUTHERN POWER COMPANY
AND SUBSIDIARY COMPANIES

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Wholesale revenues, non-affiliates	$496	$510	$1,363	$1,293
Wholesale revenues, affiliates	134	105	326	295
Other revenues	5	3	10	9
Total operating revenues	635	618	1,699	1,597
Operating Expenses:				
Fuel	190	189	511	460
Purchased power	37	43	137	113
Other operations and maintenance	94	83	278	272
Depreciation and amortization	130	131	370	379
Taxes other than income taxes	12	13	36	37
Asset impairment	36	—	155	—
Total operating expenses	499	459	1,487	1,261
Operating Income	136	159	212	336
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(45)	(47)	(138)	(144)
Other income (expense), net	17	3	22	3
Total other income and (expense)	(28)	(44)	(116)	(141)
Earnings Before Income Taxes	108	115	96	195
Income taxes (benefit)	(38)	(39)	(210)	(129)
Net Income	146	154	306	324
Net income attributable to noncontrolling interests	54	30	71	48
Net Income Attributable to Southern Power	$92	$124	$235	$276

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income	$146	$154	$306	$324
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(4), $15, $(7), and $35, respectively	(11)	25	(19)	58
	11	(20)	46	(68)

Reclassification adjustment for amounts included in net income, net of tax of $4, $(12), $16, and $(42), respectively				
Pension and other postretirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $-, and $-, respectively	—	—	1	—
Total other comprehensive income (loss)	—	5	28	(10)
Comprehensive Income	146	159	334	314
Comprehensive income attributable to noncontrolling interests	54	30	71	48
Comprehensive Income Attributable to Southern Power	$92	$129	$263	$266

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

158

Table of Contents

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

	For the Nine Months Ended September 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income	$306	$324
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	394	404
Deferred income taxes	(337)	240
Amortization of investment tax credits	(43)	(42)
Income taxes receivable, non-current	(12)	(42)
Asset impairment	155	—
Other, net	10	(4)
Changes in certain current assets and liabilities —		
-Receivables	(41)	(77)
-Prepaid income taxes	5	24
-Other current assets	1	14
-Accounts payable	(27)	(31)
-Accrued taxes	256	79
-Other current liabilities	(1)	5
Net cash provided from operating activities	666	894
Investing Activities:		
Business acquisitions	(64)	(1,016)
Property additions	(226)	(218)
Change in construction payables	3	(166)
Payments pursuant to LTSAs	(57)	(99)
Other investing activities	20	7
Net cash used for investing activities	(324)	(1,492)
Financing Activities:		
Decrease in notes payable, net	(68)	(89)
Proceeds —		
Short-term borrowings	200	—
Other long-term debt	—	43
Redemptions —		
Senior notes	(350)	—
Other long-term debt	(420)	(4)
Return of capital	(650)	—
Distributions to noncontrolling interests	(86)	(89)
Capital contributions from noncontrolling interests	1,333	79
Payment of common stock dividends	(234)	(238)
Other financing activities	(15)	(27)
Net cash used for financing activities	(290)	(325)

Net Change in Cash, Cash Equivalents, and Restricted Cash	52	(923)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	140	1,112
Cash, Cash Equivalents, and Restricted Cash at End of Period	$192	$189
Supplemental Cash Flow Information:		
Cash paid (received) during the period for —		
Interest (net of $14 and $7 capitalized for 2018 and 2017, respectively)	$138	$144
Income taxes, net	(102)	(343)
Noncash transactions — Accrued property additions at end of period	37	16

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

159

Table of Contents

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

Assets	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$192	$ 129
Receivables —		
Customer accounts receivable	150	117
Affiliated	71	50
Other	62	98
Materials and supplies	214	278
Prepaid income taxes	44	50
Assets held for sale, current	18	1
Other current assets	29	35
Total current assets	780	758
Property, Plant, and Equipment:		
In service	13,603	13,755
Less: Accumulated provision for depreciation	2,087	1,910
Plant in service, net of depreciation	11,516	11,845
Construction work in progress	586	511
Total property, plant, and equipment	12,102	12,356
Other Property and Investments:		
Intangible assets, net of amortization of $66 and $47 at September 30, 2018 and December 31, 2017, respectively	391	411
Total other property and investments	391	411
Deferred Charges and Other Assets:		
Prepaid LTSAs	106	118
Accumulated deferred income taxes	1,281	925
Income taxes receivable, non-current	84	72
Assets held for sale	185	—
Other deferred charges and assets	426	566
Total deferred charges and other assets	2,082	1,681
Total Assets	$15,355	$ 15,206

