SOUTHERN CO
Form 10-Q
August 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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	58-2598670

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

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

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

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

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

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

Registrant	Description of Common Stock	Shares Outstanding at June 30, 2018
The Southern Company	Par Value $5 Per Share	1,014,136,083
Alabama Power Company	Par Value $40 Per Share	30,537,500
Georgia Power Company	Without Par Value	9,261,500
Gulf Power Company	Without Par Value	7,392,717
Mississippi Power Company	Without Par Value	1,121,000
Southern Power Company	Par Value $0.01 Per Share	1,000
Southern Company Gas	Par Value $0.01 Per Share	100

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

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

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

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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
CCR	Coal combustion residuals
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 to be issued to Georgia Power customers no later than the end of the third quarter 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
Guarantee Settlement Agreement	The June 9, 2017 settlement agreement between the Vogtle Owners and Toshiba related to the Toshiba Guarantee
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

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DEFINITIONS (continued)

Term	Meaning
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
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
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 Company, and Elkton Gas as of June 30, 2018) (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, and Chattanooga Gas Company as of July 29, 2018)
NCCR	Georgia Power's Nuclear Construction Cost Recovery
New Jersey BPU	New Jersey Board of Public Utilities
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
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

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DEFINITIONS
(continued)

Term	Meaning
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 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
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
Toshiba Guarantee	Certain payment obligations of the EPC Contractor guaranteed by Toshiba
traditional electric operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Triton	Triton Container Investments, LLC
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
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, the Municipal Electric Authority of Georgia, and the City of Dalton, Georgia, an incorporated municipality in the State of Georgia acting by and through its Board of Water, Light, and Sinking Fund Commissioners

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements include, among other things, statements concerning regulated rates, the strategic goals for the wholesale business, customer and sales growth, economic conditions, fuel and environmental cost recovery and other rate actions, 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 acquisitions or 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," "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 is just beginning 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;
- 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;

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION
(continued)

- legal proceedings and regulatory approvals and actions related to Plant Vogtle Units 3 and 4, including Georgia PSC approvals and NRC actions;
- a decision by more than 10% of the owners of Plant Vogtle Units 3 and 4 not to proceed with construction;
- 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 and Southern Power's plants located in Florida and the potential 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.

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THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail electric revenues	$3,740	$3,777	$7,308	$7,171
Wholesale electric revenues	611	618	1,230	1,149
Other electric revenues	175	167	339	342
Natural gas revenues (includes alternative revenue programs of $(4), $-, $(27), and $9, respectively)	706	684	2,314	2,214
Other revenues	395	184	808	326
Total operating revenues	5,627	5,430	11,999	11,202
Operating Expenses:				
Fuel	1,103	1,092	2,204	2,088
Purchased power	236	211	503	390
Cost of natural gas	228	232	949	951
Cost of other sales	279	114	568	203
Other operations and maintenance	1,559	1,356	3,008	2,740
Depreciation and amortization	783	754	1,552	1,469
Taxes other than income taxes	316	308	671	638
Estimated loss on plants under construction	1,060	3,012	1,105	3,120
Total operating expenses	5,564	7,079	10,560	11,599
Operating Income (Loss)	63	(1,649)	1,439	(397)
Other Income and (Expense):				
Allowance for equity funds used during construction	32	58	63	115
Earnings from equity method investments	31	28	72	67
Interest expense, net of amounts capitalized	(470)	(424)	(928)	(840)
Other income (expense), net	78	52	138	98
Total other income and (expense)	(329)	(286)	(655)	(560)
Earnings (Loss) Before Income Taxes	(266)	(1,935)	784	(957)
Income taxes (benefit)	(139)	(587)	(25)	(273)
Consolidated Net Income (Loss)	(127)	(1,348)	809	(684)
Dividends on preferred and preference stock of subsidiaries	4	11	8	22
Net income attributable to noncontrolling interests	23	22	17	17
Consolidated Net Income (Loss) Attributable to Southern Company	$(154)	$(1,381)	$784	$(723)
Common Stock Data:				
Earnings (loss) per share —				
Basic	$(0.15)	$(1.38)	$0.77	$(0.73)
Diluted	$(0.15)	$(1.37)	$0.77	$(0.72)
Average number of shares of common stock outstanding (in millions)				
Basic	1,014	998	1,012	996
Diluted	1,014	1,005	1,017	1,003
Cash dividends paid per share of common stock	$0.60	$0.58	$1.18	$1.14

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Consolidated Net Income (Loss)	$(127)	$(1,348)	$809	$(684)
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $(18), $23, $(3), and $17, respectively	(54)	38	(8)	29
Reclassification adjustment for amounts included in net income, net of tax of $21, $(25), $15, and $(26), respectively	64	(41)	45	(42)
Pension and other postretirement benefit plans:				
Reclassification adjustment for amounts included in net income, net of tax of $1, $1, $1, and $1, respectively	2	1	4	2
Total other comprehensive income (loss)	12	(2)	41	(11)
Comprehensive Income (Loss)	(115)	(1,350)	850	(695)
Dividends on preferred and preference stock of subsidiaries	4	11	8	22
Comprehensive income attributable to noncontrolling interests	23	22	17	17
Consolidated Comprehensive Income (Loss) Attributable to Southern Company	$(142)	$(1,383)	$825	$(734)

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

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

	For the Six Months Ended June 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Consolidated net income (loss)	$809	$(684)
Adjustments to reconcile consolidated net income (loss) to net cash provided from operating activities —		
Depreciation and amortization, total	1,750	1,683
Deferred income taxes	(338)	(270)
Allowance for equity funds used during construction	(63)	(115)
Pension, postretirement, and other employee benefits	(74)	(83)
Settlement of asset retirement obligations	(97)	(87)
Stock based compensation expense	83	73
Estimated loss on plants under construction	1,088	3,120
Impairment charges	161	—
Other, net	5	(118)
Changes in certain current assets and liabilities —		
-Receivables	94	107
-Prepayments	(73)	(61)
-Natural gas for sale, net of temporary LIFO liquidation	295	223
-Other current assets	(40)	(30)
-Accounts payable	(406)	(353)
-Accrued taxes	213	(132)
-Accrued compensation	(284)	(331)
-Retail fuel cost over recovery	10	(187)
-Other current liabilities	125	(14)
Net cash provided from operating activities	3,258	2,741
Investing Activities:		
Business acquisitions, net of cash acquired	(64)	(1,046)
Property additions	(3,828)	(3,398)
Nuclear decommissioning trust fund purchases	(571)	(388)
Nuclear decommissioning trust fund sales	566	383
Dispositions	500	65
Cost of removal, net of salvage	(128)	(128)
Change in construction payables, net	49	(117)
Investment in unconsolidated subsidiaries	(63)	(116)
Payments pursuant to LTSAs	(103)	(132)
Other investing activities	18	(6)
Net cash used for investing activities	(3,624)	(4,883)
Financing Activities:		
Increase in notes payable, net	1,442	30
Proceeds —		
Long-term debt	1,100	2,958
Common stock	222	417
Short-term borrowings	1,650	1,004

Redemptions and repurchases —		
Long-term debt	(3,379)	(1,478)
Preferred and preference stock	—	(150)
Short-term borrowings	(550)	—
Distributions to noncontrolling interests	(42)	(40)
Capital contributions from noncontrolling interests	1,210	73
Payment of common stock dividends	(1,194)	(1,134)
Other financing activities	(223)	(75)
Net cash provided from financing activities	236	1,605
Net Change in Cash, Cash Equivalents, and Restricted Cash	(130)	(537)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	2,147	1,992
Cash, Cash Equivalents, and Restricted Cash at End of Period	$2,017	$1,455
Supplemental Cash Flow Information:		
Cash paid during the period for —		
Interest (net of $35 and $55 capitalized for 2018 and 2017, respectively)	$927	$833
Income taxes, net	4	1
Noncash transactions — Accrued property additions at end of period	1,067	629

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

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

Assets	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$1,980	$2,130
Receivables —		
Customer accounts receivable	1,728	1,806
Energy marketing receivables	451	607
Unbilled revenues	769	810
Under recovered fuel clause revenues	159	171
Other accounts and notes receivable	621	698
Accumulated provision for uncollectible accounts	(42)	(44)
Materials and supplies	1,397	1,438
Fossil fuel for generation	462	594
Natural gas for sale	292	595
Prepaid expenses	398	452
Other regulatory assets, current	528	604
Assets held for sale, current	2,704	12
Other current assets	172	199
Total current assets	11,619	10,072
Property, Plant, and Equipment:		
In service	99,626	103,542
Less: Accumulated depreciation	30,255	31,457
Plant in service, net of depreciation	69,371	72,085
Nuclear fuel, at amortized cost	874	883
Construction work in progress	6,947	6,904
Total property, plant, and equipment	77,192	79,872
Other Property and Investments:		
Goodwill	5,315	6,268
Equity investments in unconsolidated subsidiaries	1,546	1,513
Other intangible assets, net of amortization of $205 and $186 at June 30, 2018 and December 31, 2017, respectively	702	873
Nuclear decommissioning trusts, at fair value	1,829	1,832
Leveraged leases	788	775
Miscellaneous property and investments	247	249
Total other property and investments	10,427	11,510
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	789	825
Unamortized loss on reacquired debt	333	206
Other regulatory assets, deferred	6,302	6,943
Assets held for sale	4,618	—
Other deferred charges and assets	1,497	1,577
Total deferred charges and other assets	13,539	9,551
Total Assets	$112,777	$111,005

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

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

Liabilities and Stockholders' Equity	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$2,237	$3,892
Notes payable	4,981	2,439
Energy marketing trade payables	485	546
Accounts payable	2,162	2,530
Customer deposits	488	542
Accrued taxes	544	636
Accrued interest	469	488
Accrued compensation	646	959
Asset retirement obligations, current	332	351
Other regulatory liabilities, current	508	337
Liabilities held for sale, current	706	—
Other current liabilities	808	874
Total current liabilities	14,366	13,594
Long-term Debt	42,483	44,462
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	5,934	6,842
Deferred credits related to income taxes	6,647	7,256
Accumulated deferred ITCs	2,360	2,267
Employee benefit obligations	2,009	2,256
Asset retirement obligations, deferred	5,836	4,473
Accrued environmental remediation	273	389
Other cost of removal obligations	2,364	2,684
Other regulatory liabilities, deferred	140	239
Liabilities held for sale	2,833	—
Other deferred credits and liabilities	516	691
Total deferred credits and other liabilities	28,912	27,097
Total Liabilities	85,761	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 — June 30, 2018: 1.0 million shares		
— December 31, 2017: 0.9 million shares		
Par value	5,066	5,038
Paid-in capital	10,303	10,469
Treasury, at cost	(39)	(36)
Retained earnings	8,494	8,885
Accumulated other comprehensive loss	(188)	(189)
Total Common Stockholders' Equity	23,636	24,167

Noncontrolling Interests	3,056	1,361
Total Stockholders' Equity	26,692	25,528
Total Liabilities and Stockholders' Equity	$112,777	$111,005

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

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SECOND QUARTER 2018 vs. SECOND 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 newly-formed limited partnership indirectly owning substantially all of its solar facilities. Southern Company Gas distributes natural gas through its natural gas distribution utilities in four states and is involved in several other complementary businesses including gas marketing services, wholesale gas services, and gas midstream operations. Through June 30, 2018, Southern Company Gas had seven natural gas distribution utilities in seven states. Subsequent to June 30, 2018, Southern Company Gas completed sales of three of its natural gas distribution utilities. During the second quarter 2018, Southern Company Gas completed the sale of Pivotal Home Solutions. Southern Company's other business activities include providing energy technologies and services to electric utilities and large industrial, commercial, institutional, and municipal customers. Customer solutions include distributed generation systems, utility infrastructure solutions, and energy efficiency products and services. Other business activities also include investments in telecommunications, leveraged lease projects, and gas storage facilities. For additional information, see BUSINESS – "The Southern Company System – Traditional Electric Operating Companies," " – Southern Power," " – Southern Company Gas," and " – Other Businesses" in Item 1 of the Form 10-K. See FUTURE EARNINGS POTENTIAL 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 $1.4 billion), subject to certain adjustments. The completion of the sale is subject to the satisfaction or waiver of certain closing conditions and is expected to occur in the first half of 2019. 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.

Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Atlanta Gas Light, and Nicor Gas recently 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.

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 $188 million in Customer Refunds recognized as a regulatory liability in 2017). 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 does not intend to seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast, which will be filed with the Georgia PSC in the nineteenth VCM report 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 has recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) as of June 30, 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 must vote to continue construction. The Vogtle Owners are expected to conduct these votes in the third quarter 2018.

If the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 do not vote to continue construction, the Vogtle Joint Ownership Agreements provide that the project will be cancelled, and construction will cease. In the event that fewer than 90% of the Vogtle Owners vote to continue construction, Georgia Power and the other Vogtle Owners will assess options for Plant Vogtle Units 3 and 4. If Plant Vogtle Units 3 and 4 were cancelled and Georgia Power was unable to recover costs it has incurred in connection with the project, Southern Company's results of operations, cash flow, and financial condition would be materially impacted. The ultimate outcome of this matter cannot be determined at this time.

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

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

RESULTS OF OPERATIONS

Net Income (Loss)

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$1,227	N/M	$1,507	N/M

N/M - Not meaningful

Consolidated net loss attributable to Southern Company was $(154) million ($(0.15) per share) for the second quarter 2018 compared to a net loss of $(1.4) billion ($(1.38) per share) for the corresponding period in 2017. The change was primarily due to charges of $3.01 billion ($2.12 billion after tax) in 2017 related to the Kemper IGCC at

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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 change were lower federal income tax expense as a result of the Tax Reform Legislation and higher retail electric revenues due to warmer weather in the second quarter 2018 compared to the corresponding period in 2017, partially offset by increased operations and maintenance expenses and reductions in retail revenues related to the regulatory treatment of the Tax Reform Legislation impacts.

Consolidated net income attributable to Southern Company was $784 million ($0.77 per share) for year-to-date 2018 compared to a net loss of $(723) million ($(0.73) per share) for the corresponding period in 2017. The change was primarily due to charges of $3.12 billion ($2.18 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 change 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 quarter 2018 compared to the corresponding periods in 2017, partially offset by increased operations and maintenance expenses and reductions in retail revenues related to the regulatory treatment of the Tax Reform Legislation impacts.

Retail Electric Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(37)	(1.0)	$137	1.9

In the second quarter 2018, retail electric revenues were $3.7 billion compared to $3.8 billion for the corresponding period in 2017. For year-to-date 2018, retail electric revenues were $7.3 billion compared to $7.2 billion for the corresponding period in 2017.

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

	Second Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail electric – prior year	$3,777		$7,171	
Estimated change resulting from –				
Rates and pricing	(141)	(3.7)	(245)	(3.4)
Sales growth (decline)	(5)	(0.1)	22	0.3
Weather	73	1.9	217	3.0
Fuel and other cost recovery	36	0.9	143	2.0
Retail electric – current year	$3,740	(1.0)%	$7,308	1.9%

Revenues associated with changes in rates and pricing decreased in the second quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to revenues deferred as regulatory liabilities for future adjustments to customer billings related to the Tax Reform Legislation and a decrease in the recovery of Plant Vogtle Units 3 and 4 construction financing costs under the NCCR tariff at Georgia Power, also primarily related to the Tax Reform Legislation. Also contributing to the year-to-date 2018 decrease was the rate pricing effect of increased customer usage at Georgia Power. These decreases were 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.

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Revenues attributable to changes in sales decreased in the second quarter 2018 when compared to the corresponding period in 2017. Weather-adjusted residential KWH sales were flat in the second quarter 2018, primarily due to customer growth, offset by decreased customer usage. Weather-adjusted commercial KWH sales decreased 0.2% in the second quarter 2018, primarily due to decreased customer usage, partially offset by customer growth. Industrial KWH sales increased 0.6% in the second quarter 2018, primarily in the primary metals and stone, clay, and glass sectors, partially offset by decreased sales in the paper sector.

Revenues attributable to changes in sales increased for year-to-date 2018 when compared to the corresponding period in 2017. Weather-adjusted residential KWH sales and weather-adjusted commercial KWH sales increased 0.6% and 0.5%, respectively, for year-to-date 2018, primarily due to customer growth, partially offset by decreased customer usage. Industrial KWH sales increased 1.6% for year-to-date 2018, primarily in the primary metals and stone, clay and glass sectors, partially offset by decreased sales in the paper sector.

Fuel and other cost recovery revenues increased $36 million and $143 million in the second 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 quarter 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(7)	(1.1)	$81	7.0

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, Southern Company's ability to recover fixed and variable operations and maintenance expenses is dependent upon the level of energy generated from these facilities, which can be impacted by weather conditions, equipment performance, 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.

For year-to-date 2018, wholesale electric revenues were $1.2 billion compared to $1.1 billion for the corresponding period in 2017. This increase was related to a $90 million increase in energy revenues, partially offset by a $9 million decrease in capacity revenues. The year-to-date 2018 increase in energy revenues primarily related to Southern Power and included an increase in fuel costs that are contractually recovered through PPAs, revenues from new natural gas PPAs from existing facilities, and an increase in sales from renewable facilities, partially offset by a decrease in non-PPA revenues from short-term sales.

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Natural Gas Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$22	3.2	$100	4.5

In the second quarter 2018, natural gas revenues were $706 million compared to $684 million for the corresponding period in 2017. For year-to-date 2018, natural gas revenues were $2.3 billion compared to $2.2 billion for the corresponding period in 2017.

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

	Second Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Natural gas revenues – prior year	$684		$2,214	
Estimated change resulting from –				
Infrastructure replacement programs and base rate changes	38	5.6 %	48	2.2 %
Gas costs and other cost recovery	(4)	(0.6)%	(2)	(0.1)
Weather	8	1.2 %	16	0.7
Wholesale gas services	(4)	(0.6)%	31	1.4
Other	(16)	(2.4)%	7	0.3
Natural gas revenues – current year	$706	3.2 %	$2,314	4.5 %

The increases in natural gas revenues in the second quarter and year-to-date 2018 were primarily related to continued infrastructure investments recovered through replacement programs and base rate changes at the natural gas distribution utilities. These changes include 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 decreased due to reduced natural gas prices during 2018 compared to the corresponding periods 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.

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 decreased in the second quarter 2018 primarily due to derivative losses, partially offset by increased commercial activity and increased for year-to-date 2018 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.

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Other Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$211	114.7	$482	147.9

In the second quarter 2018, other revenues were $395 million compared to $184 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $808 million compared to $326 million for the corresponding period in 2017. These increases were primarily due to PowerSecure's storm restoration services in Puerto Rico.

Fuel and Purchased Power Expenses

	Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 11	1.0	$ 116	5.6
Purchased power	25	11.8	113	29.0
Total fuel and purchased power expenses	$ 36		$ 229	

In the second quarter 2018, total fuel and purchased power expenses were $1.34 billion compared to $1.30 billion for the corresponding period in 2017. The increase was primarily the result of an $87 million increase in the volume of KWHs generated and purchased, partially offset by an $80 million decrease in the average cost of fuel and purchased power.

For year-to-date 2018, total fuel and purchased power expenses were $2.7 billion compared to $2.5 billion for the corresponding period in 2017. The increase was primarily the result of a $234 million increase in the volume of KWHs generated and purchased, partially offset by a $34 million net decrease in the average cost of fuel and purchased power.

In addition, fuel expense increased $30 million in both the second quarter and 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.

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.

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

	Second Quarter 2018	Second Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in billions of KWHs)	49	49	97	92
Total purchased power (in billions of KWHs)	5	4	10	9
Sources of generation (percent) —				
Gas	46	44	46	45
Coal	30	30	29	29
Nuclear	14	16	15	16
Hydro	3	3	3	3
Other	7	7	7	7
Cost of fuel, generated (in cents per net KWH) —				
Gas	2.74	2.94	2.80	2.93
Coal	2.75	2.85	2.82	2.87
Nuclear	0.82	0.80	0.80	0.80
Average cost of fuel, generated (in cents per net KWH)(a)	2.44	2.51	2.47	2.51
Average cost of purchased power (in cents per net KWH)(b)	5.00	5.47	5.64	5.28

(a) Cost of fuel 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 second quarter 2018, fuel expense was $1.10 billion compared to $1.09 billion for the corresponding period in 2017. The increase was primarily due to a 6.9% increase in the volume of KWHs generated by natural gas and a 1.7% increase in the volume of KWHs generated by coal, partially offset by a 6.8% decrease in the average cost of natural gas per KWH generated and a 3.5% decrease in the average cost of coal per KWH generated.

For year-to-date 2018, fuel expense was $2.2 billion compared to $2.1 billion for the corresponding period in 2017. The increase was primarily due to a 10.4% increase in the volume of KWHs generated by natural gas and a 5.9% increase in the volume of KWHs generated by coal, partially offset by a 4.4% decrease in the average cost of natural gas per KWH generated and a 1.7% decrease in the average cost of coal per KWH generated.

Purchased Power

In the second quarter 2018, purchased power expense was $236 million compared to $211 million for the corresponding period in 2017. The increase was primarily due to an 18.4% increase in the volume of KWHs purchased, partially offset by an 8.6% decrease in the average cost per KWH purchased.

For year-to-date 2018, purchased power expense was $503 million compared to $390 million for the corresponding period in 2017. The increase was primarily due to a 16.3% increase in the volume of KWHs purchased and a 6.8% 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.

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Cost of Other Sales

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$165	144.7	$365	179.8

In the second quarter 2018, cost of other sales was $279 million compared to $114 million for the corresponding period in 2017. For year-to-date 2018, cost of other sales was $568 million compared to $203 million for the corresponding period in 2017. These increases primarily reflect costs related to PowerSecure's storm restoration services in Puerto Rico.

Other Operations and Maintenance Expenses

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$203	15.0	$268	9.8

In the second quarter 2018, other operations and maintenance expenses were $1.6 billion compared to $1.4 billion for the corresponding period in 2017. The increase was primarily due to an asset impairment charge of $119 million at Southern Power related to the pending sale of its Florida plants, a $36 million loss on the sale of Pivotal Home Solutions at Southern Company Gas, and a $27 million increase in transmission and distribution costs, primarily related to line maintenance.

For year-to-date 2018, other operations and maintenance expenses were $3.0 billion compared to $2.7 billion for the corresponding period in 2017. The increase was primarily due to an asset impairment charge of $119 million at Southern Power related to the pending sale of its Florida plants, a $42 million goodwill impairment charge at Southern Company Gas related to the sale of Pivotal Home Solutions, and a $36 million loss on the sale of Pivotal Home Solutions at Southern Company Gas. Also contributing to the increase were a $38 million increase in transmission and distribution costs, primarily related to line maintenance, a $19 million decrease in gains from sales of integrated transmission system assets at Georgia Power, and a $12 million increase at Southern Company Gas to align paid time off with the Southern Company system's policy. These increases were partially offset by $32.5 million resulting from the write-down of Gulf Power's ownership of Plant Scherer Unit 3 in the first quarter 2017 in accordance with a settlement agreement approved by the Florida PSC in April 2017 (2017 Gulf Power Rate Case Settlement Agreement).

See Note (A) to the Condensed Financial Statements under "Goodwill and Other Intangible Assets" and Note (J) to the Condensed Financial Statements under "Southern Company Gas – Sale of Pivotal Home Solutions" and "Southern Power – Sale of Florida Plants" herein for additional information. Also 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 regarding the 2017 Gulf Power Rate Case Settlement Agreement.

Depreciation and Amortization

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$29	3.8	$83	5.7

In the second quarter 2018, depreciation and amortization was $783 million compared to $754 million for the corresponding period in 2017. For year-to-date 2018, depreciation and amortization was $1.6 billion compared to $1.5 billion for the corresponding period in 2017. These increases primarily reflect increases of $31 million and $65 million for the second quarter and year-to-date 2018, respectively, related to additional plant in service.

