

ALABAMA POWER CO

Form 10-K

February 22, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission Registrant, State of Incorporation, I.R.S. Employer

File Number Address and Telephone Number 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
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1-3164	Alabama Power Company (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
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1-6468	Georgia Power Company (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
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001-31737	Gulf Power Company (A Florida Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
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001-11229	Mississippi Power Company (A Mississippi Corporation) 2992 West Beach Boulevard Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
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001-37803	Southern Power Company (A Delaware Corporation)	58-2598670
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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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Securities registered pursuant to Section 12(b) of the Act:<sup>1</sup>

Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is listed on the New York Stock Exchange.

Title of each class	Registrant
Common Stock, \$5 par value	The Southern Company
Junior Subordinated Notes, \$25 denominations	
6.25% Series 2015A due 2075	
5.25% Series 2016A due 2076	
Class A preferred stock, cumulative, \$25 stated capital	Alabama Power Company
5.83% Series	
Class A preferred stock, non-cumulative,	Georgia Power Company
Par value \$25 per share	
6 1/8% Series	
Depository preferred shares, each representing one-fourth of a share of preferred stock, cumulative, \$100 par value	Mississippi Power Company
5.25% Series	
Senior Notes	Southern Power Company
1.000% Series 2016A due 2022	
1.850% Series 2016B due 2026	

Securities registered pursuant to Section 12(g) of the Act:<sup>1</sup>

Title of each class	Registrant
Preferred stock, cumulative, \$100 par value	Alabama Power Company
4.20% Series	
4.52% Series	
4.60% Series	
4.64% Series	
4.72% Series	
4.92% Series	

Preferred stock, cumulative, \$100 par value

Mississippi  
Power Company

4.40% Series

4.60% Series

4.72% Series

1 As of December 31, 2016.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Registrant	Yes	No
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	

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒ (Response applicable to all registrants.)

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

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Aggregate market value of The Southern Company's common stock held by non-affiliates of The Southern Company at June 30, 2016: \$51.1 billion. All of the common stock of the other registrants is held by The Southern Company. A description of each registrant's common stock follows:

Registrant	Description of Common Stock	Shares Outstanding at January 31, 2017
The Southern Company	Par Value \$5 Per Share	991,051,161
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

Documents incorporated by reference: specified portions of The Southern Company's Definitive Proxy Statement on Schedule 14A relating to the 2017 Annual Meeting of Stockholders are incorporated by reference into PART III. In addition, specified portions of the Definitive Information Statements on Schedule 14C of Alabama Power Company, Georgia Power Company, and Mississippi Power Company relating to each of their respective 2017 Annual Meetings of Shareholders are incorporated by reference into PART III.

Each of Southern Power Company and Southern Company Gas meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format specified in General Instructions I(2)(b), (c), and (d) of Form 10-K.

This combined Form 10-K 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 company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

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#### DEFINITIONS

When used in Items 1 through 5 and Items 9A through 15, the following terms will have the meanings indicated.

Term	Meaning
Alabama Power	Alabama Power Company
Bcf	Billion cubic feet
CCR	Coal combustion residuals
Clean Air Act	Clean Air Act Amendments of 1990
CO <sub>2</sub>	Carbon dioxide
Contractor	Westinghouse and its affiliate, WECTEC Global Project Services Inc. (formerly known as CB&I Stone & Webster, Inc.), formerly a subsidiary of The Shaw Group Inc. and Chicago Bridge & Iron Company N.V.
Dalton	City of Dalton, Georgia, acting by and through its Board of Water, Light, and Sinking Fund Commissioners
DOE	U.S. Department of Energy
Duke Energy Florida	Duke Energy Florida, LLC
EMC	Electric membership corporation
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FMPA	Florida Municipal Power Agency
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IBEW	International Brotherhood of Electrical Workers
IGCC	Integrated coal gasification combined cycle
IIC	Intercompany Interchange Contract
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IPP	Independent Power Producer
IRP	Integrated Resource Plan
Kemper IGCC	IGCC facility under construction by Mississippi Power in Kemper County, Mississippi
KUA	Kissimmee Utility Authority
KW	Kilowatt
KWH	Kilowatt-hour
MEAG Power	Municipal Electric Authority of Georgia
Merger	The merger, effective July 1, 2016, of a wholly-owned, direct subsidiary of Southern Company with and into Southern Company Gas, with Southern Company Gas continuing as the surviving corporation
Mississippi Power	Mississippi Power Company
MW	Megawatt
natural gas distribution utilities	Southern Company Gas' seven natural gas distribution utilities (Nicor Gas, Atlanta Gas Light Company, Virginia Natural Gas, Inc., Elizabethtown Gas, Florida City Gas, Chattanooga Gas Company, and Elkton Gas)
Nicor Gas	Northern Illinois Gas Company, a wholly-owned subsidiary of Southern Company Gas
NRC	U.S. Nuclear Regulatory Commission
NYSE	New York Stock Exchange
OPC	Oglethorpe Power Corporation
OUC	Orlando Utilities Commission
PATH Act	Protecting Americans from Tax Hikes Act
	Two new nuclear generating units under construction at Georgia Power's Plant Vogtle



Plant Vogtle Units  
3 and 4

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## DEFINITIONS

(continued)

Term	Meaning
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
PowerSecure	PowerSecure Inc.
PowerSouth	PowerSouth Energy Cooperative
PPA	Power purchase agreements and 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
registrants	Southern Company, Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power Company, and Southern Company Gas
RUS	Rural Utilities Service
SCS	Southern Company Services, Inc. (the Southern Company system service company)
SEC	Securities and Exchange Commission
SEGCO	Southern Electric Generating Company
SEPA	Southeastern Power Administration
SERC	Southeastern Electric Reliability Council
SMEPA	South Mississippi Electric Power Association (now known as Cooperative Energy)
Southern Company	The Southern Company
Southern Company Gas	Southern Company Gas (formerly known as AGL Resources Inc.) and its subsidiaries
Southern Company Gas Capital	Southern Company Gas Capital Corporation (formerly known as AGL Capital Corporation), a 100%-owned subsidiary of Southern Company Gas
Southern Company system	Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas (as of July 1, 2016), SEGCO, Southern Nuclear, SCS, Southern LINC, PowerSecure (as of May 9, 2016), and other subsidiaries
Southern Holdings	Southern Company Holdings, Inc.
Southern LINC	Southern Communications Services, Inc.
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company and its subsidiaries
traditional electric operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Vogtle Owners	Georgia Power, OPC, MEAG Power, and Dalton
Westinghouse	Westinghouse Electric Company LLC

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CAUTIONARY STATEMENT REGARDING  
FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements. Forward-looking statements include, among other things, statements concerning regulated rates, the strategic goals for the wholesale business, customer and sales growth, economic conditions, fuel and environmental cost recovery and other rate actions, current and proposed environmental regulations and related compliance plans and estimated expenditures, pending or potential litigation matters, access to sources of capital, projections for the qualified pension plans, postretirement benefit plans, and nuclear decommissioning trust fund contributions, financing activities, completion dates of construction projects, filings with state and federal regulatory authorities, impact of the PATH Act, federal income tax benefits, estimated sales and purchases under power sale and purchase agreements, and estimated construction and other plans and expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes, including environmental laws regulating emissions, discharges, and disposal to air, water, and land, and also changes in tax and other laws and regulations to which Southern Company and its subsidiaries are subject, including potential tax reform legislation, as well as changes in application of existing laws and regulations;

- current and future litigation, regulatory investigations, proceedings, or inquiries;

- the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate;

- variations in demand for electricity and natural gas, including those relating to weather, the general economy and recovery from the last recession, population and business growth (and declines), the effects of energy conservation and efficiency measures, including from the development and deployment of alternative energy sources such as self-generation and distributed generation technologies, and any potential economic impacts resulting from federal fiscal decisions;

- available sources and costs of natural gas and other fuels;

- limits on pipeline capacity;

- effects of inflation;

- the ability to control costs and avoid cost overruns during the development, construction, and operation of facilities, which include the development and construction of generating facilities with designs that have not been finalized or previously constructed, including changes in labor costs and productivity, adverse weather conditions, shortages and inconsistent quality of equipment, materials, and labor, sustaining nitrogen supply, contractor or supplier delay, non-performance under construction, operating, or other agreements, operational readiness, including specialized operator training and required site safety programs, unforeseen engineering or design problems, start-up activities (including major equipment failure and system integration), and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by any PSC);

- the ability to construct facilities in accordance with the requirements of permits and licenses, to satisfy any environmental performance standards and the requirements of tax credits and other incentives, and to integrate facilities into the Southern Company system upon completion of construction;

- investment performance of the Southern Company system's employee and retiree benefit plans and nuclear decommissioning trust funds;

- advances in technology;

- ongoing renewable energy partnerships and development agreements;

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

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

actions related to cost recovery for the Kemper IGCC, including the ultimate impact of the 2015 decision of the Mississippi Supreme Court, the Mississippi PSC's December 2015 rate order, and related legal or regulatory proceedings, Mississippi

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PSC review of the prudence of Kemper IGCC costs and approval of further permanent rate recovery plans, actions relating to proposed securitization, satisfaction of requirements to utilize grants, and the ultimate impact of the termination of the proposed sale of an interest in the Kemper IGCC to SMEPA;

the ability to successfully operate the electric utilities' generating, transmission, and distribution facilities and Southern Company Gas' natural gas distribution and storage facilities and the successful performance of necessary corporate functions;

the inherent risks involved in operating and constructing nuclear generating facilities, including environmental, health, regulatory, natural disaster, terrorism, and financial risks;

the inherent risks involved in transporting and storing natural gas;

the performance of projects undertaken by the non-utility businesses and the success of efforts to invest in and develop new opportunities;

internal restructuring or other restructuring options that may be pursued;

potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries;

the possibility that the anticipated benefits from the Merger cannot be fully realized or may take longer to realize than expected, the possibility that costs related to the integration of Southern Company and Southern Company Gas will be greater than expected, the ability to retain and hire key personnel and maintain relationships with customers, suppliers, or other business partners, and the diversion of management time on integration-related issues;

the ability of counterparties of Southern Company and its subsidiaries to make payments as and when due and to perform as required;

the ability to obtain new short- and long-term contracts with wholesale customers;

the direct or indirect effect on the Southern Company system's business resulting from cyber intrusion or terrorist incidents and the threat of terrorist incidents;

- interest rate fluctuations and financial market conditions and the results of financing efforts;

changes in Southern Company's and any of its subsidiaries' credit ratings, including impacts on interest rates, access to capital markets, and collateral requirements;

the impacts of any sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on foreign currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the benefits of the DOE loan guarantees;

the ability of Southern Company's electric utilities to obtain additional generating capacity (or sell excess generating capacity) at competitive prices;

catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events such as influenzas, or other similar occurrences;

the direct or indirect effects on the Southern Company system's business resulting from incidents affecting the U.S. electric grid, natural gas pipeline infrastructure, or operation of generating or storage resources;

the effect of accounting pronouncements issued periodically by standard-setting bodies; and

other factors discussed elsewhere herein and in other reports 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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PART I

Item 1. BUSINESS

Southern Company was incorporated under the laws of Delaware on November 9, 1945. Southern Company is registered and qualified to do business under the laws of Georgia and is qualified to do business as a foreign corporation under the laws of Alabama. Southern Company owns all of the outstanding common stock of Alabama Power, Georgia Power, Gulf Power, and Mississippi Power, each of which is an operating public utility company. The traditional electric operating companies supply electric service in the states of Alabama, Georgia, Florida, and Mississippi. More particular information relating to each of the traditional electric operating companies is as follows: Alabama Power is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company, and Houston Power Company. The predecessor Alabama Power Company had been in continuous existence since its incorporation in 1906.

Georgia Power was incorporated under the laws of the State of Georgia on June 26, 1930 and was admitted to do business in Alabama on September 15, 1948 and in Florida on October 13, 1997.

Gulf Power is a Florida corporation that has had a continuous existence since it was originally organized under the laws of the State of Maine on November 2, 1925. Gulf Power was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976, and in Georgia on November 20, 1984. Gulf Power became a Florida corporation after being domesticated under the laws of the State of Florida on November 2, 2005.

Mississippi Power was incorporated under the laws of the State of Mississippi on July 12, 1972, was admitted to do business in Alabama on November 28, 1972, and effective December 21, 1972, by the merger into it of the predecessor Mississippi Power Company, succeeded to the business and properties of the latter company. The predecessor Mississippi Power Company was incorporated under the laws of the State of Maine on November 24, 1924 and was admitted to do business in Mississippi on December 23, 1924 and in Alabama on December 7, 1962.

In addition, Southern Company owns all of the common stock of Southern Power Company, which is also an operating public utility company. Southern Power constructs, acquires, owns, and manages generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. Southern Power Company is a corporation organized under the laws of Delaware on January 8, 2001. The term "Southern Power" when used herein refers to Southern Power Company and its subsidiaries while the term "Southern Power Company" when used herein refers only to the parent company.

On July 1, 2016, Southern Company completed the Merger for a total purchase price of approximately \$8.0 billion and Southern Company Gas became a wholly-owned, direct subsidiary of Southern Company. Southern Company Gas is an energy services holding company whose primary business is the distribution of natural gas in seven states - Illinois, Georgia, Virginia, New Jersey, Florida, Tennessee, and Maryland - through the natural gas distribution utilities. Southern Company Gas is also involved in several other businesses that are complementary to the distribution of natural gas. Southern Company Gas was incorporated under the laws of the State of Georgia on November 27, 1995 for the primary purpose of becoming the holding company for Atlanta Gas Light Company, which was founded in 1856.

Southern Company also owns all of the outstanding common stock or membership interests of SCS, Southern LINC, Southern Holdings, Southern Nuclear, PowerSecure, and other direct and indirect subsidiaries. SCS, the system service company, has contracted with Southern Company, each traditional electric operating company, Southern Power, Southern Company Gas, Southern Nuclear, SEGCO, and other subsidiaries to furnish, at direct or allocated cost and upon request, the following services: general and design engineering, operations, purchasing, accounting, finance and treasury, tax, information technology, marketing, auditing, insurance and pension administration, human resources, systems and procedures, digital wireless communication, and other services with respect to business and operations, construction management, and power pool transactions. Southern LINC provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary, primarily for Southern Company's investments in leveraged leases and for other electric services. Southern Nuclear operates and provides services to the Southern Company system's nuclear power plants and is currently developing Plant Vogtle Units 3 and 4, which are co-owned by Georgia Power. PowerSecure is a provider of products

and services in the areas of distributed generation, energy efficiency, and utility infrastructure.

Alabama Power and Georgia Power each own 50% of the outstanding common stock of SEGCO. SEGCO is an operating public utility company that owns electric generating units with an aggregate capacity of 1,020 MWs at Plant Gaston on the Coosa River near Wilsonville, Alabama. Alabama Power and Georgia Power are each entitled to one-half of SEGCO's capacity and energy. Alabama Power acts as SEGCO's agent in the operation of SEGCO's units and furnishes fuel to SEGCO for its units. SEGCO also owns one 230,000 volt transmission line extending from Plant Gaston to the Georgia state line at which

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point connection is made with the Georgia Power transmission line system. SEGCO added natural gas as a fuel source for 1,000 MWs of its generating capacity in 2015. In April 2016, natural gas became the primary fuel source. Alabama Power, which owns and operates a generating unit adjacent to the SEGCO generating units, has entered into a joint ownership agreement with SEGCO for the ownership of an associated gas pipeline. Alabama Power owns 14% of the pipeline with the remaining 86% owned by SEGCO.

Southern Company's segment information is included in Note 13 to the financial statements of Southern Company in Item 8 herein. Southern Company Gas' segment information is included in Note 12 to the financial statements of Southern Company Gas in Item 8 herein.

The registrants' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available on Southern Company's website, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Southern Company's internet address is [www.southerncompany.com](http://www.southerncompany.com).

The Southern Company System

Traditional Electric Operating Companies

The traditional electric operating companies are vertically integrated utilities that own generation, transmission, and distribution facilities. See PROPERTIES in Item 2 herein for additional information on the traditional electric operating companies' generating facilities. Each company's transmission facilities are connected to the respective company's own generating plants and other sources of power (including certain generating plants owned by Southern Power) and are interconnected with the transmission facilities of the other traditional electric operating companies and SEGCO. For information on the State of Georgia's integrated transmission system, see "Territory Served by the Southern Company System – Traditional Electric Operating Companies and Southern Power" herein.

Agreements in effect with principal neighboring utility systems provide for capacity and energy transactions that may be entered into from time to time for reasons related to reliability or economics. Additionally, the traditional electric operating companies have entered into voluntary reliability agreements with the subsidiaries of Entergy Corporation, Florida Electric Power Coordinating Group, and Tennessee Valley Authority and with Duke Energy Progress, LLC, Duke Energy Carolinas, LLC, South Carolina Electric & Gas Company, and Virginia Electric and Power Company, each of which provides for the establishment and periodic review of principles and procedures for planning and operation of generation and transmission facilities, maintenance schedules, load retention programs, emergency operations, and other matters affecting the reliability of bulk power supply. The traditional electric operating companies have joined with other utilities in the Southeast (including some of those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the traditional electric operating companies are represented on the National Electric Reliability Council.

The utility assets of the traditional electric operating companies and certain utility assets of Southern Power Company are operated as a single integrated electric system, or power pool, pursuant to the IIC. Activities under the IIC are administered by SCS, which acts as agent for the traditional electric operating companies and Southern Power Company. The fundamental purpose of the power pool is to provide for the coordinated operation of the electric facilities in an effort to achieve the maximum possible economies consistent with the highest practicable reliability of service. Subject to service requirements and other operating limitations, system resources are committed and controlled through the application of centralized economic dispatch. Under the IIC, each traditional electric operating company and Southern Power Company retains its lowest cost energy resources for the benefit of its own customers and delivers any excess energy to the power pool for use in serving customers of other traditional electric operating companies or Southern Power Company or for sale by the power pool to third parties. The IIC provides for the recovery of specified costs associated with the affiliated operations thereunder, as well as the proportionate sharing of costs and revenues resulting from power pool transactions with third parties.

Southern Power and Southern LINC have secured from the traditional electric operating companies certain services which are furnished at cost in compliance with FERC regulations.

Alabama Power and Georgia Power each have a contract with Southern Nuclear to operate the Southern Company system's existing nuclear plants, Plants Farley, Hatch, and Vogtle. In addition, Georgia Power has a contract with Southern Nuclear to develop, license, construct, and operate Plant Vogtle Units 3 and 4. See "Regulation – Nuclear



Regulation" herein for additional information.

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## Southern Power

Southern Power constructs, acquires, owns, and manages generation assets, including renewable energy projects, and sells electricity at market-based rates (under authority from the FERC) in the wholesale market. Southern Power continually seeks opportunities to execute its strategy to create value through various transactions including acquisitions and sales of assets, construction of new generating facilities, and entry into PPAs primarily with investor-owned utilities, IPPs, municipalities, electric cooperatives, and other load serving entities. Southern Power's business activities are not subject to traditional state regulation like the traditional electric operating companies, but the majority of its business activities are subject to regulation by the FERC. Southern Power has attempted to insulate itself from significant fuel supply, fuel transportation, and electric transmission risks by generally making such risks the responsibility of the counterparties to its PPAs. However, Southern Power's future earnings will depend on the parameters of the wholesale market and the efficient operation of its wholesale generating assets, as well as Southern Power's ability to execute its growth strategy and to construct generating facilities. For additional information on Southern Power's business activities, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Business Activities" of Southern Power in Item 7 herein.

Southern Power Company directly owns and manages generation assets primarily in the Southeast, which are included in the power pool, and has other wholly-owned subsidiaries, two of which are Southern Renewable Energy, Inc. (SRE) and Southern Renewable Partnerships, LLC (SRP), which were created to own and operate renewable generation facilities either wholly or in partnership with various third parties, including Turner Renewable Energy, LLC (TRE), First Solar Inc., Recurrent Energy, a subsidiary of Canadian Solar Inc., or SunPower Corp. The generation assets of these subsidiaries are not included in the power pool. In addition, Southern Power Company has other subsidiaries either with natural gas and biomass generating facilities or pursuing additional natural gas generation and other development opportunities.

Some of SRP's partnerships allow for the sharing of cash distributions and tax benefits at differing percentages. SRP is entitled to 51% of all cash distributions from eight of the partnership entities and the respective partner who holds the class B membership interests is entitled to 49% of all cash distributions. For the Desert Stateline partnership, SRP is entitled to 66% of all cash distributions and the class B member is entitled to 34% of all cash distributions. In addition, Southern Power is entitled to substantially all of the federal tax benefits with respect to these nine partnership entities. During 2016, Southern Power acquired or commenced construction of approximately 2,134 MWs of additional solar, wind, and natural gas facilities and completed construction of approximately 1,060 MWs of solar facilities. The aggregate purchase price for projects acquired by Southern Power's subsidiaries during 2016 and 2015 was \$2.3 billion and \$1.4 billion, respectively. During 2016, Southern Power's subsidiaries completed construction of and placed in service projects with a total construction cost of approximately \$3.2 billion.

In December 2016, as part of Southern Power's renewable development strategy, SRP entered into a joint development agreement with Renewable Energy Systems Americas, Inc. (RES) to develop and construct approximately 3,000 MWs across 10 wind projects expected to be placed in service between 2018 and 2020. Also in December 2016, Southern Power signed agreements and made payments to purchase wind turbine equipment from Siemens Wind Projects, Inc. and Vestas-American Wind Technology, Inc. to be used for construction of the facilities. Once these wind projects reach commercial operation, they are expected to qualify for 100% production tax credits (PTCs).

The ultimate outcome of these matters cannot be determined at this time. For additional information on SRE and SRP, see MANAGEMENT'S DISCUSSION AND ANALYSIS – "Acquisitions" and "Construction Projects" of Southern Power in Item 7 herein.

See Item 2 – Properties, Note 2 to the financial statements of Southern Power in Item 8 herein, and Note 12 to the financial statements of Southern Company under "Southern Power" in Item 8 herein for additional information regarding Southern Power's acquisitions, construction, and development projects.

As of December 31, 2016, Southern Power owned generating units totaling 11,768 MWs of nameplate capacity in commercial operation, after taking into consideration its equity ownership percentage of the solar and wind facilities. Southern Power calculates an investment coverage ratio for its generating assets based on the ratio of investment under contract to total investment using the respective generation facilities' net book value (or expected

in-service value for facilities under construction or being acquired) as the investment amount. With the inclusion of the PPAs and investment associated with the solar and natural-gas fired facilities currently under construction and Bethel Wind, which was acquired subsequent to December 31, 2016, as well as other capacity and energy contracts, Southern Power has an average investment coverage ratio of 91% through 2021 and 90% through 2026, with an average remaining contract duration of approximately 16 years.

Southern Power's natural gas and biomass sales are primarily through long-term PPAs that consist of two types of agreements. The first type, referred to as a unit or block sale, is a customer purchase from a dedicated plant unit where all or a portion of the generation from that unit is reserved for that customer. Southern Power typically has the ability to serve the unit or block

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sale customer from an alternate resource. The second type, referred to as requirements service, provides that Southern Power serve the customer's capacity and energy requirements from a combination of the customer's own generating units and from Southern Power resources not dedicated to serve unit or block sales. Southern Power has rights to purchase power provided by the requirements customers' resources when economically viable.

Southern Power's electricity sales from solar and wind generating facilities are predominantly through long-term PPAs; however, these 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 provide Southern Power a certain fixed price for the electricity sold to the grid.

The following tables set forth Southern Power's PPAs as of December 31, 2016:

## Block Sales PPAs

Facility/Source	Counterparty	MWs	Contract Term
Addison Unit 1	MEAG Power	152	through April 2029
Addison Units 2 and 4	Georgia Power	293	through May 2030
Addison Unit 3	Georgia Energy Cooperative	151	through May 2030
Cleveland County Unit 1	North Carolina Electric Membership Corporation (NCEMC)	45-180	through Dec. 2036
Cleveland County Unit 2	NCEMC	180	through Dec. 2036
Cleveland County Unit 3	North Carolina Municipal Power Agency 1	183	through Dec. 2031
Dahlberg Units 1, 3, and 5	Cobb EMC	224	through Dec. 2026
Dahlberg Units 2, 6, 8, and 10	Georgia Power	298	through May 2025
Dahlberg Unit 4	Georgia Power	73	through May 2030
Franklin Unit 1	Duke Energy Florida	434	through May 2021
Franklin Unit 2	Morgan Stanley Capital Group	250	through Dec. 2025
Franklin Unit 2	Jackson EMC	60-65	through Dec. 2035
Franklin Unit 2	GreyStone Power Corporation	35-40	through Dec. 2035
Franklin Unit 2	Cobb EMC	100	through Dec. 2026
Franklin Unit 3	Morgan Stanley Capital Group	200	through Dec. 2027
Harris Unit 1	Georgia Power	628	through May 2030
Harris Unit 2	Georgia Power	649	through May 2019
Harris Unit 2	Alabama Municipal Electric Authority(1)	25	Jan. 2020 – Dec. 2025
Mankato	Northern States Power Company	375	through June 2026
Mankato	Northern States Power Company	345	June 2019 – May 2039(2)
Nacogdoches	City of Austin, Texas	100	through May 2032
NCEMC PPA(3)	EnergyUnited	100	through Dec. 2021
Oleander Units 2, 3, and 4	Seminole Electric Cooperative	465	through May 2021
Oleander Unit 5	FMPA	157	through Dec. 2027
Rowan CT Unit 1	North Carolina Municipal Power Agency 1	150	through Dec. 2030
Rowan CT Units 2 and 3	EnergyUnited	100-175	Jan. 2022 – Dec. 2025
Rowan CT Unit 3	EnergyUnited	113	through Dec. 2023
Rowan CC Unit 4	EnergyUnited	9-328	through Dec. 2025
Rowan CC Unit 4	Duke Energy Progress, LLC	150	through Dec. 2019
Rowan CC Unit 4(4)	Century Aluminum	154	through Dec. 2017
Stanton Unit A	OUC	341	through Sept. 2033
Stanton Unit A	FMPA	85	through Sept. 2033
Wansley Unit 6	Georgia Power	570	through May 2017



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(1) Alabama Municipal Electric Authority will also be served by Plant Franklin Unit 1 from January 2018 through December 2019.

(2) Subject to commercial operation of the expansion project.

(3) Represents sale of power purchased from NCEMC under a PPA.

(4) Century Aluminum PPA is partially served by Plant Franklin Unit 3.

## Requirements Services PPAs

Counterparty	MWs	Contract Term
Nine Georgia EMCs	281-370	(1) through Dec. 2024
Sawnee EMC	267-609	(1) through Dec. 2027
Cobb EMC	0-160	(1) through Dec. 2026
Flint EMC	132-316	(1) through Dec. 2024
City of Dalton, Georgia	60	through Dec. 2017
EnergyUnited	55-152	(1) through Dec. 2025
City of Blountstown, Florida	10	through April 2022

(1) Represents a range of forecasted incremental capacity needs over the contract term.