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

Table of Contents

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

Liabilities and Stockholders' Equity	At September 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$—	$ 770
Notes payable	237	105
Accounts payable —		
Affiliated	86	102
Other	88	103
Accrued income taxes	233	—
Liabilities held for sale, current	4	—
Other current liabilities	165	152
Total current liabilities	813	1,232
Long-term Debt	5,029	5,071
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	111	199
Accumulated deferred ITCs	1,842	1,884
Other deferred credits and liabilities	259	322
Total deferred credits and other liabilities	2,212	2,405
Total Liabilities	8,054	8,708
Common Stockholder's Equity:		
Common stock, par value $0.01 per share —		
Authorized — 1,000,000 shares		
Outstanding — 1,000 shares	—	—
Paid-in capital	2,604	3,662
Retained earnings	1,478	1,478
Accumulated other comprehensive income (loss)	31	(2)
Total common stockholder's equity	4,113	5,138
Noncontrolling interests	3,188	1,360
Total stockholders' equity	7,301	6,498
Total Liabilities and Stockholders' Equity	$ 15,355	$ 15,206

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

161

Table of Contents

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

THIRD QUARTER 2018 vs. THIRD QUARTER 2017
AND
YEAR-TO-DATE 2018 vs. YEAR-TO-DATE 2017

OVERVIEW

Southern Power develops, constructs, acquires, owns, and manages power generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. Southern Power continually seeks opportunities to execute its strategy to create value through various transactions including acquisitions, dispositions, and sales of partnership interests, development and construction of new generating facilities, and entry into PPAs primarily with investor-owned utilities, independent power producers, municipalities, electric cooperatives, and other load-serving entities, as well as commercial and industrial customers. In general, Southern Power has committed to the construction or acquisition of new generating capacity only after entering into or assuming long-term PPAs for the new facilities.

In May 2018, Southern Power completed the sale of a 33% equity interest in SPSH, a limited partnership indirectly owning substantially all of Southern Power's solar facilities, for an aggregate purchase price of approximately $1.2 billion. In addition, Southern Power entered into an agreement to sell all of its equity interests in Plant Oleander and Plant Stanton Unit A (together, the Florida Plants), for an aggregate purchase price of $195 million. The sale is expected to occur in the first quarter 2019. On October 31, 2018, Southern Power entered into agreements with three financial investors for the sale of a noncontrolling interest for approximately $1.2 billion in tax equity in SP Wind, which owns a portfolio of eight operating wind facilities. The transaction is subject to Public Utility Commission of Texas approval and is expected to close by the end of 2018. On November 5, 2018, Southern Power entered into an agreement to sell all of its equity interests in Plant Mankato (including the 385-MW expansion currently under construction) for an aggregate purchase price of $650 million. The transaction is subject to the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act (HSR Act) and FERC and state commission approvals and is expected to close mid-2019. See FUTURE EARNINGS POTENTIAL and Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information. The ultimate outcome of these matters cannot be determined at this time.

During the nine months ended September 30, 2018, Southern Power acquired and placed in service the 20-MW Gaskell West 1 solar facility, placed in service the 148-MW Cactus Flats wind facility, acquired and began construction of the 100-MW Wild Horse Mountain and the 200-MW Reading wind facilities, and continued construction of the expansion of the 385-MW Mankato natural gas facility. See FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" herein for additional information.

At September 30, 2018, Southern Power's average investment coverage ratio for its generating assets (including the Florida and Mankato Plants), based on the ratio of investment under contract to total investment using the respective generation facilities' net book value (or expected in-service value for facilities under construction discussed herein) as the investment amount, was 93% through 2022 and 91% through 2027, with an average remaining contract duration of approximately 15 years. See FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" herein for additional information.

See FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" herein for information regarding Southern Power's revised capital expenditure forecasts for 2018 through 2022.

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

Table of Contents
SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net Income Attributable to Southern Power

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(32)	(25.8)	$(41)	(14.9)

Net income attributable to Southern Power for the third quarter 2018 was $92 million compared to $124 million for the corresponding period in 2017. The decrease was primarily due to a $36 million asset impairment charge ($27 million after tax) on wind turbine equipment held for development projects and $23 million from a reduction in income tax benefits primarily from ITCs related to solar facilities placed in service, partially offset by $11 million in state income tax benefits arising from the reorganization of legal entities that own and operate certain of Southern Power's wind facilities.