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Additionally, these increases were due to depreciation credits of $8.5 million and $34 million recognized in the second quarter and year-to-date 2017, respectively, 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$8	2.6	$33	5.2

In the second quarter 2018, taxes other than income taxes were $316 million compared to $308 million for the corresponding period in 2017. For year-to-date 2018, taxes other than income taxes were $671 million compared to $638 million for the corresponding period in 2017. These increases were primarily due to increased property taxes at Georgia Power, increased revenue tax expenses at Southern Company Gas, and increased payroll taxes related to aligning paid time off at Southern Company Gas with the Southern Company system's policy. 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.

Estimated Loss on Plants Under Construction

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(1,952)	(64.8)	$(2,015)	(64.6)

In the second quarter 2018, estimated loss on plants under construction was $1.06 billion compared to $3.01 billion for the corresponding period in 2017. For year-to-date 2018, estimated loss on plants under construction was $1.11 billion compared to $3.12 billion for the corresponding period in 2017. These decreases were primarily related to revisions to the estimated construction costs for, and subsequent suspension of, the Kemper IGCC in June 2017 at Mississippi Power, partially offset by Georgia Power's revised estimate to complete construction and start-up of Plant Vogtle Units 3 and 4 in the second quarter 2018.
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.

Allowance for Equity Funds Used During Construction

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(26)	(44.8)	$(52)	(45.2)

In the second quarter 2018, AFUDC equity was $32 million compared to $58 million in the corresponding period in 2017. For year-to-date 2018, AFUDC equity was $63 million compared to $115 million in the corresponding period in 2017. These decreases primarily resulted from Mississippi Power's suspension of the Kemper IGCC construction in June 2017, partially offset by increases in capital expenditures related to environmental and transmission projects at Alabama Power.
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" herein for additional information.

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Interest Expense, Net of Amounts Capitalized

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$46	10.8	$88	10.5

In the second quarter 2018, interest expense, net of amounts capitalized was $470 million compared to $424 million in the corresponding period in 2017. For year-to-date 2018, interest expense, net of amounts capitalized was $928 million compared to $840 million in the corresponding period in 2017. These increases were largely due to an increase in average outstanding long-term debt, primarily at the parent company and Southern Company Gas.

See 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$26	50.0	$40	40.8

In the second quarter 2018, other income (expense), net was $78 million compared to $52 million for the corresponding period in 2017. For year-to-date 2018, other income (expense), net was $138 million compared to $98 million for the corresponding period in 2017. These increases were primarily due to the settlement of Mississippi Power's Deepwater Horizon claim in May 2018. The year-to-date 2018 increase was also due to a gain from the settlement of a contractor litigation claim at Southern Company Gas.

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

Income Taxes (Benefit)

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$448	N/M	$248	N/M

N/M - Not meaningful

In the second quarter 2018, income tax benefit was $139 million compared to an income tax benefit of $587 million for the corresponding period in 2017. For year-to-date 2018, income tax benefit was $25 million compared to an income tax benefit of $273 million for the corresponding period in 2017. These changes were primarily due to 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 in the second quarter 2018 and 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. The year-to-date 2018 change was also due to net state income tax benefits arising from the reorganization of Southern Power's legal entities holding its solar facilities.

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

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SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
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Dividends on Preferred and Preference Stock of Subsidiaries

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(7)	(63.6)	$(14)	(63.6)

In the second quarter 2018, dividends on preferred and preference stock of subsidiaries was $4 million compared to $11 million for the corresponding period in 2017. For year-to-date 2018, dividends on preferred and preference stock of subsidiaries was $8 million compared to $22 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 and preference stock at Gulf 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.

FUTURE EARNINGS POTENTIAL

The results of operations discussed above are not necessarily indicative of Southern Company's future earnings potential. The level of Southern Company's future earnings depends on numerous factors that affect the opportunities, challenges, and risks of the Southern Company system's primary businesses of selling electricity and distributing natural gas. These factors include the traditional electric operating companies' and the natural gas distribution utilities' ability to maintain a constructive regulatory environment that allows for the timely recovery of prudently-incurred costs during a time of increasing costs and limited projected demand growth over the next several years. 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 of 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 $1.4 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 subject to the satisfaction or waiver of certain closing conditions, including, among others, (i) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, (ii) approval by the FERC and the Federal Communications Commission, (iii) the entry into certain ancillary agreements, including transmission-related agreements and a transition services agreement, among the parties and their affiliates, and (iv) other customary closing conditions. Southern Company's sale of Gulf Power is expected to occur in the first half of 2019. 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 $358 million and an additional $6 million for working capital. This disposition resulted in a net loss of $76 million, which included $40 million of income tax expense. 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. This disposition resulted in an estimated pre-tax gain of approximately $235 million and an after-tax gain of approximately $12 million, which will be recorded in the third 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. This disposition resulted in an estimated pre-tax gain of approximately $126 million and an after-tax gain of approximately $4 million, which will be recorded in the third quarter 2018.

The after-tax impacts of 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. Additionally, each of these dispositions is subject to a final working capital adjustment that may impact the cash proceeds from disposition, but not the gain recorded. See Note (J) to the Condensed Financial Statements under "Southern Company Gas" herein for additional information on Southern Company Gas' dispositions.

In May 2018, Southern Power completed the sale of a 33% equity interest in SPSH, a newly-formed limited partnership indirectly owning substantially all of Southern Power's solar facilities, for an aggregate purchase price of approximately $1.2 billion, subject to customary working capital adjustments. Southern Power maintains control and overall operational responsibilities for the solar facilities. See Note (J) to the Condensed Financial Statements under "Southern Power" herein for additional information.

Southern Power is pursuing the sale of a noncontrolling interest in a portfolio of eight operating wind facilities through the use of third-party tax equity, which, if successful, is expected to close in the fourth quarter 2018. See "Income Tax Matters – Southern Power" herein for additional information. The ultimate outcome of this matter cannot be determined at this time.

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

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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 greenhouse gas (GHG) strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures and operations and maintenance costs, 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 control 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).

On July 30, 2018, the EPA published certain amendments to the CCR Rule, which will be 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.

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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 as of June 30, 2018 are based on information from feasibility studies performed on ash ponds in use 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.

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 Georgia Power's ARO liability. It is not currently possible to determine the magnitude of an increase related to a change in closure strategies nor an increase related to ongoing engineering studies for the current closure strategies, and the timing of future cash outflows are indeterminable at this time. As permit applications advance, engineering studies continue, and the timing of ash pond closures develop further on a plant-by-plant basis during the second half of 2018 and in the future, Georgia Power will record any changes as necessary to its ARO liability, which could be material. Georgia Power expects to continue to periodically update these cost estimates as necessary, which could change further as additional information becomes available.

As further analysis is performed and closure details are developed with respect to ash pond closures, the traditional electric operating companies expect to periodically update their cost estimates as necessary. 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

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. 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.

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 domestic GHG policies.

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 essentially 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. The ultimate outcome of this matter cannot be determined at this time.

Regulatory Matters

Fuel Cost Recovery

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

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

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.

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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 June 30, 2018, Alabama Power's equity ratio was approximately 46.6%. 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 is returning approximately $257 million to retail customers through bill credits in the second half of 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 Southern Company's net income, but will increase operating cash flows related to fuel cost recovery in 2018. The rate will return to 5.910 cents per KWH in 2019, absent a further order from the Alabama PSC.

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 June 30, 2018, Alabama Power had applied approximately $30 million of such deferrals 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 of $131 million in October 2018, $96 million in June 2019, and $103 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. 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. 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.

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.

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 provides 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 June 30, 2018, approximately $28 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. Pending resolution of this proceeding, Gulf Power is deferring the related amounts for 2018 as a regulatory liability. Through June 30, 2018, amounts deferred totaled $5 million. Unless otherwise agreed to by the parties to the Gulf Power Tax Reform Settlement Agreement, amounts recorded in this regulatory liability will be refunded to retail customers in 2019 through Gulf Power's fuel cost recovery rates. The ultimate outcome of this matter cannot be determined at this time.

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 will take effect for 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 approximately $5.5 million requested for certain compensation costs contested by the MPUS. Under the PEP Settlement Agreement, Mississippi Power expects to defer these 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 will be 9.31% and its allowed equity ratio will remain at 50%, pending further review by the Mississippi PSC. In lieu of the requested equity ratio increase, Mississippi Power will retain $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 43.5% at June 30, 2018) to the 50% target. 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 will be suspended until after the conclusion of the 2019 Base Rate Case and Mississippi Power will not be required to make any PEP filings for regulatory years 2018, 2019, and 2020. The PEP Settlement Agreement also resolves all open PEP filings with no change to customer rates. As a result, in the third quarter 2018, Mississippi Power expects to recognize 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. 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.

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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 June 30, 2018, Mississippi Power recorded charges to income of an immaterial amount for the second quarter 2018 and $45 million ($33 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 $25 million pre-tax (excluding salvage, net of dismantlement costs), are expected to be incurred during the remainder of 2018 and 2019. 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 $4 million for the remainder of 2018, $7 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 2-year and 7-year acceleration of the retirement of Plant Watson Units 4 and 5, respectively, to the first quarter 2022 and the 4-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

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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, entered into a construction completion agreement with Bechtel, whereby Bechtel will serve as the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4 (Bechtel Agreement). The Bechtel Agreement is 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.

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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 June 30, 2018[(b)]	(4.0)
Remaining estimate to complete[(a)]	$ 4.4

(a) Excludes financing costs expected to be capitalized through AFUDC of approximately $350 million.
(b) Net of $1.7 billion received from Toshiba in 2017 under the Guarantee Settlement Agreement and $188 million in Customer Refunds recognized as a regulatory liability in 2017.

Georgia Power estimates that its financing costs for construction of Plant Vogtle Units 3 and 4 will total approximately $3.2 billion, of which $1.7 billion had been incurred through June 30, 2018.
The $0.7 billion increase to the base capital cost forecast reflected in the table above primarily results 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 does not intend to seek rate recovery for these cost increases included in the current base capital cost forecast (or any related financing costs), which will be filed with the Georgia PSC in the nineteenth VCM report at the end of August 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 has recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax), which includes the total increase in the capital cost forecast and construction contingency estimate as of June 30, 2018.
Subsequent to the EPC Contractor bankruptcy filing, a number of subcontractors to the EPC Contractor alleged non-payment by the EPC Contractor for amounts owed for work performed on Plant Vogtle Units 3 and 4. Georgia Power, acting for itself and as agent for the Vogtle Owners, has taken actions to remove liens filed by these subcontractors through the posting of surety bonds. Related to such liens, certain subcontractors have filed, and additional subcontractors may file, lawsuits against the EPC Contractor and the Vogtle Owners to preserve their payment rights with respect to such claims. All known amounts associated with the removal of subcontractor liens and other EPC Contractor pre-petition accounts payable have been paid or accrued as of June 30, 2018. The ultimate liability is expected to be finalized in connection with the completion of the sale of Westinghouse.
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 is just beginning initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost.

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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 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 (as amended, Vogtle Joint Ownership Agreements) to provide for, among other conditions, additional Vogtle Owner approval requirements. Pursuant to the Vogtle Joint Ownership Agreements, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction if certain adverse events occur, including: (i) the bankruptcy of Toshiba; (ii) termination or rejection in bankruptcy of certain agreements, including the Vogtle Services Agreement or the Bechtel Agreement; (iii) the Georgia PSC or Georgia Power determines that any of Georgia Power's costs relating to the construction of Plant Vogtle Units 3 and 4 will not be recovered in retail rates because such costs are deemed unreasonable or imprudent; or (iv) an increase in the construction budget contained in the seventeenth VCM report of more than $1 billion or extension of the project schedule contained in the seventeenth VCM report of more than one year. 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 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 in "Cost and Schedule" herein, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction. The Vogtle Owners are expected to conduct these votes in the third quarter 2018.

If the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 do not vote to continue construction, the Vogtle Joint Ownership Agreements provide that the project will be cancelled, and construction will cease. In the event that fewer than 90% of the Vogtle Owners vote to continue construction, Georgia Power and the other Vogtle Owners will assess options for Plant Vogtle Units 3 and 4. If Plant Vogtle Units 3 and 4 were cancelled and Georgia Power was unable to recover costs it has incurred in connection with the project, Southern Company's results of operations, cash flow, and financial condition would be materially impacted. The ultimate outcome of this matter cannot be determined at this time.