## Solar/Wind PPAs

Facility	Counterparty	MWs	(1) Contract Term
Solar			
Adobe(2)	Southern California Edison Company	20	through May 2034
Apex(2)	Nevada Power Company	20	through Dec. 2037
Boulder 1(3)	Nevada Power Company	100	through Dec. 2036
Butler	Georgia Power	100	through Dec. 2046
Butler Solar Farm	Georgia Power	20	through Feb. 2036
Calipatria(2)	San Diego Gas & Electric Company	20	through Feb. 2036
Campo Verde(2)	San Diego Gas & Electric Company	139	through Sept. 2033
Cimarron(2)	Tri-State Generation and Transmission Association, Inc.	30	through Nov. 2035
Decatur County	Georgia Power	19	through Dec. 2035
Decatur Parkway	Georgia Power	80	through Dec. 2040
Desert Stateline(4)	Southern California Edison Company	300	through Aug. 2036
East Pecos	Austin Energy	119	March 2017 – Feb. 2032 (6)
Garland A(3)	Southern California Edison Company	20	through Sept. 2036
Garland(3)	Southern California Edison Company	180	through Oct. 2031
Granville(2)	Duke Energy Progress, LLC	2	through Nov. 2032
Henrietta(3)	Pacific Gas & Electric Company	100	through Sept. 2036
Imperial Valley(3)	San Diego Gas & Electric Company	150	through Nov. 2039
Lamesa	City of Garland, Texas	102	April 2017 – March 2032 (6)
Lost Hills Blackwell(3)	City of Roseville & Pacific Gas & Electric Company	32	through Dec. 2043
Macho Springs(2)	El Paso Energy	50	through May 2034
Morelos(2)	Pacific Gas & Electric Company	15	through Feb. 2036
North Star(3)	Pacific Gas & Electric Company	60	through June 2035
Pawpaw	Georgia Power	30	through March 2046
Roserock(3)	Austin Energy	157	through Nov. 2036
Rutherford(2)	Duke Energy Carolinas, LLC	75	through Dec. 2031

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Facility	Counterparty	MWs(1)	Contract Term
Sandhills	Cobb EMC	111	through Oct. 2041
Sandhills	Flint EMC	15	through Oct. 2041
Sandhills	Sawnee EMC	15	through Oct. 2041
Sandhills	Middle Georgia and Irwin EMC	2	through Oct. 2041
Spectrum(2)	Nevada Power Company	30	through Dec. 2038
Tranquillity(3)	Shell Energy North America (US), LP	204	through Nov. 2019
Tranquillity(3)	Southern California Edison Company	204	Dec. 2019 – Nov. 2034
Wind			
Grant Plains	Oklahoma Municipal Power Authority	41	Jan. 2020 – Dec. 2039
Grant Plains	Steelcase Inc.	25	through Dec. 2028
Grant Plains	Allianz Risk Transfer (Bermuda) Ltd.	81-122	April 2017 – March 2027
Grant Wind	East Texas Electric Cooperative	50	through March 2036
Grant Wind	Northeast Texas Electric Cooperative	50	through March 2036
Grant Wind	Western Farmers Electric Cooperative	50	through March 2036
Kay Wind	Westar Energy Inc.	199	through Sept. 2036
Kay Wind	Grand River Dam Authority	100	through Dec. 2035
Passadumkeag	Western Massachusetts Electric Company	40	through June 2031
Salt Fork Wind	City of Garland, Texas	150	through Nov. 2030
Salt Fork Wind	Salesforce.com, Inc.	24	through Nov. 2028
Tyler Bluff Wind	The Proctor & Gamble Company	96	through Dec. 2028
Wake Wind(5)	Equinix Enterprises, Inc.	100	through Oct. 2028
Wake Wind(5)	Owens Corning	125	through Oct. 2028

(1) MWs shown are for 100% of the PPA, which is based on demonstrated capacity of the facility.

(2) Southern Power's subsidiary's equity interest in these facilities is 90%.

(3) Southern Power's subsidiary's equity interest in these facilities is 51%.

(4) Southern Power's subsidiary's equity interest in this facility is 66%.

(5) Southern Power's subsidiary's equity interest in this facility is 90.1%.

(6) Subject to commercial operation.

#### Purchased Power

Facility/Source Counterparty MWs Contract Term

NCEMC NCEMC 100 through Dec. 2021

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" and "Acquisitions" of Southern Power in Item 7 herein and Note 2 to the financial statements of Southern Power in Item 8 herein for additional information.

For the year ended December 31, 2016, Southern Power's revenues were derived approximately 16.5% from Georgia Power. Southern Power actively pursues replacement PPAs prior to the expiration of its current PPAs and anticipates that the revenues attributable to one customer may be replaced by revenues from a new customer; however, the expiration of any of Southern Power's current PPAs without the successful remarketing of a replacement PPA could have a material negative impact on Southern Power's earnings but is not expected to have a material impact on Southern Company's earnings.

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Southern Company Gas

Southern Company Gas is an energy services holding company whose primary business is the distribution of natural gas through the natural gas distribution utilities. Southern Company Gas is also involved in several other businesses that are complementary to the distribution of natural gas, including gas marketing services, wholesale gas services, and gas midstream operations.

Gas distribution operations, the largest segment of Southern Company Gas' business, operates, constructs, and maintains 81,600 miles of natural gas pipelines and 14 storage facilities, with total capacity of 158 Bcf, to provide natural gas to residential, commercial, and industrial customers. Gas distribution operations serves approximately 4.6 million customers across seven states and has rates of return that are regulated by each individual state in return for exclusive franchises.

Gas marketing services is comprised of Southstar Energy Services, LLC (SouthStar) and Nicor Energy Services Company (doing business as Pivotal Home Solutions) and provides natural gas commodity and related services to customers in competitive markets or markets that provide for customer choice. SouthStar, serving approximately 643,000 natural gas commodity customers, markets gas to residential, commercial, and industrial customers and offers energy-related products that provide natural gas price stability and utility bill management. Pivotal Home Solutions, serving approximately 1.2 million service contracts, provides a suite of home protection products and services that offers homeowners predictability regarding their energy service delivery, systems, and appliances.

Wholesale gas services consists of Sequent Energy Management, L.P. and engages in natural gas storage and gas pipeline arbitrage and provides natural gas asset management and related logistical services to most of the natural gas distribution utilities as well as non-affiliate companies.

Gas midstream operations includes joint ventures in pipeline investments (including a 50% ownership interest in SNG and two significant pipeline construction projects) as well as a 50% joint ownership in a significant pipeline project and wholly-owned natural gas storage facilities that enable the provision of diverse sources of natural gas supplies to the customers of Southern Company Gas. On September 1, 2016, Southern Company Gas paid \$1.4 billion to acquire a 50% equity interest in SNG, which is the owner of a 7,000 mile pipeline connecting natural gas supply basins in Texas, Louisiana, Mississippi, and Alabama to markets in Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina, and Tennessee.

For additional information on Southern Company Gas' business activities, see MANAGEMENT'S DISCUSSION AND ANALYSIS – OVERVIEW – "Business Activities" and – FUTURE EARNINGS POTENTIAL of Southern Company Gas in Item 7 herein.

Other Businesses

PowerSecure provides products and services in the areas of distributed generation, energy efficiency, and utility infrastructure. Southern Company acquired PowerSecure on May 9, 2016 for an aggregate purchase price of \$429 million.

Southern Holdings is an intermediate holding subsidiary, primarily for Southern Company's investments in leveraged leases and also for energy services.

Southern LINC provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public. Southern LINC delivers multiple wireless communication options including push to talk, cellular service, text messaging, wireless internet access, and wireless data. Its system covers approximately 127,000 square miles in the Southeast. Southern LINC also provides fiber cable services within the Southeast through its subsidiary, Southern Telecom, Inc.

These efforts to invest in and develop new business opportunities offer potential returns exceeding those of rate-regulated operations. However, these activities also involve a higher degree of risk.

Construction Programs

The subsidiary companies of Southern Company are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. For estimated construction and environmental expenditures for the periods 2017 through 2021, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company, each traditional electric operating company, Southern Power, and Southern Company Gas in Item 7 herein.



The Southern Company system's construction program consists of capital investment and capital expenditures to comply with environmental statutes and regulations. The traditional electric operating companies also anticipate costs associated with closure and groundwater monitoring under the Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule), which are reflected in the Southern Company system's asset retirement obligation liabilities. In 2017, the construction program is expected to be apportioned approximately as follows:

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	Southern Company Power system (a)(b) (in billions)	Alabama Power	Georgia Power	Gulf Power	Mississippi Power
New Generation	\$1.0	\$ —	\$ 0.7	\$ —	\$ 0.3
Environmental Compliance <sup>(c)</sup>	0.9	0.5	0.4	—	—
Generation Maintenance	0.9	0.4	0.3	0.1	0.1
Transmission	0.8	0.3	0.4	—	—
Distribution	1.0	0.4	0.5	0.1	0.1
Nuclear Fuel	0.2	0.1	0.1	—	—
General Plant	0.4	0.1	0.2	—	0.1
	5.3	1.9	2.6	0.2	0.5
Southern Power <sup>(d)</sup>	1.6				
Southern Company Gas <sup>(e)</sup>	1.7				
Other subsidiaries	0.5				
Total <sup>(a)</sup>	\$9.1	\$ 1.9	\$ 2.6	\$ 0.2	\$ 0.5

(a) Totals do not add due to rounding.

(b) Includes the traditional electric operating companies, Southern Power, and Southern Company Gas, as well as the other subsidiaries. See "Other Businesses" herein for additional information.

Reflects cost estimates for environmental regulations. These estimated expenditures do not include any potential compliance costs that may arise from the EPA's final rules and guidelines or future state plans that would limit CO<sub>2</sub> emissions from new, existing, and modified or reconstructed fossil-fuel-fired electric generating units or costs associated with closure and groundwater monitoring under the CCR Rule. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations" and FINANCIAL CONDITION AND LIQUIDITY – "Capital Requirements and Contractual Obligations" of Southern Company and each traditional electric operating company in Item 7 herein for additional information.

(d) Includes approximately \$0.8 billion for potential acquisitions and/or construction of new generating facilities.

Includes costs for ongoing capital projects associated with infrastructure improvement programs in six different states that have been previously approved by their applicable state regulatory agencies. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Infrastructure Replacement Programs and Capital Projects" of Southern Company Gas in Item 7 herein for additional information.

The construction programs are subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; changes in environmental statutes and regulations; the outcome of any legal challenges to the environmental rules; changes in electric generating plants, including unit retirements and replacements and adding or changing fuel sources at existing electric generating units, to meet regulatory requirements; changes in FERC rules and regulations; state regulatory agency approvals; changes in the expected environmental compliance program; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; storm impacts; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. Additionally, planned expenditures for plant acquisitions may vary due to market opportunities and Southern Power's ability to execute its growth strategy.

In addition, the construction program includes the development and construction of new electric generating facilities with designs that have not been finalized or previously constructed, including first-of-a-kind technology, which may result in revised estimates during construction. See Note 3 to the financial statements of Southern Company and Georgia Power under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Retail Regulatory Matters – Nuclear Construction," respectively, in Item 8 herein for additional information regarding Georgia Power's construction of Plant Vogtle Units 3 and 4. Also see Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 herein for additional information.

regarding Mississippi Power's construction of the Kemper IGCC.

Also see "Regulation – Environmental Statutes and Regulations" herein for additional information with respect to certain existing and proposed environmental requirements and PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information concerning Alabama Power's, Georgia Power's, and Southern Power's joint ownership of certain generating units and related facilities with certain non-affiliated utilities.

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Financing Programs

See each of the registrant's MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY in Item 7 herein and Note 6 to the financial statements of each registrant in Item 8 herein for information concerning financing programs.

Fuel Supply

Electric

The traditional electric operating companies' and SEGCO's supply of electricity is primarily fueled by natural gas and coal. Southern Power's supply of electricity is primarily fueled by natural gas. See MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATION – "Electricity Business – Fuel and Purchased Power Expenses" of Southern Company and MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATION – "Fuel and Purchased Power Expenses" of each traditional electric operating company in Item 7 herein for information regarding the electricity generated and the average cost of fuel in cents per net KWH generated for the years 2014 through 2016.

The traditional electric operating companies have agreements in place from which they expect to receive substantially all of their coal burn requirements in 2017. These agreements have terms ranging between one and four years. In 2016, the weighted average sulfur content of all coal burned by the traditional electric operating companies was 0.98% sulfur. This sulfur level, along with banked and purchased sulfur dioxide allowances, allowed the traditional electric operating companies to remain within limits set by Phase I of the Cross-State Air Pollution Rule (CSAPR) under the Clean Air Act. In 2016, the Southern Company system did not purchase any sulfur dioxide allowances, annual nitrogen oxide emission allowances, or seasonal nitrogen oxide emission allowances from the market. As any additional environmental regulations are proposed that impact the utilization of coal, the traditional electric operating companies' fuel mix will be monitored to help ensure that the traditional electric operating companies remain in compliance with applicable laws and regulations. Additionally, Southern Company and the traditional electric operating companies will continue to evaluate the need to purchase additional emissions allowances, the timing of capital expenditures for emissions control equipment, and potential unit retirements and replacements. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company, each traditional electric operating company, and Southern Power in Item 7 herein for additional information on environmental matters.

SCS, acting on behalf of the traditional electric operating companies and Southern Power Company, has agreements in place for the natural gas burn requirements of the Southern Company system. For 2017, SCS has contracted for 477 Bcf of natural gas supply under agreements with remaining terms up to 15 years. In addition to natural gas supply, SCS has contracts in place for both firm natural gas transportation and storage. Management believes these contracts provide sufficient natural gas supplies, transportation, and storage to ensure normal operations of the Southern Company system's natural gas generating units.

Alabama Power and Georgia Power have multiple contracts covering their nuclear fuel needs for uranium, conversion services, enrichment services, and fuel fabrication. The uranium, conversion services, and fuel fabrication contracts are for terms of less than 10 years with varying expiration dates. The term lengths for the enrichment services contracts are for less than 15 years with varying expiration dates. Management believes suppliers have sufficient nuclear fuel production capability to permit the normal operation of the Southern Company system's nuclear generating units.

Changes in fuel prices to the traditional electric operating companies are generally reflected in fuel adjustment clauses contained in rate schedules. See "Rate Matters – Rate Structure and Cost Recovery Plans" herein for additional information. Southern Power's PPAs (excluding solar and wind) generally provide that the counterparty is responsible for substantially all of the cost of fuel.

Alabama Power and Georgia Power have contracts with the United States, acting through the DOE, that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in 1998, as required by the contracts, and Alabama Power and Georgia Power have pursued and are pursuing legal remedies against the government for breach of contract. See Note 3 to the financial statements of Southern Company, Alabama Power, and Georgia Power under "Nuclear Fuel Disposal Costs" in Item 8 herein for additional information.

#### Natural Gas

Recent advances in natural gas drilling in shale producing regions of the U.S. have resulted in historically high supplies of natural gas and relatively low prices for natural gas. Procurement plans for natural gas supply and transportation to serve regulated utility customers are reviewed and approved by the state regulatory agencies in which Southern Company Gas operates. Southern Company Gas purchases natural gas supplies in the open market by contracting with producers and marketers and from its wholly-owned subsidiary, Sequent Energy Management, L.P., under asset management agreements in

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states where such agreements are approved by the applicable state regulatory agency. Southern Company Gas also contracts for transportation and storage services from interstate pipelines that are regulated by the FERC. When firm pipeline services are temporarily not needed, Southern Company Gas may release the services in the secondary market under FERC-approved capacity release provisions or utilize asset management arrangements, thereby reducing the net cost of natural gas charged to customers for most of the natural gas distribution utilities. Peak-use requirements are met through utilization of company-owned storage facilities, pipeline transportation capacity, purchased storage services, peaking facilities, and other supply sources, arranged by either transportation customers or Southern Company Gas.

**Territory Served by the Southern Company System**

**Traditional Electric Operating Companies and Southern Power**

The territory in which the traditional electric operating companies provide electric service comprises most of the states of Alabama and Georgia, together with the northwestern portion of Florida and southeastern Mississippi. In this territory there are non-affiliated electric distribution systems that obtain some or all of their power requirements either directly or indirectly from the traditional electric operating companies. As of December 31, 2016, the territory had an area of approximately 120,000 square miles and an estimated population of approximately 17 million. Southern Power sells electricity at market-based rates in the wholesale market, primarily to investor-owned utilities, IPPs, municipalities, electric cooperatives, and other load serving entities.

Alabama Power is engaged, within the State of Alabama, in the generation, transmission, distribution, and purchase of electricity and the sale of electric service, at retail in approximately 400 cities and towns (including Anniston, Birmingham, Gadsden, Mobile, Montgomery, and Tuscaloosa), as well as in rural areas, and at wholesale to 14 municipally-owned electric distribution systems, 11 of which are served indirectly through sales to AMEA, and two rural distributing cooperative associations. Alabama Power owns coal reserves near its Plant Gorgas and uses the output of coal from the reserves in its generating plants. Alabama Power also sells, and cooperates with dealers in promoting the sale of, electric appliances.

Georgia Power is engaged in the generation, transmission, distribution, and purchase of electricity and the sale of electric service within the State of Georgia, at retail in over 600 communities (including Athens, Atlanta, Augusta, Columbus, Macon, Rome, and Savannah), as well as in rural areas, and at wholesale currently to OPC, MEAG Power, Dalton, various EMCs, and non-affiliated utilities. Georgia Power also markets and sells outdoor lighting services.

Gulf Power is engaged, within the northwestern portion of Florida, in the generation, transmission, distribution, and purchase of electricity and the sale of electric service, at retail in 71 communities (including Pensacola, Panama City, and Fort Walton Beach), as well as in rural areas, and at wholesale to a non-affiliated utility.

Mississippi Power is engaged in the generation, transmission, distribution, and purchase of electricity and the sale of electric service within 23 counties in southeastern Mississippi, at retail in 123 communities (including Biloxi, Gulfport, Hattiesburg, Laurel, Meridian, and Pascagoula), as well as in rural areas, and at wholesale to one municipality, six rural electric distribution cooperative associations, and one generating and transmitting cooperative. For information relating to KWH sales by customer classification for the traditional electric operating companies, see MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATIONS of each traditional electric operating company in Item 7 herein. Also, for information relating to the sources of revenues for Southern Company, each traditional electric operating company, and Southern Power, reference is made to Item 7 herein.

The RUS has authority to make loans to cooperative associations or corporations to enable them to provide electric service to customers in rural sections of the country. As of December 31, 2016, there were 71 electric cooperative organizations operating in the territory in which the traditional electric operating companies provide electric service at retail or wholesale.

One of these organizations, PowerSouth, is a generating and transmitting cooperative selling power to several distributing cooperatives, municipal systems, and other customers in south Alabama and northwest Florida. As of December 31, 2016, PowerSouth owned generating units with approximately 2,100 MWs of nameplate capacity, including an undivided 8.16% ownership interest in Alabama Power's Plant Miller Units 1 and 2. PowerSouth's facilities were financed with RUS loans secured by long-term contracts requiring distributing cooperatives to take their requirements from PowerSouth to the extent such energy is available. See PROPERTIES – "Jointly-Owned

Facilities" in Item 2 herein for details of Alabama Power's joint-ownership with PowerSouth of a portion of Plant Miller. Alabama Power has a 15-year system supply agreement with PowerSouth to provide 200 MWs of capacity service with an option to extend and renegotiate in the event Alabama Power builds new generation or contracts for new capacity.

Alabama Power and Gulf Power have entered into separate agreements with PowerSouth involving interconnection between their respective systems. The delivery of capacity and energy from PowerSouth to certain distributing cooperatives in the

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service territories of Alabama Power and Gulf Power is governed by the Southern Company/PowerSouth Network Transmission Service Agreement. The rates for this service to PowerSouth are on file with the FERC.

Four electric cooperative associations, financed by the RUS, operate within Gulf Power's service territory. These cooperatives purchase their full requirements from PowerSouth and SEPA (a federal power marketing agency). A non-affiliated utility also operates within Gulf Power's service territory and purchases its full requirements from Gulf Power.

Mississippi Power has an interchange agreement with SMEPA, a generating and transmitting cooperative, pursuant to which various services are provided.

As of December 31, 2016, there were approximately 65 municipally-owned electric distribution systems operating in the territory in which the traditional electric operating companies provide electric service at retail or wholesale.

As of December 31, 2016, 48 municipally-owned electric distribution systems and one county-owned system received their requirements through MEAG Power, which was established by a Georgia state statute in 1975. MEAG Power serves these requirements from self-owned generation facilities, some of which are jointly-owned with Georgia Power, and purchases from other resources. MEAG Power also has a pseudo scheduling and services agreement with Georgia Power. Dalton serves its requirements from self-owned generation facilities, some of which are jointly-owned with Georgia Power, and through purchases from Georgia Power and Southern Power through a service agreement. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information.

Georgia Power has entered into substantially similar agreements with Georgia Transmission Corporation, MEAG Power, and Dalton providing for the establishment of an integrated transmission system to carry the power and energy of all parties. The agreements require an investment by each party in the integrated transmission system in proportion to its respective share of the aggregate system load. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information.

Southern Power assumed or entered into PPAs with some of the traditional electric operating companies, investor-owned utilities, IPPs, municipalities, electric cooperatives, and other load serving entities. See "The Southern Company System – Southern Power" above and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Power Sales Agreements" of Southern Power in Item 7 herein for additional information concerning Southern Power's PPAs.

SCS, acting on behalf of the traditional electric operating companies, also has a contract with SEPA providing for the use of the traditional electric operating companies' facilities at government expense to deliver to certain cooperatives and municipalities, entitled by federal statute to preference in the purchase of power from SEPA, quantities of power equivalent to the amounts of power allocated to them by SEPA from certain U.S. government hydroelectric projects.

#### Southern Company Gas

Southern Company Gas is engaged in the distribution of natural gas in seven states through the natural gas distribution utilities. The natural gas distribution utilities construct, manage, and maintain intrastate natural gas pipelines and distribution facilities and include:

Utility	State	Number of customers	Approximate miles of pipe (in thousands)
Nicor Gas	Illinois	2,220	34,300
Atlanta Gas Light Company	Georgia	1,603	33,100
Virginia Natural Gas, Inc.	Virginia	296	5,600
Elizabethtown Gas	New Jersey	287	3,200
Florida City Gas	Florida	108	3,700
Chattanooga Gas Company	Tennessee	65	1,600
Elkton Gas	Maryland	7	100
Total		4,586	81,600

For information relating to the sources of revenue for Southern Company Gas, see MANAGEMENT'S DISCUSSION AND ANALYSIS – RESULTS OF OPERATIONS and – FUTURE EARNINGS POTENTIAL of Southern Company



Gas in Item 7 herein.

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Competition

Electric

The electric utility industry in the U.S. is continuing to evolve as a result of regulatory and competitive factors. Among the early primary agents of change was the Energy Policy Act of 1992, which allowed IPPs to access a utility's transmission network in order to sell electricity to other utilities.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements, service, and reliability. These factors are, in turn, affected by, among other influences, regulatory, political, and environmental considerations, taxation, and supply.

The retail service rights of all electric suppliers in the State of Georgia are regulated by the Territorial Electric Service Act of 1973. Pursuant to the provisions of this Act, all areas within existing municipal limits were assigned to the primary electric supplier therein. Areas outside of such municipal limits were either to be assigned or to be declared open for customer choice of supplier by action of the Georgia PSC pursuant to standards set forth in this Act. Consistent with such standards, the Georgia PSC has assigned substantially all of the land area in the state to a supplier. Notwithstanding such assignments, this Act provides that any new customer locating outside of 1973 municipal limits and having a connected load of at least 900 KWs may exercise a one-time choice for the life of the premises to receive electric service from the supplier of its choice.

Pursuant to the 1956 Utility Act, the Mississippi PSC issued "Grandfather Certificates" of public convenience and necessity to Mississippi Power and to six distribution rural cooperatives operating in southeastern Mississippi, then served in whole or in part by Mississippi Power, authorizing them to distribute electricity in certain specified geographically described areas of the state. The six cooperatives serve approximately 325,000 retail customers in a certificated area of approximately 10,300 square miles. In areas included in a "Grandfather Certificate," the utility holding such certificate may, without further certification, extend its lines up to five miles; other extensions within that area by such utility, or by other utilities, may not be made except upon a showing of, and a grant of a certificate of, public convenience and necessity. Areas included in such a certificate that are subsequently annexed to municipalities may continue to be served by the holder of the certificate, irrespective of whether it has a franchise in the annexing municipality. On the other hand, the holder of the municipal franchise may not extend service into such newly annexed area without authorization by the Mississippi PSC.

Generally, the traditional electric operating companies have experienced, and expect to continue to experience, competition in their respective retail service territories in varying degrees from the development and deployment of alternative energy sources such as self-generation (as described below) and distributed generation technologies, as well as other factors.

Southern Power competes with investor-owned utilities, IPPs, and others for wholesale energy sales primarily in the Southeastern U.S. wholesale market. The needs of this market are driven by the demands of end users in the Southeast and the generation available. Southern Power's success in wholesale energy sales is influenced by various factors including reliability and availability of Southern Power's plants, availability of transmission to serve the demand, price, and Southern Power's ability to contain costs.

As of December 31, 2016, Alabama Power had cogeneration contracts in effect with nine industrial customers. Under the terms of these contracts, Alabama Power purchases excess energy generated by such companies. During 2016, Alabama Power purchased approximately 78 million KWHs from such companies at a cost of \$2 million.

As of December 31, 2016, Georgia Power had contracts in effect with 29 small power producers whereby Georgia Power purchases their excess generation. During 2016, Georgia Power purchased 1.2 billion KWHs from such companies at a cost of \$88 million. Georgia Power also has PPAs for electricity with six cogeneration facilities. Payments are subject to reductions for failure to meet minimum capacity output. During 2016, Georgia Power purchased 512 million KWHs at a cost of \$38 million from these facilities.

Also during 2016, Georgia Power purchased energy from three customer-owned generating facilities. These customers provide only energy to Georgia Power, make no capacity commitment, and are not dispatched by Georgia Power.

During 2016, Georgia Power purchased a total of 46 million KWHs from the three customers at a cost of approximately \$2 million.

As of December 31, 2016, Gulf Power had agreements in effect with various industrial, commercial, and qualifying facilities pursuant to which Gulf Power purchases "as available" energy from customer-owned generation. During 2016, Gulf Power purchased 228 million KWHs from such companies for approximately \$6 million.

As of December 31, 2016, Mississippi Power had one cogeneration agreement in effect with one of its industrial customers. Under the terms of this contract, Mississippi Power purchases any excess generation. During 2016, Mississippi Power did not purchase any excess generation from this customer.