Net income attributable to Southern Power for year-to-date 2018 was $235 million compared to $276 million for the corresponding period in 2017. The decrease was primarily due to a $119 million asset impairment charge as a result of the pending sale of the Florida Plants in the second quarter 2018 and a $36 million asset impairment charge on wind turbine equipment held for development projects (together $116 million after tax) and $25 million from a reduction in income tax benefits primarily from ITCs related to solar facilities placed in service, partially offset by approximately $65 million in state income tax benefits arising from reorganizations of legal entities that own and operate certain of Southern Power's solar and wind facilities.

Operating Revenues

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$17	2.8	$102	6.4

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

Natural Gas and Biomass Capacity and Energy Revenue

Capacity revenues generally represent the greatest contribution to net income and are designed to provide recovery of fixed costs plus a return on investment.

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

Solar and Wind Energy Revenue

Southern Power's energy sales from solar and wind generating facilities are predominantly through long-term PPAs that do not have a capacity charge. Customers either purchase the energy output of a dedicated renewable facility through an energy charge or pay a fixed price related to the energy sold to the grid. As a result, Southern Power's ability to recover fixed and variable operations and maintenance expenses is dependent upon the level of energy generated from these facilities, which can be impacted by weather conditions, equipment performance, transmission constraints, and other factors.

Table of Contents
SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
	(in millions)			
PPA capacity revenues	$168	$ 169	$ 450	$ 466
PPA energy revenues	336	299	892	765
Total PPA revenues	504	468	1,342	1,231
Non-PPA revenues	126	147	347	357
Other revenues	5	3	10	9
Total operating revenues	$635	$ 618	$ 1,699	$ 1,597

In the third quarter 2018, total operating revenues were $635 million, reflecting a $17 million, or 3%, increase from the corresponding period in 2017. The increase in operating revenues was primarily due to the following:

- PPA energy revenues increased $37 million, or 12%, primarily due to increases of $20 million from new natural gas PPAs from existing facilities, $9 million from renewable facilities primarily due to an increase in the volume of KWHs sold, and $8 million in fuel costs that are contractually recovered through existing PPAs.
- Non-PPA revenues decreased $21 million, or 14%, primarily due to the volume of KWHs sold from uncovered natural gas capacity through short-term sales.

For year-to-date 2018, total operating revenues were $1.7 billion, reflecting an $102 million, or 6%, increase from the corresponding period in 2017. The increase in operating revenues was primarily due to the following:

- PPA capacity revenues decreased $16 million, or 3%, primarily due to the contractual expiration of an affiliate natural gas PPA.
- PPA energy revenues increased $127 million, or 17%, primarily due to increases of $56 million from new natural gas PPAs from existing facilities, $45 million in fuel costs that are contractually recovered through existing PPAs, and $27 million from renewable facilities primarily due to an increase in the volume of KWHs sold.
- Non-PPA revenues decreased $10 million, or 3%, primarily due to the volume of KWHs sold from uncovered natural gas capacity through short-term sales.

Table of Contents
SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fuel and Purchased Power Expenses

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

	Third Quarter 2018	Third Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
	(in billions of KWHs)			
Generation	13.3	12.5	35.3	33.2
Purchased power	0.9	1.2	3.1	3.4
Total generation and purchased power	14.2	13.7	38.4	36.6
Total generation and purchased power, excluding solar, wind, and tolling agreements	8.2	7.2	22.2	17.8

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

Purchased power expenses will vary depending on demand, availability, and the cost of generating resources throughout the Southern Company system and other contract resources. Load requirements are submitted to the power pool on an hourly basis and are fulfilled with the lowest cost alternative, whether that is generation owned by Southern Power, an affiliate company, or external parties. Such purchased power costs are generally recovered through PPA revenues.

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

	Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 1	0.5	$ 51	11.1
Purchased power	(6)	(14.0)	24	21.2
Total fuel and purchased power expenses	$ (5)		$ 75	

In the third quarter 2018, total fuel and purchased power expenses decreased $5 million, or 2%, compared to the corresponding period in 2017. Fuel expense increased $1 million primarily due to a $43 million increase in the volume of KWHs generated, excluding solar, wind, and tolling agreements, partially offset by a $42 million decrease in the average cost of natural gas per KWH generated. Purchased power expense decreased $6 million due to a $9 million decrease in the volume of KWHs purchased, partially offset by a $3 million increase in the average cost of purchased power.