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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 June 30, 2018, Georgia Power had recovered approximately $1.7 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 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 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 $585 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.

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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 could have a material impact on Southern Company's results of operations, financial condition, and liquidity.

The Georgia PSC has approved seventeen VCM reports covering the periods through June 30, 2017, including total construction capital costs incurred through that date of $4.4 billion. On August 21, 2018, the Georgia PSC is scheduled to vote on Georgia Power's eighteenth VCM report, which requested approval of $448 million of construction capital costs (excluding the $1.7 billion received from Toshiba under the Guarantee Settlement Agreement and the $188 million in Customer Refunds recognized as a regulatory liability) incurred from July 1, 2017 through December 31, 2017.

On August 31, 2018, Georgia Power will file its nineteenth VCM report with the Georgia PSC, which will reflect the revised capital cost forecast discussed previously and request 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 of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world.

DOE Financing

As of June 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 June 2018, the DOE approved a request by Georgia Power to extend the conditional commitment to September 30, 2018. 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, including the Vogtle Owners' votes to continue construction. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (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 March 2018, Southern Power substantially completed 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 $50 million, which were recorded in the first quarter 2018. In April 2018, Southern Power completed the final stage of the reorganization resulting in additional net state tax benefits of approximately $4 million.

Southern Power is pursuing the sale of a noncontrolling interest in a portfolio of eight operating wind facilities through the use of third-party tax equity, which, if successful, is expected to close in the fourth quarter 2018. In the third quarter 2018, various direct and indirect subsidiaries of Southern Power that own and operate these wind facilities are expected to be reorganized under a new holding company in which the tax equity partner would invest. The reorganization is expected to result in estimated net state tax benefits totaling approximately $10 million related to certain changes in apportionment rates. The ultimate outcome of this matter cannot be determined at this time.

Other Matters

Southern Company and its subsidiaries are involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, Southern Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. The business activities of Southern Company's subsidiaries are subject to extensive governmental regulation related to public health and the environment, such as 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.

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

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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 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.

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. 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 a Southern Company Holdings Inc. (Southern Holdings) subsidiary's leveraged lease agreements 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 June 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 June 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 $188 million in Customer Refunds recognized as a regulatory liability in 2017) 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 $188 million in Customer Refunds recognized as a regulatory liability in 2017). 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 does not intend to seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast, which will be filed with the Georgia PSC in the nineteenth VCM report 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 has recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) as of June 30, 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 is just beginning initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost.

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 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

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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). See Note (A) to the Condensed Financial Statements herein for information regarding Southern Company's recently adopted accounting standards.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Southern Company in Item 7 of the Form 10-K for additional information. Southern Company's financial condition remained stable at June 30, 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 $3.3 billion for the first six months of 2018, an increase of $0.5 billion from the corresponding period in 2017. The increase in net cash provided from operating activities was primarily due to an increase in fuel cost recovery and an increase in other current liabilities, primarily due to the timing of customer billing reductions related to the Tax Reform Legislation. Net cash used for investing activities totaled $3.6 billion for the first six 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. Net cash provided from financing activities totaled $0.2 billion for the first six months of 2018 primarily due to an increase in commercial paper borrowings and proceeds from Southern Power's sale of a 33% equity interest in a limited partnership indirectly owning substantially all of its solar facilities, partially offset by common stock dividend payments and net redemptions and repurchases of long-term and short-term debt. Cash flows from financing activities vary from period to period based on capital needs and the maturity or redemption of securities.

Significant balance sheet changes for the first six months of 2018 include the reclassification of $7.3 billion and $3.5 billion in total assets and liabilities held for sale, respectively, associated with Gulf Power, Elizabethtown Gas, Elkton Gas, and Florida City Gas as described in Note (J) to the Condensed Financial Statements herein under "Assets Held for Sale;" an increase of $2.8 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 charge related to the construction of Plant Vogtle Units 3 and 4; an increase of $2.5 billion in notes payable primarily related to increased commercial paper borrowings and issuances of short-term bank debt; a decrease of $2.3 billion in long-term debt (including amounts due within one year) resulting from the repayment of long-term debt; an increase of $1.7 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 second quarter 2018, the market price of Southern Company's common stock was $46.31 per share (based on the closing price as reported on the New York Stock Exchange) and the book value was $23.31 per share, representing a market-to-book ratio of 199%, compared to $48.09, $23.99, and 201%, respectively, at the end of

2017. Southern Company's common stock dividend for the second quarter 2018 was $0.60 per share compared to $0.58 per share in the second 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. Approximately $2.2 billion will be required through June 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 June 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 the 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 second half of 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 is just beginning 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. Southern Company Gas also plans to utilize the proceeds from the dispositions of Elizabethtown Gas, Elkton Gas, Florida City Gas, and Pivotal Home Solutions for future capital needs. 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 June 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 September 30, 2018, 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, including the Vogtle Owners' votes to continue construction. See Note 6 to the financial statements of Southern Company under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (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.

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As of June 30, 2018, Southern Company's current liabilities exceeded current assets by $2.7 billion due to notes payable of $5.0 billion (comprised of approximately $3.0 billion at the parent company, $0.5 billion at Georgia Power, $0.1 billion at Gulf Power, $0.1 billion at Mississippi Power, $0.3 billion at Southern Power, and $1.0 billion at Southern Company Gas) and long-term debt that is due within one year of $2.2 billion (comprised of approximately $1.0 billion at the parent company, $0.2 billion at Alabama Power, $0.5 billion at Georgia Power, $0.3 billion at Mississippi Power, and $0.2 billion at Southern Company Gas). To meet short-term cash needs and contingencies, the Southern Company system has substantial cash flow from operating activities and access to capital markets and financial institutions. Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas intend to utilize operating cash flows, as well as commercial paper, lines of credit, bank notes, and securities issuances, as market conditions permit, as well as, under certain circumstances for the traditional electric operating companies, Southern Power, and Southern Company Gas, equity contributions and/or loans from Southern Company to meet their short-term capital needs.

At June 30, 2018, Southern Company and its subsidiaries had approximately $2.0 billion of cash and cash equivalents. Committed credit arrangements with banks at June 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	2	31	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	—	—	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	$122	$ 86	$735	$7,200	$8,143	$8,101	$ 45	$45	$ 163

(a) Represents the Southern Company parent entity.

(b) Does not include Southern Power's $120 million continuing letter of credit facility for standby letters of credit expiring in 2019, of which $23 million remains unused at June 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, Mississippi Power, and Southern Power Company contain covenants that limit debt levels and contain cross-acceleration or cross-default provisions to other indebtedness (including guarantee obligations) that are restricted only to the indebtedness of the individual company. Such cross-default provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness or guarantee obligations over a specified threshold. Such cross-acceleration provisions to other indebtedness would trigger an event of default if the applicable borrower defaulted on indebtedness, the payment of which was then accelerated. At June 30, 2018, Southern Company, the traditional electric operating companies, Southern Power Company, Southern Company

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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 June 30, 2018 was approximately $1.5 billion. In addition, at June 30, 2018, the traditional electric operating companies had approximately $482 million of revenue bonds outstanding that were required to be remarketed within the next 12 months. Subsequent to June 30, 2018, approximately $43 million of these pollution control revenue bonds of Mississippi Power were purchased and held by Mississippi Power.

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

Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 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	$3,002	2.5 %	$2,292	2.4 %	$ 3,042
Short-term bank debt	1,979	3.0 %	1,987	2.8 %	2,254
Total	$4,981	2.7 %	$4,279	2.6 %	

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

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

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB and/or Baa2	$ 38
At BBB- and/or Baa3	$ 576
At BB+ and/or Ba1(*)	$ 2,141

(*) 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 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 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.

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 certain of its subsidiaries are taking 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 recent 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 six months of 2018, Southern Company issued approximately 6.6 million shares of common stock primarily through employee equity compensation plans and received proceeds of approximately $222 million.

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

Company	Senior Note Issuances	Senior Note Maturities, Redemptions, and Repurchases	Revenue Bond Maturities, Redemptions, and Repurchases	Other Long-Term Debt Redemptions and Maturities(*)
	(in millions)			
Alabama Power	$500	$ —	$ —	$ —
Georgia Power	—	1,000	398	104
Mississippi Power	600	—	—	900
Southern Power	—	350	—	420
Southern Company Gas	—	—	200	—
Other	—	—	—	7
Southern Company Consolidated	$1,100	$ 1,350	$ 598	$ 1,431

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

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, and for the subsidiaries, 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.

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

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

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 $50 million was repaid on July 31, 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 June 30, 2018, approximately $43 million in pollution control revenue bonds of Mississippi Power were purchased and held by Mississippi Power. These bonds may be remarketed to the public in the future.

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, Pivotal Utility Holdings caused $200 million aggregate principal amount of gas facility revenue bonds to be redeemed. Also in the second quarter 2018, Pivotal Utility Holdings, as borrower, and Southern Company Gas, as guarantor, entered into a $181 million short-term delayed draw floating rate bank term loan

bearing interest based on one-month LIBOR, which Pivotal Utility Holdings used to repay the gas facility revenue bonds. Subsequent to June 30, 2018, Pivotal Utility Holdings repaid this short-term loan.

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 pay down short-term debt. Subsequent to June 30, 2018, Southern Company Gas Capital repaid this loan.

Subsequent to June 30, 2018, Nicor Gas agreed to issue $300 million aggregate principal amount of first mortgage bonds in a private placement, $100 million of which is expected to be issued in August 2018 and $200 million of which is expected to be issued in November 2018.

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

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PART I

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the three months ended June 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 second 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.

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ALABAMA POWER COMPANY

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ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,338	$1,333	$2,624	$2,560
Wholesale revenues, non-affiliates	65	68	139	133
Wholesale revenues, affiliates	31	32	82	65
Other revenues	69	51	131	108
Total operating revenues	1,503	1,484	2,976	2,866
Operating Expenses:				
Fuel	347	303	672	601
Purchased power, non-affiliates	48	40	113	75
Purchased power, affiliates	43	34	80	62
Other operations and maintenance	402	389	788	772
Depreciation and amortization	189	183	379	364
Taxes other than income taxes	94	95	192	191
Total operating expenses	1,123	1,044	2,224	2,065
Operating Income	380	440	752	801
Other Income and (Expense):				
Allowance for equity funds used during construction	14	8	27	16
Interest expense, net of amounts capitalized	(80)	(77)	(158)	(153)
Other income (expense), net	12	15	15	25
Total other income and (expense)	(54)	(54)	(116)	(112)
Earnings Before Income Taxes	326	386	636	689
Income taxes	64	151	145	277
Net Income	262	235	491	412
Dividends on Preferred and Preference Stock	3	5	7	9
Net Income After Dividends on Preferred and Preference Stock	$259	$230	$484	$403

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income	$262	$235	$491	$412
Other comprehensive income (loss):				
Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $1, $1, and $1, respectively	1	1	2	2

Total other comprehensive income (loss)	1	1	2	2
Comprehensive Income	$263	$236	$493	$414

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

ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income	$491	$412
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	452	442
Deferred income taxes	48	192
Allowance for equity funds used during construction	(27)	(16)
Pension, postretirement, and other employee benefits	(28)	(24)
Other, net	(40)	20
Changes in certain current assets and liabilities —		
-Receivables	(153)	(58)
-Prepayments	(57)	(56)
-Materials and supplies	(47)	(18)
-Other current assets	29	12
-Accounts payable	(196)	(154)
-Accrued taxes	134	52
-Accrued compensation	(70)	(74)
-Retail fuel cost over recovery	—	(65)
-Other current liabilities	116	7
Net cash provided from operating activities	652	672
Investing Activities:		
Property additions	(997)	(738)
Nuclear decommissioning trust fund purchases	(131)	(117)
Nuclear decommissioning trust fund sales	131	117
Cost of removal, net of salvage	(34)	(54)
Change in construction payables	(29)	48
Other investing activities	(15)	(15)
Net cash used for investing activities	(1,075)	(759)
Financing Activities:		
Proceeds —		
Senior notes	500	550
Capital contributions from parent company	488	327
Redemptions — Senior notes	—	(200)
Payment of common stock dividends	(402)	(357)
Other financing activities	(21)	(14)
Net cash provided from financing activities	565	306
Net Change in Cash, Cash Equivalents, and Restricted Cash	142	219
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	544	420
Cash, Cash Equivalents, and Restricted Cash at End of Period	$686	$639
Supplemental Cash Flow Information:		
Cash paid during the period for —		