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Natural Gas

Southern Company Gas' regulated natural gas distribution utilities do not compete with other distributors of natural gas in their exclusive franchise territories but face competition from other energy products. Their principal competitors are electric utilities and fuel oil and propane providers serving the residential, commercial, and industrial markets in their service areas for customers who are considering switching to or from a natural gas appliance. Competition for heating as well as general household and small commercial energy needs generally occurs at the initial installation phase when the customer or builder makes decisions as to which types of equipment to install. Customers generally use the chosen energy source for the life of the equipment.

Customer demand for natural gas could be affected by numerous factors, including:

- changes in the availability or price of natural gas and other forms of energy;
- general economic conditions;
- energy conservation, including state-supported energy efficiency programs;
- legislation and regulations;
- the cost and capability to convert from natural gas to alternative energy products; and
- technological changes resulting in displacement or replacement of natural gas appliances.

Southern Company Gas continues to develop and grow its business through the use of a variety of targeted marketing programs designed to attract new customers and to retain existing customers. These efforts include working to add residential customers, multifamily complexes, and commercial customers who might use natural gas, as well as evaluating and launching new natural gas related programs, products, and services to enhance customer growth, mitigate customer attrition, and increase operating revenues.

The natural gas-related programs generally emphasize natural gas as the fuel of choice for customers and seek to expand the use of natural gas through a variety of promotional activities. In addition, Southern Company Gas partners with third-party entities to market the benefits of natural gas appliances.

Recent advances in natural gas drilling in shale producing regions of the U.S. have resulted in historically high supplies of natural gas and relatively low prices for natural gas. The availability and affordability of natural gas have provided cost advantages and further opportunity for growth of the businesses.

Seasonality

The demand for electric power and natural gas supply is affected by seasonal differences in the weather. In most of the areas the traditional electric operating companies serve, electric power sales peak during the summer, while in most of the areas Southern Company Gas serves, natural gas demand peaks during the winter. As a result, the overall operating results of Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas in the future may fluctuate substantially on a seasonal basis. In addition, Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas have historically sold less power and natural gas when weather conditions are milder.

Regulation

State Commissions

The traditional electric operating companies and the natural gas distribution utilities are subject to the jurisdiction of their respective state PSCs or applicable state regulatory agencies. These regulatory bodies have broad powers of supervision and regulation over public utilities operating in the respective states, including their rates, service regulations, sales of securities (except for the Mississippi PSC), and, in the cases of the Georgia PSC and the Mississippi PSC, in part, retail service territories. See "Territory Served by the Southern Company System" and "Rate Matters" herein for additional information.

Federal Power Act

The traditional electric operating companies, Southern Power Company and certain of its generation subsidiaries, and SEGCO are all public utilities engaged in wholesale sales of energy in interstate commerce and, therefore, are subject to the rate, financial, and accounting jurisdiction of the FERC under the Federal Power Act. The FERC must approve certain financings and allows an "at cost standard" for services rendered by system service companies such as SCS and Southern Nuclear. The FERC is also authorized to establish regional reliability organizations which enforce reliability standards, address impediments to the construction of transmission, and prohibit manipulative energy

trading practices.

Alabama Power and Georgia Power are also subject to the provisions of the Federal Power Act or the earlier Federal Water Power Act applicable to licensees with respect to their hydroelectric developments. As of December 31, 2016, among the hydroelectric projects subject to licensing by the FERC are 14 existing Alabama Power generating stations having an aggregate

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installed capacity of 1,670,000 KWs and 17 existing Georgia Power generating stations and one generating station partially owned by Georgia Power, with a combined aggregate installed capacity of 1,087,296 KWs.

In 2013, the FERC issued a new 30-year license to Alabama Power for Alabama Power's seven hydroelectric developments on the Coosa River (Weiss, Henry, Logan Martin, Lay, Mitchell, Jordan, and Bouldin). Alabama Power filed a petition requesting rehearing of the FERC order granting the relicense seeking revisions to several conditions of the license. Alabama Rivers Alliance, American Rivers, the Georgia Environmental Protection Division, and the Atlanta Regional Commission also filed petitions for rehearing of the FERC order. On April 21, 2016, the FERC issued an order granting in part and denying in part Alabama Power's rehearing request. The order also denied rehearing requests filed by Alabama Rivers Alliance, American Rivers, the Georgia Environmental Protection Division, and the Atlanta Regional Commission. On May 17, 2016, Alabama Rivers Alliance and American Rivers filed a second rehearing request and on June 15, 2016, also filed a petition for review at the U.S. Court of Appeals for the District of Columbia Circuit of the license and the rehearing denial order. The FERC issued an order on September 12, 2016 denying the second rehearing request, and American Rivers and Alabama Rivers Alliance subsequently filed an appeal of that order at the U.S. Court of Appeals for the District of Columbia Circuit. The U.S. Court of Appeals for the District of Columbia Circuit has consolidated the two appeals into one proceeding.

In 2013, Alabama Power filed an application with the FERC to relicense the Holt hydroelectric project located on the Warrior River. The current Holt license expired on August 31, 2015. Since the FERC did not act on Alabama Power's new license application prior to expiration, the FERC issued to Alabama Power an annual license authorizing continued operation of the project under the terms and conditions of the expired license until action is taken on the new license and, on December 22, 2016, issued a new 50-year license to Alabama Power.

In December 2015, the FERC issued a new 30-year license to Alabama Power for the Martin Dam project located on the Tallapoosa River. Alabama Rivers Alliance, American Rivers, the Georgia Environmental Protection Division, and the Atlanta Regional Commission filed petitions for rehearing of the FERC order, which the FERC denied on November 15, 2016.

In 2016, Georgia Power continued the process of developing an application to relicense the Wallace Dam project on the Oconee River. The current Wallace Dam project license will expire on June 1, 2020.

Georgia Power and OPC also have a license, expiring in 2027, for the Rocky Mountain Plant, a pure pumped storage facility of 847,800 KW capacity. See PROPERTIES – "Jointly-Owned Facilities" in Item 2 herein for additional information.

Licenses for all projects, excluding those discussed above, expire in the years 2023-2040 in the case of Alabama Power's projects and in the years 2024-2044 in the case of Georgia Power's projects.

Upon or after the expiration of each license, the U.S. Government, by act of Congress, may take over the project or the FERC may relicense the project either to the original licensee or to a new licensee. In the event of takeover or relicensing to another, the original licensee is to be compensated in accordance with the provisions of the Federal Power Act, such compensation to reflect the net investment of the licensee in the project, not in excess of the fair value of the property, plus reasonable damages to other property of the licensee resulting from the severance therefrom of the property. The FERC may grant relicenses subject to certain requirements that could result in additional costs.

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

**Nuclear Regulation**

Alabama Power, Georgia Power, and Southern Nuclear are subject to regulation by the NRC. The NRC is responsible for licensing and regulating nuclear facilities and materials and for conducting research in support of the licensing and regulatory process, as mandated by the Atomic Energy Act of 1954, as amended; the Energy Reorganization Act of 1974, as amended; and the Nuclear Nonproliferation Act of 1978, as amended; and in accordance with the National Environmental Policy Act of 1969, as amended, and other applicable statutes. These responsibilities also include protecting public health and safety, protecting the environment, protecting and safeguarding nuclear materials and nuclear power plants in the interest of national security, and assuring conformity with antitrust laws.

The NRC licenses for Georgia Power's Plant Hatch Units 1 and 2 expire in 2034 and 2038, respectively. The NRC licenses for Alabama Power's Plant Farley Units 1 and 2 expire in 2037 and 2041, respectively. The NRC licenses for

Plant Vogtle Units 1 and 2 expire in 2047 and 2049, respectively.

In 2012, the NRC issued combined construction and operating licenses (COLs) for Plant Vogtle Units 3 and 4. Receipt of the COLs allowed full construction to begin. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" and Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 herein for additional information.

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See Notes 1 and 9 to the financial statements of Southern Company, Alabama Power, and Georgia Power in Item 8 herein for information on nuclear decommissioning costs and nuclear insurance.

Environmental Statutes and Regulations

The Southern Company system's electric utilities' operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including air, water, and land resources. Included are laws and regulations regarding the handling and disposal of waste and release of hazardous substances from certain current and former operating sites, and locations affected by historical operations or subject to contractual obligations. Compliance with these existing environmental requirements involves significant capital and operating costs, a major portion of which is expected to be recovered through existing ratemaking provisions or through market-based contracts. There is no assurance, however, that all such costs will be recovered. For Southern Company Gas, substantially all of these costs are related to former manufactured gas plants (MGP) sites, which are primarily recovered through existing ratemaking provisions. See Note 3 to the financial statements of Southern Company Gas under "Environmental Matters" in Item 8 herein for additional information.

Compliance with federal environmental statutes and resulting regulations has been, and will continue to be, a significant focus for Southern Company, each traditional electric operating company, Southern Power, SEGCO, and Southern Company Gas. In addition, existing environmental laws and regulations may be changed or new laws and regulations may be adopted or otherwise become applicable to the Southern Company system, including laws and regulations designed to address air and water quality, wastes, greenhouse gases, endangered species or other environmental and health concerns. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company and each of the traditional electric operating companies in Item 7 herein for additional information about environmental issues, including, but not limited to, proposed and final regulations related to air quality, water quality, CCRs, and global climate issues. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Power in Item 7 herein for additional information about environmental issues and global climate issues. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company Gas in Item 7 herein for additional information about environmental remediation liabilities.

The Southern Company system's ultimate environmental compliance strategy, including potential electric generating unit retirement and replacement decisions, and future environmental capital expenditures will be affected by the final requirements of new or revised environmental regulations; the time periods over which compliance with regulations is required; individual state implementation of regulations, as applicable; the outcome of any legal challenges to the environmental rules; any additional rulemaking activities in response to legal challenges and court decisions; the cost, availability, and existing inventory of emissions allowances; the impact of future changes in generation and emissions-related technology; the fuel mix of the electric utilities; and environmental remediation requirements. Compliance costs may arise from existing unit retirements, installation of additional environmental controls, upgrades to the transmission system, closure and monitoring of CCR facilities, and adding or changing fuel sources for certain existing units. Environmental compliance spending over the next several years may differ materially from the amounts estimated. Such expenditures could affect results of operations, cash flows, and financial condition if such costs are not recovered on a timely basis through regulated rates 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, higher costs that are recovered through regulated rates could contribute to reduced demand for energy, which could negatively affect results of operations, cash flows, and financial condition. Also see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters" of Southern Company, each of the traditional electric operating companies, Southern Power, and Southern Company Gas in Item 7 herein for additional information. The ultimate outcome of these matters cannot be determined at this time.

Compliance with any new federal or state legislation or regulations relating to air, water, and land resources or other environmental and health concerns could significantly affect the Southern Company system. Although new or revised environmental legislation or regulations could affect many areas of the electric utilities' and natural gas distribution



utilities' operations, the full impact of any such changes cannot be determined at this time. 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 "Construction Program" herein for additional information.

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Rate Matters

Rate Structure and Cost Recovery Plans

Electric

The rates and service regulations of the traditional electric operating companies are uniform for each class of service throughout their respective retail service territories. Rates for residential electric service are generally of the block type based upon KWHs used and include minimum charges. Residential and other rates contain separate customer charges. Rates for commercial service are presently of the block type and, for large customers, the billing demand is generally used to determine capacity and minimum bill charges. These large customers' rates are generally based upon usage by the customer and include rates with special features to encourage off-peak usage. Additionally, Alabama Power, Gulf Power, and Mississippi Power are generally allowed by their respective state PSCs to negotiate the terms and cost of service to large customers. Such terms and cost of service, however, are subject to final state PSC approval.

The traditional electric operating companies recover their respective costs through a variety of forward-looking, cost-based rate mechanisms. Fuel and net purchased energy costs are recovered through specific fuel cost recovery provisions. These fuel cost recovery provisions are adjusted to reflect increases or decreases in such costs as needed or on schedules as required by the respective PSCs. Approved environmental compliance, storm damage, and certain other costs are recovered at Alabama Power, Gulf Power, and Mississippi Power through specific cost recovery mechanisms approved by their respective PSCs. Certain similar costs at Georgia Power are recovered through various base rate tariffs as approved by the Georgia PSC. Costs not recovered through specific cost recovery mechanisms are recovered at Alabama Power and Mississippi Power through annual, formulaic cost recovery proceedings and at Georgia Power and Gulf Power through base rate proceedings.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters" of Southern Company and each of the traditional electric operating companies in Item 7 herein and Note 3 to the financial statements of Southern Company and each of the traditional electric operating companies under "Retail Regulatory Matters" in Item 8 herein for a discussion of rate matters and certain cost recovery mechanisms. Also, see Note 1 to the financial statements of Southern Company and each of the traditional electric operating companies in Item 8 herein for a discussion of recovery of fuel costs, storm damage costs, and environmental compliance costs through rate mechanisms.

See "Integrated Resource Planning" herein for a discussion of Georgia PSC certification of new demand-side or supply-side resources and decertification of existing supply-side resources for Georgia Power. In addition, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Retail Regulatory Matters – Nuclear Construction" of Georgia Power in Item 7 herein and Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Nuclear Construction" and Georgia Power under "Retail Regulatory Matters – Nuclear Construction" in Item 8 herein for a discussion of the Georgia Nuclear Energy Financing Act and the Georgia PSC certification of Plant Vogtle Units 3 and 4, which have allowed Georgia Power to recover financing costs for construction of Plant Vogtle Units 3 and 4 during the construction period beginning in 2011.

See Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 herein and MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" of Mississippi Power in Item 7 herein for information on cost recovery plans with respect to the Kemper IGCC.

The traditional electric operating companies and Southern Power Company and certain of its generation subsidiaries are authorized by the FERC to sell power to non-affiliates, including short-term opportunity sales, at market-based prices. Specific FERC approval must be obtained with respect to a market-based contract with an affiliate. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "FERC Matters" of each of the registrants in Item 7 herein for information on the traditional electric operating companies' and Southern Power Company's market-based rate authority and a pending FERC proceeding relating to this authority.

Through 2015, long-term non-affiliate capacity sales from Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs) provided the majority of Gulf Power's wholesale earnings. Contract expirations at the end of 2015 and the end of May 2016 related to Plant Scherer Unit 3 wholesale services had a material negative impact on Gulf Power's earnings in

2016 but did not have a material impact on Southern Company's earnings in 2016. Remaining contract sales from Plant Scherer Unit 3 cover approximately 24% of Gulf Power's ownership of the unit through 2019. On October 12, 2016, Gulf Power filed a petition (2016 Rate Case) with the Florida PSC requesting an annual increase in retail rates and charges of \$106.8 million based on the projected test year of January 1, 2017 through December 31, 2017 and a retail return on equity (ROE) of 11% compared to the current retail ROE of 10.25%. The requested increase includes recovery of the portion of Plant Scherer Unit 3 that has been rededicated to serving retail customers following the contract expirations discussed above. If retail recovery of Plant Scherer Unit 3 is not approved by the Florida PSC in the 2016 Rate Case, Gulf Power may consider an asset sale. The current book

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value of Gulf Power's ownership of Plant Scherer Unit 3 could exceed market value which could result in a material loss. The Florida PSC is expected to make a decision on the 2016 Rate Case in the second quarter 2017. Gulf Power has requested that the increase in base rates, if approved by the Florida PSC, become effective in July 2017. On November 2, 2016, the Florida PSC approved Gulf Power's 2017 annual cost recovery clause factors. The fuel and environmental factors include certain costs associated with the ongoing ownership and operation of Plant Scherer Unit 3. The final disposition of these costs, and the related impact on rates, is subject to the Florida PSC's ultimate ruling on whether costs associated with Plant Scherer Unit 3 are recoverable from retail customers, which is expected to be decided by the Florida PSC in the 2016 Rate Case.

Mississippi Power serves long-term contracts with rural electric cooperative associations and a municipality located in southeastern Mississippi under cost-based electric tariffs which are subject to regulation by the FERC. The contracts with these wholesale customers represented 19.8% of Mississippi Power's operating revenues in 2016 and are largely subject to rolling 10-year cancellation notices. Historically, these wholesale customers have acted as a group and any changes in contractual relationships for one customer are likely to be followed by the other wholesale customers.

Natural Gas

Southern Company Gas' seven natural gas distribution utilities are subject to regulations and oversight by their respective state regulatory agencies with respect to rates charged to their customers, maintenance of accounting records, and various service and safety matters. Rates charged to these customers vary according to customer class (residential, commercial, or industrial) and rate jurisdiction. These agencies approve rates designed to provide Southern Company Gas the opportunity to generate revenues to recover all prudently incurred costs, including a return on rate base sufficient to pay interest on debt, and provide a reasonable return. Rate base generally consists of the original cost of the utility plant in service, working capital, and certain other assets, less accumulated depreciation on the utility plant in service and net deferred income tax liabilities, and may include certain other additions or deductions.

With the exception of Atlanta Gas Light Company, which operates in a deregulated environment in which gas marketers rather than a traditional utility sell natural gas to end-use customers and earns revenue by charging rates to its customers based primarily on monthly fixed charges that are set by the Georgia PSC, the earnings of the natural gas distribution utilities can be affected by customer consumption patterns that are largely a function of weather conditions and price levels for natural gas.

The natural gas distribution utilities, excluding Atlanta Gas Light Company, are authorized to use natural gas cost recovery mechanisms that allow them to adjust their rates to reflect changes in the wholesale cost of natural gas and to ensure they recover all of the costs prudently incurred in purchasing gas for their customers. In addition to natural gas cost recovery mechanisms, the natural gas distribution utilities have other cost recovery mechanisms, such as regulatory riders, which vary by utility but allow recovery of certain costs, such as those related to infrastructure replacement programs as well as environmental remediation and energy efficiency plans.

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Utility Regulation and Rate Design" of Southern Company Gas in Item 7 herein and Note 3 to the financial statements of Southern Company Gas under "Regulatory Matters" in Item 8 herein for a discussion of rate matters and certain cost recovery mechanisms.

Integrated Resource Planning

Each of the traditional electric operating companies continually evaluates its electric generating resources in order to ensure that it maintains a cost-effective and reliable mix of resources to meet the existing and future demand requirements of its customers. See "Environmental Statutes and Regulations" above for a discussion of existing and potential environmental regulations that may impact the future generating resource needs of the traditional electric operating companies.

Certain of the traditional electric operating companies are required to file IRPs with their respective state PSC as discussed below.

Georgia Power

Triennially, Georgia Power must file an IRP with the Georgia PSC that specifies how it intends to meet the future electrical needs of its customers through a combination of demand-side and supply-side resources. The Georgia PSC,

under state law, must certify any new demand-side or supply-side resources for Georgia Power to receive cost recovery. Once certified, the lesser of actual or certified construction costs and purchased power costs is recoverable through rates. Certified costs may be excluded from recovery only on the basis of fraud, concealment, failure to disclose a material fact, imprudence, or criminal misconduct.

See Note 3 to the financial statements of Southern Company under "Regulatory Matters – Georgia Power – Rate Plans," "– Integrated Resource Plan," and "– Nuclear Construction" and Note 3 to the financial statements of Georgia Power under "Retail

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Regulatory Matters – Rate Plans," "– Integrated Resource Plan," and "– Nuclear Construction" in Item 8 herein for additional information.

**Gulf Power**

Annually by April 1, Gulf Power must file a 10-year site plan with the Florida PSC containing Gulf Power's estimate of its power-generating needs in the period and the general location of its proposed power plant sites. The 10-year site plans submitted by the state's electric utilities are reviewed by the Florida PSC and subsequently classified as either "suitable" or "unsuitable." The Florida PSC then reports its findings along with any suggested revisions to the Florida Department of Environmental Protection for its consideration at any subsequent electrical power plant site certification proceedings. Under Florida law, any 10-year site plans submitted by an electric utility are considered tentative information for planning purposes only and may be amended at any time at the discretion of the utility with written notification to the Florida PSC.

Gulf Power's most recent 10-year site plan was classified by the Florida PSC as "suitable" in November 2016. Gulf Power's most recent 10-year site plan and environmental compliance plan identify environmental regulations and potential legislation or regulation that would impose mandatory restrictions on greenhouse gas emissions. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality," "– Environmental Statutes and Regulations – Coal Combustion Residuals," and "– Global Climate Issues" of Gulf Power in Item 7 herein. Gulf Power continues to evaluate the economics of various potential planning scenarios for units at certain Gulf Power coal-fired generating plants as EPA and other regulations develop.

As a result of the cost to comply with environmental regulations imposed by the EPA, Gulf Power retired its coal-fired generation at Plant Smith Units 1 and 2 (357 MWs) on March 31, 2016. Gulf Power filed a petition with the Florida PSC requesting permission to recover the remaining net book value of Plant Smith Units 1 and 2 and the remaining materials and supplies associated with these units as of the retirement date. On August 29, 2016, the Florida PSC approved Gulf Power's request to reclassify these costs, totaling approximately \$63 million, to a regulatory asset for recovery over a period to be decided in the 2016 Rate Case. The ultimate outcome of this matter cannot be determined at this time.

**Mississippi Power**

Mississippi Power's 2010 IRP indicated that Mississippi Power plans to construct the Kemper IGCC to meet its identified needs, to add environmental controls at Plant Daniel Units 1 and 2, to defer environmental controls at Plant Watson Units 4 and 5, and to continue operation of the combined cycle Plant Daniel Units 3 and 4. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Environmental Matters – Environmental Statutes and Regulations – Air Quality" and "– Global Climate Issues" of Mississippi Power in Item 7 herein. In 2014, Mississippi Power entered into a settlement agreement with the Sierra Club that, among other things, required the Sierra Club to dismiss or withdraw all pending legal and regulatory challenges to the Kemper IGCC and the flue gas desulfurization system project at Plant Daniel Units 1 and 2, which also occurred in 2014. In addition, and consistent with Mississippi Power's ongoing evaluation of recent environmental rules and regulations, Mississippi Power agreed to retire, repower with natural gas, or convert to an alternative non-fossil fuel source Plant Sweatt Units 1 and 2 (80 MWs) no later than December 2018 (and the units were retired in July 2016). Mississippi Power also agreed that it would cease burning coal or other solid fuel at Plant Watson Units 4 and 5 (750 MWs) and begin operating those units solely on natural gas no later than April 2015 (which occurred in April 2015) and cease burning coal and other solid fuel at Plant Greene County Units 1 and 2 (200 MWs) no later than April 2016 (which occurred in February and March 2016, respectively), and begin operating those units solely on natural gas (which occurred in June and July 2016, respectively).

For information regarding Mississippi Power's construction of the Kemper IGCC, see MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle" of Mississippi Power in Item 7 herein and Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" in Item 8 herein.

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



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## Employee Relations

The Southern Company system had a total of 32,015 employees on its payroll at December 31, 2016.

	Employees
	at
	December
	31, 2016
Alabama Power	6,805
Georgia Power	7,527
Gulf Power	1,352
Mississippi Power	1,484
PowerSecure	1,051
SCS	4,341
Southern Company Gas	5,292
Southern Nuclear	3,928
Southern Power*	0
Other	235
Total	32,015

\* Southern Power has no employees. Southern Power has agreements with SCS and the traditional electric operating companies whereby employee services are rendered at amounts in compliance with FERC regulations.

The traditional electric operating companies and the natural gas distribution utilities have separate agreements with local unions of the IBEW and the Utilities Workers Union of America generally covering wages, working conditions, and procedures for handling grievances and arbitration. These agreements apply with certain exceptions to operating, maintenance, and construction employees.

Alabama Power has agreements with the IBEW in effect through August 15, 2019. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

Georgia Power has an agreement with the IBEW covering wages and working conditions, which is in effect through June 30, 2021.

Gulf Power has an agreement with the IBEW covering wages and working conditions, which is in effect through April 15, 2019. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

Mississippi Power has an agreement with the IBEW covering wages and working conditions, which is in effect through May 1, 2019. In 2013, Mississippi Power signed a separate agreement with the IBEW related solely to the Kemper IGCC; the current agreement is in effect through March 15, 2021.

Southern Nuclear has a five-year agreement with the IBEW covering certain employees at Plants Hatch and Vogtle which is in effect through June 30, 2021. A five-year agreement between Southern Nuclear and the IBEW representing certain employees at Plant Farley is in effect through August 15, 2019. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

The agreements also make the terms of the pension plans for the companies discussed above subject to collective bargaining with the unions at either a five-year or a 10-year cycle, depending upon union and company actions.

The natural gas distribution utilities have separate agreements with local unions of the IBEW and Utilities Workers Union of America covering wages, working conditions, and procedures for handling grievances and arbitration. Nicor Gas' agreement with the IBEW is effective through February 28, 2018. Virginia Natural Gas, Inc.'s agreement with the IBEW is effective through May 16, 2019. Elizabethtown Gas' agreement with the Utility Workers Union of America is effective through November 20, 2019. The agreements also make the terms of the Southern Company Gas pension plan subject to collective bargaining with the unions when significant changes to the benefit accruals are considered by Southern Company Gas.





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Item 1A. RISK FACTORS

In addition to the other information in this Form 10-K, including MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL in Item 7 of each registrant, and other documents filed by Southern Company and/or its subsidiaries with the SEC from time to time, the following factors should be carefully considered in evaluating Southern Company and its subsidiaries. Such factors could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Southern Company and/or its subsidiaries.

UTILITY REGULATORY, LEGISLATIVE, AND LITIGATION RISKS

Southern Company and its subsidiaries are subject to substantial governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits, and certificates may result in substantial costs to Southern Company and its subsidiaries.

Southern Company and its subsidiaries, including the traditional electric operating companies, Southern Power, and Southern Company Gas, are subject to substantial regulation from federal, state, and local regulatory agencies. Southern Company and its subsidiaries are required to comply with numerous laws and regulations and to obtain numerous permits, approvals, and certificates from the governmental agencies that regulate various aspects of their businesses, including rates and charges, service regulations, retail service territories, sales of securities, sales and marketing of energy-related products and services, incurrence of indebtedness, asset acquisitions and sales, accounting and tax policies and practices, physical and cyber security policies and practices, and the construction and operation of electric generating facilities, as well as transmission, storage, transportation, and distribution facilities for the electric and natural gas businesses. For example, the respective state PSC or other applicable state regulatory agency must approve the traditional electric operating companies' requested rates for retail electric customers and the natural gas distribution utilities' requested rates for gas distribution operations customers. The traditional electric operating companies and the natural gas distribution utilities seek to recover their costs (including a reasonable return on invested capital) through their retail rates, and a state PSC or other applicable state regulatory agency, in a future rate proceeding, may alter the timing or amount of certain costs for which recovery is allowed or modify the current authorized rate of return. Rate refunds may also be required. Additionally, the rates charged to wholesale customers by the traditional electric operating companies and by Southern Power must be approved by the FERC. These wholesale rates could be affected by changes to Southern Power's and the traditional electric operating companies' ability to conduct business pursuant to FERC market-based rate authority. The FERC rules related to retaining the authority to sell electricity at market-based rates in the wholesale markets are important for the traditional electric operating companies and Southern Power if they are to remain competitive in the wholesale markets in which they operate. The impact of any future revision or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to Southern Company or any of its subsidiaries is uncertain. Changes in regulation or the imposition of additional regulations could influence the operating environment of Southern Company and its subsidiaries and may result in substantial costs or otherwise negatively affect their results of operations. The Southern Company system's costs of compliance with environmental laws are significant. The costs of compliance with current and future environmental laws, including laws and regulations designed to address air quality, greenhouse gases (GHG), water quality, waste, and other matters and the incurrence of environmental liabilities could negatively impact the net income, cash flows, and financial condition of Southern Company, the traditional electric operating companies, Southern Power, and/or Southern Company Gas. The Southern Company system is subject to extensive federal, state, and local environmental requirements which, among other things, regulate air emissions, GHG, water usage and discharge, release of hazardous substances, and the management and disposal of waste in order to adequately protect the environment. Compliance with these environmental requirements requires the traditional electric operating companies, Southern Power, and Southern Company Gas to commit significant expenditures, including installation and operation of pollution control equipment, environmental monitoring, emissions fees, remediation costs, and/or permits at substantially all of their respective facilities. Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas expect that these expenditures will continue to be significant in the future.