For year-to-date 2018, total fuel and purchased power expenses increased $75 million, or 13%, compared to the corresponding period in 2017. Fuel expense increased $51 million primarily due to a $152 million increase in the volume of KWHs generated, excluding solar, wind, and tolling agreements, partially offset by a $101 million decrease in the average cost of natural gas per KWH generated. Purchased power expense increased $24 million primarily due to a $33 million increase in the average cost of purchased power primarily in first quarter 2018, partially offset by a $9 million decrease in the volume of KWHs purchased.

Table of Contents

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

Asset Impairment

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$36	N/M	$155	N/M

N/M - Not meaningful

In the second quarter 2018, a $119 million asset impairment charge was recorded in contemplation of the sale of the Florida Plants. In addition, in the third quarter 2018, a $36 million asset impairment charge was recorded on wind turbine equipment held for development projects. See Note (J) under "Southern Power – Sale of Florida Plants" and " – Development Projects" to the Condensed Financial Statements herein for additional information.

Other Income (Expense), Net

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$14	N/M	$19	N/M

N/M - Not meaningful

In the third quarter 2018, other income (expense), net was $17 million compared to $3 million for the corresponding period in 2017. For year-to-date 2018, other income (expense) was $22 million compared to $3 million for the corresponding period in 2017. These increases were primarily due to a $14 million gain from a joint-development wind project, which is attributable to Southern Power's partner in the project and fully offset within noncontrolling interests.

Income Taxes (Benefit)

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$1	2.6	$(81)	(62.8)

In the third quarter 2018, income tax benefit was $38 million compared to $39 million for the corresponding period in 2017. For year-to-date 2018, income tax benefit was $210 million compared to $129 million for the corresponding period in 2017. These changes were primarily due to lower pre-tax earnings, primarily resulting from asset impairment charges, and income tax benefits related to certain changes in state apportionment rates arising from reorganizations of Southern Power's legal entities that own and operate certain of its solar and wind facilities, partially offset by a decrease in income tax benefits from solar ITCs, primarily as a result of a decrease in the number of facilities placed in service in 2018 as compared to 2017. See FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Legal Entity Reorganizations" and Note (H) to the Condensed Financial Statements herein for additional information.

Table of Contents
SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Income Attributable to Noncontrolling Interests

Third Quarter 2018 vs. Third Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$24	80.0	$23	47.9

In the third quarter 2018, net income attributable to noncontrolling interests was $54 million compared to $30 million for the corresponding period in 2017. The increase was due to $14 million of other income allocations attributable to a joint-development wind project and $10 million of net income allocations primarily due to the sale of a 33% equity interest in SPSH in 2018.

For year-to-date 2018, net income attributable to noncontrolling interests was $71 million compared to $48 million for the corresponding period in 2017. The increase was primarily due to $21 million of net income allocations due to the sale of a 33% equity interest in SPSH in 2018 and $14 million of other income allocations attributable to a joint-development wind project, partially offset by a reduction of $10 million of net income allocations primarily due to the tax equity partnership for Gaskell West 1.

See Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information.

FUTURE EARNINGS POTENTIAL

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

In May 2018, Southern Power completed the sale of a 33% equity interest in SPSH, a limited partnership indirectly owning substantially all of Southern Power's solar facilities, to Global Atlantic Financial Group Limited (Global Atlantic) for approximately $1.2 billion. Accordingly, Global Atlantic will receive 33% of all cash distributions paid by SPSH. Southern Power continues to consolidate the assets and liabilities of SPSH with Global Atlantic's share of partnership earnings reflected in net income attributable to noncontrolling interests in the Condensed Consolidated Statements of Income.

Also in May 2018, Southern Power entered into an equity interest purchase agreement with NextEra Energy to sell all of its equity interests in the Florida Plants for an aggregate purchase price of $195 million, subject to customary working capital and timing adjustments. The ultimate purchase price will decrease $110,000 per day for each day after December 31, 2018 through the closing of the transaction. Conversely, the ultimate purchase price will increase $110,000 per day for each day the closing occurs prior to December 31, 2018. The sale is expected to occur in the first quarter 2019. Pre-tax net income for the Florida Plants was $18 million and $11 million for the three months ended September 30, 2018 and 2017, respectively, and $40 million and $28 million for the nine months ended September 30, 2018 and 2017, respectively. The ultimate outcome of this matter cannot be determined at this time.