Interest (net of $10 and $6 capitalized for 2018 and 2017, respectively)	$143	$140
Income taxes, net	17	88
Noncash transactions — Accrued property additions at end of period	216	132

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$686	$ 544
Receivables —		
Customer accounts receivable	401	355
Unbilled revenues	174	162
Under recovered regulatory clause revenues	28	—
Affiliated	54	43
Other accounts and notes receivable	41	55
Accumulated provision for uncollectible accounts	(10)	(9)
Fossil fuel stock	154	184
Materials and supplies	518	458
Prepaid expenses	90	85
Other regulatory assets, current	146	124
Other current assets	11	5
Total current assets	2,293	2,006
Property, Plant, and Equipment:		
In service	29,374	27,326
Less: Accumulated provision for depreciation	9,813	9,563
Plant in service, net of depreciation	19,561	17,763
Nuclear fuel, at amortized cost	337	339
Construction work in progress	1,172	908
Total property, plant, and equipment	21,070	19,010
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	66	67
Nuclear decommissioning trusts, at fair value	906	903
Miscellaneous property and investments	124	124
Total other property and investments	1,096	1,094
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	234	239
Deferred under recovered regulatory clause revenues	121	54
Other regulatory assets, deferred	1,244	1,272
Other deferred charges and assets	212	189
Total deferred charges and other assets	1,811	1,754
Total Assets	$26,270	$ 23,864

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

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ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$200	$ —
Accounts payable —		
Affiliated	298	327
Other	398	585
Customer deposits	95	92
Accrued taxes	137	54
Accrued interest	81	77
Accrued compensation	140	205
Other regulatory liabilities, current	118	1
Other current liabilities	143	59
Total current liabilities	1,610	1,400
Long-term Debt	7,922	7,628
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,829	2,760
Deferred credits related to income taxes	2,061	2,082
Accumulated deferred ITCs	109	112
Employee benefit obligations	275	304
Asset retirement obligations	3,085	1,702
Other cost of removal obligations	580	609
Other regulatory liabilities, deferred	43	84
Other deferred credits and liabilities	64	63
Total deferred credits and other liabilities	9,046	7,716
Total Liabilities	18,578	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	3,480	2,986
Retained earnings	2,729	2,647
Accumulated other comprehensive loss	(30)	(26)
Total common stockholder's equity	7,401	6,829
Total Liabilities and Stockholder's Equity	$26,270	$ 23,864

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

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

SECOND QUARTER 2018 vs. SECOND 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$29	12.6	$81	20.1

Alabama Power's net income after dividends on preferred and preference stock for the second quarter 2018 was $259 million compared to $230 million for the corresponding period in 2017. The increase was primarily related to an increase in retail revenues associated with warmer weather experienced in Alabama Power's service territory in the second quarter 2018 compared to the corresponding period in 2017 and a decrease in income tax expense, partially offset by revenues deferred as a regulatory liability for reductions to customer billings, which began in July 2018, related to the Tax Reform Legislation.

Alabama Power's net income after dividends on preferred and preference stock for year-to-date 2018 was $484 million compared to $403 million for the corresponding period in 2017. The increase was primarily related to an increase in retail revenues associated with colder weather experienced in the first quarter 2018 and warmer weather experienced in the second quarter 2018 in Alabama Power's service territory compared to the corresponding periods in 2017 and a decrease in income tax expense, partially offset by revenues deferred as a regulatory liability for reductions to customer billings, which began in July 2018, related to the Tax Reform Legislation and an increase in depreciation.

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.

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

Retail Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$5	0.4	$64	2.5

In the second quarter 2018, retail revenues were $1.34 billion compared to $1.33 billion for the corresponding period in 2017. For year-to-date 2018, retail revenues were $2.62 billion compared to $2.56 billion for the corresponding period in 2017.

Details of the changes in retail revenues were as follows:

	Second Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,333		$2,560	
Estimated change resulting from –				
Rates and pricing	(57)	(4.2)	(108)	(4.2)
Sales decline	(7)	(0.6)	(5)	(0.2)
Weather	28	2.1	92	3.6
Fuel and other cost recovery	41	3.1	85	3.3
Retail – current year	$1,338	0.4 %	$2,624	2.5 %

Revenues associated with changes in rates and pricing decreased in the second quarter and year-to-date 2018 when compared to the corresponding periods in 2017 primarily due to revenues deferred as a regulatory liability for reductions to customer billings, which began in July 2018, 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 second quarter and year-to-date 2018 when compared to the corresponding periods in 2017. Weather-adjusted commercial KWH sales decreased 2.3% and 1.6% for the second quarter and year-to-date 2018, respectively, and weather-adjusted residential KWH sales decreased 0.9% and 0.7% for the second 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 1.6% and 3.0% for the second 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 pipelines and primary metals sectors, partially offset by a decrease in demand in the paper sector.

Revenues resulting from changes in weather increased in the second quarter and year-to-date 2018 due to colder weather experienced in the first quarter 2018 and warmer weather experienced in the second quarter 2018 in Alabama Power's service territory compared to the corresponding periods in 2017. For the second quarter 2018, the resulting increases were 3.9% and 1.7% for residential and commercial sales revenues, respectively. For year-to-date 2018, the resulting increases were 7.0% and 2.4% for residential and commercial sales revenues, respectively.

Fuel and other cost recovery revenues increased in the second 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.

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

Wholesale Revenues – Affiliates

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(1)	(3.1)	$17	26.2

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 $82 million compared to $65 million for the corresponding period in 2017. The increase was primarily due to an 12.4% increase in the price of energy and an 11.3% increase in KWH sales as a result of increased demand due to colder weather in the first quarter 2018 compared to the corresponding period in 2017.

Other Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$18	35.3	$23	21.3

In the second quarter 2018, other revenues were $69 million compared to $51 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $131 million compared to $108 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 and miscellaneous rents.

Fuel and Purchased Power Expenses

	Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ 44	14.5	$ 71	11.8
Purchased power – non-affiliates	8	20.0	38	50.7
Purchased power – affiliates	9	26.5	18	29.0
Total fuel and purchased power expenses	$ 61		$ 127	

In the second quarter 2018, fuel and purchased power expenses were $438 million compared to $377 million for the corresponding period in 2017. The increase was primarily due to a $39 million increase related to the volume of KWHs generated and purchased and a $7 million increase related to the average cost of fuel, partially offset by a $14 million decrease in the average cost of purchased power.

For year-to-date 2018, fuel and purchased power expenses were $865 million compared to $738 million for the corresponding period in 2017. The increase was primarily due to a $75 million increase related to the volume of

KWHs generated and purchased, a $16 million increase related to the average cost of fuel, and a $7 million increase in the average cost of purchased power.

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

In addition, fuel expense increased $30 million in both the second quarter and 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:

	Second Quarter 2018	Second Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in billions of KWHs)	15	15	31	30
Total purchased power (in billions of KWHs)	2	1	3	2
Sources of generation (percent) —				
Coal	53	47	52	48
Nuclear	20	25	21	26
Gas	20	20	19	20
Hydro	7	8	8	6
Cost of fuel, generated (in cents per net KWH)[a] —				
Coal	2.79	2.63	2.74	2.61
Nuclear	0.80	0.76	0.77	0.75
Gas	2.51	2.75	2.69	2.76
Average cost of fuel, generated (in cents per net KWH)[a][b]	2.31	2.14	2.27	2.13
Average cost of purchased power (in cents per net KWH)[c]	4.72	5.43	5.72	5.50

(a) Cost of fuel 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) 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 second quarter 2018, fuel expense was $347 million compared to $303 million for the corresponding period in 2017. The increase was primarily due to a 24.9% decrease in the volume of KWHs generated by nuclear facilities, a 12.4% decrease in the volume of KWHs generated by hydro facilities, an 8.7% increase in the volume of KWHs generated by coal, a 6.1% increase in the average cost of coal per KWH generated, and a 5.3% increase in the average cost of nuclear per KWH generated. These increases were partially offset by an 8.7% decrease in the average cost of natural gas per KWH generated, which excludes fuel associated with tolling agreements.

For year-to-date 2018, fuel expense was $672 million compared to $601 million for the corresponding period in 2017. The increase was primarily due to a 14.2% decrease in the volume of KWHs generated by nuclear facilities, a 9.8% 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 a 22.6% increase in the volume of KWHs generated by hydro facilities.

In addition, fuel expense increased $30 million in both the second quarter and year-to-date 2018 in accordance with an Alabama PSC accounting order authorizing the use of excess deferred income taxes to offset under recovered

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fuel costs. See FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Accounting Order" herein for additional information.

Purchased Power – Non-Affiliates

In the second quarter 2018, purchased power expense from non-affiliates was $48 million compared to $40 million for the corresponding period in 2017. The increase was primarily related to a 24.6% increase in the amount of energy purchased due to warmer weather in the second quarter 2018 compared to the corresponding period in 2017. This increase was partially offset by a 4.4% decrease in the average cost of purchased power per KWH due to lower natural gas prices.

For year-to-date 2018, purchased power expense from non-affiliates was $113 million compared to $75 million for the corresponding period in 2017. The increase was primarily related to a 29.6% increase in the amount of energy purchased and a 15.6% increase in the average cost of purchased power per KWH due to colder weather in the first quarter 2018 compared to the corresponding period 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 second quarter 2018, purchased power expense from affiliates was $43 million compared to $34 million for the corresponding period in 2017. The increase was primarily related to a 60.8% increase in the amount of energy purchased due to warmer weather in the second quarter 2018 compared to the corresponding period in 2017, partially offset by a 20.9% decrease in the average cost of purchased power per KWH due to lower natural gas prices in the second quarter 2018 compared to the corresponding period in 2017.

For year-to-date 2018, purchased power expense from affiliates was $80 million compared to $62 million for the corresponding period in 2017. The increase was primarily related to a 44% increase in the amount of energy purchased as a result of colder weather in the first quarter 2018 compared to the corresponding period in 2017, partially offset by a 9.8% decrease in the average cost of purchased power per KWH due to lower natural gas prices in the second quarter 2018 compared to the corresponding period 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$13	3.3	$16	2.1

In the second quarter 2018, other operations and maintenance expenses were $402 million compared to $389 million for the corresponding period in 2017. The increase was primarily due to $12 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 $5 million primarily due to line maintenance. These increases were partially offset by a $4 million decrease in nuclear generation costs primarily due to the timing of plant improvement projects.

For year-to-date 2018, other operations and maintenance expenses were $788 million compared to $772 million for the corresponding period in 2017. The increase was primarily due to $21 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,

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distribution costs increased $11 million primarily due to line maintenance. These increases were partially offset by a $6 million decrease in property insurance primarily due to the receipt of refunds, a $5 million decrease in steam generation costs primarily due to the timing of outages, and a $5 million decrease in nuclear generation costs primarily due to the timing of plant improvement projects.

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

Depreciation and Amortization

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$6	3.3	$15	4.1

For year-to-date 2018, depreciation and amortization was $379 million compared to $364 million for the corresponding period in 2017. This increase was 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$6	75.0	$11	68.8

In the second quarter 2018, AFUDC equity was $14 million compared to $8 million for the corresponding period in 2017. For year-to-date 2018, AFUDC equity was $27 million compared to $16 million for the corresponding period in 2017. These increases were primarily due to an increase in capital expenditures related to environmental and transmission projects.

Other Income (Expense), Net

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(3)	(20.0)	$(10)	(40.0)

In the second quarter 2018, other income (expense), net was $12 million compared to $15 million for the corresponding period in 2017. For year-to-date 2018, other income (expense), net was $15 million compared to $25 million for the corresponding period in 2017. These decreases were 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(87)	(57.6)	$(132)	(47.7)

In the second quarter 2018, income taxes were $64 million compared to $151 million for the corresponding period in 2017. For year-to-date 2018, income taxes were $145 million compared to $277 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 net

income. 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 greenhouse gas (GHG) strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures and operations and maintenance costs, 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 control 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.