The EPA has adopted and is in the process of implementing regulations governing air and water quality, including the emission of nitrogen oxide, sulfur dioxide, fine particulate matter, ozone, mercury, and other air pollutants under the Clean Air Act and regulations governing cooling water intake structures and effluent guidelines for steam electric generating plants under the Clean Water Act. The EPA has also finalized regulations governing the disposal of CCR, including coal ash and gypsum, in landfills and surface impoundments at active power generation plants. The EPA has also finalized regulations, which are currently stayed by the U.S. Supreme Court, limiting CO<sub>2</sub> emissions from fossil fuel-fired electric generating units.

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Additionally, environmental laws and regulations covering the handling and disposal of waste and release of hazardous substances could require the Southern Company system to incur substantial costs to clean up affected sites, including certain current and former operating sites, and locations affected by historical operations or subject to contractual obligations.

Existing environmental laws and regulations may be revised or new laws and regulations related to air quality, GHG, water quality, waste, endangered species, or other environmental and health concerns may be adopted or become applicable to the traditional electric operating companies, Southern Power, and/or Southern Company Gas.

Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has occurred throughout the U.S. This litigation has included claims for damages alleged to have been caused by CO<sub>2</sub> and other emissions, CCR, releases of regulated substances, and alleged exposure to regulated substances, and/or requests for injunctive relief in connection with such matters.

The Southern Company system's ultimate environmental compliance strategy, including potential unit retirement and replacement decisions, and future environmental capital expenditures will be affected by the final requirements of new or revised environmental regulations; the time periods over which compliance with regulations is required; individual state implementation of regulations, as applicable; the outcome of any legal challenges to the environmental rules and any additional rulemaking activities in response to legal challenges and court decisions; the cost, availability, and existing inventory of emissions allowances; the impact of future changes in generation and emissions-related technology and costs; and the fuel mix of the electric utilities. Compliance costs may arise from existing unit retirements, installation of additional environmental controls, upgrades to the transmission system, closure and groundwater monitoring of CCR facilities, and adding or changing fuel sources for existing units.

Environmental compliance spending over the next several years may differ materially from the amounts estimated. Such expenditures could affect unit retirement and replacement decisions and results of operations, cash flows, and financial condition if such costs are not recovered on a timely basis through regulated rates 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, higher costs that are recovered through regulated rates could contribute to reduced demand for energy, which could negatively affect results of operations, cash flows, and financial condition. Additionally, if Southern Company, any traditional electric operating company, Southern Power, or Southern Company Gas fails to comply with environmental laws and regulations, even if caused by factors beyond its control, that failure may result in the assessment of civil or criminal penalties and fines and/or remediation costs.

The Southern Company system may be exposed to regulatory and financial risks related to the impact of climate change legislation and regulation.

Since the late 1990s, the U.S. Congress, the EPA, federal courts, and various states have considered, and at times have adopted, climate change policies and proposals to reduce GHG emissions, mandate renewable energy, and/or impose energy efficiency standards. Clean Air Act regulation and/or future GHG or renewable energy legislation requiring limits or reductions in emissions could cause the Southern Company system to incur expenditures and make fundamental business changes to achieve limits and reduce GHG emissions. Internationally, the United Nations Framework Convention on Climate Change, which the United States has ratified, considers addressing climate change. The 21<sup>st</sup> Conference of the Parties met in late 2015 and resulted in the adoption of the Paris Agreement, which established a non-binding universal framework for addressing GHG emissions based on nationally determined contributions.

In October 2015, the EPA published two final actions that would limit CO<sub>2</sub> emissions from fossil fuel-fired electric generating units. One of the final actions contains specific emission standards governing CO<sub>2</sub> emissions from new, modified, and reconstructed units. The other final action, known as the Clean Power Plan, establishes guidelines for states to develop plans to meet EPA-mandated CO<sub>2</sub> emission rates for existing units. The EPA's final guidelines require state plans to meet interim CO<sub>2</sub> performance rates between 2022 and 2029 and final rates in 2030 and thereafter. The proposed guidelines and standards could result in operational restrictions and material compliance costs, including capital expenditures, which could affect future unit retirement and replacement decisions. On

February 9, 2016, the U.S. Supreme Court granted a stay of the Clean Power Plan, pending disposition of petitions for its review with the courts. The stay will remain in effect through the resolution of the litigation, whether resolved in the U.S. Court of Appeals for the District of Columbia Circuit or the U.S. Supreme Court.

Costs associated with these actions could be significant to the utility industry and the Southern Company system. However, the ultimate financial and operational impact of the final rules on the Southern Company system cannot be determined at this time and will depend upon numerous factors, including the Southern Company system's ongoing review of the final rules; the outcome of legal challenges, including legal challenges filed by the traditional electric operating companies; individual state implementation of the EPA's final guidelines, including the potential that state plans impose different standards; additional rulemaking activities in response to legal challenges and related court decisions; the impact of future changes in electric

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generation and emissions-related technology and costs; the impact of future decisions regarding unit retirement and replacement, including the type and amount of any such replacement generation capacity; and the time periods over which compliance will be required.

Because natural gas is a fossil fuel with lower carbon content relative to other traditional fuels, future carbon constraints may create additional demand for natural gas, both for production of electricity and direct use in homes and businesses. The impact is already being seen in the power production sector due to both environmental regulations and low natural gas costs. Future regulation of methane, a GHG and primary constituent of natural gas, could likewise result in increased costs to the Southern Company system and affect the demand for natural gas as well as the prices charged to customers and the competitive position of natural gas.

The net income of Southern Company, the traditional electric operating companies, and Southern Power could be negatively impacted by changes in regulations related to transmission planning processes and competition in the wholesale electric markets.

The traditional electric operating companies currently own and operate transmission facilities as part of a vertically integrated utility. A small percentage of transmission revenues are collected through the wholesale electric tariff but the majority of transmission revenues are collected through retail rates. FERC rules pertaining to regional transmission planning and cost allocation present challenges to transmission planning and the wholesale market structure in the Southeast. The key impacts of these rules include:

- possible disruption of the integrated resource planning processes within the states in the Southern Company system's service territory;

- delays and additional processes for developing transmission plans; and

- possible impacts on state jurisdiction of approving, certifying, and pricing new transmission facilities.

The FERC rules related to transmission are intended to spur the development of new transmission infrastructure to promote and encourage the integration of renewable sources of supply as well as facilitate competition in the wholesale market by providing more choices to wholesale power customers. In addition to the impacts on transactions contemplating physical delivery of energy, financial laws and regulations also impact power hedging and trading based on futures contracts and derivatives that are traded on various commodities exchanges as well as over-the-counter. Finally, technology changes in the power and fuel industries continue to create significant impacts to wholesale transaction cost structures. The impact of these and other such developments and the effect of changes in levels of wholesale supply and demand is uncertain. The financial condition, net income, and cash flows of Southern Company, the traditional electric operating companies, and Southern Power could be adversely affected by these and other changes.

The traditional electric operating companies and Southern Power could be subject to higher costs as a result of implementing and maintaining compliance with the North American Electric Reliability Corporation mandatory reliability standards along with possible associated penalties for non-compliance.

Owners and operators of bulk power systems, including the traditional electric operating companies, are subject to mandatory reliability standards enacted by the North American Electric Reliability Corporation and enforced by the FERC. Compliance with or changes in the mandatory reliability standards may subject the traditional electric operating companies and Southern Power to higher operating costs and/or increased capital expenditures. If any traditional electric operating company or Southern Power is found to be in noncompliance with the mandatory reliability standards, such traditional electric operating company or Southern Power could be subject to sanctions, including substantial monetary penalties.

Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas may be materially impacted by potential tax reform legislation.

Current proposals related to potential tax reform legislation are primarily focused on reducing the corporate income tax rate, allowing 100% of capital expenditures to be deducted, and eliminating the interest deduction. The ultimate impact of any tax reform proposals, including potential changes to the availability or realizability of investment tax credits and PTCs, is dependent upon the final form of any legislation enacted and the related transition rules and cannot be determined at this time, but could have a material impact on the financial statements of Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas.

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OPERATIONAL RISKS

The financial performance of Southern Company and its subsidiaries may be adversely affected if the subsidiaries are unable to successfully operate their facilities or perform certain corporate functions.

The financial performance of Southern Company and its subsidiaries depends on the successful operation of 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. There are many risks that could affect these operations and performance of corporate functions, including:

- operator error or failure of equipment or processes;
- accidents or explosions;
- operating limitations that may be imposed by environmental or other regulatory requirements;
- labor disputes;
- terrorist attacks (physical and/or cyber);
- fuel or material supply interruptions;
- transmission disruption or capacity constraints, including with respect to the Southern Company system's transmission, storage, and transportation facilities and third party transmission, storage, and transportation facilities;
- compliance with mandatory reliability standards, including mandatory cyber security standards;
- implementation of new technologies;
- information technology system failure;
- cyber intrusion;
- an environmental event, such as a spill or release; and
- catastrophic events such as fires, earthquakes, floods, droughts, hurricanes and other storms, pandemic health events such as influenzas, or other similar occurrences.

A decrease or elimination of revenues from the electric generation, transmission, or distribution facilities or natural gas distribution or storage facilities or an increase in the cost of operating the facilities would reduce the net income and cash flows and could adversely impact the financial condition of the affected traditional electric operating company, Southern Power, or Southern Company Gas and of Southern Company.

Operation of nuclear facilities involves inherent risks, including environmental, safety, health, regulatory, natural disasters, terrorism, and financial risks, that could result in fines or the closure of the nuclear units owned by Alabama Power or Georgia Power and which may present potential exposures in excess of insurance coverage.

Alabama Power owns, and contracts for the operation of, two nuclear units and Georgia Power holds undivided interests in, and contracts for the operation of, four existing nuclear units. The six existing units are operated by Southern Nuclear and represent approximately 3,680 MWs, or 8%, of the Southern Company system's electric generation capacity as of December 31, 2016. In addition, these units generated approximately 23% and 24% of the total KWHs generated by Alabama Power and Georgia Power, respectively, in the year ended December 31, 2016. In addition, Southern Nuclear, on behalf of Georgia Power and the other co-owners, is overseeing the construction of Plant Vogtle Units 3 and 4. Due solely to the increase in nuclear generating capacity, the below risks are expected to increase incrementally once Plant Vogtle Units 3 and 4 are operational. Nuclear facilities are subject to environmental, safety, health, operational, and financial risks such as:

- the potential harmful effects on the environment and human health and safety resulting from a release of radioactive materials in connection with the operation of nuclear facilities and the storage, handling, and disposal of radioactive material, including spent nuclear fuel;
- uncertainties with respect to the ability to dispose of spent nuclear fuel and the need for longer term on-site storage;
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of licensed lives and the ability to maintain and anticipate adequate capital reserves for decommissioning;
- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with the nuclear operations of Alabama Power and Georgia Power or those of other commercial nuclear facility owners in the U.S.;
- potential liabilities arising out of the operation of these facilities;
-



significant capital expenditures relating to maintenance, operation, security, and repair of these facilities, including repairs and upgrades required by the NRC;

the threat of a possible terrorist attack, including a potential cyber security attack; and

the potential impact of an accident or natural disaster.

It is possible that damages, decommissioning, or other costs could exceed the amount of decommissioning trusts or external insurance coverage, including statutorily required nuclear incident insurance.

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The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance with NRC licensing and safety-related requirements, the NRC has the authority to impose fines and/or shut down any unit, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or regulations related to increased security measures and any future safety requirements promulgated by the NRC could require Alabama Power and Georgia Power to make substantial operating and capital expenditures at their nuclear plants. In addition, if a serious nuclear incident were to occur, it could result in substantial costs to Alabama Power or Georgia Power and Southern Company. A major incident at a nuclear facility anywhere in the world could cause the NRC to delay or prohibit construction of new nuclear units or require additional safety measures at new and existing units. Moreover, a major incident at any nuclear facility in the U.S., including facilities owned and operated by third parties, could require Alabama Power and Georgia Power to make material contributory payments.

In addition, potential terrorist threats and increased public scrutiny of utilities could result in increased nuclear licensing or compliance costs that are difficult to predict.

Transporting and storing natural gas involves risks that may result in accidents and other operating risks and costs. Southern Company Gas' natural gas distribution and storage activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, explosions, and mechanical problems, which could result in serious injury to employees and non-employees, loss of human life, significant damage to property, environmental pollution, and impairment of its operations. The location of pipelines and storage facilities near populated areas could increase the level of damage resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect Southern Company Gas' and Southern Company's financial condition and results of operations. Physical or cyber attacks, both threatened and actual, could impact the ability of the traditional electric operating companies, Southern Power, and Southern Company Gas to operate and could adversely affect financial results and liquidity.

The traditional electric operating companies, Southern Power, and Southern Company Gas face the risk of physical and cyber attacks, both threatened and actual, against their respective generation and storage facilities, the transmission and distribution infrastructure used to transport energy, and their information technology systems and network infrastructure, which could negatively impact the ability of the traditional electric operating companies or Southern Power to generate, transport, and deliver power, or otherwise operate their respective facilities, or the ability of Southern Company Gas to distribute or store natural gas, or otherwise operate its facilities, in the most efficient manner or at all. In addition, physical or cyber attacks against key suppliers or service providers could have a similar effect on Southern Company and its subsidiaries.

The traditional electric operating companies, Southern Power, and Southern Company Gas operate in highly regulated industries that require the continued operation of sophisticated information technology systems and network infrastructure, which are part of interconnected distribution systems. In addition, in the ordinary course of business, the traditional electric operating companies, Southern Power, and Southern Company Gas collect and retain sensitive information, including personal identification information about customers, employees, and stockholders, and other confidential information. In some cases, administration of certain functions is outsourced to service providers that could be targets of cyber attacks. The traditional electric operating companies, Southern Power, and Southern Company Gas face on-going threats to their assets. Despite the implementation of robust security measures, all assets are potentially vulnerable to disability, failures, or unauthorized access due to human error, natural disasters, technological failure, or internal or external physical or cyber attacks. If the traditional electric operating companies', Southern Power's, or Southern Company Gas' assets were to fail, be physically damaged, or be breached and were not recovered in a timely way, the traditional electric operating companies, Southern Power, or Southern Company Gas may be unable to fulfill critical business functions, and sensitive and other data could be compromised. Any physical security breach, cyber breach or theft, damage, or improper disclosure of sensitive electronic data may also subject the applicable traditional electric operating company, Southern Power, or Southern Company Gas to penalties and claims from regulators or other third parties.

These events could harm the reputation of and negatively affect the financial results of Southern Company, the traditional electric operating companies, Southern Power, or Southern Company Gas through lost revenues, costs to

recover and repair damage, and costs associated with governmental actions in response to such attacks.

The Southern Company system may not be able to obtain adequate natural gas and other fuel supplies required to operate the traditional electric operating companies' and Southern Power's electric generating plants or serve Southern Company Gas' natural gas customers.

The traditional electric operating companies and Southern Power purchase fuel, including coal, natural gas, uranium, fuel oil, and biomass, as applicable, from a number of suppliers. Disruption in the delivery of fuel, including disruptions as a result of, among other things, transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting

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any of these fuel suppliers, could limit the ability of the traditional electric operating companies and Southern Power to operate certain facilities, which could result in higher fuel and operating costs and potentially reduce the net income of the affected traditional electric operating company or Southern Power and Southern Company.

Southern Company Gas' primary business is the distribution and sale of natural gas through its regulated and unregulated subsidiaries. Natural gas supplies can be subject to disruption in the event production or distribution is curtailed, such as in the event of a hurricane or a pipeline failure. Southern Company Gas also relies on natural gas pipelines and other storage and transportation facilities owned and operated by third parties to deliver natural gas to wholesale markets and to Southern Company Gas' distribution systems. The availability of shale gas and potential regulations affecting its accessibility may have a material impact on the supply and cost of natural gas. Disruption in natural gas supplies could limit the ability to fulfill these contractual obligations.

The traditional electric operating companies and Southern Power have become more dependent on natural gas for a portion of their electric generating capacity. In many instances, the cost of purchased power for the traditional electric operating companies and Southern Power is influenced by natural gas prices. Historically, natural gas prices have been more volatile than prices of other fuels. In recent years, domestic natural gas prices have been depressed by robust supplies, including production from shale gas. These market conditions, together with additional regulation of coal-fired generating units, have increased the traditional electric operating companies' reliance on natural gas-fired generating units.

The traditional electric operating companies are also dependent on coal for a portion of their electric generating capacity. The traditional electric operating companies depend on coal supply contracts, and the counterparties to these agreements may not fulfill their obligations to supply coal to the traditional electric operating companies. The suppliers under these agreements may experience financial or technical problems that inhibit their ability to fulfill their obligations to the traditional electric operating companies. In addition, the suppliers under these agreements may not be required to supply coal to the traditional electric operating companies under certain circumstances, such as in the event of a natural disaster. If the traditional electric operating companies are unable to obtain their coal requirements under these contracts, the traditional electric operating companies may be required to purchase their coal requirements at higher prices, which may not be recoverable through rates.

The revenues of Southern Company, the traditional electric operating companies, and Southern Power depend in part on sales under PPAs. The failure of a counterparty to one of these PPAs to perform its obligations, the failure of the traditional electric operating companies or Southern Power to satisfy minimum requirements under the PPAs, or the failure to renew the PPAs or successfully remarket the related generating capacity could have a negative impact on the net income and cash flows of the affected traditional electric operating company or Southern Power and of Southern Company.

Most of Southern Power's generating capacity has been sold to purchasers under PPAs. Southern Power's top three customers, Georgia Power, Duke Energy Corporation, and San Diego Gas & Electric accounted for 16.5%, 7.8%, and 5.7%, respectively, of Southern Power's total revenues for the year ended December 31, 2016. In addition, the traditional electric operating companies enter into PPAs with non-affiliated parties. Revenues are dependent on the continued performance by the purchasers of their obligations under these PPAs. The failure of one of the purchasers to perform its obligations could have a negative impact on the net income and cash flows of the affected traditional electric operating company or Southern Power and of Southern Company. Although the credit evaluations undertaken and contractual protections implemented by Southern Power and the traditional electric operating companies take into account the possibility of default by a purchaser, actual exposure to a default by a purchaser may be greater than predicted or specified in the applicable contract.

Additionally, neither Southern Power nor any traditional electric operating company can predict whether the PPAs will be renewed at the end of their respective terms or on what terms any renewals may be made. As an example, Gulf Power had long-term sales contracts to cover 100% of its ownership share of Plant Scherer Unit 3 (205 MWs) and these capacity revenues represented 82% of Gulf Power's total wholesale capacity revenues for 2015. Following contract expirations at the end of 2015 and the end of May 2016, Gulf Power's remaining contracted sales from the unit cover approximately 24% of Gulf Power's ownership of the unit through 2019. The expiration of these contracts had a material negative impact on Gulf Power's earnings in 2016 and may continue to have a material negative impact

in future years. In addition, the failure of the traditional electric operating companies or Southern Power to satisfy minimum operational or availability requirements under these PPAs could result in payment of damages or termination of the PPAs.

The asset management arrangements between Southern Company Gas' wholesale gas services and Southern Company Gas' regulated operating companies, and between Southern Company Gas' wholesale gas services and its non-affiliated customers, may not be renewed or may be renewed at lower levels, which could have a significant impact on Southern Company Gas' financial results.

Southern Company Gas' wholesale gas services currently manages the storage and transportation assets of Atlanta Gas Light Company, Virginia Natural Gas, Inc., Elizabethtown Gas, Florida City Gas, Chattanooga Gas Company, and Elkton Gas. The

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profits earned from the management of these affiliate assets are shared with the respective affiliate's customers (and for Atlanta Gas Light Company with the Georgia PSC's Universal Service Fund), except for Chattanooga Gas Company and Elkton Gas where wholesale gas services are provided under annual fixed-fee agreements. These asset management agreements are subject to regulatory approval and such agreements may not be renewed or may be renewed with less favorable terms.

Southern Company Gas' wholesale gas services also has asset management agreements with certain non-affiliated customers and its financial results could be significantly impacted if these agreements are not renewed or are amended or renewed with less favorable terms. Sustained low natural gas prices could reduce the demand for these types of asset management arrangements.

Increased competition could negatively impact Southern Company's and its subsidiaries' revenues, results of operations, and financial condition.

The energy industry is highly competitive and complex and the Southern Company system faces increasing competition from other companies that supply energy or generation and storage technologies. Changes in technology may make the Southern Company system's electric generating facilities owned by the traditional electric operating companies and Southern Power less competitive. Southern Company Gas' business is dependent on natural gas prices remaining competitive as compared to other forms of energy. Southern Company Gas also faces competition in its unregulated markets.

A key element of the business models of the traditional electric operating companies and Southern Power is that generating power at central station power plants achieves economies of scale and produces power at a competitive cost. There are distributed generation and storage technologies that produce and store power, including fuel cells, microturbines, wind turbines, solar cells, and batteries. Advances in technology or changes in laws or regulations could reduce the cost of these or other alternative methods of producing power to a level that is competitive with that of most central station power electric production or result in smaller-scale, more fuel efficient, and/or more cost effective distributed generation that allows for increased self-generation by customers. Broader use of distributed generation by retail energy customers may also result from customers' changing perceptions of the merits of utilizing existing generation technology or tax or other economic incentives. Additionally, a state PSC or legislature may modify certain aspects of the traditional electric operating companies' business as a result of these advances in technology.

It is also possible that rapid advances in central station power generation technology could reduce the value of the current electric generating facilities owned by the traditional electric operating companies and Southern Power. Changes in technology could also alter the channels through which electric customers buy or utilize power, which could reduce the revenues or increase the expenses of Southern Company, the traditional electric operating companies, or Southern Power.

Southern Company Gas' gas marketing services is affected by competition from other energy marketers providing similar services in Southern Company Gas' service territories, most notably in Illinois and Georgia. Southern Company Gas' wholesale gas services competes for sales with national and regional full-service energy providers, energy merchants and producers, and pipelines based on the ability to aggregate competitively-priced commodities with transportation and storage capacity. Southern Company Gas competes with natural gas facilities in the Gulf Coast region of the U.S., as the majority of the existing and proposed high deliverability salt-dome natural gas storage facilities in North America are located in the Gulf Coast region. Storage values have begun to recover from the declines experienced over the past several years due to low natural gas prices and low volatility and Southern Company Gas expects this trend to continue during the remainder of 2017.

If new technologies become cost competitive and achieve sufficient scale, the market share of the traditional electric operating companies, Southern Power, and Southern Company Gas could be eroded, and the value of their respective electric generating facilities or natural gas distribution and storage facilities could be reduced. Additionally, Southern Company Gas' market share could be reduced if Southern Company Gas cannot remain price competitive in its unregulated markets. If state PSCs or other applicable state regulatory agencies fail to adjust rates to reflect the impact of any changes in loads, increasing self-generation, and the growth of distributed generation, the financial condition, results of operations, and cash flows of Southern Company and the affected traditional electric operating company or

Southern Company Gas could be materially adversely affected.

Failure to attract and retain an appropriately qualified workforce could negatively impact Southern Company's and its subsidiaries' results of operations.

Events such as an aging workforce without appropriate replacements, mismatch of skill sets to future needs, or unavailability of contract resources may lead to operating challenges such as lack of resources, loss of knowledge, and a lengthy time period associated with skill development, including with the workforce needs associated with major construction projects and ongoing operations. The Southern Company system's costs, including costs for contractors to replace employees, productivity costs, and safety costs, may rise. Failure to hire and adequately obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect Southern Company and its subsidiaries' ability to manage and operate their businesses. If Southern Company

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and its subsidiaries are unable to successfully attract and retain an appropriately qualified workforce, results of operations could be negatively impacted.

**CONSTRUCTION RISKS**

Southern Company, the traditional electric operating companies, Southern Power, and/or Southern Company Gas may incur additional costs or delays in the construction of new plants or other facilities and may not be able to recover their investments. Also, existing facilities of the traditional electric operating companies, Southern Power, and Southern Company Gas require ongoing capital expenditures, including those to meet environmental standards.

**General**

The businesses of the registrants require substantial capital expenditures for investments in new facilities and, for the traditional electric operating companies, capital improvements to transmission, distribution, and generation facilities, and, for Southern Company Gas, capital improvements to natural gas distribution and storage facilities, including those to meet environmental standards. Certain of the traditional electric operating companies and Southern Power are in the process of constructing new generating facilities and adding environmental controls equipment at existing generating facilities. Southern Company Gas is replacing certain pipelines in its natural gas distribution system and is involved in three new gas pipeline construction projects. The Southern Company system intends to continue its strategy of developing and constructing other new facilities, expanding or updating existing facilities, and adding environmental control equipment. These types of projects are long term in nature and in some cases include the development and construction of facilities with designs that have not been finalized or previously constructed. The completion of these types of projects without delays or significant cost overruns is subject to substantial risks, including:

- shortages and inconsistent quality of equipment, materials, and labor;
- changes in labor costs and productivity;
- work stoppages;
- contractor or supplier delay or non-performance under construction, operating, or other agreements or non-performance by other major participants in construction projects;
- delays in or failure to receive necessary permits, approvals, tax credits, and other regulatory authorizations;
- delays associated with start-up activities, including major equipment failure and system integration, and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by any PSC or other applicable state regulatory agency);
- operational readiness, including specialized operator training and required site safety programs;
- impacts of new and existing laws and regulations, including environmental laws and regulations;
- the outcome of legal challenges to projects, including legal challenges to regulatory approvals;
- failure to construct in accordance with permitting and licensing requirements;
- failure to satisfy any environmental performance standards and the requirements of tax credits and other incentives;
- continued public and policymaker support for such projects;
- adverse weather conditions or natural disasters;
- other unforeseen engineering or design problems;
- changes in project design or scope;
- environmental and geological conditions;
- delays or increased costs to interconnect facilities to transmission grids; and
- unanticipated cost increases, including materials and labor, and increased financing costs as a result of changes in market interest rates or as a result of construction schedule delays.