On October 31, 2018, Southern Power entered into agreements with three financial investors for the sale of a noncontrolling interest for approximately $1.2 billion in Class A tax equity in SP Wind, which owns a portfolio of eight operating wind facilities. The transaction is subject to Public Utility Commission of Texas approval and is expected to close by the end of 2018. Upon closing, the tax equity partners will have a claim to certain cash distributions and an allocation of tax attributes. See "Income Tax Matters – Legal Entity Reorganizations" herein for additional information. The ultimate outcome of this matter cannot be determined at this time.

On November 5, 2018, Southern Power entered into an agreement with Northern States Power to sell all of its equity interests in Plant Mankato (including the 385-MW expansion currently under construction) for an aggregate purchase price of $650 million, subject to customary working capital and timing adjustments. The ultimate purchase

Table of Contents

price will decrease $66,667 per day for each day after June 1, 2019, if the expansion has not achieved commercial operation, but such decrease will not exceed $15 million. This transaction is subject to the expiration or termination of the waiting period under the HSR Act and FERC and state commission approvals and is expected to close mid-2019. The ultimate outcome of this matter cannot be determined at this time.

Demand for electricity is primarily driven by the pace of economic growth that may be affected by changes in regional and global economic conditions, as well as renewable portfolio standards, which may impact future earnings. Other factors that could influence future earnings include weather, transmission constraints, cost of generation from units within the power pool, and operational limitations. For additional information relating to these factors, see RISK FACTORS in Item 1A and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL of Southern Power in Item 7 of the Form 10-K.

Power Sales Agreements

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

At September 30, 2018, Southern Power's average investment coverage ratio for its generating assets (including the Florida and Mankato Plants), based on the ratio of investment under contract to total investment using the respective generation facilities' net book value (or expected in-service value for facilities under construction and acquisitions discussed herein) as the investment amount, was 93% through 2022 and 91% through 2027, with an average remaining contract duration of approximately 15 years.

Environmental Matters

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

Water Quality

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

On May 2, 2018, the EPA updated its anticipated final rulemaking schedule for ELG from September 2020 to December 2019. The impact of any changes to the ELG rule will depend on the content of the final rule and the outcome of any legal challenges and cannot be determined at this time.

FERC Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of Southern Power in Item 7 of the Form 10-K for additional information regarding proceedings related to the traditional electric operating companies' and Southern Power's 2014 and 2017 triennial market power analyses.

On May 4, 2018, the FERC issued an order terminating both proceedings, finding that the traditional electric operating companies and Southern Power satisfy the FERC's standards for market-based rates. On May 9, 2018, the traditional electric operating companies and Southern Power made the compliance filing required by the order. These proceedings are concluded.

Table of Contents

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

Acquisitions

During the nine months ended September 30, 2018, one of Southern Power's wholly-owned subsidiaries acquired and completed construction of the Gaskell West 1 solar facility. Acquisition-related costs were expensed as incurred and were not material. See Note (J) to the Condensed Financial Statements under "Southern Power" herein and MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Power in Item 7 of the Form 10-K for additional information.

Project Facility	Resource	Approximate Nameplate Capacity (MW)	Location	Percentage Ownership		Actual COD	PPA Counterparties	PPA Contract Period
Gaskell West 1	Solar	20	Kern County, CA	100% of Class B	(*)	March 2018	Southern California Edison	20 years

(*) Southern Power owns 100% of the class B membership interests under a tax equity partnership agreement.

The Gaskell West 1 facility did not have operating revenues or activities prior to completion of construction and the assets being placed in service during March 2018.

Construction Projects

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

Construction Projects in Progress and/or Completed

During the nine months ended September 30, 2018, Southern Power started, continued, or completed construction of the projects set forth in the table below. Total aggregate construction costs, excluding the acquisition costs, are expected to be between $575 million and $640 million for the Mankato, Wild Horse Mountain, and Reading facilities. At September 30, 2018, construction costs included in CWIP related to these projects totaled $246 million. The ultimate outcome of these matters cannot be determined at this time.

Project Facility	Resource	Approximate Nameplate Capacity (MW)	Location	Actual/Expected COD	PPA Counterparties	PPA Contract Period
Cactus Flats[(a)]	Wind	148	Concho County, TX	July 2018	General Motors, LLC and General Mills Operations, LLC	12 years and 15 years
Mankato	Natural Gas	385	Mankato, MN	First half 2019	Northern States Power Company	20 years
Wild Horse Mountain[(b)]	Wind	100	Pushmataha County, OK	Fourth quarter 2019	Arkansas Electric Cooperative	20 years
Reading[(c)]	Wind	200	Osage and Lyon Counties, KS	Second quarter 2020	Royal Caribbean Cruises LTD	12 years

(a) In July 2017, Southern Power purchased 100% of the Cactus Flats facility and commenced construction. In July 2018, the facility was placed in service and, in August 2018, Southern Power closed on a tax equity partnership agreement and owns 100% of the class B membership interests.