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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).

On July 30, 2018, the EPA published certain amendments to the CCR Rule, which will be 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 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 as of June 30, 2018 are 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 necessary. 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.

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Nuclear Decommissioning

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. 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.

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.

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 essentially 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 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. 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.

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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 June 30, 2018, Alabama Power's equity ratio was approximately 46.6%. 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 is returning approximately $257 million to retail customers through bill credits in the second half of 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. The rate will return to 5.910 cents per KWH in 2019, absent a further order from the Alabama PSC.

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

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amounts under Rate ECR. Any remaining amounts will be used for the benefit of customers as determined by the Alabama PSC. As of June 30, 2018, Alabama Power had applied approximately $30 million of such deferrals 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 4-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.

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 – "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 proposed orders also require the submission to the ADEM of a plan with a schedule for implementation of a comprehensive groundwater investigation, including an assessment of corrective measures, a report evaluating any deficiencies at the facilities that may have led to the

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unpermitted discharges, and quarterly progress reports. Alabama Power is awaiting finalization of the orders. The ultimate outcome of this matter cannot be determined at this time.

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). See Note (A) to the Condensed Financial Statements herein for information regarding Alabama Power's recently adopted accounting standards.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Alabama Power in Item 7 of the Form 10-K for additional information. Alabama Power's financial condition remained stable at June 30, 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 $652 million for the first six months of 2018, a decrease of $20 million as compared to the first six months of 2017. The decrease in net cash provided from operating activities was primarily due to decreased fuel cost recovery and the timing of vendor payments. These uses of cash were partially offset by an increase in other current liabilities due to the timing of customer billing reductions related to the Tax Reform Legislation and income tax refunds in 2018. Net cash used for investing activities totaled $1.08 billion for the first six months of 2018 primarily due to gross property additions related to environmental, distribution, and transmission assets. Net cash provided from financing activities totaled $565 million for the first six 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 six months of 2018 include increases of $2.1 billion in property, plant, and equipment primarily due to increases in AROs related to the CCR Rule and additions to distribution, environmental, and transmission assets, $1.4 billion in AROs related to the CCR Rule and nuclear decommissioning, $494 million in additional paid-in capital due to capital contributions from Southern Company, $294 million in long-term debt primarily due to the issuance of additional senior notes, and $200 million in securities due within one year reclassified from long-term debt. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information related to changes in Alabama Power's AROs.

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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. Approximately $200 million will be required through June 30, 2019 to fund maturities of long-term debt.

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.

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 as Alabama Power continues to refine its assumptions underlying the cost estimates and evaluate the method and timing of compliance activities, 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, and $252 million for 2022. See Note 1 to the financial statements of Alabama Power under "Asset Retirement Obligations and Other Costs of Removal" in Item 8 of the Form 10-K, FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Laws and Regulations – Coal Combustion Residuals" herein, and Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" 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; 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 June 30, 2018, Alabama Power had approximately $686 million of cash and cash equivalents. Committed credit arrangements with banks at June 30, 2018 were as follows:

Expires						Expires Within One Year	
2018	2019	2020	2022	Total	Unused	Term Out	No Term Out
(in millions)							
$2	$31	$500	$800	$1,333	$1,333	$—	$33

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.

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Most of these bank credit arrangements, as well as Alabama Power's term loan arrangements, contain covenants that limit debt levels and contain cross-acceleration provisions to other indebtedness (including guarantee obligations) of Alabama Power. Such cross-acceleration provisions to other indebtedness would trigger an event of default if Alabama Power defaulted on indebtedness, the payment of which was then accelerated. At June 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 June 30, 2018. At June 30, 2018, Alabama Power had $120 million of fixed rate pollution control revenue bonds outstanding that were required to be reoffered within the next 12 months.

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

Details of short-term borrowings were as follows:

	Short-term Debt at June 30, 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	$ —	— %	$44	2.2 %	$ 245
Short-term bank loan	3	3.7 %	3	3.7 %	3
Total	$ 3	3.7 %	$47	2.3 %	

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 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 June 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 June 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	$	279

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.

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.

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$1,889	$1,904	$3,688	$3,593
Wholesale revenues, non-affiliates	36	40	80	79
Wholesale revenues, affiliates	3	9	13	17
Other revenues	120	95	227	191
Total operating revenues	2,048	2,048	4,008	3,880
Operating Expenses:				
Fuel	378	445	790	815
Purchased power, non-affiliates	111	103	233	191
Purchased power, affiliates	178	138	349	310
Other operations and maintenance	457	417	863	816
Depreciation and amortization	230	223	458	444
Taxes other than income taxes	106	101	214	199
Estimated loss on Plant Vogtle Units 3 and 4	1,060	—	1,060	—
Total operating expenses	2,520	1,427	3,967	2,775
Operating Income (Loss)	(472)	621	41	1,105
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(102)	(104)	(208)	(205)
Other income (expense), net	35	34	73	71
Total other income and (expense)	(67)	(70)	(135)	(134)
Earnings (Loss) Before Income Taxes	(539)	551	(94)	971
Income taxes (benefit)	(143)	199	(50)	355
Net Income (Loss)	(396)	352	(44)	616
Dividends on Preferred and Preference Stock	—	5	—	9
Net Income (Loss) After Dividends on Preferred and Preference Stock	$(396)	$347	$(44)	$607

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income (Loss)	$(396)	$352	$(44)	$616
Other comprehensive income (loss):				
Qualifying hedges:				
Reclassification adjustment for amounts included in net income, net of tax of $-, $-, $1, and $1, respectively	1	1	2	2
Total other comprehensive income (loss)	1	1	2	2

Comprehensive Income (Loss)	$(395)	$353	$(42)	$618

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

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GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30, 2018	2017
	(in millions)	
Operating Activities:		
Net income (loss)	$ (44)	$ 616
Adjustments to reconcile net income (loss) to net cash provided from operating activities —		
Depreciation and amortization, total	562	543
Deferred income taxes	(256)	159
Allowance for equity funds used during construction	(32)	(25)
Deferred expenses	34	41
Pension, postretirement, and other employee benefits	(47)	(45)
Settlement of asset retirement obligations	(49)	(62)
Estimated loss on Plant Vogtle Units 3 and 4	1,060	—
Other, net	27	(39)
Changes in certain current assets and liabilities —		
-Receivables	(103)	(150)
-Fossil fuel stock	38	(32)
-Prepaid income taxes	115	(4)
-Other current assets	25	(18)
-Accounts payable	(87)	(153)
-Accrued taxes	(89)	(194)
-Accrued compensation	(56)	(65)
-Retail fuel cost over recovery	—	(84)
-Other current liabilities	(26)	(6)
Net cash provided from operating activities	1,072	482
Investing Activities:		
Property additions	(1,501)	(1,284)
Nuclear decommissioning trust fund purchases	(440)	(271)
Nuclear decommissioning trust fund sales	435	266
Cost of removal, net of salvage	(50)	(32)
	86	1

Change in construction payables, net of joint owner portion				
Payments pursuant to LTSAs	(46	)	(56	)
Asset dispositions	134		63	
Other investing activities	(11	)	(12	)
Net cash used for investing activities	(1,393	)	(1,325	)
Financing Activities:				
Increase in notes payable, net	480		37	
Proceeds —				
Capital contributions from parent company	1,502		380	
Senior notes	—		850	
Short-term borrowings	—		800	
Redemptions and repurchases —				
Senior notes	(1,000	)	(450	)
Pollution control revenue bonds	(398	)	(27	)
Short-term borrowings	(150	)	—	
Other long-term debt	(100	)	—	
Payment of common stock dividends	(691	)	(640	)
Premiums on redemption and repurchases of senior notes	(152	)	—	
Other financing activities	(11	)	(19	)
Net cash provided from (used for) financing activities	(520	)	931	
Net Change in Cash, Cash Equivalents, and Restricted Cash	(841	)	88	
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	852		3	
Cash, Cash Equivalents, and Restricted Cash at End of Period	$ 11		$ 91	
Supplemental Cash Flow Information:				
Cash paid during the period for —				
Interest (net of $12 and $11 capitalized for 2018 and 2017, respectively)	$ 211		$ 186	
Income taxes, net	64		213	
	669		348	

Noncash transactions —
Accrued property additions
at end of period
The accompanying notes as they relate to Georgia Power are an integral part of these condensed financial statements.

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$11	$ 852
Receivables —		
Customer accounts receivable	631	544
Unbilled revenues	276	255
Under recovered fuel clause revenues	159	165
Joint owner accounts receivable	239	262
Affiliated	25	24
Other accounts and notes receivable	81	76
Accumulated provision for uncollectible accounts	(3)	(3)
Fossil fuel stock	276	314
Materials and supplies	498	504
Prepaid expenses	91	216
Other regulatory assets, current	206	205
Other current assets	23	14
Total current assets	2,513	3,428
Property, Plant, and Equipment:		
In service	35,467	34,861
Less: Accumulated provision for depreciation	11,901	11,704
Plant in service, net of depreciation	23,566	23,157
Nuclear fuel, at amortized cost	536	544
Construction work in progress	4,157	4,613
Total property, plant, and equipment	28,259	28,314
Other Property and Investments:		
Equity investments in unconsolidated subsidiaries	52	53
Nuclear decommissioning trusts, at fair value	924	929
Miscellaneous property and investments	61	59
Total other property and investments	1,037	1,041
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	518	516
Other regulatory assets, deferred	3,064	2,932
Other deferred charges and assets	570	548
Total deferred charges and other assets	4,152	3,996
Total Assets	$35,961	$ 36,779

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

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GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Liabilities and Stockholder's Equity	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Liabilities:		
Securities due within one year	$509	$857
Notes payable	480	150
Accounts payable —		
Affiliated	458	493
Other	885	834
Customer deposits	275	270
Accrued taxes	230	344
Accrued interest	110	123
Accrued compensation	149	219
Asset retirement obligations, current	191	270
Other regulatory liabilities, current	214	191
Other current liabilities	205	198
Total current liabilities	3,706	3,949
Long-term Debt	9,936	11,073
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	2,925	3,175
Deferred credits related to income taxes	3,218	3,248
Accumulated deferred ITCs	267	248
Employee benefit obligations	636	659
Asset retirement obligations, deferred	2,427	2,368
Other deferred credits and liabilities	144	128
Total deferred credits and other liabilities	9,617	9,826
Total Liabilities	23,259	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	8,834	7,328
Retained earnings	3,480	4,215
Accumulated other comprehensive loss	(10)	(10)
Total common stockholder's equity	12,702	11,931
Total Liabilities and Stockholder's Equity	$35,961	$36,779

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

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

SECOND QUARTER 2018 vs. SECOND 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 expected 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.

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 $188 million in Customer Refunds recognized as a regulatory liability in 2017). 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 does not intend to seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast, which will be filed with the Georgia PSC in the nineteenth VCM report 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 has recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) as of June 30, 2018.

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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 must vote to continue construction. The Vogtle Owners are expected to conduct these votes in the third quarter 2018.

If the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 do not vote to continue construction, the Vogtle Joint Ownership Agreements provide that the project will be cancelled, and construction will cease. In the event that fewer than 90% of the Vogtle Owners vote to continue construction, Georgia Power and the other Vogtle Owners will assess options for Plant Vogtle Units 3 and 4. If Plant Vogtle Units 3 and 4 were cancelled and Georgia Power was unable to recover costs it has incurred in connection with the project, Georgia Power's results of operations, cash flow, and financial condition would be materially impacted. The ultimate outcome of this matter cannot be determined at this time.