If a traditional electric operating company, Southern Power, or Southern Company Gas is unable to complete the development or construction of a project or decides to delay or cancel construction of a project, it may not be able to recover its investment in that project and may incur substantial cancellation payments under equipment purchase orders or construction contracts. Additionally, each Southern Company Gas pipeline construction project involves separate joint venture participants. Even if a construction project (including a joint venture construction project) is completed, the total costs may be higher than estimated and the applicable traditional electric operating company or the natural gas distribution utility may not be able to recover such expenditures through regulated rates. In addition,



construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect the net income and financial position of a traditional electric operating company, Southern Power, or Southern Company Gas and of Southern Company.

Construction delays could result in the loss of otherwise available investment tax credits, PTCs, and other tax incentives. Furthermore, if construction projects are not completed according to specification, a traditional electric operating company, Southern Power, or Southern Company Gas and Southern Company may incur liabilities and suffer reduced plant efficiency, higher operating costs, and reduced net income.

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Once facilities become operational, ongoing capital expenditures are required to maintain reliable levels of operation. Significant portions of the traditional electric operating companies' existing facilities were constructed many years ago. Older equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to maintain efficiency, to comply with changing environmental requirements, or to provide safe and reliable operations.

The two largest construction projects currently underway in the Southern Company system are the construction of Plant Vogtle Units 3 and 4 and the Kemper IGCC. In addition, Southern Power has 567 MWs of natural gas and renewable generation under construction at three project sites.

Plant Vogtle Units 3 and 4 construction and rate recovery

Southern Nuclear, on behalf of Georgia Power and the other co-owners, is overseeing the construction of and will operate Plant Vogtle Units 3 and 4 (each, an approximately 1,100 MW AP1000 nuclear generating unit). Georgia Power owns 45.7% of the new units. There have been technical and procedural challenges to the construction and licensing of Plant Vogtle Units 3 and 4, at the federal and state level, and additional challenges may arise as construction proceeds.

Under the terms of the engineering, procurement, and construction contract between the Vogtle Owners and the Contractor (Vogtle 3 and 4 Agreement), the Vogtle Owners agreed to pay a purchase price subject to certain price escalations and adjustments, including fixed escalation amounts and index-based adjustments, as well as adjustments for change orders, and performance bonuses for early completion and unit performance. The Vogtle 3 and 4 Agreement also provides for liquidated damages upon the Contractor's failure to fulfill the schedule and performance guarantees, subject to an aggregate cap of 10% of the contract price, or approximately \$920 million to \$930 million. In addition, the Vogtle 3 and 4 Agreement provides for limited cost sharing by the Vogtle Owners for Contractor costs under certain conditions (which Georgia Power has not been notified have occurred), with maximum additional capital costs under this provision attributable to Georgia Power (based on Georgia Power's ownership interest) of approximately \$114 million. Each Vogtle Owner is severally (and not jointly) liable for its proportionate share, based on its ownership interest, of all amounts owed to the Contractor under the Vogtle 3 and 4 Agreement. Georgia Power's proportionate share is 45.7%. In the event of certain credit rating downgrades of any Vogtle Owner, such Vogtle Owner will be required to provide a letter of credit or other credit enhancement.

Certain obligations of Westinghouse have been guaranteed by Toshiba Corporation (Toshiba), Westinghouse's parent company. In the event of certain credit rating downgrades of Toshiba, Westinghouse is required to provide letters of credit or other credit enhancement. In December 2015, Toshiba experienced credit rating downgrades and Westinghouse provided the Vogtle Owners with \$920 million of letters of credit. These letters of credit remain in place in accordance with the terms of the Vogtle 3 and 4 Agreement.

On February 14, 2017, Toshiba announced preliminary earnings results for the period ended December 31, 2016, which included a substantial goodwill impairment charge at Westinghouse attributed to increased cost estimates to complete its U.S. nuclear projects, including Plant Vogtle Units 3 and 4. Toshiba also warned that it will likely be in a negative equity position as a result of the charges. At the same time, Toshiba reaffirmed its commitment to its U.S. nuclear projects with implementation of management changes and increased oversight. An inability or failure by the Contractor to perform its obligations under the Vogtle 3 and 4 Agreement could have a material impact on the construction of Plant Vogtle Units 3 and 4.

Under the terms of the Vogtle 3 and 4 Agreement, the Contractor does not have a right to terminate the Vogtle 3 and 4 Agreement for convenience. The Contractor may terminate the Vogtle 3 and 4 Agreement under certain circumstances, including certain Vogtle Owner suspension or delays of work, action by a governmental authority to permanently stop work, certain breaches of the Vogtle 3 and 4 Agreement by the Vogtle Owners, Vogtle Owner insolvency, and certain other events. In the event of an abandonment of work by the Contractor, the maximum liability of the Contractor under the Vogtle 3 and 4 Agreement is increased significantly, but remains subject to limitations. The Vogtle Owners may terminate the Vogtle 3 and 4 Agreement at any time for convenience, provided that the Vogtle Owners will be required to pay certain termination costs.

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. On December 20, 2016, the Georgia PSC voted to approve a settlement agreement (Vogtle Cost

Settlement Agreement) resolving certain prudence matters, including that (i) the in-service capital cost forecast will be adjusted to \$5.680 billion (Revised Forecast), which includes a contingency of \$240 million above Georgia Power's current forecast of \$5.440 billion, (ii) capital costs incurred up to the Revised Forecast will be presumed to be reasonable and prudent with the burden of proof on any party challenging such costs, and (iii) Georgia Power would have the burden to show that any capital costs above the Revised Forecast are reasonable and prudent.

Under the terms of the Vogtle Cost Settlement Agreement, the certified in-service capital cost for purposes of calculating Georgia Power's Nuclear Construction Cost Recovery (NCCR) tariff will remain at \$4.418 billion.

Construction capital costs above \$4.418 billion will accrue allowance for funds used during construction (AFUDC) through the date each unit is placed in service. The ROE used to calculate the NCCR tariff was reduced from 10.95% (the ROE rate setting point authorized by the

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Georgia PSC in the Alternative Rate Plan approved by the Georgia PSC for the years 2014 through 2016) to 10.00% effective January 1, 2016. For purposes of the AFUDC calculation, the ROE on costs between \$4.418 billion and \$5.440 billion will also be 10.00% and the ROE on any amounts above \$5.440 billion would be Georgia Power's average cost of long-term debt. If the Georgia PSC adjusts Georgia Power's ROE rate setting point in a rate case prior to Plant Vogtle Units 3 and 4 being placed into retail rate base, then the ROE for purposes of calculating both the NCCR tariff and AFUDC will likewise be 95 basis points lower than the revised ROE rate setting point. If Plant Vogtle Units 3 and 4 are not placed in service by December 31, 2020, then (i) the ROE for purposes of calculating the NCCR tariff will be reduced an additional 300 basis points, or \$8 million per month, and may, at the Georgia PSC's discretion, be accrued to be used for the benefit of customers, until such time as the units are placed in service and (ii) the ROE used to calculate AFUDC will be Georgia Power's average cost of long-term debt.

Under the terms of the Vogtle Cost Settlement Agreement, Plant Vogtle Units 3 and 4 will be placed into retail rate base on December 31, 2020 or when placed in service, whichever is later. The Georgia PSC will determine for retail ratemaking purposes the process of transitioning Plant Vogtle Units 3 and 4 from a construction project to an operating plant no later than Georgia Power's base rate case required to be filed by July 1, 2019.

As of December 31, 2016, Georgia Power had borrowed \$2.6 billion related to Plant Vogtle Units 3 and 4 costs through a loan guarantee agreement between Georgia Power and the DOE and a multi-advance credit facility among Georgia Power, the DOE, and the FFB. See Note 6 to the financial statements of Southern Company and Georgia Power under "DOE Loan Guarantee Borrowings" in Item 8 herein for additional information, including applicable covenants, events of default, and mandatory prepayment events.

Processes are in place that are designed to assure compliance with the requirements specified in the Westinghouse Design Control Document for the AP1000 nuclear reactor and the combined construction and operating licenses, including inspections by Southern Nuclear and the NRC that occur throughout construction. As a result of such compliance processes, certain license amendment requests have been filed and approved or are pending before the NRC. Various design and other licensing-based compliance matters, including the timely resolution of Inspections, Tests, Analyses, and Acceptance Criteria and the related approvals by the NRC, may arise as construction proceeds, which may result in additional license amendments or require other resolution. If any license amendment requests or other licensing-based compliance issues are not resolved in a timely manner, there may be delays in the project schedule that could result in increased costs either to the Vogtle Owners or the Contractor or to both.

In addition to Toshiba's reaffirmation of its commitment, the Contractor provided Georgia Power with revised forecasted in-service dates of December 2019 and September 2020 for Plant Vogtle Units 3 and 4, respectively. Georgia Power is currently reviewing a preliminary summary schedule supporting these dates that ultimately must be reconciled to a detailed integrated project schedule. As construction continues, the risk remains that challenges with Contractor performance including labor productivity, fabrication, delivery, assembly, and installation of plant systems, structures, and components, or other issues could arise and may further impact project schedule and cost. Georgia Power expects the Contractor to employ mitigation efforts and believes the Contractor is responsible for any related costs under the Vogtle 3 and 4 Agreement. Georgia Power estimates its financing costs for Plant Vogtle Units 3 and 4 to be approximately \$30 million per month, with total construction period financing costs of approximately \$2.5 billion. Additionally, Georgia Power estimates its owner's costs to be approximately \$6 million per month, net of delay liquidated damages.

The revised forecasted in-service dates are within the timeframe contemplated in the Vogtle Cost Settlement Agreement and would enable both units to qualify for PTCs the Internal Revenue Service has allocated to each of Plant Vogtle Units 3 and 4, which require the applicable unit to be placed in service before 2021. The net present value of the PTCs is estimated at approximately \$400 million per unit.

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

See Note 3 to the financial statements of Southern Company under "Regulatory Matters - Georgia Power - Nuclear Construction" and of Georgia Power under "Retail Regulatory Matters - Nuclear Construction" for additional

information regarding Plant Vogtle Units 3 and 4.

Kemper IGCC construction and rate recovery

Mississippi Power continues to progress toward completing the construction and start-up of the Kemper IGCC, which was approved by the Mississippi PSC in the 2010 certificate of public convenience and necessity (CPCN) proceedings, subject to a construction cost cap of \$2.88 billion, net of \$245 million of grants awarded to the project by the DOE under the Clean Coal Power Initiative Round 2 (Initial DOE Grants) and excluding the cost of the lignite mine and equipment, the cost of the CO<sub>2</sub> pipeline facilities, AFUDC, and certain general exceptions, including change of law, force majeure, and beneficial capital

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(which exists when Mississippi Power demonstrates that the purpose and effect of the construction cost increase is to produce efficiencies that will result in a neutral or favorable effect on customers relative to the original proposal for the CPCN) (Cost Cap Exceptions). The current cost estimate for the Kemper IGCC in total is approximately \$6.99 billion, which includes approximately \$5.64 billion of costs subject to the construction cost cap and is net of the \$137 million in additional grants from the DOE received on April 8, 2016 (Additional DOE Grants), which are expected to be used to reduce future rate impacts to customers. Mississippi Power does not intend to seek any rate recovery for any related costs that exceed the \$2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions. Through December 31, 2016, in the aggregate, Southern Company and Mississippi Power have incurred charges of \$2.76 billion (\$1.71 billion after tax) as a result of changes in the cost estimate above the cost cap for the Kemper IGCC. The current cost estimate includes costs through March 15, 2017.

In addition to the current construction cost estimate, Mississippi Power is identifying potential improvement projects that ultimately may be completed subsequent to placing the remainder of the Kemper IGCC in service. If completed, such improvement projects would be expected to enhance plant performance, safety, and/or operations. As of December 31, 2016, approximately \$12 million of related potential costs has been included in the estimated loss on the Kemper IGCC. Other projects have yet to be fully evaluated, have not been included in the current cost estimate, and may be subject to the \$2.88 billion cost cap. Any further changes in the estimated costs of the Kemper IGCC subject to the \$2.88 billion cost cap, net of the Initial DOE Grants and excluding the Cost Cap Exceptions, will be reflected in Southern Company's and Mississippi Power's statements of income and these changes could be material. The expected completion date of the Kemper IGCC at the time of the Mississippi PSC's approval in 2010 was May 2014. The combined cycle and the associated common facilities portion of the Kemper IGCC were placed in service in August 2014. The remainder of the plant, including the gasifiers and the gas clean-up facilities, represents first-of-a-kind technology. The initial production of syngas began on July 14, 2016 for gasifier "B" and on September 13, 2016 for gasifier "A." Mississippi Power achieved integrated operation of both gasifiers on January 29, 2017, including the production of electricity from syngas in both combustion turbines. Mississippi Power subsequently completed a brief outage to repair and make modifications to further improve the plant's ability to achieve sustained operations sufficient to support placing the plant in service for customers. Efforts to reach sustained operation of both gasifiers and production of electricity from syngas in both combustion turbines are in process. The plant has produced and captured CO<sub>2</sub>, and has produced sulfuric acid and ammonia, all of acceptable quality under the related off-take agreements. On February 20, 2017, Mississippi Power determined gasifier "B," which has been producing syngas over 60% of the time since early November 2016, requires an outage to remove ash deposits from its ash removal system. Gasifier "A" and combustion turbine "A" are expected to remain in operation, producing electricity from syngas, as well as producing chemical by-products. As a result, Mississippi Power currently expects the remainder of the Kemper IGCC, including both gasifiers, will be placed in service by mid-March 2017.

Any extension of the in-service date beyond mid-March 2017 is currently estimated to result in additional base costs of approximately \$25 million to \$35 million per month, which includes maintaining necessary levels of start-up labor, materials, and fuel, as well as operational resources required to execute start-up and commissioning activities.

Additional costs may be required for remediation of any further equipment and/or design issues identified. Any extension of the in-service date with respect to the Kemper IGCC beyond mid-March 2017 would also increase costs for the Cost Cap Exceptions, which are not subject to the \$2.88 billion cost cap established by the Mississippi PSC. These costs include AFUDC, which is currently estimated to total approximately \$16 million per month, as well as carrying costs and operating expenses on Kemper IGCC assets placed in service and consulting and legal fees of approximately \$3 million per month. Further cost increases and/or extensions of the expected in-service date may result from factors including, but not limited to, difficulties integrating the systems required for sustained operations, sustaining nitrogen supply, major equipment failure, unforeseen engineering or design problems including any repairs and/or modifications to systems, and/or operational performance (including additional costs to satisfy any operational parameters ultimately adopted by the Mississippi PSC).

Upon placing the remainder of the plant in service, Mississippi Power will be primarily focused on completing the regulatory cost recovery process. In December 2015, the Mississippi PSC issued an order, based on a stipulation between Mississippi Power and the Mississippi Public Utilities Staff (MPUS), authorizing rates that provide for the

recovery of approximately \$126 million annually related to Kemper IGCC assets previously placed in service. On August 17, 2016, the Mississippi PSC established a discovery docket to manage all filings related to Kemper IGCC prudence issues. On October 3, 2016 and November 17, 2016, Mississippi Power made filings in this docket including a review and explanation of differences between the Kemper IGCC project estimate set forth in the 2010 CPCN proceedings and the most recent Kemper IGCC project estimate, as well as comparisons of current cost estimates and current expected plant operational parameters to the estimates presented in the 2010 CPCN proceedings for the first five years after the Kemper IGCC is placed in service. Compared to amounts presented in the 2010 CPCN proceedings, operations and maintenance expenses have increased an average of \$105 million annually and maintenance capital has increased an average of \$44 million annually for the first full five years of operations for the Kemper IGCC. Additionally, while the current estimated operational availability

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estimates reflect ultimate results similar to those presented in the 2010 CPCN proceedings, the ramp up period for the current estimates reflects a lower starting point and a slower escalation rate.

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

After the remainder of the plant is placed in service, AFUDC equity of approximately \$11 million per month will no longer be recorded in income, and Mississippi Power expects to incur approximately \$25 million per month in depreciation, taxes, operations and maintenance expenses, interest expense, and regulatory costs in excess of current rates. Mississippi Power expects to file a request for authority from the Mississippi PSC and the FERC to defer all Kemper IGCC costs incurred after the in-service date that cannot be capitalized, are not included in current rates, and are not required to be charged against earnings as a result of the \$2.88 billion cost cap until such time as the Mississippi PSC completes its review and includes the resulting allowable costs in rates. In the event that the Mississippi PSC does not grant Mississippi Power's request for an accounting order, these monthly expenses will be charged to income as incurred and will not be recoverable through rates. The ultimate outcome of this matter cannot now be determined but could have a material impact on Southern Company's and Mississippi Power's result of operations, financial condition, and liquidity.

Mississippi Power is required to file a rate case to address Kemper IGCC cost recovery by June 3, 2017 (2017 Rate Case). Costs incurred through December 31, 2016 totaled \$6.73 billion, net of the Initial and Additional DOE Grants. Of this total, \$2.76 billion of costs has been recognized through income as a result of the \$2.88 billion cost cap, \$0.84 billion is included in retail and wholesale rates for the assets in service, and the remainder will be the subject of the 2017 Rate Case to be filed with the Mississippi PSC and expected subsequent wholesale Municipal and Rural Associations rate filing with the FERC. Mississippi Power continues to believe that all costs related to the Kemper IGCC have been prudently incurred in accordance with the requirements of the 2012 MPSC order confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing the acquisition, construction, and operation of the Kemper IGCC. Mississippi Power also recognizes significant areas of potential challenge during future regulatory proceedings (and any subsequent, related legal challenges) exist. As described further herein, these challenges include, but are not limited to, prudence issues associated with capital costs, financing costs (AFUDC), and future operating costs, net of chemical revenues; potential operating parameters; income tax issues; costs deferred as regulatory assets; and the 15% portion of the project previously contracted to SMEPA.

Although the 2017 Rate Case has not yet been filed and is subject to future developments with either the Kemper IGCC or the Mississippi PSC, consistent with its approach in the 2013 and 2015 rate proceedings in accordance with the law passed in 2013 authorizing multi-year rate plans, Mississippi Power is developing both a traditional rate case requesting full cost recovery of the \$3.31 billion (net of \$137 million in additional DOE Grants) not currently in rates and a rate mitigation plan that together represent Mississippi Power's probable filing strategy. Mississippi Power also expects that timely resolution of the 2017 Rate Case will likely require a negotiated settlement agreement. In the event an agreement acceptable to both Mississippi Power and the MPUS (and other parties) can be negotiated and ultimately approved by the Mississippi PSC, it is reasonably possible that full regulatory recovery of all Kemper IGCC costs will not occur. The impact of such an agreement on Southern Company's and Mississippi Power's financial statements would depend on the method, amount, and type of cost recovery ultimately excluded. Certain costs, including operating costs, would be recorded to income in the period incurred, while other costs, including investment-related costs, would be charged to income when it is probable they will not be recovered and the amounts can be reasonably



estimated. In the event an agreement acceptable to the parties cannot be reached, Mississippi Power intends to fully litigate its request for full recovery through the Mississippi PSC regulatory process and any subsequent legal challenges.

Mississippi Power has evaluated various scenarios in connection with its processes to prepare the 2017 Rate Case and Southern Company and Mississippi Power have recognized an additional \$80 million charge to income, which is the estimated minimum probable amount of the \$3.31 billion of Kemper IGCC costs not currently in rates that would not be recovered under the probable rate mitigation plan to be filed by June 3, 2017. Given the variety of potential scenarios and the uncertainty of the outcome of future regulatory proceedings with the Mississippi PSC (and any subsequent related legal challenges), the ultimate

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outcome of these matters cannot now be determined but could result in further charges that could have a material impact on Southern Company's and Mississippi Power's results of operations, financial condition, and liquidity. Southern Company and Mississippi Power are defendants in various lawsuits that allege improper disclosure about the Kemper IGCC. While Southern Company and Mississippi Power believe that these lawsuits are without merit, an adverse outcome could have a material impact on Southern Company's and Mississippi Power's results of operations, financial condition, and liquidity. In addition, the SEC is conducting a formal investigation of Southern Company and Mississippi Power concerning the estimated costs and expected in-service date of the Kemper IGCC. Southern Company and Mississippi Power believe the investigation is focused primarily on periods subsequent to 2010 and on accounting matters, disclosure controls and procedures, and internal controls over financial reporting associated with the Kemper IGCC.

The ultimate outcome of these matters, including the resolution of legal challenges, determinations of prudence, and the specific manner of recovery of prudently-incurred costs, is subject to further regulatory actions and cannot be determined at this time.

See Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle" for additional information regarding the Kemper IGCC.

Southern Company Gas' significant investments in pipelines and pipeline development projects involve financial and execution risks.

Southern Company Gas has made significant investments in existing pipelines and pipeline development projects. Many of the existing pipelines are, and when completed many of the pipeline development projects will be, operated by third parties. If one of these agents fails to perform in a proper manner, the value of the investment could decline and Southern Company Gas could lose part or all of the investment. In addition, from time to time, Southern Company Gas may be required to contribute additional capital to a pipeline joint venture or guarantee the obligations of such joint venture.

With respect to certain pipeline development projects, Southern Company Gas will rely on its joint venture partners for construction management and will not exercise direct control over the process. All of the pipeline development projects are dependent on contractors for the successful and timely completion of the projects. Further, the development of pipeline projects involves numerous regulatory, environmental, construction, safety, political, and legal uncertainties and may require the expenditure of significant amounts of capital. These projects may not be completed on schedule, at the budgeted cost, or at all. There may be cost overruns and construction difficulties that cause Southern Company Gas' capital expenditures to exceed its initial expectations. Moreover, Southern Company Gas' revenues will not increase immediately upon the expenditure of funds on a pipeline project. Pipeline construction occurs over an extended period of time and Southern Company Gas will not receive material increases in revenues until the project is placed in service.

The occurrence of any of the foregoing events could adversely affect the results of operations, cash flows, and financial condition of Southern Company Gas and Southern Company.

**FINANCIAL, ECONOMIC, AND MARKET RISKS**

The electric generation and energy marketing operations of the traditional electric operating companies and Southern Power and the natural gas operations of Southern Company Gas are subject to risks, many of which are beyond their control, including changes in energy prices and fuel costs, which may reduce Southern Company's, the traditional electric operating companies', Southern Power's, and/or Southern Company Gas' revenues and increase costs.

The generation, energy marketing, and natural gas operations of the Southern Company system are subject to changes in energy prices and fuel costs, which could increase the cost of producing power, decrease the amount received from the sale of energy, and/or make electric generating facilities less competitive. The market prices for these commodities may fluctuate significantly over relatively short periods of time. Among the factors that could influence energy prices and fuel costs are:

- prevailing market prices for coal, natural gas, uranium, fuel oil, biomass, and other fuels, as applicable, used in the generation facilities of the traditional electric operating companies and Southern Power and, in the case of natural gas, distributed by Southern Company Gas, including associated transportation costs, and supplies of such commodities;
- demand for energy and the extent of additional supplies of energy available from current or new competitors;

liquidity in the general wholesale electricity and natural gas markets;  
weather conditions impacting demand for electricity and natural gas;  
seasonality;  
transmission or transportation constraints, disruptions, or inefficiencies;  
availability of competitively priced alternative energy sources;  
forced or unscheduled plant outages for the Southern Company system, its competitors, or third party providers;  
the financial condition of market participants;

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the economy in the Southern Company system's service territory, the nation, and worldwide, including the impact of economic conditions on demand for electricity and the demand for fuels, including natural gas; natural disasters, wars, embargos, acts of terrorism, and other catastrophic events; and federal, state, and foreign energy and environmental regulation and legislation.

Certain of these factors could increase the expenses of the traditional electric operating companies, Southern Power, or Southern Company Gas and Southern Company. For the traditional electric operating companies and Southern Company Gas' regulated gas distribution operations, such increases may not be fully recoverable through rates. Other of these factors could reduce the revenues of the traditional electric operating companies, Southern Power, or Southern Company Gas and Southern Company.

Historically, the traditional electric operating companies and Southern Company Gas from time to time have experienced underrecovered fuel and/or purchased gas cost balances and may experience such balances in the future. While the traditional electric operating companies and Southern Company Gas are generally authorized to recover fuel and/or purchased gas costs through cost recovery clauses, recovery may be denied if costs are deemed to be imprudently incurred, and delays in the authorization of such recovery could negatively impact the cash flows of the affected traditional electric operating company or Southern Company Gas and Southern Company.

Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas are subject to risks associated with a changing economic environment, customer behaviors, including increased energy conservation, and adoption patterns of technologies by the customers of the traditional electric operating companies, Southern Power, and Southern Company Gas.

The consumption and use of energy are fundamentally linked to economic activity. This relationship is affected over time by changes in the economy, customer behaviors, and technologies. Any economic downturn could negatively impact customer growth and usage per customer, thus reducing the sales of energy and revenues. Additionally, any economic downturn or disruption of financial markets, both nationally and internationally, could negatively affect the financial stability of customers and counterparties of the traditional electric operating companies, Southern Power, and Southern Company Gas.

Outside of economic disruptions, changes in customer behaviors in response to energy efficiency programs, changing conditions and preferences, or changes in the adoption of technologies could affect the relationship of economic activity to the consumption of energy.

Both federal and state programs exist to influence how customers use energy, and several of the traditional electric operating companies and Southern Company Gas have PSC or other applicable state regulatory agency mandates to promote energy efficiency. Conservation programs could impact the financial results of Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas in different ways. For example, if any traditional electric operating company or Southern Company Gas is required to invest in conservation measures that result in reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact on such traditional electric operating company or Southern Company Gas and Southern Company. Customers could also voluntarily reduce their consumption of energy in response to decreases in their disposable income, increases in energy prices, or individual conservation efforts.

In addition, the adoption of technology by customers can have both positive and negative impacts on sales. Many new technologies utilize less energy than in the past. However, new electric and natural gas technologies such as electric and natural gas vehicles can create additional demand. The Southern Company system uses best available methods and experience to incorporate the effects of changes in customer behavior, state and federal programs, PSC or other applicable state regulatory agency mandates, and technology, but the Southern Company system's planning processes may not appropriately estimate and incorporate these effects.

All of the factors discussed above could adversely affect Southern Company's, the traditional electric operating companies', Southern Power's, and/or Southern Company Gas' results of operations, financial condition, and liquidity. The operating results of Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas are affected by weather conditions and may fluctuate on a seasonal and quarterly basis. In addition, significant weather events, such as hurricanes, tornadoes, floods, droughts, and winter storms, could result in substantial damage to or limit the operation of the properties of the traditional electric operating companies, Southern

Power, and/or Southern Company Gas and could negatively impact results of operation, financial condition, and liquidity.

Electric power and natural gas supply are generally seasonal businesses. In many parts of the country, demand for power peaks during the summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter months. In most of the areas the traditional electric operating companies serve, electric power sales peak during the summer,

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while in most of the areas Southern Company Gas serves, natural gas demand peaks during the winter. As a result, the overall operating results of Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas may fluctuate substantially on a seasonal basis. In addition, the traditional electric operating companies, Southern Power, and Southern Company Gas have historically sold less power and natural gas when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net income, and available cash of Southern Company, the traditional electric operating companies, Southern Power, and/or Southern Company Gas.