(b) In May 2018, Southern Power purchased 100% of the Wild Horse Mountain facility and commenced construction. Southern Power may enter into a tax equity partnership agreement, in which case it would then own 100% of the class B membership interests.

(c) In August 2018, Southern Power purchased 100% of the membership interests from the joint development arrangement with Renewable Energy Systems Americas, Inc. and commenced construction. Southern Power may enter into a tax equity partnership agreement, in which case it would then own 100% of the class B membership interests.

169

Development Projects

During 2017, as part of its renewable development strategy, Southern Power purchased wind turbine equipment from Siemens Gamesa Renewable Energy Inc. and Vestas-American Wind Technology, Inc. to be used for various development and construction projects. Any wind projects using this equipment and reaching commercial operation by the end of 2021 are expected to qualify for 80% PTCs.

During 2016, Southern Power entered into a joint development agreement with Renewable Energy Systems Americas, Inc. to develop and construct wind projects. In addition, in 2016, Southern Power purchased wind turbine equipment from Siemens Wind Power, Inc. and Vestas-American Wind Technology, Inc. to be used for construction of the facilities. Any wind projects using this equipment and reaching commercial operation by the end of 2020 are expected to qualify for 100% PTCs.

In response to the previously disclosed decrease of planned expenditures for plant acquisitions and placeholder growth, Southern Power continues to refine the deployment of the wind turbine equipment to potential joint development and construction projects as well as the amount of MW capacity to be constructed. During the third quarter 2018, as a result of a review of various options for probable dispositions of wind turbine equipment not already deployed to development or construction projects, Southern Power recorded a $36 million asset impairment charge on the equipment.

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

Income Tax Matters

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Income Tax Matters" of Southern Power in Item 7 of the Form 10-K and FINANCIAL CONDITION AND LIQUIDITY – "Credit Rating Risk" and Note (H) to the Condensed Financial Statements herein for information regarding the Tax Reform Legislation.

Legal Entity Reorganizations

In April 2018, Southern Power completed the final stage of a legal entity reorganization of various direct and indirect subsidiaries that own and operate substantially all of its solar facilities, including certain subsidiaries owned in partnership with various third parties. The reorganization resulted in net state tax benefits related to certain changes in apportionment rates totaling approximately $54 million, which were recorded in the first half of 2018.

In September 2018, Southern Power also completed a legal reorganization of eight operating wind facilities under a new holding company, SP Wind, which resulted in net state tax benefits totaling approximately $11 million related to certain changes in apportionment rates.

Other Matters

Southern Power is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Power is subject to certain claims and legal actions arising in the ordinary course of business. Southern Power's business activities are subject to extensive governmental regulation related to public health and the environment, such as laws and regulations governing air, water, land, and protection of natural resources. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental laws and regulations has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO_2 and other emissions and alleged exposure to hazardous materials, and/or requests for injunctive relief in connection with such matters.

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

Table of Contents
SOUTHERN POWER COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

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

Recently Issued Accounting Standards

See MANAGEMENT'S DISCUSSION AND ANALYSIS – ACCOUNTING POLICIES – "Recently Issued Accounting Standards" of Southern Power in Item 7 of the Form 10-K for additional information regarding ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). See Note (A) to the Condensed Financial Statements herein for information regarding Southern Power's recently adopted accounting standards.

In 2016, the FASB issued ASU No. 2016-02, which 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 and Southern Power will adopt the new standard effective January 1, 2019.

Southern Power has elected the transition methodology provided by ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, whereby it will apply the requirements of ASU 2016-02 on a prospective basis as of the adoption date of January 1, 2019, without restating prior periods. Southern Power expects to elect the package of practical expedients provided by ASU 2016-02 that allows prior determinations of whether existing contracts are, or contain, leases and the classification of existing leases to continue without reassessment. Additionally, Southern Power expects to apply the use-of-hindsight practical expedient in determining lease terms as of the date of adoption. Southern Power also expects to make accounting policy elections to account for short-term leases in all asset classes as off-balance sheet leases and to combine lessee lease and non-lease components in the computations of lease obligations and right-of-use assets for most asset classes, while lessor lease and non-lease components will be accounted for separately.