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

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 (Loss)

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(743)	N/M	$(651)	N/M

N/M - Not meaningful

Georgia Power's net loss after dividends on preferred and preference stock for the second quarter 2018 was $396 million compared to net income after dividends on preferred and preference stock of $347 million for the corresponding period in 2017. For year-to-date 2018, net loss after dividends on preferred and preference stock was $44 million compared to net income after dividends on preferred and preference stock of $607 million for the corresponding period in 2017. The changes were 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 refunds related to the Tax Reform Legislation, and higher non-fuel operations and maintenance expenses. Partially offsetting the changes were lower federal income tax expense as a result of the Tax Reform Legislation and an increase in retail revenues associated with warmer weather in the second quarter 2018 compared to the corresponding period in 2017. Also offsetting the change for year-to-date 2018 was an increase in retail revenues associated with colder weather in the first quarter 2018 compared to the corresponding period in 2017. 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.

Retail Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(15)	(0.8)	$95	2.6

In the second quarter 2018, retail revenues were $1.89 billion compared to $1.90 billion for the corresponding period in 2017. For year-to-date 2018, retail revenues were $3.69 billion compared to $3.59 billion for the corresponding period in 2017.

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Details of the changes in retail revenues were as follows:

	Second Quarter 2018		Year-to-Date 2018	
	(in millions)	(% change)	(in millions)	(% change)
Retail – prior year	$1,904		$3,593	
Estimated change resulting from –				
Rates and pricing	(58)	(3.0)	(108)	(3.0)
Sales growth	3	0.1	26	0.7
Weather	40	2.1	105	2.9
Fuel cost recovery	—	—	72	2.0
Retail – current year	$1,889	(0.8)%	$3,688	2.6%

Revenues associated with changes in rates and pricing decreased in the second 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 refunds related to the Tax Reform Legislation and a decrease in revenues related to the recovery of Plant Vogtle Units 3 and 4 construction financing costs under the NCCR tariff, also primarily related to the Tax Reform Legislation. Also contributing to the year-to-date 2018 decrease was the rate pricing effect of increased customer usage in the first quarter 2018. The decreases were partially offset by 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 second quarter and year-to-date 2018 when compared to the corresponding periods in 2017. Weather-adjusted residential KWH sales were essentially flat for the second quarter 2018 and increased 1.1% for year-to-date 2018 largely due to customer growth. Weather-adjusted commercial KWH sales increased 0.7% and 1.5% for the second quarter and year-to-date 2018, respectively, largely due to customer growth. Weather-adjusted industrial KWH sales increased slightly in the second quarter 2018 and increased 0.5% for year-to-date 2018, primarily due to increased demand in the stone, clay, and glass, rubber, and textiles sectors. The increase in weather-adjusted industrial KWH sales for year-to-date 2018 was partially offset by decreased demand in the paper sector.

Fuel revenues and costs are allocated between retail and wholesale jurisdictions. In the second quarter 2018, retail fuel cost recovery revenues remained flat when compared to the corresponding period in 2017 primarily due to increased energy sales driven by warmer weather and higher purchased power costs, largely offset by lower natural gas prices. For year-to-date 2018, retail fuel cost recovery revenues increased $72 million when compared to the corresponding period in 2017 primarily due to increased energy sales driven by colder weather in the first quarter 2018 and warmer weather in the second quarter 2018 and higher purchased power costs. 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 AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Fuel Cost Recovery" of Georgia Power in Item 7 of the Form 10-K for additional information.

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GEORGIA POWER COMPANY
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Wholesale Revenues – Affiliates

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(6)	(66.7)	$(4)	(23.5)

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

In the second quarter 2018, wholesale revenues from sales to affiliates were $3 million compared to $9 million for the corresponding period in 2017. For year-to-date 2018, wholesale revenues from sales to affiliates were $13 million compared to $17 million for the corresponding period in 2017. The decreases were due to 67.1% and 57.9% decreases in KWH sales in the second quarter and year-to-date 2018, respectively, primarily due to the higher cost of Georgia Power-owned generation as compared to the market cost of available energy.

Other Revenues

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$25	26.3	$36	18.8

In the second quarter 2018, other revenues were $120 million compared to $95 million for the corresponding period in 2017. For year-to-date 2018, other revenues were $227 million compared to $191 million for the corresponding period in 2017. The increases were primarily due to $23 million and $38 million of revenues in the second 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

	Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
	(change in millions)	(% change)	(change in millions)	(% change)
Fuel	$ (67)	(15.1)	$ (25)	(3.1)
Purchased power – non-affiliates	8	7.8	42	22.0
Purchased power – affiliates	40	29.0	39	12.6
Total fuel and purchased power expenses	$ (19)		$ 56	

In the second quarter 2018, total fuel and purchased power expenses were $667 million compared to $686 million in the corresponding period in 2017. The decrease was primarily due to a $37 million decrease related to the average cost of fuel and purchased power primarily due to lower natural gas prices and a $49 million decrease related to the volume of KWHs generated due to scheduled generation outages, partially offset by an increase of $67 million related to the volume of KWHs purchased due to warmer weather.

For year-to-date 2018, total fuel and purchased power expenses were $1.37 billion compared to $1.32 billion in the corresponding period in 2017. The increase was primarily due to a $32 million increase related to the volume of KWHs generated and purchased due to colder weather in the first quarter 2018 and warmer weather in the second quarter 2018 and a $28 million increase related to the average cost of purchased power primarily due to higher

energy prices, partially offset by a $4 million decrease related to the average cost of fuel due to lower natural gas prices in the second quarter 2018.

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

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

	Second Quarter 2018	Second Quarter 2017	Year-to-Date 2018	Year-to-Date 2017
Total generation (in billions of KWHs)	15	16	31	30
Total purchased power (in billions of KWHs)	8	6	14	13
Sources of generation (percent) —				
Gas	40	37	42	41
Coal	29	36	29	32
Nuclear	28	25	26	25
Hydro	3	2	3	2
Cost of fuel, generated (in cents per net KWH) —				
Gas	2.61	2.75	2.67	2.76
Coal	3.26	3.20	3.31	3.23
Nuclear	0.83	0.84	0.83	0.84
Average cost of fuel, generated (in cents per net KWH)	2.30	2.43	2.37	2.41
Average cost of purchased power (in cents per net KWH)(*)	4.37	4.76	4.81	4.61

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

Fuel

In the second quarter 2018, fuel expense was $378 million compared to $445 million in the corresponding period in 2017. The decrease was primarily due to a 9.3% decrease in the volume of KWHs generated largely due to scheduled generation outages and a 5.4% decrease in the average cost of fuel per KWH generated primarily due to lower natural gas prices.

For year-to-date 2018, fuel expense was $790 million compared to $815 million in the corresponding period in 2017. The decrease was primarily due to a 7.3% decrease in the volume of KWHs generated by coal largely due to scheduled generation outages and a 3.3% decrease in the average cost of fuel per KWH generated by natural gas, partially offset by a 2.5% increase in the average cost of fuel per KWH generated by coal.

Purchased Power – Non-Affiliates

In the second quarter 2018, purchased power expense from non-affiliates was $111 million compared to $103 million in the corresponding period in 2017. The increase was primarily due to a 3.6% increase in the average cost per KWH purchased primarily due to higher energy prices and a 1.9% increase in the volume of KWHs purchased primarily due to scheduled generation outages and warmer weather.

For year-to-date 2018, purchased power expense from non-affiliates was $233 million compared to $191 million in the corresponding period in 2017. The increase was primarily due to an 11.4% increase in the volume of KWHs purchased due to colder weather in the first quarter 2018, warmer weather in the second quarter 2018, and

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scheduled generation outages and a 10.5% increase in the average cost per KWH purchased 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.

Purchased Power – Affiliates

In the second quarter 2018, purchased power expense from affiliates was $178 million compared to $138 million in the corresponding period in 2017. The increase was primarily due to a 31.4% increase in the volume of KWHs purchased due to scheduled generation outages and warmer weather, partially offset by an 11.6% decrease in the average cost per KWH purchased primarily resulting from lower energy prices.

For year-to-date 2018, purchased power expense from affiliates was $349 million compared to $310 million in the corresponding period in 2017. The increase was primarily due to a 2.4% 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 quarter 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

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$40	9.6	$47	5.8

In the second quarter 2018, other operations and maintenance expenses were $457 million compared to $417 million in the corresponding period in 2017. The increase was primarily due to $20 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. Also contributing to the increase were $8 million related to the timing of scheduled generation outage costs, $5 million primarily related to the timing of distribution overhead and underground line maintenance, $4 million in demand-side management costs related to the timing of new programs, and $3 million in billing adjustments with integrated transmission system owners, partially offset by a decrease of $7 million associated with an employee attrition plan.

For year-to-date 2018, other operations and maintenance expenses were $863 million compared to $816 million in the corresponding period in 2017. The increase was primarily due to $35 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. Also contributing to the increase were a $19 million decrease in gains from sales of integrated transmission system assets and an $11 million increase in demand-side management costs related to the timing of new programs, partially offset by decreases of $10 million related to affiliate labor billing adjustments and $6 million associated with an employee attrition plan.

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

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Depreciation and Amortization

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$7	3.1	$14	3.2

In the second quarter 2018, depreciation and amortization was $230 million compared to $223 million in the corresponding period in 2017. For year-to-date 2018, depreciation and amortization was $458 million compared to $444 million in the corresponding period in 2017. The increases were primarily due to increases of $8 million and $15 million related to additional plant in service in the second quarter and year-to-date 2018, respectively.

Taxes Other Than Income Taxes

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$5	5.0	$15	7.5

In the second quarter 2018, taxes other than income taxes were $106 million compared to $101 million in the corresponding period in 2017. For year-to-date 2018, taxes other than income taxes were $214 million compared to $199 million in the corresponding period in 2017. The increases were primarily due to increases in property taxes of $4 million and $7 million in the second quarter and year-to-date 2018, respectively, as a result of an increase in the assessed value of property. Also contributing to the increase for year-to-date 2018 was a $7 million increase in municipal franchise fees largely related to higher retail revenues.

Estimated Loss on Plant Vogtle Units 3 and 4

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$1,060	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 does not intend to 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.

Income Taxes (Benefit)

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(342)	N/M	$(405)	N/M

N/M - Not meaningful

In the second quarter 2018, income tax benefit was $143 million compared to income tax expense of $199 million in the corresponding period in 2017. For year-to-date 2018, income tax benefit was $50 million compared to income tax expense of $355 million in the corresponding period in 2017. The changes were primarily due to the reduction in pre-tax earnings (loss) resulting from the estimated probable loss related to Plant Vogtle Units 3 and 4 and a lower federal income tax rate as a result of the Tax Reform Legislation. 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 under "Effective Tax Rate" herein for additional information on the Tax Reform Legislation.

Dividends on Preferred and Preference Stock

Second Quarter 2018 vs. Second Quarter 2017		Year-to-Date 2018 vs. Year-to-Date 2017	
(change in millions)	(% change)	(change in millions)	(% change)
$(5)	(100.0)	$(9)	(100.0)

In the second quarter and year-to-date 2018, there were no dividends on preferred and preference stock compared to $5 million and $9 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.

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 greenhouse gas (GHG) strategies to assess upcoming requirements and compliance costs associated with these environmental laws and regulations. The costs, including capital expenditures and operations and maintenance costs, 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 control technology, and the outcome of pending and/or future legal challenges.

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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).

On July 30, 2018, the EPA published certain amendments to the CCR Rule, which will be 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 Georgia Power.

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 Georgia Power's ARO liability. It is not currently possible to determine the magnitude of an increase related to a change in closure strategies nor an increase related to ongoing engineering studies for the current closure strategies, and the timing of future cash outflows are indeterminable at this time. As permit applications advance, engineering studies continue, and the timing of ash pond closures develop further on a plant-by-plant basis during the second half of 2018 and in the future, Georgia Power will record any changes as necessary to its ARO liability, which could be material. Georgia Power expects to continue to periodically update these cost estimates as necessary, which could change further as additional information becomes available. See Note (A) to the Condensed Financial Statements under "Asset Retirement Obligations" herein for additional information.

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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.

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.

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 essentially 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. 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.

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 of $131 million in October 2018, $96 million in June 2019, and $103 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. 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. 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.