In addition, volatile or significant weather events could result in substantial damage to the transmission and distribution lines of the traditional electric operating companies, the generating facilities of the traditional electric operating companies and Southern Power, and the natural gas distribution and storage facilities of Southern Company Gas. The traditional electric operating companies, Southern Power, and Southern Company Gas have significant investments in the Atlantic and Gulf Coast regions and Southern Power has wind and natural gas investments in various states, including Maine, Minnesota, Oklahoma, and Texas, which could be subject to severe weather, as well as solar investments in various states, including California, which could be subject to natural disasters. Further, severe drought conditions can reduce the availability of water and restrict or prevent the operation of certain generating facilities.

In the event a traditional electric operating company or Southern Company Gas experiences any of these weather events or any natural disaster or other catastrophic event, recovery of costs in excess of reserves and insurance coverage is subject to the approval of its state PSC or other applicable state regulatory agency. Historically, the traditional electric operating companies from time to time have experienced deficits in their storm cost recovery reserve balances and may experience such deficits in the future. Any denial by the applicable state PSC or other applicable state regulatory agency or delay in recovery of any portion of such costs could have a material negative impact on a traditional electric operating company's or Southern Company Gas' and Southern Company's results of operations, financial condition, and liquidity.

In addition, damages resulting from significant weather events within the service territory of any traditional electric operating company or Southern Company Gas or affecting Southern Power's customers may result in the loss of customers and reduced demand for energy for extended periods. Any significant loss of customers or reduction in demand for energy could have a material negative impact on a traditional electric operating company's, Southern Power's, or Southern Company Gas' and Southern Company's results of operations, financial condition, and liquidity. Acquisitions, dispositions, or other strategic ventures or investments may not result in anticipated benefits and may present risks not originally contemplated, which may have a material adverse effect on the liquidity, results of operations, and financial condition of Southern Company and its subsidiaries.

Southern Company and its subsidiaries have made significant acquisitions and investments in the past and may in the future make additional acquisitions, dispositions, or other strategic ventures or investments. Southern Company and its subsidiaries continually seek opportunities to create value through various transactions, including acquisitions or sales of assets.

Southern Company and its subsidiaries may face significant competition for transactional opportunities and anticipated transactions may not be completed on acceptable terms or at all. In addition, these transactions are intended to, but may not, result in the generation of cash or income, the realization of savings, the creation of efficiencies, or the reduction of risk. These transactions may also affect the liquidity, results of operations, and financial condition of Southern Company and its subsidiaries.

These transactions also involve risks, including:

- they may not result in an increase in income or provide an adequate return on capital or other anticipated benefits;
- they may result in Southern Company or its subsidiaries entering into new or additional lines of business, which may have new or different business or operational risks;
- they may not be successfully integrated into the acquiring company's operations and/or internal control processes;
- the due diligence conducted prior to a transaction may not uncover situations that could result in financial or legal exposure or the acquiring company may not appropriately evaluate the likelihood or quantify the exposure from identified risks;

they may result in decreased earnings, revenues, or cash flow;  
expected benefits of a transaction may be dependent on the cooperation or performance of a counterparty; or  
for the traditional electric operating companies, costs associated with such investments that were expected to be recovered through rates may not be recoverable.

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Southern Company and Southern Company Gas are holding companies and are dependent on cash flows from their respective subsidiaries to meet their ongoing and future financial obligations, including making interest and principal payments on outstanding indebtedness and, for Southern Company, to pay dividends on its common stock.

Southern Company and Southern Company Gas are holding companies and, as such, they have no operations of their own. Substantially all of Southern Company's and Southern Company Gas' respective consolidated assets are held by subsidiaries. A significant portion of Southern Company Gas' debt is issued by its 100%-owned subsidiary, Southern Company Gas Capital, and is fully and unconditionally guaranteed by Southern Company Gas. Southern Company's and Southern Company Gas' ability to meet their respective financial obligations, including making interest and principal payments on outstanding indebtedness, and, for Southern Company, to pay dividends on its common stock, is primarily dependent on the net income and cash flows of their respective subsidiaries and the ability of those subsidiaries to pay upstream dividends or to repay borrowed funds. Prior to funding Southern Company or Southern Company Gas, the respective subsidiaries have regulatory restrictions and financial obligations that must be satisfied, including among others, debt service and preferred and preference stock dividends. These subsidiaries are separate legal entities and have no obligation to provide Southern Company or Southern Company Gas with funds. In addition, Southern Company and Southern Company Gas may provide capital contributions or debt financing to subsidiaries under certain circumstances, which would reduce the funds available to meet their respective financial obligations, including making interest and principal payments on outstanding indebtedness, and to pay dividends on Southern Company's common stock.

A downgrade in the credit ratings of Southern Company, any of the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, or Nicor Gas could negatively affect their ability to access capital at reasonable costs and/or could require Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, or Nicor Gas to post collateral or replace certain indebtedness.

There are a number of factors that rating agencies evaluate to arrive at credit ratings for Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, and Nicor Gas, including capital structure, regulatory environment, the ability to cover liquidity requirements, and other commitments for capital. Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, and Nicor Gas could experience a downgrade in their ratings if any rating agency concludes that the level of business or financial risk of the industry or Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, or Nicor Gas has deteriorated. Changes in ratings methodologies by the agencies could also have a negative impact on credit ratings. If one or more rating agencies downgrade Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, Southern Company Gas Capital, or Nicor Gas, borrowing costs likely would increase, including automatic increases in interest rates under applicable term loans and credit facilities, the pool of investors and funding sources would likely decrease, and, particularly for any downgrade to below investment grade, significant collateral requirements may be triggered in a number of contracts. Any credit rating downgrades could require a traditional electric operating company, Southern Power, Southern Company Gas, Southern Company Gas Capital, or Nicor Gas to alter the mix of debt financing currently used, and could require the issuance of secured indebtedness and/or indebtedness with additional restrictive covenants.

Uncertainty in demand for energy can result in lower earnings or higher costs. If demand for energy falls short of expectations, it could result in potentially stranded assets. If demand for energy exceeds expectations, it could result in increased costs for purchasing capacity in the open market or building additional electric generation and transmission facilities or natural gas distribution and storage facilities.

Southern Company, the traditional electric operating companies, and Southern Power each engage in a long-term planning process to estimate the optimal mix and timing of new generation assets required to serve future load obligations. Southern Company Gas engages in a long-term planning process to estimate the optimal mix and timing of building new pipelines and storage facilities, replacing existing pipelines, rewatering storage facilities, and entering new markets and/or expanding in existing markets. These planning processes must look many years into the future in order to accommodate the long lead times associated with the permitting and construction of new generation and



associated transmission facilities and natural gas distribution and storage facilities. Inherent risk exists in predicting demand this far into the future as these future loads are dependent on many uncertain factors, including economic conditions, customer usage patterns, efficiency programs, and customer technology adoption. Because regulators may not permit the traditional electric operating companies or Southern Company Gas' regulated operating companies to adjust rates to recover the costs of new generation and associated transmission assets and/or new pipelines and related infrastructure in a timely manner or at all, Southern Company and its subsidiaries may not be able to fully recover these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs and the recovery in customers' rates. In addition, under Southern Power's model of selling capacity and energy at negotiated market-based rates under long-term PPAs, Southern Power might not be able to fully execute its business plan if

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market prices drop below original forecasts. Southern Power and/or the traditional electric operating companies may not be able to extend existing PPAs or find new buyers for existing generation assets as existing PPAs expire, or they may be forced to market these assets at prices lower than originally intended. These situations could have negative impacts on net income and cash flows for the affected traditional electric operating company, Southern Power, or Southern Company Gas, and for Southern Company.

The traditional electric operating companies are currently obligated to supply power to retail customers and wholesale customers under long-term PPAs. Southern Power is currently obligated to supply power to wholesale customers under long-term PPAs. At peak times, the demand for power required to meet this obligation could exceed the Southern Company system's available generation capacity. Market or competitive forces may require that the traditional electric operating companies or Southern Power purchase capacity on the open market or build additional generation and transmission facilities. Because regulators may not permit the traditional electric operating companies to pass all of these purchase or construction costs on to their customers, the traditional electric operating companies may not be able to recover some or all of these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of purchased or constructed capacity and the traditional electric operating companies' recovery in customers' rates. Under Southern Power's long-term fixed price PPAs, Southern Power would not have the ability to recover any of these costs. These situations could have negative impacts on net income and cash flows for the affected traditional electric operating company or Southern Power, and for Southern Company.

The businesses of Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, and Nicor Gas are dependent on their ability to successfully access funds through capital markets and financial institutions. The inability of Southern Company, any traditional electric operating company, Southern Power, Southern Company Gas, or Nicor Gas to access funds may limit its ability to execute its business plan by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, or Nicor Gas may otherwise rely on to achieve future earnings and cash flows.

Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, and Nicor Gas rely on access to both short-term money markets and longer-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from their respective operations. If Southern Company, any traditional electric operating company, Southern Power, Southern Company Gas, or Nicor Gas is not able to access capital at competitive rates or on favorable terms, its ability to implement its business plan will be limited by impacting its ability to fund capital investments or acquisitions that Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, or Nicor Gas may otherwise rely on to achieve future earnings and cash flows. In addition, Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, and Nicor Gas rely on committed bank lending agreements as back-up liquidity which allows them to access low cost money markets. Each of Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, and Nicor Gas believes that it will maintain sufficient access to these financial markets based upon current credit ratings. However, certain events or market disruptions may increase the cost of borrowing or adversely affect the ability to raise capital through the issuance of securities or other borrowing arrangements or the ability to secure committed bank lending agreements used as back-up sources of capital. Such disruptions could include:

- an economic downturn or uncertainty;
- bankruptcy or financial distress at an unrelated energy company, financial institution, or sovereign entity;
- capital markets volatility and disruption, either nationally or internationally;
- changes in tax policy;
- volatility in market prices for electricity and natural gas;
- terrorist attacks or threatened attacks on the Southern Company system's facilities or unrelated energy companies' facilities;
- war or threat of war; or
- the overall health of the utility and financial institution industries.

As of December 31, 2016, Mississippi Power's current liabilities exceeded current assets by approximately \$371 million primarily due to \$551 million in promissory notes to Southern Company which mature in December 2017, \$35 million in senior notes which mature in November 2017, and \$63 million in short-term debt. Mississippi Power expects the funds needed to satisfy the promissory notes to Southern Company will exceed amounts available from operating cash flows, lines of credit, and other external sources. Accordingly, Mississippi Power intends to satisfy these obligations through loans and/or equity contributions from Southern Company. Specifically, Mississippi Power has been informed by Southern Company that, in the event sufficient funds are not available from external sources, Southern Company intends to (i) extend the maturity of the \$551 million in promissory notes and (ii) provide Mississippi Power with loans and/or equity contributions sufficient to fund the remaining indebtedness scheduled to mature and other cash needs over the next 12 months.

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Georgia Power's ability to make future borrowings through its term loan credit facility with the Federal Financing Bank is subject to the satisfaction of customary conditions, as well as certification of compliance with the requirements of the loan guarantee program under Title XVII of the Energy Policy Act of 2005, including accuracy of project-related representations and warranties, delivery of updated project-related information and evidence of compliance with the prevailing wage requirements of the Davis-Bacon Act of 1931, as amended, and certification from the DOE's consulting engineer that proceeds of the advances are used to reimburse certain costs of construction relating to Plant Vogtle Units 3 and 4 that are eligible for financing under the Title XVII Loan Guarantee Program. Volatility in the securities markets, interest rates, and other factors could substantially increase defined benefit pension and other postretirement plan costs and the costs of nuclear decommissioning.

The costs of providing pension and other postretirement benefit plans are dependent on a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plan, changes in actuarial assumptions, future government regulation, changes in life expectancy, and the frequency and amount of the Southern Company system's required or voluntary contributions made to the plans. Changes in actuarial assumptions and differences between the assumptions and actual values, as well as a significant decline in the value of investments that fund the pension and other postretirement plans, if not offset or mitigated by a decline in plan liabilities, could increase pension and other postretirement expense, and the Southern Company system could be required from time to time to fund the pension plans with significant amounts of cash. Such cash funding obligations could have a material impact on liquidity by reducing cash flows and could negatively affect results of operations. Additionally, Alabama Power and Georgia Power each hold significant assets in their nuclear decommissioning trusts to satisfy obligations to decommission Alabama Power's and Georgia Power's nuclear plants. The rate of return on assets held in those trusts can significantly impact both the costs of decommissioning and the funding requirements for the trusts.

Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas are subject to risks associated with their ability to obtain adequate insurance at acceptable costs.

The financial condition of some insurance companies, the threat of terrorism, and natural disasters, among other things, could have disruptive effects on insurance markets. The availability of insurance covering risks that Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas, and their respective competitors typically insure against may decrease, and the insurance that Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas are able to obtain may have higher deductibles, higher premiums, and more restrictive policy terms. Further, the insurance policies maintained by Southern Company, the traditional electric operating companies, Southern Power, and Southern Company Gas may not cover all of the potential exposures or the actual amount of loss incurred.

Any losses not covered by insurance, or any increases in the cost of applicable insurance, could adversely affect the results of operations, cash flows, or financial condition of Southern Company, the traditional electric operating companies, Southern Power, or Southern Company Gas.

The use of derivative contracts by Southern Company and its subsidiaries in the normal course of business could result in financial losses that negatively impact the net income of Southern Company and its subsidiaries or in reported net income volatility.

Southern Company and its subsidiaries, including the traditional electric operating companies, Southern Power, and Southern Company Gas, use derivative instruments, such as swaps, options, futures, and forwards, to manage their commodity and interest rate exposures and, to a lesser extent, manage foreign currency exchange rate exposure and engage in limited trading activities. Southern Company and its subsidiaries could recognize financial losses as a result of volatility in the market values of these contracts or if a counterparty fails to perform. These risks are managed through risk management policies, limits, and procedures. These risk management policies, limits, and procedures might not work as planned and cannot entirely eliminate the risks associated with these activities. In addition, derivative contracts entered into for hedging purposes might not off-set the underlying exposure being hedged as expected, resulting in financial losses. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. The factors used in the valuation of these instruments become more difficult to predict and the calculations become

less reliable the further into the future these estimates are made. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

In addition, Southern Company Gas utilizes derivative instruments to lock in economic value in wholesale gas services, which may not qualify or are not designated as hedges for accounting purposes. The difference in accounting treatment for the underlying position and the financial instrument used to hedge the value of the contract can cause volatility in reported net income of Southern Company and Southern Company Gas while the positions are open due to mark-to-market accounting.

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Future impairments of goodwill or long-lived assets could have a material adverse effect on Southern Company's and its subsidiaries' results of operations.

Goodwill is assessed for impairment at least annually and more frequently if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value and long-lived assets are assessed for impairment whenever events or circumstances indicate that an asset's carrying amount may not be recoverable. In connection with the completion of the Merger, the application of the acquisition method of accounting was pushed down to Southern Company Gas. The excess of the purchase price over the fair values of Southern Company Gas' assets and liabilities was recorded as goodwill. This resulted in a significant increase in the goodwill recorded on Southern Company's and Southern Company Gas' consolidated balance sheets. In addition, Southern Company and its subsidiaries have long-lived assets recorded on their balance sheets. To the extent the value of goodwill or long-lived assets become impaired, Southern Company, Southern Company Gas, Southern Power, and the traditional electric operating companies may be required to incur impairment charges that could have a material impact on their results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

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## Item 2. PROPERTIES

## Electric

## Electric Properties

The traditional electric operating companies, Southern Power, and SEGCO, at December 31, 2016, owned and/or operated 33 hydroelectric generating stations, 29 fossil fuel generating stations, three nuclear generating stations, 14 combined cycle/cogeneration stations, 33 solar facilities, seven wind facilities, one biomass facility, and one landfill gas facility. The amounts of capacity for each company, as of December 31, 2016, are shown in the table below.

Generating Station	Location	Nameplate Capacity (1) (KWs)	
FOSSIL STEAM			
Gadsden	Gadsden, AL	120,000	(2)
Gorgas	Jasper, AL	1,021,250	
Barry	Mobile, AL	1,300,000	(2 )
Greene County	Demopolis, AL	300,000	(3 )
Gaston Unit 5	Wilsonville, AL	880,000	
Miller	Birmingham, AL	2,532,288	(4 )
Alabama Power Total		6,153,538	
Bowen	Cartersville, GA	3,160,000	
Hammond	Rome, GA	800,000	
McIntosh	Effingham County, GA	163,117	
Scherer	Macon, GA	750,924	(5 )
Wansley	Carrollton, GA	925,550	(6 )
Yates	Newnan, GA	700,000	
Georgia Power Total		6,499,591	
Crist	Pensacola, FL	970,000	
Daniel	Pascagoula, MS	500,000	(7 )
Scherer Unit 3	Macon, GA	204,500	(5 )
Gulf Power Total		1,674,500	
Daniel	Pascagoula, MS	500,000	(7 )
Greene County	Demopolis, AL	200,000	(3 )
Watson	Gulfport, MS	862,000	(8 )
Mississippi Power Total		1,562,000	
Gaston Units 1-4	Wilsonville, AL		
SEGCO Total		1,000,000	(9 )
Total Fossil Steam		16,889,629	
IGCC			
Kemper County/Ratcliffe	Kemper County, MS		(10)
Mississippi Power Total		622,906	

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Generating Station	Location	Nameplate Capacity (1)
<b>NUCLEAR STEAM</b>		
Farley	Dothan, AL	
Alabama Power Total		1,720,000
Hatch	Baxley, GA	899,612 (11)
Vogtle Units 1 and 2	Augusta, GA	1,060,240 (12)
Georgia Power Total		1,959,852
Total Nuclear Steam		3,679,852
<b>COMBUSTION TURBINES</b>		
Greene County	Demopolis, AL	
Alabama Power Total		720,000
Boulevard	Savannah, GA	19,700
McDonough Unit 3	Atlanta, GA	78,800
McIntosh Units 1 through 8	Effingham County, GA	640,000
McManus	Brunswick, GA	481,700
Robins	Warner Robins, GA	158,400
Wansley	Carrollton, GA	26,322 (6 )
Wilson	Augusta, GA	354,100
Georgia Power Total		1,759,022
Lansing Smith Unit A	Panama City, FL	39,400
Pea Ridge Units 1 through 3	Pea Ridge, FL	15,000
Gulf Power Total		54,400
Chevron Cogenerating Station	Pascagoula, MS	147,292 (13)
Sweatt	Meridian, MS	39,400
Watson	Gulfport, MS	39,360
Mississippi Power Total		226,052
Addison	Thomaston, GA	668,800
Cleveland County	Cleveland County, NC	720,000
Dahlberg	Jackson County, GA	756,000
Oleander	Cocoa, FL	791,301
Rowan	Salisbury, NC	455,250
Southern Power Total		3,391,351
Gaston (SEGCO)	Wilsonville, AL	19,680 (9 )
Total Combustion Turbines		6,170,505
<b>COGENERATION</b>		
Washington County	Washington County, AL	123,428
GE Plastics Project	Burkeville, AL	104,800
Theodore	Theodore, AL	236,418
Total Cogeneration		464,646



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Generating Station	Location	Nameplate Capacity (1)
<b>COMBINED CYCLE</b>		
Barry	Mobile, AL	
Alabama Power Total		1,070,424
McIntosh Units 10&11	Effingham County, GA	1,318,920
McDonough-Atkinson Units 4 through 6	Atlanta, GA	2,520,000
Georgia Power Total		3,838,920
Smith	Lynn Haven, FL	
Gulf Power Total		545,500
Daniel	Pascagoula, MS	
Mississippi Power Total		1,070,424
Franklin	Smiths, AL	1,857,820
Harris	Autaugaville, AL	1,318,920
Mankato	Mankato, MN	375,000
Rowan	Salisbury, NC	530,550
Stanton Unit A	Orlando, FL	428,649 (14)
Wansley	Carrollton, GA	1,073,000
Southern Power Total		5,583,939
Total Combined Cycle		12,109,207
<b>HYDROELECTRIC FACILITIES</b>		
Bankhead	Holt, AL	53,985
Bouldin	Wetumpka, AL	225,000
Harris	Wedowee, AL	132,000
Henry	Ohatchee, AL	72,900
Holt	Holt, AL	46,944
Jordan	Wetumpka, AL	100,000
Lay	Clanton, AL	177,000
Lewis Smith	Jasper, AL	157,500
Logan Martin	Vincent, AL	135,000
Martin	Dadeville, AL	182,000
Mitchell	Verbena, AL	170,000
Thurlow	Tallassee, AL	81,000
Weiss	Leesburg, AL	87,750
Yates	Tallassee, AL	47,000
Alabama Power Total		1,668,079
Bartletts Ferry	Columbus, GA	173,000
Goat Rock	Columbus, GA	38,600
Lloyd Shoals	Jackson, GA	14,400
Morgan Falls	Atlanta, GA	16,800
North Highlands	Columbus, GA	29,600
Oliver Dam	Columbus, GA	60,000
Rocky Mountain	Rome, GA	215,256 (15)
Sinclair Dam	Milledgeville, GA	45,000
Tallulah Falls	Clayton, GA	72,000
Terrora	Clayton, GA	16,000
Tugalo	Clayton, GA	45,000
Wallace Dam	Eatonton, GA	321,300
Yonah	Toccoa, GA	22,500

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Generating Station	Location	Nameplate Capacity (1)	
6 Other Plants	Various Georgia locations	18,080	
Georgia Power Total		1,087,536	
Total Hydroelectric Facilities		2,755,615	
RENEWABLE SOURCES:			
SOLAR FACILITIES			
Fort Benning	Columbus, GA	30,000	
Fort Gordon	Augusta, GA	30,000	
Fort Stewart	Fort Stewart, GA	30,000	
Kings Bay	Camden County, GA	30,000	
Dalton	Dalton, GA	6,305	
3 Other Plants	Various Georgia locations	2,789	
Georgia Power Total		129,094	
Adobe	Kern County, CA	20,000	
Apex	North Las Vegas, NV	20,000	
Boulder I	Clark County, NV	100,000	
Butler	Taylor County, GA	103,700	
Butler Solar Farm	Taylor County, GA	22,000	
Calipatria	Imperial County, CA	20,000	
Campo Verde	Imperial County, CA	147,420	
Cimarron	Springer, NM	30,640	
Decatur County	Decatur County, GA	20,000	
Decatur Parkway	Decatur County, GA	84,000	
Desert Stateline	San Bernadino County, CA	299,900	(16)
Garland	Kern County, CA	205,130	
Granville	Oxford, NC	2,500	
Henrietta	Kings County, CA	102,000	
Imperial Valley	Imperial County, CA	163,200	
Lost Hills - Blackwell	Kern County, CA	33,440	
Macho Springs	Luna County, NM	55,000	
Morelos del Sol	Kern County, CA	15,000	
North Star	Fresno County, CA	61,600	
Pawpaw	Taylor County, GA	30,480	
Roserock	Pecos County, TX	160,000	
Rutherford	Rutherford County, NC	74,800	
Sandhills	Taylor County, GA	146,890	
Spectrum	Clark County, NV	30,240	
Tranquillity	Fresno County, CA	205,300	
Southern Power Total		2,153,240	(17 )
Total Solar		2,282,334	
WIND FACILITIES			
Grant Plains	Grant County, OK	147,200	
Grant Wind	Grant County, OK	151,800	
Kay Wind	Kay County, OK	299,000	
Passadumkeag	Penobscot County, ME	42,900	
Salt Fork	Donley & Gray Counties TX	174,000	
Tyler Bluff	Cooke County, TX	125,580	
Wake Wind	Crosby & Floyd Counties, TX	257,250	(18)

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Generating Station	Location	Nameplate Capacity (1)
Southern Power Total		1,197,730
LANDFILL GAS FACILITY		
Perdido	Escambia County, FL	
Gulf Power Total		3,200
BIOMASS FACILITY		
Nacogdoches	Sacul, TX	
Southern Power Total		115,500
Total Generating Capacity		46,291,124

## Notes:

- (1) See "Jointly-Owned Facilities" herein for additional information.
- (2) In April 2015, as part of its environmental compliance strategy, Alabama Power ceased using coal at Gadsden Steam Plant and at Plant Barry Units 1 and 2 (250 MWs), but such units will remain available with natural gas as the fuel source. Alabama Power retired Plant Barry Unit 3 (225 MWs) in August 2015 and it is no longer available for generation.
- (3) Owned by Alabama Power and Mississippi Power as tenants in common in the proportions of 60% and 40%, respectively. In April 2016, Alabama Power and Mississippi Power ceased using coal and began operating Units 1 and 2 solely on natural gas in June 2016 and July 2016, respectively. See Note 3 to the financial statements of Southern Company, Alabama Power, and Mississippi Power under "Regulatory Matters – Alabama Power – Environmental Accounting Order," "Retail Regulatory Matters – Environmental Accounting Order," and "Retail Regulatory Matters – Environmental Compliance Overview Plan," respectively, in Item 8 herein.
- (4) Capacity shown is Alabama Power's portion (91.84%) of total plant capacity.
- (5) Capacity shown for Georgia Power is 8.4% of Units 1 and 2 and 75% of Unit 3. Capacity shown for Gulf Power is 25% of Unit 3.
- (6) Capacity shown is Georgia Power's portion (53.5%) of total plant capacity.
- (7) Represents 50% of Plant Daniel Units 1 and 2, which are owned as tenants in common by Gulf Power and Mississippi Power.
- (8) Mississippi Power ceased burning coal and other solid fuel at Plant Watson Units 4 and 5 (750 MWs) and began operating those units solely on natural gas in April 2015. Mississippi Power retired Plant Sweatt Units 1 and 2 (80 MWs) on July 31, 2016.
- (9) SEGCO is jointly-owned by Alabama Power and Georgia Power. See BUSINESS in Item 1 herein for additional information.
- (10) The capacity shown is the gross capacity using natural gas fuel without supplemental firing. The net capacity using lignite fuel with supplemental firing is expected to be 582 MWs. Mississippi Power placed the combined cycle and the associated common facilities portion of the Kemper IGCC in service using natural gas in 2014 and expects to place the remainder of the Kemper IGCC, including the gasifier and the gas clean-up facilities, in service by mid-March 2017.
- (11) Capacity shown is Georgia Power's portion (50.1%) of total plant capacity.
- (12) Capacity shown is Georgia Power's portion (45.7%) of total plant capacity.
- (13) Generation is dedicated to a single industrial customer.
- (14) Capacity shown is Southern Power's portion (65%) of total plant capacity.
- (15) Capacity shown is Georgia Power's portion (25.4%) of total plant capacity. OPC operates the plant.
- (16) 110 MWs were placed in service in the fourth quarter 2015 and 189 MWs were placed in service through July 2016, bringing the facility's total capacity to approximately 300 MWs.
- (17) Southern Power total solar capacity shown is 100% of the nameplate capacity for each facility. When taking into consideration Southern Power's 90% equity interest in STR and various 66% and 51% equity interests in SRP's nine solar partnerships, Southern Power's equity portion of the total nameplate capacity

from all solar facilities is 1,505 MWs. See Note 2 to the financial statements of Southern Power in Item 8 herein and Note 12 to the financial statements of Southern Company under "Southern Power" in Item 8 herein for additional information.