Southern Power is continuing to complete the implementation of an information technology system to track and account for its leases and of changes to its internal controls and accounting policies to support the accounting for leases under ASU 2016-02. Southern Power has substantially completed its lease inventory and determined its most significant leases as a lessee involve real estate. While Southern Power has not yet determined the ultimate impact, adoption of ASU 2016-02 is expected to result in recording lease liabilities and right-of-use assets on Southern Power's balance sheet each totaling approximately $0.5 billion, with no material impact on Southern Power's statement of income.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Power in Item 7 of the Form 10-K for additional information. Southern Power's financial condition remained stable at September 30, 2018. Southern Power intends to continue to monitor its access to short-term and long-term capital markets as well as bank credit agreements as needed to meet future capital and liquidity needs. See "Sources of Capital" herein for additional information on lines of credit.

Southern Power also utilizes third-party tax equity partnerships as one of the financing sources to fund its renewable growth strategy where the tax partner takes significantly all of the federal tax benefits. These tax equity partnerships are consolidated in Southern Power's financial statements using a hypothetical liquidation at book value (HLBV) methodology to allocate partnership gains and losses to Southern Power. During the first nine months of 2018, Southern Power obtained third-party tax equity funding for the Gaskell West 1 solar project and the Cactus Flats wind project of approximately $26 million and $122 million, respectively. See Note (A) to the Condensed Financial Statements under "Hypothetical Liquidation at Book Value" herein for additional information on the HLBV methodology.

In May 2018, Southern Power received approximately $1.2 billion from the sale of a 33% equity interest in SPSH, a limited partnership indirectly owning substantially all of Southern Power's solar facilities. The proceeds were used to repay $770 million of existing indebtedness, to return capital of $250 million to Southern Company, and for other general corporate purposes, including working capital.

On October 31, 2018, Southern Power entered into agreements with three financial investors for the sale of a noncontrolling interest for approximately $1.2 billion in tax equity in SP Wind, which owns a portfolio of eight operating wind facilities. The transaction is subject to Public Utility Commission of Texas approval and is expected to close by the end of 2018. Southern Power intends to use the proceeds to return capital of approximately $1.0 billion to Southern Company. The ultimate outcome of this matter cannot be determined at this time.

Net cash provided from operating activities totaled $666 million for the first nine months of 2018 compared to $894 million for the first nine months of 2017. The decrease in net cash provided from operating activities was primarily due to lower income tax refunds primarily due to taxable gains arising from the sale of a 33% equity interest in SPSH. See FUTURE EARNINGS POTENTIAL – "Income Tax Matters – Bonus Depreciation" of Southern Power in Item 7 of the Form 10-K for additional information. Net cash used for investing activities totaled $324 million for the first nine months of 2018 primarily due to the construction of generating facilities and payments for renewable acquisitions. Net cash used for financing activities totaled $290 million for the first nine months of 2018 primarily due to debt repayments, returns of capital and payments of common stock dividends to Southern Company, and distributions to noncontrolling interests, partially offset by proceeds from the sale of a 33% equity interest in SPSH. Cash flows from financing activities may vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first nine months of 2018 include a $1.8 billion increase in noncontrolling interests primarily due to the sale of SPSH, a $1.1 billion reduction in paid in capital, which includes $410 million related to the sale of SPSH and $250 million and $400 million of capital returned to Southern Company in the second and third quarters 2018, respectively, a $770 million decrease in securities due within one year due to repayments of debt in the second quarter 2018, and a $356 million increase in accumulated deferred income tax assets primarily due to the sale of SPSH.

See FUTURE EARNINGS POTENTIAL – "Acquisitions," "Construction Projects," and "Income Tax Matters – Legal Entity Reorganizations" herein for additional information.

Capital Requirements and Contractual Obligations

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Power in Item 7 of the Form 10-K for a description of Southern Power's capital requirements and contractual obligations. There are no scheduled maturities of long-term debt through September 30, 2019.

Southern Power's construction program includes estimates for potential plant acquisitions and placeholder growth, new construction and development, capital improvements, and work to be performed under LTSAs and is subject to periodic review and revision. Subsequent to the Tax Reform Legislation, planned expenditures for plant acquisitions and placeholder growth are now expected to average approximately $0.5 billion per year for 2018 through 2022 and may vary materially due to market opportunities and Southern Power's ability to execute its growth strategy. Southern Power's capital expenditures for committed construction, capital improvements, and work to be performed under LTSAs remain unchanged and total approximately $0.9 billion for the five years ending 2022. Actual construction costs may vary from these estimates because of numerous factors such as: changes in business conditions; changes in the expected environmental compliance program; changes in environmental laws and regulations; the outcome of any legal challenges to environmental rules; changes in FERC rules and regulations; changes in load projections; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. See FUTURE EARNINGS POTENTIAL – "Acquisitions" and "Construction Projects" herein for additional information.