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, entered into a construction completion agreement with Bechtel, whereby Bechtel will serve as the primary contractor for the remaining construction activities for Plant Vogtle Units 3 and 4 (Bechtel Agreement). The Bechtel Agreement is a

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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 June 30, 2018[(b)]	(4.0)
Remaining estimate to complete[(a)]	$ 4.4

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

(b) Net of $1.7 billion received from Toshiba in 2017 under the Guarantee Settlement Agreement and $188 million in Customer Refunds recognized as a regulatory liability in 2017.

Georgia Power estimates that its financing costs for construction of Plant Vogtle Units 3 and 4 will total approximately $3.2 billion, of which $1.7 billion had been incurred through June 30, 2018.

The $0.7 billion increase to the base capital cost forecast reflected in the table above primarily results 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 does not intend to seek rate recovery for these cost increases included in the current base capital cost forecast (or any related financing costs), which will be filed with the Georgia PSC in the nineteenth VCM report at the end of August 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

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Power has recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax), which includes the total increase in the capital cost forecast and construction contingency estimate as of June 30, 2018.

Subsequent to the EPC Contractor bankruptcy filing, a number of subcontractors to the EPC Contractor alleged non-payment by the EPC Contractor for amounts owed for work performed on Plant Vogtle Units 3 and 4. Georgia Power, acting for itself and as agent for the Vogtle Owners, has taken actions to remove liens filed by these subcontractors through the posting of surety bonds. Related to such liens, certain subcontractors have filed, and additional subcontractors may file, lawsuits against the EPC Contractor and the Vogtle Owners to preserve their payment rights with respect to such claims. All known amounts associated with the removal of subcontractor liens and other EPC Contractor pre-petition accounts payable have been paid or accrued as of June 30, 2018. The ultimate liability is expected to be finalized in connection with the completion of the sale of Westinghouse.

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 is just beginning initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost.

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 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 (as amended, Vogtle Joint Ownership Agreements) to provide for, among other conditions, additional Vogtle Owner approval requirements. Pursuant to the Vogtle Joint Ownership Agreements, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction if certain adverse events occur, including: (i) the bankruptcy of Toshiba; (ii) termination or rejection in bankruptcy of certain agreements, including the Vogtle Services Agreement or the Bechtel Agreement; (iii) the Georgia PSC or Georgia Power determines that any of Georgia Power's costs relating to the construction of Plant Vogtle Units 3 and 4 will not be recovered in retail rates because such costs are deemed unreasonable or imprudent; or (iv) an increase in the construction budget contained in the seventeenth VCM report of more than $1 billion or extension of the project schedule contained in the seventeenth VCM report of more than one year. 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 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 in "Cost and Schedule" herein, the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 must vote to continue construction. The Vogtle Owners are expected to conduct these votes in the third quarter 2018.

If the holders of at least 90% of the ownership interests in Plant Vogtle Units 3 and 4 do not vote to continue construction, the Vogtle Joint Ownership Agreements provide that the project will be cancelled, and construction will cease. In the event that fewer than 90% of the Vogtle Owners vote to continue construction, Georgia Power and the other Vogtle Owners will assess options for Plant Vogtle Units 3 and 4. If Plant Vogtle Units 3 and 4 were cancelled and Georgia Power was unable to recover costs it has incurred in connection with the project, Georgia Power's results of operations, cash flow, and financial condition would be materially impacted. The ultimate outcome of this matter 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 June 30, 2018, Georgia Power had recovered approximately $1.7 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 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 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 $585 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 could have a material impact on Georgia Power's results of operations, financial condition, and liquidity.

The Georgia PSC has approved seventeen VCM reports covering the periods through June 30, 2017, including total construction capital costs incurred through that date of $4.4 billion. On August 21, 2018, the Georgia PSC is scheduled to vote on Georgia Power's eighteenth VCM report, which requested approval of $448 million of construction capital costs (excluding the $1.7 billion received from Toshiba under the Guarantee Settlement Agreement and the $188 million in Customer Refunds recognized as a regulatory liability) incurred from July 1, 2017 through December 31, 2017.

On August 31, 2018, Georgia Power will file its nineteenth VCM report with the Georgia PSC, which will reflect the revised capital cost forecast discussed previously and request 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 of the Form 10-K for a discussion of certain risks associated with the licensing, construction, and operation of nuclear generating units, including potential impacts that could result from a major incident at a nuclear facility anywhere in the world.

DOE Financing

As of June 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 June 2018, the DOE approved a request by Georgia Power to extend the conditional commitment to September 30, 2018. 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, including the Vogtle Owners' votes to continue construction. See Note 6 to the financial statements of Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (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.

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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 $188 million in Customer Refunds recognized as a regulatory liability in

2017) 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 $188 million in Customer Refunds recognized as a regulatory liability in 2017). 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 does not intend to seek rate recovery for the $0.7 billion increase in costs included in the revised base capital cost forecast, which will be filed with the Georgia PSC in the nineteenth VCM report 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 has recorded a total pre-tax charge to income of $1.1 billion ($0.8 billion after tax) as of June 30, 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 is just beginning initial operation in the global nuclear industry at this scale); or other issues could arise and change the projected schedule and estimated cost.

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 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.

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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). See Note (A) to the Condensed Financial Statements herein for information regarding Georgia Power's recently adopted accounting standards.

FINANCIAL CONDITION AND LIQUIDITY

Overview

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Overview" of Georgia Power in Item 7 of the Form 10-K for additional information. Georgia Power's financial condition remained stable at June 30, 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 $1.07 billion for the first six months of 2018 compared to $482 million for the corresponding period in 2017. The increase was primarily due to increased fuel cost recovery, a decrease in current income taxes related to the Tax Reform Legislation, income tax refunds received, and the timing of fossil fuel stock purchases and property tax payments. Net cash used for investing activities totaled $1.39 billion for the first six months of 2018 primarily related to installation of equipment to comply with environmental standards and construction of generation, transmission, and distribution facilities. Net cash used for financing activities totaled $520 million for the first six months of 2018 primarily due to the redemption and repurchase of senior notes, payments of common stock dividends, 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 six months of 2018 include a decrease of $1.5 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 $1.0 billion in property, plant, and equipment to comply with environmental standards and the construction of generation, transmission, and distribution facilities, including $0.6 billion related to the construction of Plant Vogtle Units 3 and 4. The increase in property, plant, and equipment was more than offset by a $1.1 billion decrease due to the charge related to the construction of Plant Vogtle Units 3 and 4. Total common stockholder's equity increased $0.8 billion primarily due to a $1.5 billion increase in paid-in capital resulting from capital contributions received from Southern Company, partially offset by a $0.7 billion decrease in retained earnings primarily due to the charge related to 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 $509 million will be required through

June 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 the 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 second half of 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 is just beginning 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 June 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 September 30, 2018, 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, including the Vogtle Owners' votes to continue construction. See Note 6 to the financial statements of Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 of the Form 10-K and Note (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 June 30, 2018, Georgia Power's current liabilities exceeded current assets by $1.2 billion primarily due to long-term debt that is due within one year of $509 million and notes payable of $480 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, equity contributions from Southern Company, and borrowings from the FFB to fund its short-term capital needs. Georgia Power has substantial cash flow from operating activities and access to the capital markets and financial institutions to meet liquidity needs.

At June 30, 2018, Georgia Power had approximately $11 million of cash and cash equivalents. Georgia Power's committed credit arrangement with banks at June 30, 2018 was $1.75 billion 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 June 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 unused credit with banks is allocated to provide liquidity support to Georgia Power's pollution control revenue bonds and commercial paper program. The amount of variable rate pollution control revenue bonds outstanding requiring liquidity support as of June 30, 2018 was approximately $550 million. In addition, at June 30, 2018, Georgia Power had $232 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 June 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	$480	2.4 %	$120	2.3 %	$ 495

(*) Average and maximum amounts are based upon daily balances during the three-month period ended June 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 June 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 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 June 30, 2018 were as follows:

Credit Ratings	Maximum Potential Collateral Requirements
	(in millions)
At BBB- and/or Baa3	$ 87
Below BBB- and/or Baa3	$ 1,020

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.

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 Georgia Power's next base rate case. 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 March 2018, Georgia Power purchased and held $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 and $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. Georgia Power may reoffer these bonds to the public at a later date.

In April 2018, Georgia Power purchased and held $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. Georgia Power may reoffer these bonds to the public at a later date.

Also 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.

In June 2018, Georgia Power purchased and held $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. Georgia Power may reoffer these bonds to the public at a later date.

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Operating Revenues:				
Retail revenues	$301	$318	$591	$596
Wholesale revenues, non-affiliates	13	12	26	30
Wholesale revenues, affiliates	14	10	42	47
Other revenues	16	17	33	34
Total operating revenues	344	357	692	707
Operating Expenses:				
Fuel	91	88	173	196
Purchased power	44	44	90	78
Other operations and maintenance	90	90	166	176
Depreciation and amortization	48	35	95	53
Taxes other than income taxes	28	28	58	55
Loss on Plant Scherer Unit 3	—	—	—	33
Total operating expenses	301	285	582	591
Operating Income	43	72	110	116
Other Income and (Expense):				
Interest expense, net of amounts capitalized	(13)	(13)	(26)	(24)
Other income (expense), net	1	2	3	3
Total other income and (expense)	(12)	(11)	(23)	(21)
Earnings Before Income Taxes	31	61	87	95
Income taxes (benefit)	(11)	24	3	38
Net Income	42	37	84	57
Dividends on Preference Stock	—	2	—	4
Net Income After Dividends on Preference Stock	$42	$35	$84	$53

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)		(in millions)	
Net Income	$42	$37	$84	$57
Other comprehensive income (loss):				
Qualifying hedges:				
Changes in fair value, net of tax of $-, $-, $-, and $(1), respectively	—	(1)	—	(1)
Total other comprehensive income (loss)	—	(1)	—	(1)

Comprehensive Income	$42	$36	$84	$56

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

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GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30,	
	2018	2017
	(in millions)	
Operating Activities:		
Net income	$84	$57
Adjustments to reconcile net income to net cash provided from operating activities —		
Depreciation and amortization, total	98	56
Deferred income taxes	(21)	19
Loss on Plant Scherer Unit 3	—	33
Other, net	(3)	(3)
Changes in certain current assets and liabilities —		
-Receivables	9	(25)
-Other current assets	(2)	14
-Accounts payable	(16)	3
-Accrued taxes	18	7
-Accrued compensation	(15)	(17)
-Over recovered regulatory clause revenues	5	(19)
-Other current liabilities	—	(1)
Net cash provided from operating activities	157	124
Investing Activities:		
Property additions	(135)	(97)
Cost of removal, net of salvage	(14)	(9)
Change in construction payables	(3)	(14)
Other investing activities	(6)	(3)
Net cash used for investing activities	(158)	(123)
Financing Activities:		
Increase (decrease) in notes payable, net	45	(190)
Proceeds —		
Common stock issued to parent	—	175
Capital contributions from parent company	37	5
Senior notes	—	300
Redemptions —		
Preference stock	—	(150)
Senior notes	—	(85)
Payment of common stock dividends	(77)	(63)
Other financing activities	(1)	(4)
Net cash provided from (used for) financing activities	4	(12)
Net Change in Cash, Cash Equivalents, and Restricted Cash	3	(11)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	28	56
Cash, Cash Equivalents, and Restricted Cash at End of Period	$31	$45
Supplemental Cash Flow Information:		
Cash paid during the period for —		

Interest (net of $- and $- capitalized for 2018 and 2017, respectively)	$25	$22
Income taxes, net	21	7
Noncash transactions — Accrued property additions at end of period	22	19

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

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GULF POWER COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)

Assets	At June 30, 2018	At December 31, 2017
	(in millions)	
Current Assets:		
Cash and cash equivalents	$31	$ 28
Receivables —		
Customer accounts receivable	87	76
Unbilled revenues	71	67
Under recovered regulatory clause revenues	3	27
Affiliated	15	14
Other	5	7
Accumulated provision for uncollectible accounts	(1)	(1)
Fossil fuel stock	63	63
Materials and supplies	61	57
Other regulatory assets, current	49	56
Other current assets	19	21
Total current assets	403	415
Property, Plant, and Equipment:		
In service	5,293	5,196
Less: Accumulated provision for depreciation	1,523	1,461
Plant in service, net of depreciation	3,770	3,735