(18) Southern Power owns 90.1%.

Except as discussed below under "Titles to Property," the principal plants and other important units of the traditional electric operating companies, Southern Power, and SEGCO are owned in fee by the respective companies. It is the opinion of

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management of each such company that its operating properties are adequately maintained and are substantially in good operating condition, and suitable for their intended purpose.

Mississippi Power owns a 79-mile length of 500-kilovolt transmission line which is leased to Entergy Gulf States Louisiana, LLC. The line, completed in 1984, extends from Plant Daniel to the Louisiana state line. Entergy Gulf States Louisiana, LLC is paying a use fee over a 40-year period covering all expenses and the amortization of the original \$57 million cost of the line. At December 31, 2016, the unamortized portion of this cost was approximately \$16 million.

In conjunction with the Kemper IGCC, Mississippi Power owns a lignite mine and equipment and has acquired and will continue to acquire mineral reserves located around the Kemper IGCC site in Kemper County. The mine, operated by North American Coal Corporation, started commercial operation in 2013 with the capital cost of the mine and equipment totaling approximately \$325 million as of December 31, 2016. See MANAGEMENT'S DISCUSSION AND ANALYSIS – FUTURE EARNINGS POTENTIAL – "Integrated Coal Gasification Combined Cycle – Lignite Mine and CO<sub>2</sub> Pipeline Facilities" of Mississippi Power in Item 7 herein and Note 3 to the financial statements of Southern Company and Mississippi Power under "Integrated Coal Gasification Combined Cycle – Lignite Mine and CO<sub>2</sub> Pipeline Facilities" in Item 8 herein for additional information on the lignite mine.

In 2016, the maximum demand on the traditional electric operating companies, Southern Power, and SEGCO was 35,781,000 KWs and occurred on July 25, 2016. The all-time maximum demand of 38,777,000 KWs on the traditional electric operating companies, Southern Power, and SEGCO occurred on August 22, 2007. These amounts exclude demand served by capacity retained by MEAG Power, OPC, and SEPA. The reserve margin for the traditional electric operating companies, Southern Power, and SEGCO in 2016 was 34.2%. See SELECTED FINANCIAL DATA in Item 6 herein for additional information.

#### Jointly-Owned Facilities

Alabama Power, Georgia Power, and Southern Power at December 31, 2016 had undivided interests in certain generating plants and other related facilities with non-affiliated parties. The percentages of ownership of the total plant or facility are as follows:

		Percentage Ownership									
	Total Capacity (MWs)	Alabam Power	Power South	Georgia Power	OPC	MEAG Power	Dalton	Southern Power	OUC	FMPA	KUA
Plant Miller Units 1 and 2	1,320	91.8%	8.2 %	— %	— %	— %	— %	— %	— %	— %	— %
Plant Hatch	1,796	—	—	50.1	30.0	17.7	2.2	—	—	—	—
Plant Vogtle Units 1 and 2	2,320	—	—	45.7	30.0	22.7	1.6	—	—	—	—
Plant Scherer Units 1 and 2	1,636	—	—	8.4	60.0	30.2	1.4	—	—	—	—
Plant Wansley	1,779	—	—	53.5	30.0	15.1	1.4	—	—	—	—
Rocky Mountain	848	—	—	25.4	74.6	—	—	—	—	—	—
Plant Stanton A	660	—	—	—	—	—	—	65.0	28.0	3.5	3.5

Alabama Power and Georgia Power have contracted to operate and maintain the respective units in which each has an interest (other than Rocky Mountain) as agent for the joint owners. SCS provides operation and maintenance services for Plant Stanton A. Southern Nuclear operates and provides services to Alabama Power's and Georgia Power's nuclear plants.

In addition, Georgia Power has commitments regarding a portion of a 5% interest in Plant Vogtle Units 1 and 2 owned by MEAG Power that are in effect until the later of retirement of the plant or the latest stated maturity date of MEAG Power's bonds issued to finance such ownership interest. The payments for capacity are required whether any capacity is available. The energy cost is a function of each unit's variable operating costs. Except for the portion of the capacity payments related to the Georgia PSC's disallowances of Plant Vogtle Units 1 and 2 costs, the cost of such capacity and energy is included in purchased power from non-affiliates in Georgia Power's statements of income in Item 8 herein. Also see Note 7 to the financial statements of Georgia Power under "Commitments – Fuel and Purchased Power Agreements" in Item 8 herein for additional information.

Georgia Power is currently constructing Plant Vogtle Units 3 and 4 which will be jointly owned by Georgia Power, Dalton, OPC, and MEAG Power (with each owner holding the same undivided ownership interest as shown in the table above with respect to Plant Vogtle Units 1 and 2). See Note 3 to the financial statements of Southern Company and Georgia Power under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Retail Regulatory Matters – Nuclear Construction," respectively, in Item 8 herein.

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## Titles to Property

The traditional electric operating companies', Southern Power's, and SEGCO's interests in the principal plants (other than certain pollution control facilities and the land on which five combustion turbine generators of Mississippi Power are located, which is held by easement) and other important units of the respective companies are owned in fee by such companies, subject only to the (1) liens pursuant to pollution control revenue bonds of Gulf Power on specific pollution control facilities at Plant Daniel, (2) liens pursuant to the assumption of debt obligations by Mississippi Power in connection with the acquisition of Plant Daniel Units 3 and 4, (3) liens associated with Georgia Power's reimbursement obligations to the DOE under its loan guarantee, which are secured by a first priority lien on (a) Georgia Power's 45.7% undivided ownership interest in Plant Vogtle Units 3 and 4 and (b) Georgia Power's rights and obligations under the principal contracts relating to Plant Vogtle Units 3 and 4, and (4) liens associated with two PPAs assumed as part of the acquisition of the Mankato project on October 26, 2016 by Southern Power Company. See Note 6 to the financial statements of Southern Company, Georgia Power, Gulf Power, Mississippi Power, and Southern Power under "Assets Subject to Lien," Note 6 to the financial statements of Southern Company and Georgia Power under "DOE Loan Guarantee Borrowings" and Note 6 to the financial statements of Southern Company and Mississippi Power under "Plant Daniel Revenue Bonds" in Item 8 herein for additional information. The traditional electric operating companies own the fee interests in certain of their principal plants as tenants in common. See "Jointly-Owned Facilities" herein for additional information. Properties such as electric transmission and distribution lines, steam heating mains, and gas pipelines are constructed principally on rights-of-way, which are maintained under franchise or are held by easement only. A substantial portion of lands submerged by reservoirs is held under flood right easements. In addition, certain of the renewable generating facilities occupy or use real property that is not owned, primarily through various leases, easements, rights-of-way, permits, or licenses from private landowners or governmental entities.

## Natural Gas

Southern Company Gas considers its properties to be adequately maintained, substantially in good operating condition, and suitable for their intended purpose. The following provides the location and general character of the materially important properties that are used by the segments of Southern Company Gas. Substantially all of Nicor Gas' properties are subject to the lien of the indenture securing its first mortgage bonds. See Note 6 to the financial statements of Southern Company Gas under "Long-Term Debt – First Mortgage Bonds" in Item 8 herein for additional information.

**Distribution and Transmission Mains** – Southern Company Gas' distribution systems transport natural gas from its pipeline suppliers to customers in its service areas. These systems consist primarily of distribution and transmission mains, compressor stations, peak shaving/storage plants, service lines, meters, and regulators. At December 31, 2016, Southern Company Gas' gas distribution operations segment owned approximately 81,800 miles of underground distribution and transmission mains, which are located on easements or rights-of-way that generally provide for perpetual use.

**Storage Assets – Gas Distribution Operations** – Southern Company Gas owns and operates eight underground natural gas storage facilities in Illinois with a total inventory capacity of approximately 150 Bcf, approximately 135 Bcf of which can be cycled on an annual basis. This system is designed to meet about 50% of the estimated peak-day deliveries and approximately 40% of the normal winter deliveries in Illinois. This level of storage capability provides Nicor Gas with supply flexibility, improves the reliability of deliveries, and helps mitigate the risk associated with seasonal price movements.

Southern Company Gas also has five liquefied natural gas (LNG) plants located in Georgia, New Jersey, and Tennessee with total LNG storage capacity of approximately 7.6 Bcf. In addition, Southern Company Gas owns one propane storage facility in Virginia with storage capacity of approximately 0.3 Bcf. The LNG plants and propane storage facility are used by Southern Company Gas' gas distribution operations segment to supplement natural gas supply during peak usage periods.

**Storage Assets – All Other** – Southern Company Gas owns three high-deliverability natural gas storage and hub facilities that are operated by the gas midstream operations segment. Jefferson Island Storage & Hub, LLC operates a storage facility in Louisiana currently consisting of two salt dome gas storage caverns. Golden Triangle Storage, Inc. operates

a storage facility in Texas consisting of two salt dome caverns. Central Valley Gas Storage, LLC operates a depleted field storage facility in California. In addition, Southern Company Gas has a LNG facility in Alabama that produces LNG for Pivotal LNG, Inc. to support its business of selling LNG as a substitute fuel in various markets.

Jointly-Owned Properties – Southern Company Gas' gas midstream operations segment has a 50% undivided ownership interest in a 115-mile pipeline facility being constructed in northwest Georgia. Southern Company Gas also has an agreement to lease its 50% undivided ownership in the pipeline facility once it is placed in service. See Note 4 to the financial statements of Southern Company and Southern Company Gas in Item 8 herein for additional information.

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Item 3. LEGAL PROCEEDINGS

See Note 3 to the financial statements of each registrant in Item 8 herein for descriptions of legal and administrative proceedings discussed therein.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF SOUTHERN COMPANY

(Identification of executive officers of Southern Company is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2016.

Thomas A. Fanning

Chairman, President, and Chief Executive Officer

Age 59

Elected in 2003. Chairman and Chief Executive Officer since December 2010 and President since August 2010.

Art P. Beattie

Executive Vice President and Chief Financial Officer

Age 62

Elected in 2010. Executive Vice President and Chief Financial Officer since August 2010.

W. Paul Bowers

Executive Vice President

Age 60

Elected in 2001. Executive Vice President since February 2008 and Chief Executive Officer, President, and Director of Georgia Power since January 2011. Chairman of Georgia Power's Board of Directors since May 2014.

S. W. Connally, Jr.

Chairman, President, and Chief Executive Officer of Gulf Power

Age 47

Elected in 2012. Elected Chairman in July 2015 and President, Chief Executive Officer, and Director of Gulf Power since July 2012. Previously served as Senior Vice President and Chief Production Officer of Georgia Power from August 2010 through June 2012.

Mark A. Crosswhite

Executive Vice President

Age 54

Elected in 2010. Executive Vice President since December 2010 and President, Chief Executive Officer, and Director of Alabama Power since March 2014. Chairman of Alabama Power's Board of Directors since May 2014. Previously served as Executive Vice President and Chief Operating Officer of Southern Company from July 2012 through February 2014 and President, Chief Executive Officer, and Director of Gulf Power from January 2011 through June 2012.

Andrew W. Evans

Executive Vice President

Age 50

Elected in July 2016. Executive Vice President since July 2016. President of Southern Company Gas since May 2015 and Chief Executive Officer and Chairman of Southern Company Gas' Board of Directors since January 2016.

Previously served as Chief Operating Officer of Southern Company Gas from May 2015 through December 2015 and Executive Vice President and Chief Financial Officer of Southern Company Gas from May 2006 through May 2015.

Kimberly S. Greene

Executive Vice President

Age 50

Elected in 2013. Executive Vice President and Chief Operating Officer since March 2014. Director of Southern Company Gas since July 2016. Previously served as President and Chief Executive Officer of SCS from April 2013 to February 2014. Before rejoining Southern Company, Ms. Greene previously served at Tennessee Valley Authority as Executive Vice President and Chief Generation Officer from 2011 through April 2013 and Group President of Strategy and External Relations from 2010 through 2011.

James Y. Kerr II

Executive Vice President and General Counsel

Age 52

Elected in 2014. Also serves as Chief Compliance Officer. Before joining Southern Company, Mr. Kerr was a partner with McGuireWoods LLP and a senior advisor at McGuireWoods Consulting LLC from 2008 through February 2014.

Stephen E. Kuczynski

Chairman, President, and Chief Executive Officer of Southern Nuclear

Age 54

Elected in 2011. Chairman, President, and Chief Executive Officer of Southern Nuclear since July 2011.

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Mark S. Lantrip

Executive Vice President

Age 62

Elected in 2014. Chairman, President, and Chief Executive Officer of SCS since March 2014. Previously served as Treasurer of Southern Company from October 2007 to February 2014 and Executive Vice President of SCS from November 2010 to March 2014.

Anthony L. Wilson

Chairman, President, and Chief Executive Officer of Mississippi Power

Age 52

Elected in 2015. President of Mississippi Power since October 2015 and Chief Executive Officer and Director since January 2016. Chairman of Mississippi Power's Board of Directors since August 2016. Previously served as Executive Vice President of Mississippi Power from May 2015 to October 2015 and Executive Vice President of Georgia Power from January 2012 to May 2015.

Christopher C. Womack

Executive Vice President

Age 58

Elected in 2008. Executive Vice President and President of External Affairs since January 2009.

The officers of Southern Company were elected at the first meeting of the directors following the last annual meeting of stockholders held on May 25, 2016, for a term of one year or until their successors are elected and have qualified, except for Mr. Andrew W. Evans, whose election as Executive Vice President was effective July 18, 2016.

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EXECUTIVE OFFICERS OF ALABAMA POWER

(Identification of executive officers of Alabama Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2016.

Mark A. Crosswhite

Chairman, President, and Chief Executive Officer

Age 54

Elected in 2014. President, Chief Executive Officer, and Director since March 1, 2014. Chairman since May 2014. Previously served as Executive Vice President and Chief Operating Officer of Southern Company from July 2012 through February 2014 and President, Chief Executive Officer, and Director of Gulf Power from January 2011 through June 2012.

Greg J. Barker

Executive Vice President

Age 53

Elected in 2016. Executive Vice President for Customer Services since February 2016. Previously served as Senior Vice President of Marketing and Economic Development from April 2012 to February 2016 and Senior Vice President of Business Development and Customer Support from July 2010 to April 2012.

Philip C. Raymond

Executive Vice President, Chief Financial Officer, and Treasurer

Age 57

Elected in 2010. Executive Vice President, Chief Financial Officer, and Treasurer since August 2010.

Zeke W. Smith

Executive Vice President

Age 57

Elected in 2010. Executive Vice President of External Affairs since November 2010.

James P. Heilbron

Senior Vice President and Senior Production Officer

Age 45

Elected in 2013. Senior Vice President and Senior Production Officer since March 2013. Previously served as Senior Vice President and Senior Production Officer of Southern Power Company from July 2010 to February 2013.

The officers of Alabama Power were elected at the meeting of the directors held on April 22, 2016 for a term of one year or until their successors are elected and have qualified.

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EXECUTIVE OFFICERS OF GEORGIA POWER

(Identification of executive officers of Georgia Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2016.

W. Paul Bowers

Chairman, President, and Chief Executive Officer

Age 60

Elected in 2010. Chief Executive Officer, President, and Director since December 2010 and Chief Operating Officer of Georgia Power from August 2010 to December 2010. Chairman of Georgia Power's Board of Directors since May 2014.

W. Craig Barrs (1)

Executive Vice President

Age 59

Elected in 2008. Executive Vice President of Customer Service and Operations since May 2015. Previously served as Executive Vice President of External Affairs from January 2010 to May 2015.

Pedro P. Cherry (1)

Executive Vice President

Age 45

Elected effective March 2017. Executive Vice President of Customer Service and Operations effective March 31, 2017. Senior Vice President since March 2015. Previously served as Vice President from January 2012 to March 2015.

W. Ron Hinson

Executive Vice President, Chief Financial Officer, and Treasurer

Age 60

Elected in 2013. Executive Vice President, Chief Financial Officer, and Treasurer since March 2013. Served as Corporate Secretary and Chief Compliance Officer from January 2016 through October 2016. Also, served as Comptroller from March 2013 until January 2014. Previously served as Comptroller and Chief Accounting Officer of Southern Company, as well as Senior Vice President and Comptroller of SCS from March 2006 to March 2013.

Christopher P. Cumiskey

Executive Vice President

Age 42

Elected in 2015. Executive Vice President of External Affairs since May 2015. Previously served as Chief Commercial Officer of Southern Power from October 2013 to May 2015 and Commissioner of the Georgia Department of Economic Development from January 2011 to October 2013.

Meredith M. Lackey

Senior Vice President, General Counsel, and Corporate Secretary

Age 42

Elected in November 2016. Senior Vice President, General Counsel, Corporate Secretary, and Chief Compliance Officer since November 2016. Previously served as Vice President, General Counsel, Chief Compliance Officer, and Corporate Secretary at Colonial Pipeline from January 2012 through November 2016.

Theodore J. McCullough

Senior Vice President and Senior Production Officer

Age 53

Elected in July 2016. Senior Vice President and Senior Production Officer since July 2016. Also has served as Senior Vice President of SCS since June 2010.

(1) On January 26, 2017, Mr. Barrs resigned the role of Executive Vice President, effective March 31, 2017. Also on January 26, 2017, Mr. Pedro P. Cherry was elected to the role of Executive Vice President, effective March 31, 2017. The officers of Georgia Power were elected at the meeting of the directors held on May 18, 2016 for a term of one year or until their successors are elected and have qualified, except for Mr. McCullough, whose election as Senior Vice President was effective July 30, 2016, Ms. Lackey, whose election as Senior Vice President, General Counsel,



and Corporate Secretary was effective November 1, 2016, and Mr. Cherry, whose election as Executive Vice President is effective March 31, 2017.

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EXECUTIVE OFFICERS OF MISSISSIPPI POWER

(Identification of executive officers of Mississippi Power is inserted in Part I in accordance with Regulation S-K, Item 401(b), Instruction 3.) The ages of the officers set forth below are as of December 31, 2016.

Anthony L. Wilson

Chairman, President, and Chief Executive Officer

Age 52

Elected in 2015. President since October 2015 and Chief Executive Officer and Director since January 2016.

Chairman of Mississippi Power's Board since August 2016. Previously served as Executive Vice President from May 2015 to October 2015 and Executive Vice President of Georgia Power from January 2012 to May 2015.

John W. Atherton

Vice President

Age 56

Elected in 2004. Vice President of Corporate Services and Community Relations since October 2012. Previously served as Vice President of External Affairs from January 2005 until October 2012.

A. Nicole Faulk

Vice President

Age 43

Elected in 2015. Vice President of Customer Services Organization effective April 2015. Previously served as Region Vice President for the West Region of Georgia Power from March 2015 through April 2015 and Region Manager for the Metro West Region of Georgia Power from December 2011 to March 2015.

Moses H. Feagin

Vice President, Treasurer, and Chief Financial Officer

Age 52

Elected in 2010. Vice President, Treasurer, and Chief Financial Officer since August 2010.

R. Allen Reaves, Jr.

Vice President

Age 57

Elected in 2010. Vice President and Senior Production Officer since August 2010.

Billy F. Thornton

Vice President

Age 56

Elected in 2012. Vice President of External Affairs since October 2012. Previously served as Director of External Affairs from October 2011 until October 2012.

Emile J. Troxclair, III

Vice President

Age 59

Elected in 2014. Vice President of Kemper Development since January 2015. Previously served as Vice President of Gasification for Lummus Technology Inc. from May 2013 through April 2014, Manager of E-Gas Technology for Phillips 66 from 2012 to May 2013, and Manager of E-Gas Technology for ConocoPhillips from 2003 to 2012.

The officers of Mississippi Power were elected at the meeting of the directors held on April 26, 2016 for a term of one year or until their successors are elected and have qualified.

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## PART II

Item 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS  
AND ISSUER PURCHASES OF EQUITY SECURITIES

(a)(1) The common stock of Southern Company is listed and traded on the NYSE. The common stock is also traded on regional exchanges across the U.S. The high and low stock prices as reported on the NYSE for each quarter of the past two years were as follows:

	High	Low
2016		
First Quarter	\$51.73	\$46.00
Second Quarter	53.64	47.62
Third Quarter	54.64	50.00
Fourth Quarter	52.23	46.20
2015		
First Quarter	\$53.16	\$43.55
Second Quarter	45.44	41.40
Third Quarter	46.84	41.81
Fourth Quarter	47.50	43.38

There is no market for the other registrants' common stock, all of which is owned by Southern Company.

(a)(2) Number of Southern Company's common stockholders of record at January 31, 2017: 125,827

Each of the other registrants have one common stockholder, Southern Company.

(a)(3) Dividends on each registrant's common stock are payable at the discretion of their respective board of directors. The dividends on common stock declared by Southern Company and the traditional electric operating companies (other than Mississippi Power) to their stockholder(s) for the past two years are set forth below. No dividends were declared by Mississippi Power on its common stock in 2015 or 2016.

Registrant	Quarter	2016	2015
		(in thousands)	
Southern Company	First	\$496,718	\$478,454
	Second	526,267	493,161
	Third	529,876	493,382
	Fourth	551,110	493,884
Alabama Power	First	191,206	142,820
	Second	191,206	142,820
	Third	191,206	142,820
	Fourth	191,206	142,820
Georgia Power	First	326,269	258,570
	Second	326,269	258,870
	Third	326,269	258,870
	Fourth	326,269	258,870
Gulf Power	First	30,017	32,540
	Second	30,017	32,540
	Third	30,017	32,540
	Fourth	30,017	32,540

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In 2016 and 2015, Southern Power Company paid dividends to Southern Company as follows:

Registrant	Quarter	2016	2015
		(in thousands)	
Southern Power Company	First	\$68,082	\$32,640
	Second	68,082	32,640
	Third	68,082	32,640
	Fourth	68,082	32,640

Southern Company Gas paid dividends to Southern Company in the amount of \$62,750,000 in each of the third and fourth quarters 2016.

The dividend paid per share of Southern Company's common stock was 54.25¢ for the first quarter 2016 and 56.00¢ each for the second, third, and fourth quarters of 2016. In 2015, Southern Company paid a dividend per share of 52.50¢ for the first quarter and 54.25¢ each for the second, third, and fourth quarters.

The traditional electric operating companies and Southern Power Company can only pay dividends to Southern Company out of retained earnings or paid-in-capital. The authority of the natural gas distribution utilities to pay dividends to Southern Company Gas is subject to regulation. By regulation, Nicor Gas is restricted, to the extent of its retained earnings balance, in the amount it can dividend or loan to affiliates. Additionally, Elizabethtown Gas is restricted by its policy, as established by the New Jersey Board of Public Utilities, to 70% of its quarterly net income it can dividend to Southern Company Gas.

(a)(4) Securities authorized for issuance under equity compensation plans.

See Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

None.

## Item 6. SELECTED FINANCIAL DATA

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See MANAGEMENT'S DISCUSSION AND ANALYSIS – FINANCIAL CONDITION AND LIQUIDITY – "Market Price Risk" of each of the registrants in Item 7 herein and Note 1 of each of the registrant's financial statements under "Financial Instruments" in Item 8 herein. See also Note 10 to the financial statements of Southern Company, Alabama Power, and Georgia Power, Note 9 to the financial statements of Gulf Power, Mississippi Power, and Southern Company Gas, and Note 8 to the financial statements of Southern Power in Item 8 herein.

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Item CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL  
9. DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls And Procedures.

As of the end of the period covered by this Annual Report on Form 10-K, 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 Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 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.

Internal Control Over Financial Reporting.

(a) Management's Annual Report on Internal Control Over Financial Reporting.

Management's Report on Internal Control Over Financial Reporting Page

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<u>Alabama Power</u>	<u>II-153</u>
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(b) Attestation Report of the Registered Public Accounting Firm.

The report of Deloitte & Touche LLP, Southern Company's independent registered public accounting firm, regarding Southern Company's Internal Control over Financial Reporting is included on page II-9 of this Form 10-K. This report is not applicable to Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Southern Power, and Southern Company Gas as these companies are not accelerated filers or large accelerated filers.

(c) Changes in internal control over financial reporting.

Other than the changes resulting from the Merger discussed below, 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 fourth quarter 2016 that have materially affected or are reasonably likely to materially affect Southern Company's, Alabama Power's, Georgia Power's, Gulf Power's, Mississippi Power's, Southern Power's, or Southern Company Gas' internal control over financial reporting. Southern Company completed the Merger on July 1, 2016 with Southern Company Gas surviving the Merger as a wholly-owned, direct subsidiary of Southern Company. Southern Company has completed an internal controls review during the fourth quarter 2016 pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

Item 9B. OTHER INFORMATION

None.



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THE SOUTHERN COMPANY  
AND SUBSIDIARY COMPANIES  
FINANCIAL SECTION

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Southern Company and Subsidiary Companies 2016 Annual Report

The management of The Southern Company (Southern Company) is responsible for establishing and maintaining an adequate system of internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Under management's supervision, an evaluation of the design and effectiveness of Southern Company's internal control over financial reporting was conducted based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Southern Company's internal control over financial reporting was effective as of December 31, 2016.

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of Southern Company's financial statements, has issued an attestation report on the effectiveness of Southern Company's internal control over financial reporting as of December 31, 2016. Deloitte & Touche LLP's report on Southern Company's internal control over financial reporting is included herein.

/s/ Thomas A. Fanning

Thomas A. Fanning

Chairman, President, and Chief Executive Officer

/s/ Art P. Beattie

Art P. Beattie

Executive Vice President and Chief Financial Officer

February 21, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
The Southern Company

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of The Southern Company and Subsidiary Companies (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (page II-8). Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements (pages II-59 to II-147) referred to above present fairly, in all material respects, the financial position of Southern Company and Subsidiary Companies as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 3 to the financial statements, the Mississippi Public Service Commission rate recovery process associated with the Kemper Integrated Coal Gasification Combined Cycle Project may have a material impact on the Company's financial statements.