Sources of Capital

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

Southern Power's current liabilities sometimes exceed current assets due to the use of short-term debt as a funding source and construction payables, as well as fluctuations in cash needs, due to seasonality. Southern Power believes the need for working capital can be adequately met by utilizing the commercial paper program, the Facility (as defined below), bank term loans, the debt capital markets, and operating cash flows.

As of September 30, 2018, Southern Power had cash and cash equivalents of approximately $192 million.

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

Details of short-term borrowings were as follows:

	Short-term Debt at September 30, 2018		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	$ 37	2.5 %	$ 44	2.3 %	$ 185
Short-term loans	200	2.8 %	200	2.7 %	200
Total	$ 237	2.8 %	$ 244	2.6 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended September 30, 2018.

At September 30, 2018, Southern Power had a committed credit facility (Facility) of $750 million, of which $22 million has been used for letters of credit and $728 million remains unused. The Facility expires in 2022. Proceeds from the Facility may be used for working capital and general corporate purposes as well as liquidity support for Southern Power's commercial paper program. Subject to applicable market conditions, Southern Power expects to renew or replace the Facility, as needed, prior to expiration. In connection therewith, Southern Power may extend the maturity date and/or increase or decrease the lending commitment thereunder. See Note 6 to the financial statements of Southern Power under "Bank Credit Arrangements" in Item 8 of the Form 10-K and Note (F) to the Condensed Financial Statements under "Bank Credit Arrangements" herein for additional information.

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

Southern Power also has a $120 million continuing letter of credit facility expiring in 2019 for standby letters of credit. At September 30, 2018, $98 million has been used for letters of credit, primarily as credit support for PPA requirements, and $22 million remains unused.

In addition, at September 30, 2018, Southern Power had $103 million of cash collateral posted related to PPA requirements.

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

Credit Rating Risk

Southern Power does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade.

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

The maximum potential collateral requirements under these contracts at September 30, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and/or Baa2	$ 37
At BBB- and/or Baa3	$ 378
At BB+ and/or Ba1(*)	$ 932

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

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

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

On September 28, 2018, Fitch assigned a negative rating outlook to the ratings of Southern Company and certain of its subsidiaries (including Southern Power).

As a result of the Tax Reform Legislation, certain financial metrics, such as the funds from operations to debt percentage, used by the credit rating agencies to assess Southern Company and its subsidiaries, including Southern Power, may be negatively impacted. Absent actions by Southern Power to mitigate the resulting impacts, which, among other alternatives, could include adjusting Southern Power's capital structure, Southern Power's credit ratings could be negatively affected.

Table of Contents

Financing Activities

In May 2018, Southern Power entered into two short-term floating rate bank loans, each for an aggregate principal amount of $100 million, which bear interest based on one-month LIBOR.

In the second quarter 2018, Southern Power repaid $420 million aggregate principal amount of long-term floating rate bank loans and $350 million aggregate principal amount of Series 2015A 1.50% Senior Notes due June 1, 2018.

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

Table of Contents

SOUTHERN COMPANY GAS
AND SUBSIDIARY COMPANIES

Table of Contents

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Natural gas revenues (includes revenue taxes of $9, $9, $83, and $75, respectively)	$487	$532	$2,829	$2,737
Alternative revenue programs	5	—	(23)	9
Other revenues	—	33	55	95
Total operating revenues	492	565	2,861	2,841
Operating Expenses:				
Cost of natural gas	104	134	1,053	1,085
Cost of other sales	—	7	12	20
Other operations and maintenance	216	206	730	675
Depreciation and amortization	119	125	374	370
Taxes other than income taxes	32	26	157	140
Gain on dispositions, net	(353)	—	(317)	—
Goodwill impairment	—	—	42	—
Total operating expenses	118	498	2,051	2,290
Operating Income	374	67	810	551
Other Income and (Expense):				
Earnings from equity method investments	34	32	108	100
Interest expense, net of amounts capitalized	(52)	(51)	(170)	(145)
Other income (expense), net	6	19	21	30
Total other income and (expense)	(12)	—	(41)	(15)
Earnings Before Income Taxes	362	67	769	