/s/ Deloitte & Touche LLP

Atlanta, Georgia

February 21, 2017

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## DEFINITIONS

Term	Meaning
2012 MPSC CPCN Order	A detailed order issued by the Mississippi PSC in April 2012 confirming the CPCN originally approved by the Mississippi PSC in 2010 authorizing acquisition, construction, and operation of the Kemper IGCC
2013 ARP	Alternative Rate Plan approved by the Georgia PSC in 2013 for Georgia Power for the years 2014 through 2016 and subsequently extended through 2019
AFUDC	Allowance for funds used during construction
Alabama Power	Alabama Power Company
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
Baseload Act	State of Mississippi legislation designed to enhance the Mississippi PSC's authority to facilitate development and construction of baseload generation in the State of Mississippi
CCR	Coal combustion residuals
Clean Air Act	Clean Air Act Amendments of 1990
CO <sub>2</sub>	Carbon dioxide
COD	Commercial operation date
CPCN	Certificate of public convenience and necessity
CWIP	Construction work in progress
DOE	U.S. Department of Energy
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FFB	Federal Financing Bank
GAAP	U.S. generally accepted accounting principles
Georgia Power	Georgia Power Company
Gulf Power	Gulf Power Company
IGCC	Integrated coal gasification combined cycle
IRS	Internal Revenue Service
ITC	Investment tax credit
Kemper IGCC	IGCC facility under construction by Mississippi Power in Kemper County, Mississippi
KWH	Kilowatt-hour
LIBOR	London Interbank Offered Rate
Merger	The merger, effective July 1, 2016, of a wholly-owned, direct subsidiary of Southern Company with and into Southern Company Gas, with Southern Company Gas continuing as the surviving corporation
Mirror CWIP	A regulatory liability used by Mississippi Power to record customer refunds resulting from a 2015 Mississippi PSC order
Mississippi Power	Mississippi Power Company
mmBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
MPUS	Mississippi Public Utilities Staff
MW	Megawatt
natural gas distribution utilities	Southern Company Gas' seven natural gas distribution utilities (Nicor Gas, Atlanta Gas Light, Virginia Natural Gas, Inc., Elizabethtown Gas, Florida City Gas, Chattanooga Gas Company, and Elkton Gas)

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## DEFINITIONS

(continued)

Term	Meaning
NCCR	Georgia Power's Nuclear Construction Cost Recovery
NDR	Alabama Power's Natural Disaster Reserve
Nicor Gas	Northern Illinois Gas Company, a wholly-owned subsidiary of Southern Company Gas
NRC	U.S. Nuclear Regulatory Commission
OCI	Other comprehensive income
Plant Vogtle Units 3 and 4	Two new nuclear generating units under construction at Georgia Power's Plant Vogtle
PowerSecure	PowerSecure, Inc.
power pool	The operating arrangement whereby the integrated generating resources of the traditional electric operating companies and Southern Power (excluding subsidiaries) are subject to joint commitment and dispatch in order to serve their combined load obligations
PPA	Power purchase agreements and contracts for differences that provide the owner of a renewable facility a certain fixed price for the electricity sold to the grid
PSC	Public Service Commission
PTC	Production tax credit
Rate CNP	Alabama Power's Rate Certificated New Plant
Rate CNP Compliance	Alabama Power's Rate Certificated New Plant Compliance
Rate CNP PPA	Alabama Power's Rate Certificated New Plant Power Purchase Agreement
Rate ECR	Alabama Power's Rate Energy Cost Recovery
Rate NDR	Alabama Power's Rate Natural Disaster Reserve
Rate RSE	Alabama Power's Rate Stabilization and Equalization plan
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
SEGCO	Southern Electric Generating Company
SMEPA	South Mississippi Electric Power Association (now known as Cooperative Energy)
Southern Company Gas	Southern Company Gas (formerly known as AGL Resources Inc.) and its subsidiaries
Southern Company Gas Capital	Southern Company Gas Capital Corporation (formerly known as AGL Capital Corporation), a 100%-owned subsidiary of Southern Company Gas
Southern Company system	The Southern Company, the traditional electric operating companies, Southern Power, Southern Company Gas (as of July 1, 2016), SEGCO, Southern Nuclear, SCS, Southern LINC, PowerSecure (as of May 9, 2016), and other subsidiaries
Southern LINC	Southern Communications Services, Inc.
Southern Nuclear	Southern Nuclear Operating Company, Inc.
Southern Power	Southern Power Company and its subsidiaries
traditional electric operating companies	Alabama Power, Georgia Power, Gulf Power, and Mississippi Power
Westinghouse	Westinghouse Electric Company LLC

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

Southern Company and Subsidiary Companies 2016 Annual Report

OVERVIEW

Business Activities

The Southern Company (Southern Company or the 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. The primary business of the Southern Company system is electricity sales by the traditional electric operating companies and Southern Power and, following the closing of the Merger on July 1, 2016, the distribution of natural gas by Southern Company Gas. The four traditional electric operating companies are vertically integrated utilities providing electric service in four Southeastern states. Southern Power constructs, acquires, owns, and manages power generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. Southern Company Gas distributes natural gas through the natural gas distribution utilities in seven states and is involved in several other complementary businesses including gas marketing services, wholesale gas services, and gas midstream operations.

Many factors affect the opportunities, challenges, and risks of the Southern Company system's electricity and natural gas businesses. These factors include the ability to maintain constructive regulatory environments, to maintain and grow 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, restoration following major storms, and capital expenditures, including constructing new electric generating plants, expanding the electric transmission and distribution systems, and updating and expanding the natural gas distribution systems.

Construction continues on Plant Vogtle Units 3 and 4 (45.7% ownership interest by Georgia Power in the two units, each with approximately 1,100 MWs) and Mississippi Power's 582-MW Kemper IGCC. See Note 3 to the financial statements under "Regulatory Matters – Georgia Power – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle" for additional information.

The traditional electric operating companies and natural gas distribution utilities have 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 the Southern Company system for the foreseeable future. See Note 3 to the financial statements under "Regulatory Matters" and "Integrated Coal Gasification Combined Cycle" for additional information.

Another major factor affecting the Southern Company system's businesses is the profitability of the competitive market-based wholesale generating business. Southern Power's strategy is to construct, acquire, own, manage, and sell power generation assets, including renewable energy projects, and to enter into PPAs primarily with investor-owned utilities, independent power producers, municipalities, and other load-serving entities.

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.

Management continues to evaluate the contribution of each of these activities to total shareholder return and may pursue acquisitions, dispositions, and other strategic ventures or investments accordingly.

In striving to achieve attractive risk-adjusted returns while providing cost-effective energy to more than nine million electric and gas utility customers, the Southern Company system 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 (EPS). Southern Company's financial success is directly tied to customer satisfaction. Key elements of ensuring customer satisfaction include outstanding service, high reliability, and competitive prices. Management uses customer satisfaction surveys and reliability indicators to evaluate the results of the Southern Company system.

See RESULTS OF OPERATIONS herein for information on the Company's financial performance.

Merger with Southern Company Gas



On July 1, 2016, Southern Company completed the Merger for a total purchase price of approximately \$8.0 billion and Southern Company Gas became a wholly-owned, direct subsidiary of Southern Company.

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Southern Company and Subsidiary Companies 2016 Annual Report

Prior to the completion of the Merger, Southern Company and Southern Company Gas operated as separate companies. The discussion and analysis of results of operations and financial condition set forth herein includes Southern Company Gas' results of operations since July 1, 2016 and financial condition as of December 31, 2016. See Note 12 to the financial statements under "Southern Company – Merger with Southern Company Gas" for additional information regarding the Merger.

During 2016 and 2015, the Company recorded in its statements of income costs associated with the Merger of approximately \$111 million and \$41 million, respectively, of which \$80 million and \$27 million is included in operating expenses and \$31 million and \$14 million is included in other income and (expense), respectively. These costs include external transaction costs for financing, legal, and consulting services, as well as customer rate credits and additional compensation-related expenses.

**Earnings**

Consolidated net income attributable to Southern Company was \$2.4 billion in 2016, an increase of \$81 million, or 3.4%, from the prior year. Consolidated net income increased by \$114 million as a result of earnings from Southern Company Gas, which was acquired on July 1, 2016. Also contributing to the increase were higher retail electric revenues resulting from non-fuel retail rate increases and warmer weather, primarily in the third quarter 2016, as well as the 2015 correction of a Georgia Power billing error, partially offset by accruals in 2016 for expected refunds at Alabama Power and Georgia Power. Additionally, the increase was due to increases in income tax benefits and renewable energy sales at Southern Power. These increases were partially offset by higher interest expense, non-fuel operations and maintenance expenses, depreciation and amortization, lower wholesale capacity revenues, and higher estimated losses associated with the Kemper IGCC. See Note 12 to the financial statements under "Southern Company – Merger with Southern Company Gas" for additional information regarding the Merger.

Consolidated net income attributable to Southern Company was \$2.4 billion in 2015, an increase of \$404 million, or 20.6%, from the prior year. The increase was primarily related to lower pre-tax charges of \$365 million (\$226 million after tax) recorded in 2015 compared to pre-tax charges of \$868 million (\$536 million after tax) recorded in 2014 for revisions of the estimated costs expected to be incurred on Mississippi Power's construction of the Kemper IGCC and an increase in retail base rates. The increases were partially offset by increases in non-fuel operations and maintenance expenses and depreciation and amortization.

Basic EPS was \$2.57 in 2016, \$2.60 in 2015, and \$2.19 in 2014. Diluted EPS, which factors in additional shares related to stock-based compensation, was \$2.55 in 2016, \$2.59 in 2015, and \$2.18 in 2014. EPS for 2016 was negatively impacted by \$0.12 per share as a result of an increase in the average shares outstanding. See FINANCIAL CONDITION AND LIQUIDITY – "Financing Activities" herein for additional information.

**Dividends**

Southern Company has paid dividends on its common stock since 1948. Dividends paid per share of common stock were \$2.2225 in 2016, \$2.1525 in 2015, and \$2.0825 in 2014. In January 2017, Southern Company declared a quarterly dividend of 56 cents per share. This is the 277th consecutive quarter that Southern Company has paid a dividend equal to or higher than the previous quarter. For 2016, the dividend payout ratio was 86%.

**RESULTS OF OPERATIONS**

Discussion of the results of operations is divided into three parts – the Southern Company system's primary business of electricity sales, its gas business, and its other business activities.

	Amount		
	2016	2015	2014
	(in millions)		
Electricity business	\$2,571	\$2,401	\$1,969
Gas business	114	—	—
Other business activities	(237)	(34)	(6)

Net Income	\$2,448	\$2,367	\$1,963
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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

## Southern Company and Subsidiary Companies 2016 Annual Report

## Electricity Business

Southern Company's electric utilities generate and sell electricity to retail and wholesale customers primarily in the Southeast.

A condensed statement of income for the electricity business follows:

	Amount	Increase (Decrease)	
	2016	2016	2015
	(in millions)		
Electric operating revenues	\$17,941	\$ 499	\$ (964 )
Fuel	4,361	(389 )	(1,255 )
Purchased power	750	105	(27 )
Cost of other sales	58	58	—
Other operations and maintenance	4,523	231	33
Depreciation and amortization	2,233	213	91
Taxes other than income taxes	1,039	44	16
Estimated loss on Kemper IGCC	428	63	(503 )
Total electric operating expenses	13,392	325	(1,645 )
Operating income	4,549	174	681
Allowance for equity funds used during construction	200	(26 )	(19 )
Interest expense, net of amounts capitalized	931	157	(20 )
Other income (expense), net	(75 )	(43 )	23
Income taxes	1,091	(235 )	273
Net income	2,652	183	432
Less:			
Dividends on preferred and preference stock of subsidiaries	45	(9 )	(14 )
Net income attributable to noncontrolling interests	36	22	14
Net Income Attributable to Southern Company	\$2,571	\$ 170	\$ 432

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

## Southern Company and Subsidiary Companies 2016 Annual Report

## Electric Operating Revenues

Electric operating revenues for 2016 were \$17.9 billion, reflecting a \$499 million increase from 2015. Details of electric operating revenues were as follows:

	Amount	
	2016	2015
	(in millions)	
Retail electric — prior year	\$14,987	\$15,550
Estimated change resulting from —		
Rates and pricing	427	375
Sales growth (decline)	(35 )	50
Weather	153	(59 )
Fuel and other cost recovery	(298 )	(929 )
Retail electric — current year	15,234	14,987
Wholesale electric revenues	1,926	1,798
Other electric revenues	698	657
Other revenues	83	—
Electric operating revenues	\$17,941	\$17,442
Percent change	2.9 %	(5.2 )%

Retail electric revenues increased \$247 million, or 1.6%, in 2016 as compared to the prior year. The significant factors driving this change are shown in the preceding table. The increase in rates and pricing in 2016 was primarily due to increases in base tariffs at Georgia Power under the 2013 ARP and the NCCR tariff and increased revenues at Alabama Power under Rate CNP Compliance, all effective January 1, 2016. Also contributing to the increase in rates and pricing for 2016 was the 2015 correction of an error affecting billings since 2013 to a small number of large commercial and industrial customers under a rate plan allowing for variable demand-driven pricing at Georgia Power and the implementation of rates at Mississippi Power for certain Kemper IGCC in-service assets, effective September 2015. These increases were partially offset by accruals in 2016 for expected refunds at Alabama Power and Georgia Power.

Retail electric revenues decreased \$563 million, or 3.6%, in 2015 as compared to the prior year. The significant factors driving this change are shown in the preceding table. The increase in rates and pricing in 2015 was primarily due to increased revenues at Alabama Power, associated with an increase in rates under Rate RSE, and at Georgia Power, related to increases in base tariffs under the 2013 ARP and the NCCR tariff, all effective January 1, 2015, as well as higher contributions from variable demand-driven pricing from commercial and industrial customers. The increase in rates and pricing was also due to the implementation of rates at Mississippi Power for certain Kemper IGCC in-service assets, effective September 2015. The increase was partially offset by the 2015 correction of an error affecting billings since 2013 to a small number of large commercial and industrial customers under a rate plan allowing for variable demand-driven pricing at Georgia Power.

See Note 3 to the financial statements under "Regulatory Matters – Alabama Power – Rate RSE" and " – Rate CNP Compliance" and " – Georgia Power – Rate Plans" and " – Nuclear Construction" and "Integrated Coal Gasification Combined Cycle – Rate Recovery of Kemper IGCC Costs" and Note 1 to the financial statements under "General" for additional information. Also see "Energy Sales" below for a discussion of changes in the volume of energy sold, including changes related to sales growth (decline) and weather.

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 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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

## Southern Company and Subsidiary Companies 2016 Annual Report

electric service territory, and the availability of the Southern Company system's generation. Increases and decreases in energy revenues that are driven by fuel prices are accompanied by an increase or decrease in fuel costs and do not have a significant impact on net income. Electricity sales from solar and wind PPAs do not have a capacity charge and customers either purchase the energy output of a dedicated renewable facility through an energy charge or through a fixed price for electricity. As a result, the Company's ability to recover fixed and variable operations and maintenance expenses is dependent upon the level of energy generated from these facilities, which can be impacted by weather conditions, equipment performance, and other factors. Wholesale electric revenues at Mississippi Power include FERC-regulated municipal and rural association sales as well as market-based sales. Short-term opportunity sales are made at market-based rates that generally provide a margin above the Southern Company system's variable cost to produce the energy.

Wholesale electric revenues from power sales were as follows:

	2016	2015	2014
	(in millions)		
Capacity and other	\$771	\$875	\$974
Energy	1,155	923	1,210
Total	\$1,926	\$1,798	\$2,184

In 2016, wholesale revenues increased \$128 million, or 7.1%, as compared to the prior year due to a \$232 million increase in energy revenues, offset by a \$104 million decrease in capacity revenues. The increase in energy revenues was primarily due to an increase in short-term sales and renewable energy sales at Southern Power, partially offset by lower fuel prices. The decrease in capacity revenues was primarily due to the expiration of wholesale contracts at Georgia Power and Gulf Power, the elimination in consolidation of a Southern Power PPA that was remarketed from a third party to Georgia Power in January 2016, and unit retirements at Georgia Power, partially offset by an increase due to a new wholesale contract at Alabama Power in the first quarter 2016.

In 2015, wholesale revenues decreased \$386 million, or 17.7%, as compared to the prior year due to a \$287 million decrease in energy revenues and a \$99 million decrease in capacity revenues. The decreases in energy revenues were primarily related to lower fuel costs and lower customer demand due to milder weather as compared to the prior year, partially offset by increases in energy revenues from new solar and wind PPAs at Southern Power. The decreases in capacity revenues were primarily due to the expiration of wholesale contracts in December 2014 at Georgia Power, unit retirements at Georgia Power, and PPA expirations at Southern Power.

See FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Gulf Power" for information regarding the expiration of long-term sales agreements at Gulf Power for Plant Scherer Unit 3, which will impact future wholesale earnings, and Gulf Power's request to rededicate its ownership interest in Scherer Unit 3 to the retail jurisdiction.

## Other Electric Revenues

Other electric revenues increased \$41 million, or 6.2%, and decreased \$15 million, or 2.2%, in 2016 and 2015, respectively, as compared to the prior years. The 2016 increase was primarily due to a \$14 million increase in customer temporary facilities services revenues and a \$12 million increase in outdoor lighting revenues at Georgia Power. The 2015 decrease was primarily due to a \$16 million decrease in transmission revenues at Georgia Power primarily as a result of a contract that expired in December 2014 and a \$13 million decrease in co-generation steam revenues at Alabama Power, partially offset by an \$11 million increase in outdoor lighting revenues at Georgia Power.

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Southern Company and Subsidiary Companies 2016 Annual Report

## Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2016 and the percent change from the prior year were as follows:

	Total KWHs 2016 (in billions)	Total KWH Percent Change 2016 2015	Weather-Adjusted Percent Change 2016(*) 2015(*)
Residential	53.3	2.3 % (2.3)%	0.2 % 0.4 %
Commercial	53.7	0.4 (2.1 ) (0.4 )	(1.0 ) (0.3 )
Industrial	52.8	(2.1 ) (0.4 )	(2.2 ) (0.3 )
Other	0.9	(1.7 ) (1.4 )	(1.7 ) (1.3 )
Total retail	160.7	0.2 (0.7 )	(1.0 )% 0.3 %
Wholesale	34.9	14.4 (7.0 )	
Total energy sales	195.6	2.4 % (1.8)%	

In the first quarter 2015, Mississippi Power updated the methodology to estimate the unbilled revenue allocation among customer classes. This change did not have a significant impact on net income. The KWH sales variances in the above table reflect an adjustment to the estimated allocation of Mississippi Power's unbilled 2014 and first (\*)quarter 2015 KWH sales among customer classes that is consistent with the actual allocation in 2015 and 2016, respectively. Without this adjustment, 2016 weather-adjusted commercial sales decreased 0.9% and industrial KWH sales decreased 2.1% as compared to 2015. Without this adjustment, 2015 weather-adjusted commercial sales increased 0.8% and industrial KWH sales decreased 0.4% as compared to 2014.

Changes in retail energy sales are generally the result of changes in electricity usage by customers, changes in weather, and changes in the number of customers. Retail energy sales increased 261 million KWHs in 2016 as compared to the prior year. This increase was primarily due to warmer weather in the third quarter 2016 as compared to the corresponding period in 2015 and customer growth, partially offset by decreased customer usage. The decrease in industrial KWH energy sales was primarily due to decreased sales in the primary metals, chemicals, paper, pipeline, and stone, clay, and glass sectors. A strong dollar, low oil prices, and weak global economic conditions constrained growth in the industrial sector in 2016. Weather-adjusted commercial KWH sales decreased primarily due to decreased customer usage resulting from an increase in electronic commerce transactions and energy saving initiatives, partially offset by customer growth. Weather-adjusted residential KWH sales increased primarily due to customer growth, partially offset by decreased customer usage primarily resulting from an increase in multi-family housing and efficiency improvements in residential appliances and lighting. Household income, one of the primary drivers of residential customer usage, had modest growth in 2016.

Retail energy sales decreased 1.2 billion KWHs in 2015 as compared to the prior year. This decrease was primarily the result of milder weather in the first and fourth quarters of 2015 as compared to the corresponding periods in 2014 and decreased customer usage, partially offset by customer growth. Weather-adjusted commercial KWH sales increased primarily due to customer growth and increased customer usage. Weather-adjusted residential KWH sales increased primarily due to customer growth, partially offset by decreased customer usage. Household income, one of the primary drivers of residential customer usage, had modest growth in 2015. The decrease in industrial KWH energy sales was primarily due to decreased sales in the primary metals, chemicals, and paper sectors, partially offset by increased sales in the transportation, stone, clay, and glass, pipeline, lumber, and petroleum sectors. A strong dollar, low oil prices, and weak global economic conditions constrained growth in the industrial sector in 2015.

See "Electric Operating Revenues" above for a discussion of significant changes in wholesale revenues related to changes in price and KWH sales.

## Other Revenues



Other revenues increased \$83 million in 2016 as compared to the prior year. The 2016 increase was primarily due to revenues from certain non-regulated sales of products and services by the traditional electric operating companies that were reclassified as other revenues for consistency of presentation on a consolidated basis following the PowerSecure acquisition. In prior periods, these revenues were included in other income (expense), net.

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## Fuel and Purchased Power Expenses

Fuel costs constitute the single largest expense for the electric utilities. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel consumed, and the availability of generating units. Additionally, the electric utilities purchase a portion of their electricity needs from the wholesale market.

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

	2016	2015	2014
Total generation (in billions of KWHs)	188	187	191
Total purchased power (in billions of KWHs)	16	13	12
Sources of generation (percent) —			
Coal	33	34	42
Nuclear	16	16	16
Gas	46	46	39
Hydro	2	3	3
Other Renewables	3	1	—
Cost of fuel, generated (in cents per net KWH) —			
Coal	3.04	3.55	3.81
Nuclear	0.81	0.79	0.87
Gas	2.48	2.60	3.63
Average cost of fuel, generated (in cents per net KWH)	2.40	2.64	3.25
Average cost of purchased power (in cents per net KWH) <sup>(*)</sup>	5.43	6.11	7.13

<sup>(\*)</sup> Average cost of purchased power includes fuel purchased by the Southern Company system for tolling agreements where power is generated by the provider.

In 2016, total fuel and purchased power expenses were \$5.1 billion, a decrease of \$284 million, or 5.3%, as compared to the prior year. The decrease was primarily the result of a \$518 million decrease in the average cost of fuel and purchased power primarily due to lower coal and natural gas prices, partially offset by a \$234 million increase in the volume of KWHs generated and purchased.

In 2015, total fuel and purchased power expenses were \$5.4 billion, a decrease of \$1.3 billion, or 19.2%, as compared to the prior year. The decrease was primarily the result of a \$1.1 billion decrease in the average cost of fuel and purchased power primarily due to lower coal and natural gas prices and a \$137 million net decrease in the volume of KWHs generated and purchased due to milder weather in the first and fourth quarters of 2015.

Fuel and purchased power energy transactions at the traditional electric operating companies are generally offset by fuel revenues and do not have a significant impact on net income. See FUTURE EARNINGS POTENTIAL – "Regulatory Matters – Fuel Cost Recovery" herein for additional information. Fuel expenses incurred under Southern Power's PPAs are generally the responsibility of the counterparties and do not significantly impact net income.

## Fuel

In 2016, fuel expense was \$4.4 billion, a decrease of \$389 million, or 8.2%, as compared to the prior year. The decrease was primarily due to a 14.4% decrease in the average cost of coal per KWH generated, a 4.6% decrease in the average cost of natural gas per KWH generated, and a 2.7% decrease in the volume of KWHs generated by coal, partially offset by a 3.5% increase in the volume of KWHs generated by natural gas.

In 2015, fuel expense was \$4.8 billion, a decrease of \$1.3 billion, or 20.9%, as compared to the prior year. The decrease was primarily due to a 28.4% decrease in the average cost of natural gas per KWH generated, a 19.2% decrease in the volume of KWHs generated by coal, and a 6.8% decrease in the average cost of coal per KWH generated, partially offset by a 15.9% increase in the volume of KWHs generated by natural gas.

## Purchased Power

In 2016, purchased power expense was \$750 million, an increase of \$105 million, or 16.3%, as compared to the prior year. The increase was primarily due to a 28.8% increase in the volume of KWHs purchased, partially offset by an 11.1% decrease in the average cost per KWH purchased primarily as a result of lower natural gas prices.

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In 2015, purchased power expense was \$645 million, a decrease of \$27 million, or 4.0%, as compared to the prior year. The decrease was primarily due to a 14.3% decrease in the average cost per KWH purchased primarily as a result of lower natural gas prices, partially offset by a 5.3% increase in the volume of KWHs purchased. Energy purchases will vary depending on demand for energy within the Southern Company system's electric service territory, the market prices of wholesale energy as compared to the cost of the Southern Company system's generation, and the availability of the Southern Company system's generation.

Cost of Other Sales

Cost of other sales were \$58 million in 2016. These costs were related to certain non-regulated sales of products and services by the traditional electric operating companies that were reclassified as cost of other sales for consistency of presentation on a consolidated basis following the PowerSecure acquisition. In prior periods, these costs were included in other income (expense), net.

Other Operations and Maintenance Expenses

Other operations and maintenance expenses increased \$231 million, or 5.4%, in 2016 as compared to the prior year. The increase was primarily related to a \$76 million increase in transmission and distribution expenses primarily related to overhead line maintenance, a \$37 million decrease in gains from sales of assets at Georgia Power, a \$36 million charge in connection with cost containment activities at Georgia Power, and a \$35 million increase at Southern Power associated with new solar and wind facilities placed in service in 2015 and 2016. Additionally, the increase was due to a \$19 million increase in generation expenses primarily related to environmental costs, a \$19 million increase in business development and support expenses at Southern Power, and an \$11 million increase in scheduled outage and maintenance costs at generation facilities, partially offset by a \$41 million net decrease in employee compensation and benefits, including pension costs.

Other operations and maintenance expenses increased \$33 million, or 0.8%, in 2015 as compared to the prior year. The increase was primarily related to an \$84 million increase in employee compensation and benefits including pension costs, a \$62 million increase in generation expenses primarily related to environmental costs, and an \$11 million increase in customer accounts, service, and sales costs primarily related to customer incentive and demand-side management programs, partially offset by a \$99 million decrease in transmission and distribution costs primarily related to reduced overhead line maintenance and gains from sales of transmission assets and a \$32 million decrease in scheduled outage and maintenance costs at generation facilities.

Production expenses and transmission and distribution expenses fluctuate from year to year due to variations in outage and maintenance schedules and normal changes in the cost of labor and materials.

Depreciation and Amortization

Depreciation and amortization increased \$213 million, or 10.5%, in 2016 as compared to the prior year primarily due to additional plant in service at the traditional electric operating companies and Southern Power.

Depreciation and amortization increased \$91 million, or 4.7%, in 2015 as compared to the prior year primarily due to the amortization of \$120 million of the regulatory liability for other cost of removal obligations in 2014 at Alabama Power and increases in additional plant in service at the traditional electric operating companies and Southern Power, partially offset by a decrease as a result of a reduction in depreciation rates at Alabama Power effective January 1, 2015, a decrease due to unit retirements at Georgia Power, and a reduction in depreciation at Gulf Power as authorized in the 2013 rate case settlement agreement approved by the Florida PSC. See Note 3 to the financial statements under "Regulatory Matters – Gulf Power – Retail Base Rate Cases" for additional information.

See Note 1 to the financial statements under "Regulatory Assets and Liabilities" and "Depreciation and Amortization" for additional information.

Taxes Other Than Income Taxes

Taxes other than income